

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

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

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**YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

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

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Pohnpei Utilities Corporation:

**Report on the Audit of the Financial Statements**

***Opinion***

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, 2023 and 2022, the statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the PUC's basic financial statements as listed in the table of contents.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of PUC as of September 30, 2023 and 2022, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Unmodified Opinion on 2023 Financial Statements and Qualified Opinion on 2022 Financial Statements***

We did not observe the taking of the physical inventories at September 30, 2022 (stated at \$1,017,004), since that date was prior to the time we were initially engaged as auditors for PUC. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

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 PUC, 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 unmodified audit opinion on the September 30, 2023 financial statements and qualified audit opinion on the September 30, 2022 financial statements.

## ***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 PUC'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 Responsibilities 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 opinion. 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 PUC'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 PUC'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 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 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 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 33 to 35 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 related 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 July 28, 2025 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.

*Bryce Comer & Associates*

July 28, 2025  
Tamuning, Guam

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

Management's Discussion and Analysis  
Years Ended September 30, 2023 and 2022

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 year ended September 30, 2022. 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.

***Financial Highlights***

PUC operates with three (3) 3516C Caterpillar engines, (2) 3516B Caterpillars engines, and two (2) C18 Caterpillar engines. Of the seven (7) gensets, unit #4 3516B is not in operation but are currently under repair. PUC has an installed diesel generation capacity of 11090 kW and has been de-rated to 9050 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 2023 fluctuated between 7,500 kw to 12,254 kw with a peak demand of 6,890 kw recorded during the month of April 2023. PUC produced 38,546,924 kwh and 40,338,821 kwh and sold 30,880,006 kwh and 35,283,120 kwh to customers in 2022 and 2023, respectively. The number of customers being serviced by the PUC is 7,675 (7,473 using cash power meters and 202 using conventional meters) in 2023. The service coverage is 96% of the population.

There are four main distribution feeders, all originating from the Nanpohnmal Plant (NPP), two feeders WESTERN and EASTERN of nearly equal length comprise the circumferential primary and secondary network running around the island. The KOLONIA 2 feeder serving Kolonia City is significantly shorter. The majority of power flows over the KOLONIA 2 feeder, delivering energy from the diesel plant to the city, the largest consumption area. Switching devices and fused protective cut-offs are basically installed on all feeders.

There are approximately 85 miles of three-phase lines around the Island of Pohnpei. All of Kolonia and the circumferential road have access to power. The distribution system is 13.8 Y/7.97 kV, 4-wire overhead construction, including grounded system neutral. Primary construction consists of 39-, and 45-foot wooden poles. Secondary construction is of overhead design using 25-foot class 2 wooden poles. Secondary conductors are aluminum triplex and quadruplex. The 13.8 kV system mainly runs on concrete poles, although 1/3 of poles are wood, which are being gradually replaced by the concrete poles.

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Years Ended September 30, 2023 and 2022

The Kolonia Waste collection system services most of the densely populated areas of Kolonia. It was originally constructed in 1973 and has remained largely unchanged since with the main additions being sewerage to service Nanpepper, Daini and PICS areas in the late 90's. The gravity pipe network comprises 11.8 miles of sewers ranging in size from 6" to 16". There are nine sewage pumping stations in the Scheme. All the stations were upgraded as part of the OMNIBUS CCB Envico Contract#2. The upgrades included new pumps and switchboards for all stations. The Dekehtik station is a new addition and replaced the stand-alone treatment plant at the site.

The Waste Water Treatment Plant (WWTP) has been refurbished and augmented under the OMNIBUS CCB Envico contract to a dual tank Activated Sludge Plant. The plant is designed to remove 98% of the Biochemical Oxygen Demand (BOD) and 90% of the Suspended Solids (SS) from 'normal' raw wastewater at an average dry weather flow rate of 1.6 MGD and wet weather flow of 3.2MGD. The treated effluent is discharged into Kolonia Harbor via a 12" outfall line.

Palikir Waste Water System, this scheme was handed over to PUC to operate in 2005 and extends to all national Government offices and the executive housing complex. It comprises approximately 3,500 feet of 6" gravity main and 700 feet of 2" force main. This system is connected to a septic tank. The septic tank is connected to a leaching field located about 100 meters west of the septic tank.

PUC operates and manages four separate water systems. The systems include the Central (Kolonia), Palikir, Lukop and Wapar Water Supply systems. The sources of water supply for these systems are both surface and ground water. The Central Water Supply depends on surface water and supplements by ground water wells. Ground Water (Well) 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. Since then and up to present, the surface water goes through a treatment process (rapid sand filter media's) and injects with 65% to 70% 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 sources from ground water wells at a maximum depth of 300 ft. All four water systems are being distributed to the general public for consumption. To ensure that quantity is met, the systems have several holding tanks for that purpose. In all the four water systems, there are total of six holding tanks. Two (2) each 1 million and four (4) each half (.5) million-gallon tanks. PUC has the aptitude to produce 5 million gallons per day. The daily water demand to existing customers varies from 2.8 to 3.1 million gallons per day. PUC produced 1.16 to 1.6 billion gallons from 2022 to 2023. PUC sold 634 million gallons and 662 million gallons to customers in 2022 and 2023, which resulted in total revenue of \$1.8 million and \$1.6 million for FY 2022 and FY 2023, respectively. PUC services the total of 3791 households, 2,449 on conventional postpaid meters and 1,342 prepaid meters (cash water) which covers about 2/3 of Pohnpei in area or 61% of the population.

**POHNPEI UTILITIES CORPORATION**  
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Management's Discussion and Analysis  
Years Ended September 30, 2023 and 2022

**Statement of Net Position and Statement Revenues and Changes in Net Position**

A comparative Statement of Net Position as of September 30, 2023, 2022, and 2021 is shown below:

**Statements of Net Position**  
**Years Ended September 30, 2023, 2022 and 2021**

|                                        | 2023                 | As Restated<br>2022  | 2021                 |
|----------------------------------------|----------------------|----------------------|----------------------|
| <b>Assets:</b>                         |                      |                      |                      |
| Utility plant, net                     | \$ 28,582,322        | \$ 28,018,503        | \$ 27,548,054        |
| Current assets                         | 5,588,261            | 4,797,116            | 6,129,364            |
| Other noncurrent assets                | 2,604,829            | 4,445,974            | 3,893,329            |
| Total assets                           | <u>\$ 36,775,412</u> | <u>\$ 37,261,593</u> | <u>\$ 37,570,747</u> |
| <b>Liabilities and Net Position:</b>   |                      |                      |                      |
| Notes payables                         | \$ 256,071           | \$ 283,767           | \$ 301,536           |
| Current portion of long-term debt      | 473,060              | 469,513              | 492,942              |
| Lease liability, current portion       | 25,179               | 23,264               | -                    |
| Other current liabilities              | 6,824,761            | 6,601,459            | 6,470,885            |
| Long-term debt, net of current portion | 5,184,620            | 5,567,262            | 6,517,311            |
| Lease liability, non-current           | 140,801              | 165,312              | -                    |
| Total liabilities                      | <u>12,904,492</u>    | <u>13,110,577</u>    | <u>13,782,674</u>    |
| <b>Net position:</b>                   |                      |                      |                      |
| Net investment in capital assets       | 22,924,642           | 21,981,728           | 20,537,801           |
| Restricted                             | 1,388,150            | 1,388,150            | 1,024,082            |
| Unrestricted                           | (441,872)            | 781,138              | 2,226,190            |
| Total net position                     | <u>\$ 36,775,412</u> | <u>\$ 37,261,593</u> | <u>\$ 37,570,747</u> |

**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended September 30, 2023, 2022 and 2021**

|                                                        | 2023                 | As Restated<br>2022  | 2021                 |
|--------------------------------------------------------|----------------------|----------------------|----------------------|
| <b>Revenues, Expenses and Changes in Net Position:</b> |                      |                      |                      |
| Operating revenues                                     | \$ 15,972,517        | \$ 17,482,748        | \$ 13,922,679        |
| Bad debts recovery (expense)                           | (10,273)             | (660,526)            | 701,954              |
| Operating and maintenance expenses                     | (17,474,048)         | (19,493,274)         | (15,403,366)         |
| Operating loss                                         | (1,511,804)          | (2,671,052)          | (778,733)            |
| Non-operating (expenses) revenues, net                 | 89,217               | 1,028,230            | 208,572              |
| Loss before capital contributions                      | (1,422,587)          | (1,642,822)          | (570,161)            |
| Capital contributions                                  | 1,142,491            | 1,003,284            | 3,113,390            |
| Change in net position                                 | (280,096)            | (639,538)            | 2,543,229            |
| Net position at beginning of year                      | 24,151,016           | 23,788,073           | 21,244,844           |
| Prior period adjustment                                | -                    | 1,002,481            | -                    |
| Net position at beginning of year, restated            | <u>24,151,016</u>    | <u>24,790,554</u>    | <u>21,244,844</u>    |
| Net position at end of year                            | <u>\$ 23,870,920</u> | <u>\$ 24,151,016</u> | <u>\$ 23,788,073</u> |

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Management's Discussion and Analysis  
Years Ended September 30, 2023 and 2022

Overall changes in the statements of net position components from September 2022 to 2023 include an increase of utility plant of \$563,819, net decrease of current and other noncurrent assets of \$1,050,000, and a slight decrease in total liabilities of \$206,085.

Increase of utility plant is the result of capitalization of two gensets assets. Please see Note 17 to the financial statements for additional information on PUC's utility plants.

Increase in current assets is attributable to a combination of an increase in cash and cash equivalents and prepayments; and decreases inventories and accounts receivables.

Decrease in current and long-term liabilities is primarily due to decrease in long-term debts. Please see Note 6 to the financial statement for additional information.

Decrease in operating revenue before bad debts are mainly due to the decrease in Electricity and Water sales. This is mainly due to decrease in power rates due to Fuel Supplement.

Decrease in approximately \$2 million operating and maintenance expenses is mainly due to decrease in fuel cost due to the fuel supplement.

PUC incurred a loss before capital contribution in 2023. Total amount of capital contribution for FY 2023 is \$1,142,491 as compared to FY 2022 of \$1,003,284.

***Economic Outlook***

PUC has improved its financial situation during the last 5 years but is still not recovering its full operations costs including depreciation. The electric utility and water departments are generating enough cash to allow PUC to recover its costs of operations for the most part, however, the lack of sewer tariff is draining funds for the electricity and water operations and maintenance. The power had improved significantly however, from time to time is relatively unstable with several power outages per week in some areas, and total system blackouts are not unusual. The power distribution system is relatively old and is due for replacement. Water infrastructure has deteriorated to a point where replacement is required to improve the quality and reliability of services.

PUC anticipates commissioning a medium-speed power plant in 2026, with an automated protection system and SCADA to communicate with all renewable plants (Nanpil Hydro, Pohnlangas Solar Plant, Nett School PV and COM PV Plant). Funding for the complete rehabilitation of the Distribution Network including the installation on Nodal Points to monitor the losses in the distribution system has been approved and is ready for procurement. PUC is proactively working with the State for funding support to rehabilitate the aged water system and treatment plant and working with Pohnpei State on the sewer tariff.

The water line extensions from Palikir to Diadi Kitti have been completed and will be turned over by end of September 2025. PUC can connect and serve an additional 200 customers while the Kinakapw to Lehndiadi is progressing.

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Management's Discussion and Analysis  
Years Ended September 30, 2023 and 2022

A management reform is in progress by Tectra Tec LTD to transform PUC into a sustainable utility that can provide high-quality and reliable utility services to its customers at a reasonable cost to attract needed investments to improve the economy and the quality of life in Pohnpei.

PUC in collaboration with Pohnpei State and National Government Department of R&D to secure funds for feasibility studies for the development of the Lehnmesi Hydro Plant and additional Solar PV as outlined in the Pohnpei Energy Master Plan in order to meet the RE target of 70% by 2030 and to reduce cost.

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

There are two sewer treatment plants under PUC serving approximately 800 customers. PUC has the challenge to maintain the 11 miles of sewer mains, 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 sewer system recommended by two ADB consultants and PUC is pending with legislature.

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

Management Discussion Analysis for the year ended September 30, 2022 is set forth in PUC's report on the audit of financial statement, which is dated June 28, 2024. That Discussion and Analysis explain the major factors impacting the 2022 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm).

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

This concludes the management discussion and analysis of the financial statements for the year ended September 30, 2023.

**POHNPEI UTILITIES CORPORATION**  
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Statements of Net Position  
September 30, 2023 and 2022

|                                              | <u>ASSETS</u>                       | 2023                 | (As Restated)<br>2022 |
|----------------------------------------------|-------------------------------------|----------------------|-----------------------|
| Current assets:                              |                                     |                      |                       |
| Cash and cash equivalents                    |                                     | \$ 2,136,284         | \$ 1,435,653          |
| Time certificates of deposit                 |                                     | 235,272              | 235,272               |
| Accounts receivable, net                     |                                     | 1,363,593            | 1,510,924             |
| Prepayments                                  |                                     | 938,747              | 598,263               |
| Materials and fuel inventory, net            |                                     | 914,365              | 1,017,004             |
| Total current assets                         |                                     | <u>5,588,261</u>     | <u>4,797,116</u>      |
| Other noncurrent assets:                     |                                     |                      |                       |
| Long-term deposits                           |                                     | 1,620,913            | 3,439,462             |
| Restricted - cash and cash equivalents       |                                     | 817,936              | 817,936               |
| Right-to-use assets, net                     |                                     | 165,980              | 188,576               |
| Total other noncurrent assets                |                                     | <u>2,604,829</u>     | <u>4,445,974</u>      |
| Utility plant, at cost:                      |                                     |                      |                       |
| Electric plant in service                    |                                     | 44,152,779           | 41,209,430            |
| Water and sewer plant in service             |                                     | 32,092,373           | 31,697,421            |
|                                              |                                     | <u>76,245,152</u>    | <u>72,906,851</u>     |
| Less accumulated depreciation                |                                     | <u>(47,928,659)</u>  | <u>(45,416,670)</u>   |
| Depreciable assets, net                      |                                     | 28,316,493           | 27,490,181            |
| Construction work-in-process                 |                                     | 265,829              | 528,322               |
| Total utility plant                          |                                     | <u>28,582,322</u>    | <u>28,018,503</u>     |
|                                              |                                     | <u>\$ 36,775,412</u> | <u>\$ 37,261,593</u>  |
|                                              | <u>LIABILITIES AND NET POSITION</u> |                      |                       |
| Current liabilities:                         |                                     |                      |                       |
| Notes payable                                |                                     | \$ 256,071           | \$ 283,767            |
| Current portion of long-term debt            |                                     | 473,060              | 469,513               |
| Lease liability, current portion             |                                     | 25,179               | 23,264                |
| Accounts payable:                            |                                     |                      |                       |
| Operations                                   |                                     | 393,927              | 463,668               |
| Fuel, lubricants and kwh purchased           |                                     | 433,364              | 904,517               |
| Unearned revenue                             |                                     | 643,336              | 466,510               |
| Accrued taxes and other liabilities          |                                     | 643,804              | 611,483               |
| Employees' annual leave                      |                                     | 191,705              | 136,679               |
| Advances from Pohnpei State Government (PSG) |                                     | 4,518,625            | 4,018,602             |
| Total current liabilities                    |                                     | <u>7,579,071</u>     | <u>7,378,003</u>      |
| Noncurrent liabilities:                      |                                     |                      |                       |
| Long-term debt, net of current portion       |                                     | 5,184,620            | 5,567,262             |
| Lease liability, non-current                 |                                     | 140,801              | 165,312               |
| Total liabilities                            |                                     | <u>12,904,492</u>    | <u>13,110,577</u>     |
| Commitments and contingencies                |                                     |                      |                       |
| Net position:                                |                                     |                      |                       |
| Net investment in capital assets             |                                     | 22,924,642           | 21,981,728            |
| Restricted                                   |                                     | 1,388,150            | 1,388,150             |
| Unrestricted                                 |                                     | (441,872)            | 781,138               |
| Total net position                           |                                     | <u>23,870,920</u>    | <u>24,151,016</u>     |
|                                              |                                     | <u>\$ 36,775,412</u> | <u>\$ 37,261,593</u>  |

The accompanying notes are an integral part of these financial statements.

**POHNPEI UTILITIES CORPORATION**  
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Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2023 and 2022

|                                                  | 2023          | (As Restated)<br>2022 |
|--------------------------------------------------|---------------|-----------------------|
| Operating revenues:                              |               |                       |
| Electricity sales                                | \$ 14,151,038 | \$ 15,858,150         |
| Water sales                                      | 1,626,589     | 1,604,271             |
| Other sales                                      | 194,890       | 20,327                |
| Total operating revenues                         | 15,972,517    | 17,482,748            |
| Bad debt expense                                 | (10,273)      | (660,526)             |
| Net operating revenues                           | 15,962,244    | 16,822,222            |
| Operating and maintenance expenses:              |               |                       |
| Production fuel                                  | 6,115,113     | 10,327,257            |
| Kwh purchased                                    | 2,863,050     | 1,946,422             |
| Administrative and general                       | 2,511,109     | 1,944,727             |
| Depreciation                                     | 2,191,095     | 2,008,497             |
| Water and sewer                                  | 1,478,632     | 1,415,975             |
| Generation                                       | 1,229,010     | 940,754               |
| Distribution                                     | 1,086,039     | 909,642               |
| Total operating and maintenance expenses         | 17,474,048    | 19,493,274            |
| Operating loss                                   | (1,511,804)   | (2,671,052)           |
| Nonoperating revenues (expense), net:            |               |                       |
| Interest expense, net                            | (179,378)     | (135,687)             |
| Foreign exchange revaluation                     | (126,247)     | 455,122               |
| Grant and subsidies                              | 815,795       | 670,606               |
| Other income                                     | 31,130        | 42,290                |
| Loss on impairment                               | (443,062)     | -                     |
| Loss on disposal of fixed assets                 | (9,021)       | (4,101)               |
| Total nonoperating revenues (expenses), net      | 89,217        | 1,028,230             |
| Loss before capital contributions                | (1,422,587)   | (1,642,822)           |
| Capital contributions:                           |               |                       |
| Capital contributions                            | 1,142,491     | 1,003,284             |
| Total capital contributions                      | 1,142,491     | 1,003,284             |
| Change in net position                           | (280,096)     | (639,538)             |
| Net position at beginning of year                | 24,151,016    | 23,788,073            |
| Prior period adjustment                          | -             | 1,002,481             |
| Total net position - beginning of year, restated | 24,151,016    | 24,790,554            |
| Net position at end of year                      | \$ 23,870,920 | \$ 24,151,016         |

The accompanying notes are an integral part of these financial statements.

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

Statements of Cash Flows  
Years Ended September 30, 2023 and 2022

|                                                                                       | 2023           | (As Restated)<br>2022 |
|---------------------------------------------------------------------------------------|----------------|-----------------------|
| Cash flows from operating activities:                                                 |                |                       |
| Cash received from customers                                                          | \$ 16,327,804  | \$ 16,841,894         |
| Cash payments to suppliers for good and services                                      | (13,047,033)   | (15,029,349)          |
| Cash paid to employees                                                                | (2,728,821)    | (2,914,800)           |
| Net cash provided (used in) by operating activities                                   | 551,950        | (1,102,255)           |
| Cash flows from investing activities:                                                 |                |                       |
| Interest and dividends on investments and bank account                                | 1,047          | (903)                 |
| Net cash provided (used in) by investing activities                                   | 1,047          | (903)                 |
| Cash flows from noncapital financing activities:                                      |                |                       |
| Net decrease in notes payable                                                         | (27,696)       | (17,769)              |
| Operating grants received                                                             | 424,937        | 306,606               |
| Net cash provided by noncapital financing activities                                  | 397,241        | 288,837               |
| Cash flows from capital and related financing activities:                             |                |                       |
| Deposit on capital project                                                            | -              | (364,002)             |
| Interest paid                                                                         | (62,326)       | (62,704)              |
| Principal repayment of long-term debt                                                 | (123,419)      | (65,209)              |
| Cash receipts from grantor for capital projects                                       | 1,142,491      | 1,003,284             |
| Acquisition of utility plant                                                          | (1,206,353)    | (1,088,235)           |
| Net cash used in capital and related financing activities                             | (249,607)      | (576,866)             |
| Net change in cash and cash equivalents                                               | 700,631        | (1,391,187)           |
| Cash and cash equivalents at beginning of year                                        | 2,253,589      | 3,644,776             |
| Cash and cash equivalents at end of year                                              | \$ 2,954,220   | \$ 2,253,589          |
| <u>Reconciliation of operating loss to net cash provided by operating activities:</u> |                |                       |
| Operating loss                                                                        | \$ (1,511,804) | \$ (2,671,052)        |
| Adjustments to reconcile operating loss to net cash provided by operating activities: |                |                       |
| Depreciation                                                                          | 2,191,095      | 2,008,497             |
| Bad debt                                                                              | 10,273         | 660,526               |
| Other income                                                                          | 31,130         | 42,290                |
| Loss on disposal of fixed asset                                                       | 9,022          | 4,101                 |
| (Increase) decrease in assets:                                                        |                |                       |
| Accounts receivable                                                                   | 147,331        | (566,907)             |
| Prepayments                                                                           | (230,099)      | 169,940               |
| Material and fuel inventory                                                           | 99,183         | (597,142)             |
| Increase (decrease) in liabilities:                                                   |                |                       |
| Accounts payable                                                                      | (458,354)      | (60,327)              |
| Unearned revenue                                                                      | 176,826        | (120,339)             |
| Accrued taxes and other liabilities                                                   | 32,321         | 42,812                |
| Employees' annual leave                                                               | 55,026         | (14,654)              |
| Net cash provided by (used in) operating activities                                   | \$ 551,950     | \$ (1,102,255)        |

The accompanying notes are an integral part of these financial statements.

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

Statements of Cash Flows, Continued  
Years Ended September 30, 2023 and 2022

**Supplemental information of noncash operating, capital and related financial activities:**

During the year ended September 30, 2023, ADB loan principal and interest payments of \$435,751 and \$116,099 respectively, were made by PSG, which were recorded as an increase in advances from PSG.

During the year ended September 30, 2023, PUC was allocated \$126,247 in 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.

During the year ended September 30, 2022, ADB loan principal and interest payments of \$433,751 and \$70,619, respectively, were made by PSG, which were recorded as an increase in advances from PSG.

During the year ended September 30, 2022, PUC was allocated \$455,122 in balance adjustments relating to currency re-evaluation changes associated with the ADB loans. As a result, PUC decreased its long term debt and interest expense by the same amount.

During the year ended September 30, 2023 and 2022, PUC recorded \$5,166,113 and \$2,146,652 in non-cash capital asset additions, respectively. Of those assets, PUC transferred from construction work in-process \$526,022 and \$1,834,914 to depreciable assets for the completion of the Waste to Heat Energy Project and the Iron Removal Plan Project, respectively.

During the year ended September 30, 2023, the PUC recognized \$390,857 in non-cash contribution revenue related to the capitalization of the Palakir Well Rehabilitation Project. This amount represents donated infrastructure improvements and was recorded as a capital asset and corresponding contribution revenue, with no impact on cash flows.

**Supplemental schedule of restricted & unrestricted cash and cash equivalents**

|                                          |                     |                     |
|------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents – unrestricted | \$ 2,136,284        | \$ 1,435,653        |
| Cash and cash equivalents – restricted   | <u>817,936</u>      | <u>817,936</u>      |
| Total cash and cash equivalents          | <u>\$ 2,954,220</u> | <u>\$ 2,253,589</u> |

**Disclosure of non-cash investing and financial activities:**

|                                                            |             |                   |
|------------------------------------------------------------|-------------|-------------------|
| Right-to-use asset recognized at the beginning of the year | \$ -        | \$ 210,239        |
| Lease liability recognized at the beginning of the year    | <u>\$ -</u> | <u>\$ 210,239</u> |

The accompanying notes are an integral part of these financial statements.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(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 Government: Omnibus*, and modified Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for government 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 requirement of GASB 34, equity is presented in the following net position categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position - nonexpendable* consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- *Restricted net position - expendable* consists of resources in which PUC is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law. At September 30, 2023 and 2022, PUC reports \$1,388,150 for its Self-insurance fund (Note 9) and Fuel deposits related to a sub-grant (Note 10).
- *Unrestricted net position* consists of net position which does not meet the definition of the three preceding categories. Unrestricted net position often is designated (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(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, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash, Cash Equivalents and Time Certifications 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 statement 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, 2023 and 2022, the carrying amount of cash and cash equivalents and time certificates of deposit was \$3,189,492 and \$2,488,861, respectively. Corresponding bank balances were \$3,559,116 and \$2,673,818, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023 and 2022, 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. Historically, these deposits that are exposed to custodial credit risk have not experienced such losses.

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 uncollectible 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 expenses. Accounts deemed uncollectible are written off against the allowance based on the specific identification method.

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

Inventory

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, 2023 and 2022 inventory is net of an allowance for obsolescence of \$1,037,569 and \$1,034,114, respectively.

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, 2023 and 2022, PUC has no items that qualify for reporting in this category.

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.

Right-to-Use Assets

Right-to-use (RTU) assets are recognized at the lease commencement date and represent PUC's right to use an underlying asset for the lease term. RTU assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement and initial direct costs. Options to renew or terminate the lease are recognized as part of RTU assets and lease liabilities when it is reasonably certain the options will be exercised.

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

Impairment of Capital Assets

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, PUC evaluates significant events or changes in circumstances that may affect the condition or service utility of its capital assets to determine whether an impairment has occurred.

A capital asset is considered impaired when both of the following conditions are met: a) the decline in the asset's service utility is significant in magnitude; and b) the event or change in circumstances causing the decline is outside the normal life cycle of the asset.

Impaired capital assets that will no longer be used are reported at the lower of their carrying amount or fair value. During the fiscal year ended September 30, 2023, PUC recognized an impairment loss of \$443,062 related to a generator that is no longer operable. The impairment loss is reported under nonoperating revenues and expenses in the accompanying financial statements.

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, 2023 and 2022, 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 or are used by 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 non-vesting 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 are recognized as revenue upon point of sale; the estimated unearned portion is determined at the end of each year. At September 30, 2023 and 2022, estimated unearned cash power revenue is approximately \$409,237 and \$310,000, respectively; and is included as a component of unearned revenue in the accompanying statements of net position.

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

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.

Total Columns

The total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with PUC's financial statements for the year ended September 30, 2023, from which summarized information was derived.

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2023, PUC implemented:

- In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objective of this statement is 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 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.
- In March 2020, the 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.

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

Recently Adopted Accounting Pronouncements, continued

- In May 2020, the GASB issued Statement No. 96, *Subscription – Based Information Technology Arrangements*. The primary objective of this Statement is to provide 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 SBITA’s result 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.
- In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance that clarifies the provisions of various GASB statements previously issued. Certain provisions of Statement No. 99 are applicable to future periods, guidance applicable to the current period relate to:
  - 1) Clarification on provisions in GASB Statement No. 87 related to the determination of lease terms, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
  - 2) Clarification on the provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
  - 3) Clarification on the provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
  - 4) Modifications to the accounting and reporting guidance in GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*, relating to the termination of hedges.

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

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

Upcoming Accounting Pronouncements

As mentioned above certain provisions of GASB Statement No. 99, *Omnibus 2022*, are applicable to future periods. Provisions from the Statement applicable to future periods relate to:

- 1) Modifications to the guidance in GASB Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting and disclosure requirements. These provisions of Statement No. 99 will be effective for the fiscal year ending September 30, 2024.
- 2) Guidance on the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These provisions of Statement No. 99 will be effective for the fiscal year ending September 30, 2024.

In April 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*, 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. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, 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.

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

Upcoming Accounting Pronouncements, continued

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*, to provide users of government financial statements with essential information about risks related to certain concentrations or constraints. The Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact.

Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, or have begun to occur, or are more likely than not to occur with 12 months of the date the financial statements are issued.

If a government determines that the criteria's have been met for disclosure of a concentration or constraint, it should disclose information in the notes to the financial statements in sufficient detail to enable users of the financial statement to understand the nature of the circumstances disclosed and the governments vulnerability to the risk of a substantial impact. The provisions of Statement No. 102 will be effective for fiscal year ending September 30, 2025.

The PUC is evaluating the effects that the above upcoming pronouncements may have on the financial statements.

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

Notes to Financial Statements  
September 30, 2023 and 2022

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

Use of Estimates

The preparation of financial statements in conformity with the 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, 2023 and 2022, is summarized as follows:

|                                        | <u>2023</u>         | <u>2022</u>         |
|----------------------------------------|---------------------|---------------------|
| Accounts receivable - electrical:      |                     |                     |
| Residential                            | \$ 1,853,345        | \$ 2,029,647        |
| Commercial                             | 901,124             | 911,091             |
| Government                             | <u>285,176</u>      | <u>411,780</u>      |
|                                        | <u>3,039,645</u>    | <u>3,352,518</u>    |
| Accounts receivable - water and sewer: |                     |                     |
| Residential                            | 5,186,018           | 5,171,640           |
| Commercial                             | 236,140             | 288,477             |
| Government                             | 373,753             | 331,754             |
| Unbilled                               | <u>56,191</u>       | <u>57,064</u>       |
|                                        | <u>5,852,102</u>    | <u>5,848,935</u>    |
| Installment receivables                | 64,840              | 65,881              |
| Other                                  | <u>257,892</u>      | <u>183,024</u>      |
|                                        | <u>322,732</u>      | <u>248,905</u>      |
|                                        | 9,214,479           | 9,450,358           |
| Less allowance for doubtful accounts   | <u>(7,850,886)</u>  | <u>(7,939,434)</u>  |
|                                        | <u>\$ 1,363,593</u> | <u>\$ 1,510,924</u> |

PUC operates a prepaid cash power and water meter system in which a portion of customer payments are used to satisfy any balances in postpaid arrears prior to transition. Fifty percent (50%) of collections are applied to arrears at the time of purchase. As of September 30, 2023 and 2022 included in accounts receivable – electrical, due from customers enrolled in the cash power meter system were \$1,183,331 and \$1,326,958, respectively. Included in accounts receivable – water and sewer, due from customers enrolled in the cash water meter system were \$953,935 and \$601,970, respectively.

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

Notes to Financial Statements  
September 30, 2023 and 2022

**(4) Utility Plant**

A summary of changes in capital assets for the years ended September 30, 2023 and 2022 is as follows:

|                                       | Beginning Balance<br>10/01/2022 | Additions and<br>Transfers | Deletions and<br>Transfers | Ending Balance<br>09/30/2023 |
|---------------------------------------|---------------------------------|----------------------------|----------------------------|------------------------------|
| <u>Depreciable assets:</u>            |                                 |                            |                            |                              |
| Production plant                      | \$ 25,075,409                   | \$ 2,942,780               | \$ -                       | \$ 28,018,189                |
| Distribution plant                    | 14,851,477                      | 53,942                     | -                          | 14,905,419                   |
| General plant                         | 1,282,544                       | 62,327                     | (115,700)                  | 1,229,171                    |
| Electric plant in service             | 41,209,430                      | 3,059,049                  | (115,700)                  | 44,152,779                   |
| Water production plant                | 8,573,998                       | 390,858                    | -                          | 8,964,856                    |
| Sewage collection and treatment plant | 13,614,333                      | -                          | -                          | 13,614,333                   |
| Water distribution plant              | 8,879,164                       | -                          | -                          | 8,879,164                    |
| General plant                         | 629,926                         | 19,584                     | (15,490)                   | 634,020                      |
| Water and sewer plant in service      | 31,697,421                      | 410,442                    | (15,490)                   | 32,092,373                   |
| Total utility plant in service        | 72,906,851                      | 3,469,491                  | (131,190)                  | 76,245,152                   |
| Less accumulated depreciation         | (45,416,670)                    | (2,634,157)                | 122,168                    | (47,928,659)                 |
|                                       | 27,490,181                      | 835,334                    | (9,022)                    | 28,316,493                   |
| <u>Non-depreciable assets:</u>        |                                 |                            |                            |                              |
| Construction work-in-process          |                                 |                            |                            |                              |
| Electric plant                        | 291,715                         | 263,160                    | (526,022)                  | 28,853                       |
| Water and sewer plant                 | 236,607                         | 23,849                     | (23,480)                   | 236,976                      |
|                                       | 528,322                         | 287,009                    | (549,502)                  | 265,829                      |
|                                       | <u>\$ 28,018,503</u>            | <u>\$ 1,122,343</u>        | <u>\$ (558,524)</u>        | <u>\$ 28,582,322</u>         |
|                                       |                                 |                            |                            |                              |
|                                       | Beginning Balance<br>10/01/2021 | Additions and<br>Transfers | Deletions and<br>Transfers | Ending Balance<br>09/30/2022 |
| <u>Depreciable assets:</u>            |                                 |                            |                            |                              |
| Production plant                      | \$ 24,857,814                   | \$ 217,595                 | \$ -                       | \$ 25,075,409                |
| Distribution plant                    | 14,802,729                      | 48,748                     | -                          | 14,851,477                   |
| General plant                         | 1,204,606                       | 92,238                     | (14,300)                   | 1,282,544                    |
| Electric plant in service             | 40,865,149                      | 358,581                    | (14,300)                   | 41,209,430                   |
| Water production plant                | 6,739,084                       | 1,834,914                  | -                          | 8,573,998                    |
| Sewage collection and treatment plant | 13,614,333                      | -                          | -                          | 13,614,333                   |
| Water distribution plant              | 8,879,164                       | -                          | -                          | 8,879,164                    |
| General plant                         | 794,512                         | 64,767                     | (229,353)                  | 629,926                      |
| Water and sewer plant in service      | 30,027,093                      | 1,899,681                  | (229,353)                  | 31,697,421                   |
| Total utility plant in service        | 70,892,242                      | 2,258,262                  | (243,653)                  | 72,906,851                   |
| Less accumulated depreciation         | (43,669,386)                    | (2,105,131)                | 357,847                    | (45,416,670)                 |
|                                       | 27,222,856                      | 153,131                    | 114,194                    | 27,490,181                   |
| <u>Non-depreciable assets:</u>        |                                 |                            |                            |                              |
| Construction work-in-process          |                                 |                            |                            |                              |
| Electric plant                        | 274,398                         | 17,317                     | -                          | 291,715                      |
| Water and sewer plant                 | 1,053,281                       | 1,176,903                  | (1,993,577)                | 236,607                      |
|                                       | 1,327,679                       | 1,194,220                  | (1,993,577)                | 528,322                      |
|                                       | <u>\$ 28,550,535</u>            | <u>\$ 1,347,351</u>        | <u>\$ (1,879,383)</u>      | <u>\$ 28,018,503</u>         |

**POHNPEI UTILITIES CORPORATION**  
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Notes to Financial Statements  
September 30, 2023 and 2022

**(5) Notes Payable**

Notes payable of \$256,071 and \$283,767 at September 30, 2023 and 2022, respectively, are borrowed against a line of credit (LOC) with the Bank of the Federated States of Micronesia (BFSM) in the amount 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% at September 30, 2023 and 2022) and matures in July 2024.

The agreements restrict 100% of the LOC and as such, \$370,000 of the related TCD balances as of September 30, 2023 and 2022 are reflected as restricted cash and cash equivalents in the accompanying statements of net position.

Changes in notes payable for the years ended September 30, 2023 and 2022, is as follows:

|                   | <u>Outstanding<br/>at 10/01/2022</u> | <u>Increases</u> | <u>Decreases</u>   | <u>Outstanding<br/>at 09/30/2023</u> |
|-------------------|--------------------------------------|------------------|--------------------|--------------------------------------|
| Notes Payable to: |                                      |                  |                    |                                      |
| BFSM              | <u>\$ 283,767</u>                    | <u>\$ -</u>      | <u>\$ (27,696)</u> | <u>\$ 256,071</u>                    |
|                   |                                      |                  |                    |                                      |
|                   | <u>Outstanding<br/>at 10/01/2021</u> | <u>Increases</u> | <u>Decreases</u>   | <u>Outstanding<br/>at 09/30/2022</u> |
| Notes Payable to: |                                      |                  |                    |                                      |
| BFSM              | <u>\$ 301,536</u>                    | <u>\$ -</u>      | <u>\$ (17,769)</u> | <u>\$ 283,767</u>                    |

**(6) Long-Term Debt**

Long-term debt consists of the following at September 30, 2023 and 2022:

|                                                                                                                                                                                                                                                                                                                                                                      | <u>2023</u>  | <u>2022</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%.                                                                                                                                                   | \$ 1,189,803 | \$ 1,243,148 |
| 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. | 2,759,907    | 2,875,352    |

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

|                                                                                                                                                                                                                                                                                                                                                                                                             | <u>2023</u>         | <u>2022</u>         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| 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 SOFR plus 0.6% (effective rate of 2.3% at September 30, 2023). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.                              | \$ 869,002          | \$ 1,009,716        |
| Loan payable to United States Department of Agriculture, Rural Utilities Services (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%.                                                                                                                                                                         | 425,203             | 438,094             |
| Loan payable to Bank of Guam (BOG), original amount of \$830,000, interest at 10.5% 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 was 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>413,765</u>      | <u>470,465</u>      |
| Total long-term debt                                                                                                                                                                                                                                                                                                                                                                                        | 5,657,680           | 6,036,775           |
| Less: current portion of long-term debt                                                                                                                                                                                                                                                                                                                                                                     | <u>473,060</u>      | <u>469,513</u>      |
| Total long-term debt, net of current portion                                                                                                                                                                                                                                                                                                                                                                | <u>\$ 5,184,620</u> | <u>\$ 5,567,262</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>        |
|-------------|---------------------|-------------------|---------------------|
| 2024        | \$ 473,060          | \$ 133,582        | \$ 606,642          |
| 2025        | 490,216             | 121,187           | 611,403             |
| 2026        | 508,793             | 108,025           | 616,818             |
| 2027        | 529,694             | 93,833            | 623,527             |
| 2028        | 552,207             | 79,247            | 631,454             |
| 2029 - 2033 | 1,929,320           | 212,761           | 2,142,081           |
| 2034 - 2038 | 1,024,296           | 70,452            | 1,094,748           |
| 2039 - 2043 | 141,362             | 24,087            | 165,449             |
| 2044 - 2048 | <u>8,732</u>        | <u>1,005</u>      | <u>9,737</u>        |
|             | <u>\$ 5,657,680</u> | <u>\$ 844,179</u> | <u>\$ 6,501,859</u> |

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

PUC's 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; and (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.

PUC's BOG loan contains a provision that upon the 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; and (c) failure in business, insolvency, dissolution or termination of the existence of the borrower.

PUC's RUS loan contains a provision that upon any default, 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, 2023 and 2022, and no event of default has been declared by the lenders.

Changes in long-term debt for the years ended September 30, 2023 and 2022, are as follows:

|                  | Outstanding at<br>10/1/2022 | Increases         | Decreases           | Outstanding at<br>9/30/2023 | Current           |
|------------------|-----------------------------|-------------------|---------------------|-----------------------------|-------------------|
| Loan payable to: |                             |                   |                     |                             |                   |
| ADB no. 1459     | \$ 1,243,148                | \$ 40,710         | \$ (94,055)         | \$ 1,189,803                | \$ 91,533         |
| ADB no. 2099     | 2,875,352                   | 85,537            | (200,982)           | 2,759,907                   | 212,300           |
| ADB no. 2100     | 1,009,716                   | -                 | (140,714)           | 869,002                     | 112,053           |
| BOG              | 470,465                     | -                 | (56,700)            | 413,765                     | 44,071            |
| RUS              | 438,094                     | -                 | (12,891)            | 425,203                     | 13,103            |
|                  | <u>\$ 6,036,775</u>         | <u>\$ 126,247</u> | <u>\$ (505,342)</u> | <u>\$ 5,657,680</u>         | <u>\$ 473,060</u> |
|                  |                             |                   |                     |                             |                   |
|                  | Outstanding at<br>10/1/2021 | Increases         | Decreases           | Outstanding at<br>9/30/2022 | Current           |
| Loan payable to: |                             |                   |                     |                             |                   |
| ADB no. 1459     | \$ 1,475,295                | \$ -              | \$ (232,147)        | \$ 1,243,148                | \$ 88,805         |
| ADB no. 2099     | 3,402,757                   | -                 | (527,405)           | 2,875,352                   | 205,382           |
| ADB no. 2100     | 1,137,362                   | -                 | (127,646)           | 1,009,716                   | 105,558           |
| BOG              | 545,401                     | -                 | (74,936)            | 470,465                     | 57,190            |
| RUS              | 449,438                     | -                 | (11,344)            | 438,094                     | 12,578            |
|                  | <u>\$ 7,010,253</u>         | <u>\$ -</u>       | <u>\$ (973,478)</u> | <u>\$ 6,036,775</u>         | <u>\$ 469,513</u> |

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

PUC's ADB loans are typically subject to changes resulting from currency re-evaluation. During the year ended September 30, 2022, PUC was allocated a decrease of \$455,122 for balance adjustments relating to currency re-evaluation and accordingly PUC decreased its long-term debt and interest expense by the same amount. During the year ended September 30, 2023, those same adjustments resulted in an increase of \$126,247, 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 rest 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.

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

Grants, subsidies and capital contributions comprise the following for the years ended September 30, 2023 and 2022:

|                                | <u>2023</u>         | <u>2022</u>         |
|--------------------------------|---------------------|---------------------|
| Operating Grants:              |                     |                     |
| FSMNG Congress Appropriations  | <u>\$ 815,795</u>   | <u>\$ 670,606</u>   |
| Capital Contribution:          |                     |                     |
| U.S. Government - energy grant | <u>\$ 1,142,491</u> | <u>\$ 1,003,284</u> |

At September 30, 2023 and 2022, there were no unearned revenues related to unexpended funds from PUC's FSM Public Infrastructure Sector Grant.

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

In accordance with Section 2(5) of State Law 3L-41-93, which amended the PUC's enabling legislation, PUC established a self-insurance fund to defray the costs of unforeseen accidents or disasters. As of September 30, 2023 and 2022, a balance of \$447,936 is maintained in a bank deposit account that was previously held as collateral for a bank loan repaid during the fiscal year ended September 30, 2016. The deposit balance continues to be reported as a component of restricted cash in the accompanying financial statements, as the restriction has not yet been formally removed by the enabling authority.

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

In addition to this self-insurance fund, PUC maintains commercial insurance coverage for potential losses arising from fire on its buildings and contents, as well as full coverage for property damage. PUC, however, is self-insured for other types of losses, including errors and omissions, employee injuries, and natural disasters. Management believes that no material losses have been sustained as a result of this practice during the past three fiscal years. There were no significant reductions in insurance coverage from the prior year, and no settlements have exceeded insurance coverage during the past three fiscal years.

**(10) Related Party Transactions**

At September 30, 2023 and 2022, accounts receivable included amounts owed by the State of Pohnpei and its component units to PUC totaling \$148,360 for each year.

At September 30, 2023 and 2022, PUC had a non-interest-bearing advance from the State totaling \$4,518,625 and \$4,018,602, respectively, representing Asian Development Bank (ADB) loan repayments made by the State on behalf of PUC. On November 16, 2021, PUC and the State executed a two-year Memorandum of Understanding (MOU) under which PUC agreed to make an initial payment of \$150,000 upon signing, followed by four equal installments of \$150,000 each. Both parties further agreed that PUC would forgive \$328,497 in outstanding utility arrears due from the State, and in turn, the State would reduce PUC's advances by the same amount. These advances have no formal repayment terms and are therefore classified as current liabilities based on the mutual consent of both parties. During fiscal years 2023 and 2022, the outstanding balance increased by \$500,022 and \$504,370, respectively, as a result of additional revenue sharing deduction payments made by the State on behalf of PUC.

During the years ended September 30, 2023 and 2022, PUC purchased all of its production fuel from the FSM Petroleum Corporation (FSMPC), a component unit of the Federated States of Micronesia National Government (FSMNG). At September 30, 2023 and 2022, long-term deposits with FSMPC totaled \$1,620,913 and \$3,439,462, respectively. Of these amounts, \$940,214 received through a sub-grant from FSMNG is 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), which had an initial term of 36 months and expired in June 2017. Under the agreement, FSMPC is responsible for acquiring, installing, and operating a 2.0 MW diesel generator, and PUC is committed to purchase available capacity up to the contract capacity, equivalent to an average of 1,600 kW per month during the PPA term. The PPA remains in holdover status pending renewal or termination negotiations.

At September 30, 2023 and 2022, payables to FSMPC under this agreement totaled \$433,364 and \$904,517, respectively.

**POHNPEI UTILITIES CORPORATION**  
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**(11) Leases**

PUC entered into a lease agreement for its Finance Office on April 1, 2019. The lease is for five years with an option to renew for another five years. The lease agreement payments are \$36,000 annually, payable at the beginning of each month for both the initial and extended term if no price is negotiated after the end of the initial term. The discount rate used is 7%, which was the rate for the Bank of Guam loan presented during the year of implementation.

The future lease obligations for years ending September 30 are as follows:

| Year ending<br>September 30, | Payments          | Principal         | Interest         |
|------------------------------|-------------------|-------------------|------------------|
| 2024                         | \$ 36,000         | \$ 25,179         | \$ 10,821        |
| 2025                         | 36,000            | 26,999            | 9,001            |
| 2026                         | 36,000            | 28,951            | 7,049            |
| 2027                         | 36,000            | 31,044            | 4,956            |
| 2028                         | 36,000            | 33,288            | 2,712            |
| 2029                         | 21,000            | 20,519            | 482              |
|                              | <u>\$ 201,000</u> | <u>\$ 165,980</u> | <u>\$ 35,021</u> |

Information related to right-to-use leased assets and lease liabilities are as follows:

|                                    | 2023              | 2022              |
|------------------------------------|-------------------|-------------------|
| Right to use the leased asset      | \$ 258,379        | \$ 258,379        |
| Accumulated amortization           | (92,399)          | (69,803)          |
| Right to use the leased asset, net | <u>\$ 165,980</u> | <u>\$ 188,576</u> |
| Lease liability, current           | \$ 25,179         | \$ 23,264         |
| Lease liability, non-current       | 140,801           | 165,312           |
| Total lease liability              | <u>\$ 165,980</u> | <u>\$ 188,576</u> |

Supplemental information related to PUC's lease are as follows:

|                                       | 2023  | 2022  |
|---------------------------------------|-------|-------|
| Weighted average remaining lease term | 5.58  | 6.58  |
| Weighted average discount rate        | 7.00% | 7.00% |

**POHNPEI UTILITIES CORPORATION**  
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Notes to Financial Statements  
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**(12) Retirement Plan**

PUC maintains a self-administered defined contribution retirement plan (the “Plan”) established to provide retirement, disability, and survivor benefits to eligible employees and their beneficiaries. The Plan is designed to supplement benefits provided under the Federated States of Micronesia Social Security System.

Effective August 2014, PUC began matching a percentage of participants’ contributions. Matching contributions to the Plan for the years ended September 30, 2023 and 2022 were \$88,866 and \$98,498, respectively. These amounts are reported as a component of administrative and general expenses in the accompanying financial statements.

Total Plan assets amounted to \$1,155,885 and \$1,038,837 as of September 30, 2023 and 2022, respectively. The Plan is administered internally by PUC, which is responsible for maintaining the Plan’s records and ensuring compliance with applicable policies and procedures.

Management believes that the Plan is separate and distinct from PUC’s operations and, therefore, does not represent an asset or liability of PUC. Accordingly, no related assets or liabilities have been recorded in the accompanying statements of net position.

**(13) Restricted Net Position**

At September 30, 2023 and 2022, net position is restricted for the following purposes:

|                                       | <u>2023</u>         | <u>2022</u>         |
|---------------------------------------|---------------------|---------------------|
| Fuel deposit from sub-grant (Note 10) | \$ 940,214          | \$ 940,214          |
| Self-insurance fund (Note 9)          | <u>447,936</u>      | <u>447,936</u>      |
|                                       | <u>\$ 1,388,150</u> | <u>\$ 1,388,150</u> |

**(14) 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, 2023 and 2022, 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.

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Notes to Financial Statements  
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**(15) 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 litigation proceedings. Management, after consultation with legal counsel, has determined that while adverse outcomes are reasonably possible in certain cases, none are considered probable at this time. Accordingly, no liabilities have been recorded in the accompanying financial statements. The following matters are disclosed as reasonably possible losses:

- In December 2013, a resident was fatally electrocuted when her fruit picker contacted a power line. The trial court awarded damages totaling \$100,000, the statutory maximum for wrongful death under Pohnpei law. PUC has appealed the decision, and the outcome remains pending. Management believes an adverse outcome is not probable, but the maximum potential exposure is \$100,000.
- Litigation was filed alleging negligence and nuisance related to sewage overflows between 2007–2012. The trial court entered a judgment of \$21,000 against PUC. PUC has appealed the decision. Management believes an adverse outcome is not probable, but an adverse outcome is reasonably possible.
- A personal injury action remains pending from a 2011 incident in which a resident was electrocuted while cutting tree branches near a power line. Legal counsel considers the outcome uncertain. The statutory maximum exposure for personal injury actions is \$100,000.
- A former PUC lineman sustained injuries in 2010 and filed suit alleging negligence and unsafe working conditions. The trial court ruled in favor of PUC, but the plaintiff has appealed. If the appellate court reverses, the maximum potential loss is \$100,000 under statutory limits.
- A claim of trespass and contamination was filed regarding the Kosma sewer pump station. The court has issued partial summary judgment in PUC's favor, but a contamination claim remains unresolved. If the plaintiff prevails, damages would be limited to the value of any proven contaminated land. The potential loss cannot be reasonably estimated at this time.
- A negligence claim was filed in August 2023 relating to a 2021 vehicle accident involving a PUC employee. PUC has moved to dismiss the case on the basis that it was filed beyond the statute of limitations. The statutory maximum exposure is \$100,000. Management believes dismissal is likely, but the case remains pending.

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Notes to Financial Statements  
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**(15) Contingencies, Continued**

- A former employee has filed suit alleging wrongful termination and seeking reinstatement with retroactive pay. PUC is contesting the claim, and legal counsel believes the likelihood of an adverse outcome is low. The amount of any possible loss, if awarded, cannot be determined at this time.
- The lease agreement for land on which PUC's Ipat water tank is located expired in March 2020. A new lease has not been executed, and the heirs have claimed PUC has occupied the property without rent payments since expiration. Any liability will depend on arbitration or court determination of fair rental value. The potential amount of loss cannot be estimated at this time.
- In February 2025, a PUC employee sustained injuries while working on a power line. A settlement demand of \$500,000 has been submitted. PUC is contesting the claim, citing comparative negligence and medical evidence of recovery. The ultimate outcome is uncertain, and the probable exposure is expected to be substantially less than the demand.

**(16) Power Plant Deposit**

As of September 30, 2022, PUC paid a vendor \$1,818,547, which was recorded as a long-term deposit to purchase a generation unit for the Nahnponmal Power Plant. The project was funded through a direct grant from the United States Department of Agriculture Rural Utilities Service. The installation was completed during 2023 and as of September 30, 2023 it has been capitalized into electric plant in service.

**(17) Restatement**

During the year ended September 30, 2023, PUC recorded a prior period adjustment to properly reflect the acquisition of two donated generators, related capital improvements and prior period depreciation. These adjustments were made to comply with *GASB Statement No. 33 Accounting and Financial Reporting for Nonexchange Transactions*, and to ensure the accurate recognition of donated assets and to adjust for their cumulative effects in the financial statements. The key components of the prior period adjustments are as follows:

A prior period adjustment was made to recognize the receipt of two donated generators to FY16 with an estimated historical cost of \$1,390,000. The estimate was based on the purchase price of similar generators purchased in 2016. Additionally, capitalized improvements related to these generators totaling \$86,264 were also recognized. The adjustment resulted in the following restatements.

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Notes to Financial Statements  
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**(17) Restatement, Continued**

A prior period adjustment was made to FY22 to recognize capitalized engine repairs and maintenance on one of the donated generators totaling \$217,595. The total increase in the opening balances of electric plant in service as a result of the restatement was \$1,693,859.

PUC recorded prior period depreciation for the donated generators and their related capital improvements. These depreciation adjustments reflect the period during which the generators were in service but had not been previously recorded in the financial statements. Depreciation was calculated from the date of acquisition in FY16 through the end of FY22 in accordance with PUC's established depreciation policy. The adjustments resulted in a decrease in net position and a corresponding increase in accumulated depreciation totaling \$462,541.

As a result of these determinations and adjustments, the 2022 financial statements have been restated from the amounts previously reported as follows:

|                                                  | As Previously<br>Reported | Adjustments  | As Restated     |
|--------------------------------------------------|---------------------------|--------------|-----------------|
| For the year ended September 30, 2022            |                           |              |                 |
| Prepayments                                      | \$ 708,649                | \$ (110,386) | \$ 598,263      |
| Electric plant in service                        | \$ 39,515,571             | \$ 1,693,859 | \$ 41,209,430   |
| Construction work-in-process                     | \$ 614,586                | \$ (86,264)  | \$ 528,322      |
| Accumulated Depreciation                         | \$ (44,954,129)           | \$ (462,541) | \$ (45,416,670) |
| Accounts payable - operations                    | \$ (356,459)              | \$ (107,209) | \$ (463,668)    |
| Change in total liabilities                      | \$ (13,003,368)           | \$ (107,209) | \$ (13,110,577) |
| Change in total assets and net position          | \$ 36,226,925             | \$ 1,034,668 | \$ 37,261,593   |
| For the year ended September 30, 2022            |                           |              |                 |
| Depreciation                                     | \$ 1,933,475              | \$ 75,022    | \$ 2,008,497    |
| Change in total operating loss                   | \$ (2,596,030)            | \$ (75,022)  | \$ (2,671,052)  |
| Change in total loss before capital contribution | \$ (1,567,800)            | \$ (75,022)  | \$ (1,642,822)  |
| Change in net position                           | \$ (564,516)              | \$ (75,022)  | \$ (639,538)    |
| Net position at beginning of year                | \$ 23,788,073             | \$ 1,002,481 | \$ 24,790,554   |
| Change in net position at end of year            | \$ 23,223,557             | \$ 927,459   | \$ 24,151,016   |

**(18) Date of Management's Review**

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through July 28, 2025, which is the date of the financial statements were available to be issued. There were no such other events requiring disclosure.

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

Combining Statement of Net Position  
September 30, 2023  
(With comparative totals for year ended September 30, 2022)

| ASSETS                                 | Power and<br>Utility | Water and<br>Sewer | Totals        |                       |
|----------------------------------------|----------------------|--------------------|---------------|-----------------------|
|                                        |                      |                    | 2023          | (As Restated)<br>2022 |
| Current assets:                        |                      |                    |               |                       |
| Cash and cash equivalents              | \$ 2,136,284         | \$ -               | \$ 2,136,284  | \$ 1,435,653          |
| Time certificates of deposit           | 235,272              | -                  | 235,272       | 235,272               |
| Accounts receivable, net               | 820,393              | 543,200            | 1,363,593     | 1,510,924             |
| Prepayments                            | 938,747              | -                  | 938,747       | 598,263               |
| Materials and fuel inventory, net      | 267,065              | 647,300            | 914,365       | 1,017,004             |
| Total current assets                   | 4,397,761            | 1,190,500          | 5,588,261     | 4,797,116             |
| Other noncurrent assets:               |                      |                    |               |                       |
| Long-term deposits                     | 1,620,913            | -                  | 1,620,913     | 3,439,462             |
| Restricted - cash and cash equivalents | 817,936              | -                  | 817,936       | 817,936               |
| Right-to-use assets                    | 165,980              | -                  | 165,980       | 210,239               |
| Accumulated amortization - RTU         | -                    | -                  | -             | (21,663)              |
| Total other noncurrent assets          | 2,604,829            | -                  | 2,604,829     | 4,445,974             |
| Utility plant, at cost:                |                      |                    |               |                       |
| Electric plant in service              | 44,152,779           | -                  | 44,152,779    | 41,209,430            |
| Water and sewer plant in service       | -                    | 32,092,373         | 32,092,373    | 31,697,421            |
|                                        | 44,152,779           | 32,092,373         | 76,245,152    | 72,906,851            |
| Less accumulated depreciation          | (31,175,026)         | (16,753,633)       | (47,928,659)  | (45,416,670)          |
| Depreciable assets, net                | 12,977,753           | 15,338,740         | 28,316,493    | 27,490,181            |
| Construction work-in-process           | 29,313               | 236,516            | 265,829       | 528,322               |
| Total utility plant                    | 13,007,066           | 15,575,256         | 28,582,322    | 28,018,503            |
|                                        | \$ 20,009,656        | \$ 16,765,756      | \$ 36,775,412 | \$ 37,261,593         |
| <b>LIABILITIES AND NET POSITION</b>    |                      |                    |               |                       |
| Current liabilities:                   |                      |                    |               |                       |
| Notes payable                          | \$ 256,071           | \$ -               | \$ 256,071    | \$ 283,767            |
| Current portion of long-term debt      | 61,300               | 411,760            | 473,060       | 469,513               |
| Lease liability, current portion       | 25,179               | -                  | 25,179        | 23,264                |
| Accounts payable:                      |                      |                    |               |                       |
| Operations                             | 35,486               | 358,441            | 393,927       | 463,668               |
| Fuel, lubricants and kwh purchased     | 433,364              | -                  | 433,364       | 904,517               |
| Unearned revenue                       | 643,336              | -                  | 643,336       | 466,510               |
| Accrued taxes and other liabilities    | 643,804              | -                  | 643,804       | 611,483               |
| Employees' annual leave                | 191,705              | -                  | 191,705       | 136,679               |
| Advances from Pohnpei State Government | -                    | 4,518,625          | 4,518,625     | 4,018,602             |
| Total current liabilities              | 2,290,245            | 5,288,826          | 7,579,071     | 7,378,003             |
| Noncurrent liabilities:                |                      |                    |               |                       |
| Loan payable - RUS                     | -                    | 412,100            | 412,100       | 425,516               |
| Loan payable - BOG                     | 369,694              | -                  | 369,694       | 413,275               |
| Loan payable - ADB                     | -                    | 4,402,826          | 4,402,826     | 4,728,471             |
| Lease liability, non-current           | 140,801              | -                  | 140,801       | 165,312               |
| Total noncurrent liabilities           | 510,495              | 4,814,926          | 5,325,421     | 5,732,574             |
| Total liabilities                      | 2,800,740            | 10,103,752         | 12,904,492    | 13,110,577            |
| Commitments and contingencies          |                      |                    |               |                       |
| Net position:                          |                      |                    |               |                       |
| Net investment in capital assets       | 12,576,072           | 10,348,570         | 22,924,642    | 21,981,728            |
| Restricted                             | 1,388,150            | -                  | 1,388,150     | 1,388,150             |
| Unrestricted                           | 3,244,694            | (3,686,566)        | (441,872)     | 781,138               |
| Total net position                     | 17,208,916           | 6,662,004          | 23,870,920    | 24,151,016            |
|                                        | \$ 20,009,656        | \$ 16,765,756      | \$ 36,775,412 | \$ 37,261,593         |

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, 2023  
(With comparative totals as of September 30, 2022)

|                                     | Power and<br>Utility | Water and<br>Sewer | Totals       |                       |
|-------------------------------------|----------------------|--------------------|--------------|-----------------------|
|                                     |                      |                    | 2023         | (As Restated)<br>2022 |
| Operating revenues:                 |                      |                    |              |                       |
| Residentials                        | \$ 63,338            | \$ 972,646         | \$ 1,035,984 | \$ 1,278,521          |
| Cash power                          | 8,399,280            | -                  | 8,399,280    | 9,967,974             |
| Cash water                          | -                    | 272,665            | 272,665      | 92,162                |
| Commercial                          | 3,623,742            | 152,029            | 3,775,771    | 3,601,217             |
| Government                          | 2,064,678            | 229,249            | 2,293,927    | 2,522,547             |
| Other Sales                         | 194,890              | -                  | 194,890      | 20,327                |
| Total operating revenues            | 14,345,928           | 1,626,589          | 15,972,517   | 17,482,748            |
| Bad debt expense                    | (10,273)             | -                  | (10,273)     | (660,526)             |
| Net operating revenues              | 14,335,655           | 1,626,589          | 15,962,244   | 16,822,222            |
| Operating and maintenance expenses: |                      |                    |              |                       |
| Production fuel                     | 6,115,113            | -                  | 6,115,113    | 10,327,257            |
| Depreciation                        | 1,404,658            | 786,437            | 2,191,095    | 2,008,497             |
| Administrative and general:         |                      |                    |              |                       |
| Salaries and wages                  | 644,861              | -                  | 644,861      | 570,824               |
| Employee benefits                   | 564,910              | -                  | 564,910      | 518,369               |
| Communications                      | 84,793               | -                  | 84,793       | 85,474                |
| Customer service and collection     | 78,145               | -                  | 78,145       | 60,451                |
| Insurance                           | 65,260               | -                  | 65,260       | 83,586                |
| Vehicle, POL                        | 115,761              | -                  | 115,761      | 106,319               |
| Travel                              | 262,728              | -                  | 262,728      | 44,147                |
| Contractual services                | 47,601               | -                  | 47,601       | 25,363                |
| Consumables and supplies            | 162,249              | -                  | 162,249      | 88,494                |
| Repairs and maintenance             | 50,079               | -                  | 50,079       | 41,255                |
| Other                               | 434,722              | -                  | 434,722      | 320,445               |
|                                     | 2,511,109            | -                  | 2,511,109    | 1,944,727             |
| Kwh purchased                       | 2,863,050            | -                  | 2,863,050    | 1,946,422             |
| Generation:                         |                      |                    |              |                       |
| Salaries and wages                  | 522,225              | -                  | 522,225      | 607,832               |
| Repairs and maintenance             | 491,720              | -                  | 491,720      | 272,445               |
| Other                               | 215,065              | -                  | 215,065      | 60,477                |
|                                     | 1,229,010            | -                  | 1,229,010    | 940,754               |
| Distribution:                       |                      |                    |              |                       |
| Salaries and wages                  | 798,187              | -                  | 798,187      | 755,020               |
| Repairs and maintenance             | 269,186              | -                  | 269,186      | 115,845               |
| Consumables and supplies            | 18,666               | -                  | 18,666       | 38,777                |
|                                     | 1,086,039            | -                  | 1,086,039    | 909,642               |

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, 2023  
(With comparative totals as of September 30, 2022)

|                                             | Power and<br>Utility | Water and<br>Sewer  | Totals<br>(As Restated) |                      |
|---------------------------------------------|----------------------|---------------------|-------------------------|----------------------|
|                                             |                      |                     | 2023                    | 2022                 |
| Water and sewer:                            |                      |                     |                         |                      |
| Salaries and wages                          | \$ -                 | \$ 819,697          | \$ 819,697              | \$ 721,223           |
| Repairs and maintenance                     | -                    | 380,453             | 380,453                 | 278,817              |
| Consumables and supplies                    | -                    | 124,159             | 124,159                 | 91,992               |
| Employee benefits                           | -                    | 113,322             | 113,322                 | 89,825               |
| Other                                       | -                    | 41,001              | 41,001                  | 234,118              |
|                                             | <u>-</u>             | <u>1,478,632</u>    | <u>1,478,632</u>        | <u>1,415,975</u>     |
| Total operating and maintenance expenses    | <u>15,208,979</u>    | <u>2,265,069</u>    | <u>17,474,048</u>       | <u>19,493,274</u>    |
| Operating loss                              | <u>(873,324)</u>     | <u>(638,480)</u>    | <u>(1,511,804)</u>      | <u>(2,671,052)</u>   |
| Nonoperating revenues (expenses), net:      |                      |                     |                         |                      |
| Interest expense, net                       | (42,322)             | (137,056)           | (179,378)               | (135,687)            |
| Foreign exchange revaluation                | -                    | (126,247)           | (126,247)               | 455,122              |
| Grant and subsidies                         | 815,795              | -                   | 815,795                 | 670,606              |
| Other income                                | 31,130               | -                   | 31,130                  | 42,290               |
| Loss on impairment                          | (443,062)            | -                   | (443,062)               | -                    |
| Loss on disposal of fixed asset             | (9,021)              | -                   | (9,021)                 | (4,101)              |
| Total nonoperating revenues (expenses), net | <u>352,520</u>       | <u>(263,303)</u>    | <u>89,217</u>           | <u>1,028,230</u>     |
| Loss before capital contributions           | <u>(520,804)</u>     | <u>(901,783)</u>    | <u>(1,422,587)</u>      | <u>(1,642,822)</u>   |
| Capital contributions:                      |                      |                     |                         |                      |
| Capital contributions                       | <u>1,142,491</u>     | <u>-</u>            | <u>1,142,491</u>        | <u>1,003,284</u>     |
| Total capital contributions                 | <u>1,142,491</u>     | <u>-</u>            | <u>1,142,491</u>        | <u>1,003,284</u>     |
| Change in net position                      | 621,687              | (901,783)           | (280,096)               | (639,538)            |
| Net position at beginning of year           | 16,587,229           | 7,563,787           | 24,151,016              | 23,788,073           |
| Prior period adjustment                     | <u>-</u>             | <u>-</u>            | <u>-</u>                | <u>1,002,481</u>     |
| Net position at end of year                 | <u>\$ 17,208,916</u> | <u>\$ 6,662,004</u> | <u>\$ 23,870,920</u>    | <u>\$ 24,151,016</u> |

See accompanying Independent Auditors' Report.

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

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**UNIFORM GUIDANCE REPORTS**

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**Year Ended September 30, 2023**



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

Board of Directors  
Pohnpei Utilities Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pohnpei Utilities Corporation (PUC), which comprise the statement of net position as of September 30, 2023, 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 July 28, 2025.

**Report on Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2023-002 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2023-001 to be a significant deficiency.

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## **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 is described in the accompanying schedule of findings and questioned costs as finding 2023-003.

### ***PUC's Responses to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on PUC's response to findings identified in our audit. PUC's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. PUC's responses were not subject 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.

*Bryce Conner & Associates*

July 28, 2025

Tamuning, Guam



**INDEPENDENT AUDITOR'S 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**

Board of Directors  
Pohnpei Utilities Corporation:

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

***Opinion on 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, 2023. PUC's sole major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2023.

***Basis for Opinion on the Sole Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of PUC and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for PUC's sole major federal program. Our audit does not provide a legal determination of PUC's compliance with the compliance requirements referred to above.

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## ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to PUC's sole major federal program.

## ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on PUC's compliance on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about PUC's compliance with the requirements of its sole major federal program.

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 PUC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of PUC's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 PUC's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## ***Report on Internal Control Over Compliance***

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2023-002 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as finding 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on PUC's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. PUC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2023, and have issued our report thereon dated July 28, 2025, which contained a unmodified and modified 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.

A handwritten signature in dark ink, reading "Bryan Comer & Associates". The signature is written in a cursive, flowing style.

July 28, 2025  
Tamuning, Guam

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2023

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title   | Federal<br>AL Number | Pass-Through<br>Entity Indefining<br>Number | Federal<br>Expenditures |
|-----------------------------------------------------------------|----------------------|---------------------------------------------|-------------------------|
| U.S DEPARTMENT OF AGRICULTURE                                   |                      |                                             |                         |
| Direct Program:                                                 |                      |                                             |                         |
| Assistance to High Energy Cost Rural Communities                | 10.859               |                                             | 2,669,808               |
| Total U.S. Department of Agriculture                            |                      |                                             | <u>\$ 2,669,808</u>     |
| U.S DEPARTMENT OF THE INTERIOR                                  |                      |                                             |                         |
| Pass-Through FSM National Government:                           |                      | A4                                          |                         |
| Economic, Social, and Political Development of the Territories: |                      |                                             |                         |
| Compact of Free Association Sector Grant                        |                      |                                             |                         |
| Cash Water I                                                    | 15.875               | D19AF00072-01                               | 376,131                 |
| Total U.S. Department of the Interior                           |                      |                                             | <u>\$ 376,131</u>       |
| Total Federal Awards Expended                                   |                      |                                             | <u>\$ 3,045,939</u>     |

See notes to Schedule of Expenditure of Federal Awards.

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

Notes to Schedule of Expenditures and Federal Awards  
Year Ended September 30, 2023

**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. Basis 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 years ended September 30, 2023. 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**

a. Basis of Accounting

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.

b. Indirect Costs

PUC elected not to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414 of the Uniform Guidance. PUC did not receive any indirect cost allocation and no indirect costs were recorded against any federal program reported on the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2023.

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Section I - Summary of Auditor's Results**

*Financial Statements*

- |    |                                                                                                                                                                    |            |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 1. | Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:<br>Internal control over financial reporting: | Unmodified |
| 2. | Material weakness(es) identified?                                                                                                                                  | Yes        |
| 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 auditor's report issued on compliance for major federal programs:                                                                                                                                                                                                                                                                     | Unmodified       |                                           |        |                                                  |  |
| 8.               | Any audit finding disclosed that are required to be reported in Accordance with 2 CFR 200.516(a)?                                                                                                                                                                                                                                             | No               |                                           |        |                                                  |  |
| 9.               | Identification of major federal programs:                                                                                                                                                                                                                                                                                                     |                  |                                           |        |                                                  |  |
|                  | <table border="0" style="width: 100%;"> <tr> <td style="text-align: center;"><u>AL Number</u></td> <td style="text-align: center;"><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td style="text-align: center;">10.859</td> <td style="text-align: center;">Assistance to High Energy Cost Rural Communities</td> </tr> </table> | <u>AL Number</u> | <u>Name of Federal Program or Cluster</u> | 10.859 | Assistance to High Energy Cost Rural Communities |  |
| <u>AL Number</u> | <u>Name of Federal Program or Cluster</u>                                                                                                                                                                                                                                                                                                     |                  |                                           |        |                                                  |  |
| 10.859           | Assistance to High Energy Cost Rural Communities                                                                                                                                                                                                                                                                                              |                  |                                           |        |                                                  |  |
| 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>                   |
| 2023-001                | Untimely Account Reconciliations |
| 2023-002                | Donated Capital Assets           |

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

|                  |                         |                              |
|------------------|-------------------------|------------------------------|
| <u>AL Number</u> | <u>Reference Number</u> | <u>Finding</u>               |
| 10.859           | 2023-003                | Special Tests and Provisions |

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding No. 2023-001 – Untimely Account Reconciliations**

Criteria:

Sound internal control requires that monthly reconciliations of significant general ledger accounts be performed timely. Regular reconciliations ensure accurate interim financial statements for management and Board review and facilitate timely year-end closing and audit readiness.

Condition:

PUC did not perform timely reconciliations of general ledger account balances. Delays in month-end reconciliations resulted in a high number of post-closing adjustments across multiple financial statement areas, contributing to delays in completing the year-end audit.

Cause:

PUC lacks adequate internal controls over the monitoring of the month-end close process and has insufficient accounting personnel and resources to perform timely reconciliations.

Effect:

This condition resulted in inaccurate interim financial information being provided to management and the Board during the year and contributed to delays in the audit process.

Identification as a Repeat Finding:

This condition was also cited in the prior year audit as Finding 2022-001 and remains uncorrected.

Recommendation:

PUC should evaluate the staffing and resource needs of its accounting function. Management should consider hiring additional accounting staff, enhancing training for existing staff, and developing policies and procedures requiring monthly reconciliations of all significant accounts. A monthly reconciliation checklist and internal monitoring should be implemented to ensure reconciliations are completed and reviewed timely.

View of Responsible Officials:

PUC's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding No. 2023-002 – Donated Capital Assets**

Criteria:

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires that donated capital assets, including property, plant, and equipment, be recognized at their estimated fair value at the time of receipt. Entities must maintain an accounting policy and internal controls to ensure donated assets are timely identified, valued through documented cost information or an independent appraisal, and recorded in the financial statements, including recognition of related depreciation in accordance with established capitalization and depreciation policies.

Condition:

PUC did not record two generators donated by the World Bank in FY2016. No independent appraisal or documented cost information was obtained at the time of receipt. Additionally, no accounting policy existed addressing donated property, and the generators were omitted from the financial statements. In FY2022, PUC also failed to properly capitalize significant repairs and improvements related to these generators. These errors required prior period adjustments totaling \$1,693,859, consisting of:

- \$1,390,000 to recognize the estimated historical cost of the donated generators,
- \$86,264 in capitalized improvements initially misclassified as construction work-in-progress, and
- \$217,595 in capitalized engine repairs and maintenance initially misclassified as prepayments and expense.

Additionally, depreciation from FY2016 through FY2022 was not recorded for the donated generators and related improvements in accordance with PUC's depreciation policy and was adjusted to increase accumulated depreciation and decrease in net position totaling \$462,541.

Cause:

The condition resulted from the absence of adequate internal controls and documented accounting policies for the identification, valuation, and recording of donated assets and related capitalized improvements. PUC lacked procedures to ensure compliance with GASB 33 and to monitor nonexchange transactions.

Effect:

The omission of the donated generators and related improvements caused the financial statements to be materially misstated in prior years, requiring restatements to correct beginning balances of electric plant in service, construction work-in-progress, prepayments, accounts payable, and net position. The lack of internal controls created a reasonable possibility that material misstatements in capital assets and net position would not be prevented or detected on a timely basis.

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding No. 2023-002 – Donated Capital Assets, Continued**

Identification as a Repeat Finding: N/A

Recommendation:

We recommend that PUC:

1. Establish and formally adopt accounting policies and procedures for donated assets and nonexchange transactions to comply with GASB 33.
2. Implement procedures requiring documented fair value determinations, such as appraisals or cost-based estimates, at the time of asset receipt.
3. Strengthen internal controls to ensure timely recording of donated assets, related improvements, and depreciation in accordance with PUC's capitalization and depreciation policies.
4. Provide training to accounting and operations personnel on the identification and reporting requirements for donated property and capital contributions.
5. Require quarterly reviews of capital asset additions and reconciliations by management to monitor compliance and accuracy.

View of Responsible Officials:

PUC's response and corrective action plan addressing this finding is included in the accompanying corrective action plan.

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-003**

Federal Agency: U.S Department of Agriculture  
AL Program: 10.859 Assistance to High Energy Cost Rural Communities  
Federal Award No: HCEG FM001-B84  
Area: Special Tests and Provisions  
Questioned Costs: \$0

**Criteria:**

Section 8.8, *Final Project Report*, of the underlying grant agreement requires the grantee to provide the Rural Utilities Service (RUS) with a final project report detailing: project performance, final project expenditures, and one full year of operating data. Such data must include energy produced, fuel savings, and/or cost savings associated with the project, and community benefits. The report must demonstrate whether the performance objectives listed in the grant application were achieved, including:

1. A reduction in per unit cost of power by \$0.01 – 0.02/kWh.
2. An additional 188 kW of energy for available waste heat, equating to 1.61 MW of additional renewable energy annually.
3. A quantified decrease in the number of blackouts experienced over the prior year.

**Condition:**

PUC submitted a final project report to RUS that included project performance information, expenditures, and operating data; however, the report covered only four (4) months of operating data. The submission did not include the required one full year of operating data. No adverse or corrective feedback was issued by the awarding agency regarding the submission.

**Cause:**

PUC management did not establish procedures to ensure that all required operating data covering a full twelve-month period was collected and reported prior to submission.

**Effect:**

PUC is in noncompliance with the special tests and provisions requirements of the grant agreement. Although no questioned costs were identified, incomplete reporting may limit RUS's ability to fully assess whether the project achieved its intended performance objectives.

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2023

**Finding 2023-003, Continued**

Federal Agency: U.S Department of Agriculture  
AL Program: 10.859 Assistance to High Energy Cost Rural Communities  
Federal Award No: HCEG FM001-B84  
Area: Special Tests and Provisions  
Questioned Costs: \$0

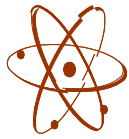
**Recommendation:**

We recommend that PUC implement internal controls to ensure compliance with all reporting requirements under its federal awards, including:

1. Establishing procedures to track required reporting timelines and data periods.
2. Assigning responsibility for the compilation of complete annual operating data prior to submission.
3. Reviewing future submissions for compliance with the full scope of grant reporting criteria before transmittal to the awarding agency.

**Identification as a Repeat Finding:** N/A

**View of Responsible Officials:** PUC's response and corrective action plan addressing this finding is included in the accompanying 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, 2023

*Joseph Felix, Jr.*  
*Chairman*

*William Hawley*  
*Vice-Chairman*

*Gardner Edgar*  
*Secretary*

*Casiano Shoniber*  
*Member*

*Hainrick Panuelo*  
*Member*

*Cindy Henry-Ehmes*  
*Member*

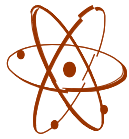
*(Vacant)*  
*Member*

| <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 |
| 2021-001              | Not corrected or resolved. On-going. Refer to Note 1 |
| 2022-001              | Not corrected or resolved. On-going. Refer to Note 1 |
| 2022-002              | Corrected and resolved.                              |

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

*Nixon Anson*  
*General Manager/CEO*

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# POHNPEI UTILITIES CORPORATION

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

## CORRECTIVE ACTION PLAN

**Year Ended September 30, 2023**

### BOARD OF DIRECTORS

***Joseph Felix, Jr.***  
***Chairman***

***William Hawley***  
***Vice-Chairman***

***Gardner Edgar***  
***Secretary***

***Casiano Shoniber***  
***Member***

***Hainrick Panuelo***  
***Member***

***Cindy Henry-Ehmes***  
***Member***

***(Vacant)***  
***Member***

| Finding Number | Corrective Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Anticipated Completion Date | Responsible Person |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------|
| 2023-001       | PUC concurs with the auditor's recommendation. PUC will access its' needs for additional personnel and resources.                                                                                                                                                                                                                                                                                                                                                                       | January 2026                | Daisy Nanpei, CFO  |
| 2023-002       | PUC , at several times reached out to WB PMU for documentation of transfer of units. FSM promised us they will provide those paper works so that we can register these assets in our Fixed Asset Register. Because PUC lack the documents move forward and capitalize these assets. PUC has discussed this with auditor on how to improve on this incase we encounter similar situation in the future. A recommendation was discussed and PUC concurs with the auditor's recommendation | October 2025                | Daisy Nanpei, CFO  |
| 2023-003       | PUC concurs with the auditor's recommendation. PUC will access its' needs for additional personnel and resources.                                                                                                                                                                                                                                                                                                                                                                       | October 2025                | Daisy Nanpei, CFO  |

***Nixon Anson***  
***General Manager/CEO***

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