

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

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Kosrae Utilities Authority:

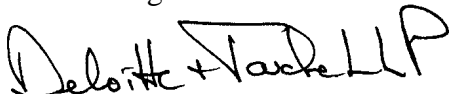
We have audited the accompanying statements of net assets of the Kosrae Utilities Authority, a component unit of the State of Kosrae, as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Kosrae Utilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kosrae Utilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Kosrae Utilities Authority as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The supplementary information is the responsibility of the Kosrae Utilities Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2010, on our consideration of the Kosrae Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
April 23, 2010

**KOSRAE UTILITIES AUTHORITY**  
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Management's Discussion and Analysis  
Years Ended September 30, 2009 and 2008

This section of the Kosrae Utilities Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year ended September 30, 2009. Please read it in conjunction with the financial statements, which follows this section.

Kosrae Utilities Authority (KUA) was mandated by law in October 1993 as a semi-autonomous agency of the Kosrae State Government to assume the operation and responsibility of providing electric power services to the Island of Kosrae. KUA is governed by five (5) Board members appointed by the Governor with the advice and consent of the State Legislature for a staggering term of 2 to 4 years. The Authority serves 1,832 customers. With slight change in customer base from the previous year, the customer base ratio for FY2009 was approximately 79% residential with energy sales of 39%, 12% commercial with 27% energy sales, 5% Kosrae State Government with 19% energy sales, 3% non-Kosrae State Government with 8% energy sales, and 1% industrial with 7% energy sales. Total energy sales were slightly increased by approximately 2% compared to the previous fiscal year which indicated a turning point in growth from the private sector activities in the State and steady increases in number of residential customers. With little economic activities on Kosrae, the energy sales ratio from various customer sectors are expected to remain constant for the next few years of operation and should be reviewed annually since any changes in one customer class such as industrial or commercial can have positive or negative effect on future operating revenues.

KUA continued to face challenges during FY2009 due to various issues affecting the operation. These primary issues were the continued revenues shortfalls to fund needed capital improvement projects and operation. These short falls are due to the running inefficiencies of the generator units and aging substation structure, the increased system loss, and the rising cost of equipment, parts and hardware materials. Electric revenues from existing power rates and fuel adjustment charges provide for approximately 75% of the total operating expenses with approximately 8% non-operating revenues from OMIP/DOI for project reimbursements. Due to these operating challenges, the KUA Board of Directors took action to approve a Rate Increase Schedule for all customer sectors during FY2008 to increase rates annually by 6% to gradually reduce the revenue shortfalls facing the operation during the past several years.

The following table summarizes the financial position and results of operation of Kosrae Utilities Authority for 2009 through 2007:

<u>Assets</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 1,661,986	\$ 1,853,588	\$ 2,504,099
Utility plant, net	4,512,088	4,857,830	5,103,684
Other non-current assets	<u>-</u>	<u>42,196</u>	<u>14,358</u>
	<u>\$ 6,174,074</u>	<u>\$ 6,753,614</u>	<u>\$ 7,622,141</u>
 <u>Liabilities and Net Assets</u>			
Current liabilities	\$ 400,521	\$ 214,478	\$ 159,545
Notes payable, net of current portion	<u>167,940</u>	<u>274,674</u>	<u>360,635</u>
	<u>568,461</u>	<u>489,152</u>	<u>520,180</u>
Net Assets:			
Invested in capital assets	4,248,903	4,498,589	4,666,355
Restricted	90,000	90,000	90,000
Unrestricted	<u>1,266,710</u>	<u>1,675,603</u>	<u>2,345,606</u>
Total net assets	<u>5,605,613</u>	<u>6,264,192</u>	<u>7,101,961</u>
	<u>\$ 6,174,074</u>	<u>\$ 6,753,614</u>	<u>\$ 7,622,141</u>

**KOSRAE UTILITIES AUTHORITY  
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Management's Discussion and Analysis  
Years Ended September 30, 2009 and 2008

<u>Revenue, Expenses and Changes in Net Assets</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 1,903,456	\$ 1,749,889	\$ 1,539,653
Operating expenses	<u>2,592,464</u>	<u>2,548,386</u>	<u>2,266,553</u>
Net operating loss	<u>(689,008)</u>	<u>(798,497)</u>	<u>(726,900)</u>
Operating subsidies	8,919	12,277	10,016
Interest income and net investment income (loss)	<u>(40,821)</u>	<u>(102,724)</u>	<u>86,687</u>
Total nonoperating revenue (expense), net	<u>(31,902)</u>	<u>(90,447)</u>	<u>96,703</u>
Capital contributions	<u>62,331</u>	<u>51,175</u>	<u>122,048</u>
Change in net assets	\$ <u>(658,579)</u>	\$ <u>(837,769)</u>	\$ <u>(508,149)</u>

**FINANCIAL HIGHLIGHTS**

KUA experienced a higher revenue compared to last year as a result of the gradual increase in tariff rates that started this fiscal year plus a slight increase of 2% in volume of kwh sales. As a result of the Board of Director's resolution transferring part of the fuel cost to the basic rate, fuel adjustment charge was reduced. Fuel cost also dropped this fiscal year, thus FAC revenue in the second quarter started to become negative representing an overcharged amount to our customers. Commercial accounts contributed the increase in operating revenue.

Management is projecting a slight increase in electricity consumption in the government sector in the middle of FY 2010 as government projects undertaken are expected to be finished in this period.

Operating expenses increased by about 2%. Production fuel cost reduced by 7%. Fuel price started at \$4.40/gal and continued to decline reaching a price of \$3.42/gal. at the end of the fiscal year. Fuel consumption was 1% less than last year. Feasibility studies, strategic plan, redesign substation and disaster preparedness program contracted were charged to expense in the current fiscal year.

Operating subsidies are grants received from US-DOI OMIP and USDA. A proposal was submitted to US DOI-OMIP and USDA for various capacity building projects and bucket truck acquisition was still pending for approval. Various OMIP grants will be finished by third quarter of FY 2010.

Interest rate from banks for Time Certificates of Deposit (TCD) were 1.10% at the beginning of the fiscal year and down to .70% at year-end. Partial withdrawals were made of the TCD to offset needed cash flow requirements, which resulted in lower interest income as interest rates lower and applied on a slowly reducing principal amount. Investment portfolios managed by Salomon Smith Barney started to move up but was still unable to reach the market value posted at the end of FY 2008; hence, an investment loss is still reflected in the financial statements for the current fiscal year.

Accounts receivable decreased by 3%. With management's effort on collecting overdue accounts, a reduction was made of the allowance for doubtful accounts as reflected in the financial statements. Investments from time certificate of deposits and investment portfolios managed by Salomon Smith Barney also reduced this year as withdrawals were made to fund the operation.

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Management's Discussion and Analysis  
Years Ended September 30, 2009 and 2008

Projects finished during the fiscal year were recorded as additions to capital assets. Other assets presented, net of amortization in the financial statements in previous year, were adjusted and charged to expense in the current year as management thinks that such has no effect and benefit on our future income. For additional information concerning capital assets, please refer to note 5 to the financial statements.

The grant that we received in advance from US-DOI OMIP for major overhauling and training for technicians of \$175,000 was temporarily recorded as a payable as the work is still pending. Shipment for major engine parts and components needed for the overhaul are in process and will be ready for actual work on the next fiscal year.

The loan availed originally at \$450,000 from Bank of the FSM with an initial interest rate per annum of 5.10% as of August 2007; was reduced to 3.20% at the end of FY 2008 and reduced further to 3.20% for the current fiscal year. An amount of \$8,523 is continually disbursed per month as payment for principal and interest. The loan will be fully paid by July 25, 2012. For further information about debt, please refer to note 6 and 7 to the financial statements.

The net loss experienced by KUA for the past years wherein the basic tariff rate cannot cover the operating cost of producing electricity, reserve funds and temporary investments will be withdrawn to offset the needed cash flow requirement thus funds are expected to deteriorate every year.

Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in KUA's report on the audit of financial statements, which is dated May 15, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements and can be viewed at the FSM Office of the National Public Auditors' website at [www.fsmpublicauditor.fm](http://www.fsmpublicauditor.fm).

**Plan of Action for 2010**

1. Recommend to KUA Board of Directors to approve increasing full rate to Government sectors and 10% annual rate increase to other customer sectors to accelerate full cost recovery for the operation.
2. Undertake and reassess the KUA system loss, presently at monthly average loss of 14% and take action to improve and reduce losses to 10%.
3. Continue to monitor and control unnecessary expenses to reduce operating cost and work with the local fuel supplier on options to reduce fuel cost. Take regular review and examination of daily cash collection and revenues are properly recorded to prevent attempted fraud and theft to ensure that internal control of funds
4. Increase installation of Cash Power Customers for power conservation to achieve 80% of the customers to improve arrears collection and internal cash flow for the operation.
5. Work with the KUA Investment Funds Money Managers to seek investment schemes that yield better returns on KUA investment funds with moderate risks.
6. Provide practical and hands-on training to employees to improve skill level and knowledge to perform services and job request effectively and efficiently to minimize cost.

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Management's Discussion and Analysis  
Years Ended September 30, 2009 and 2008

7. Continue to seek funding to purchase a new CAT engine Model 3512B-1200RBM to improve fuel efficiency and to reduce fuel usage and thereby reduce fuel cost. Implement major overhaul for engine unit #7 to improve running efficiency of the unit.
8. Install additional Solar PV Grid-connected System to five Government Buildings funded from EDF-10 –EU grants funding to increase alternative energy source into the grid-lines and to reduce fuel usage at the Power Plant Engine Units.
9. Continue to seek funding to upgrade the Power Plant Substation to prevent major power problems and blackouts on the island and to reduce system loss and loss revenues.
10. Take measures to improve accountability of inventories, properties and establish better reporting systems for capital and maintenance costs.
11. Undertake the Demand Side Management Programs for customers to use energy efficiently to benefit customers in reducing power consumption as well as benefiting KUA to provide services a less cost. Implement educational and public awareness programs to improve public relations.
12. Continue to pursue other alternative Renewable Energy Sources to reduce dependency of diesel fuel.
13. Actively take part in promoting the private sectors development to improve economic activities in Kosrae to increase revenues base for the KUA operation.

**Contacting the Authority's Financial Management**

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

**KOSRAE UTILITIES AUTHORITY**  
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Statements of Net Assets  
September 30, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Utility plant:		
Electric plant in service	\$ 11,431,873	\$ 11,288,205
Less accumulated depreciation	<u>(7,135,849)</u>	<u>(6,625,021)</u>
	4,296,024	4,663,184
Construction work in progress	<u>216,064</u>	<u>194,646</u>
Net utility plant	<u>4,512,088</u>	<u>4,857,830</u>
Other assets (net of accumulated amortization of \$0 and \$10,256 in 2009 and 2008, respectively)	<u>-</u>	<u>42,196</u>
Total noncurrent assets	<u>4,512,088</u>	<u>4,900,026</u>
Current assets:		
Cash and cash equivalents	280,972	42,881
Investments	432,520	571,059
Time certificate of deposit - restricted	383,979	579,200
Accounts receivable, net	169,257	174,412
Prepayments	43,785	9,313
Inventories (net of allowance for obsolescence of \$140,966 and \$95,867 in 2009 and 2008, respectively)	<u>351,473</u>	<u>476,723</u>
Total current assets	<u>1,661,986</u>	<u>1,853,588</u>
Total assets	<u>\$ 6,174,074</u>	<u>\$ 6,753,614</u>
<u>LIABILITIES AND NET ASSETS</u>		
Long-term debt, net of current portion	<u>\$ 167,940</u>	<u>\$ 274,674</u>
Current liabilities:		
Current portion of long-term debt	95,245	84,567
Accounts payable	86,555	91,026
Accrued annual leave	14,835	13,283
Deferred revenue	185,557	12,743
Accrued taxes and other	<u>18,329</u>	<u>13,129</u>
Total current liabilities	<u>400,521</u>	<u>214,748</u>
Total liabilities	<u>568,461</u>	<u>489,422</u>
Commitments and contingency		
Net assets:		
Invested in capital assets, net of related debt	4,248,903	4,498,589
Restricted	90,000	90,000
Unrestricted	<u>1,266,710</u>	<u>1,675,603</u>
Total net assets	<u>5,605,613</u>	<u>6,264,192</u>
	<u>\$ 6,174,074</u>	<u>\$ 6,753,614</u>

See accompanying notes to financial statements.

**KOSRAE UTILITIES AUTHORITY**  
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Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Electricity sales	\$ 1,906,200	\$ 1,793,456
Less uncollectible accounts	(2,744)	(43,567)
Net operating revenue	1,903,456	1,749,889
Operating expenses:		
Production fuel	1,440,804	1,551,265
Depreciation and amortization	510,828	499,336
Salaries and wages	345,571	337,108
Administrative and general	194,921	109,269
Repairs and maintenance	55,241	51,408
Other operating expenses	45,099	-
Total operating expenses	2,592,464	2,548,386
Loss from operations	(689,008)	(798,497)
Nonoperating revenues (expenses):		
Interest expense	(6,052)	(24,172)
Interest income	3,770	17,120
Net change in fair value of investments	(38,539)	(95,672)
Federal grants - OMIP	8,919	12,277
Total nonoperating revenues (expenses), net	(31,902)	(90,447)
Capital contributions:		
U.S. government	62,331	51,175
Change in net assets	(658,579)	(837,769)
Net assets at beginning of year	6,264,192	7,101,961
Net assets at end of year	\$ 5,605,613	\$ 6,264,192

See accompanying notes to financial statements.

**KOSRAE UTILITIES AUTHORITY**  
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Statements of Cash Flows  
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	\$ 1,904,701	\$ 1,736,111
Cash paid to suppliers for goods and services	(1,602,462)	(1,721,856)
Cash paid to employees for services	(343,749)	(341,810)
Net cash used for operating activities	(41,510)	(327,555)
Cash flows from investing activities:		
Net purchases, sales and maturities of investments	(5,237)	(16,953)
Withdrawals from investment accounts	100,000	100,000
Withdrawals from time certificate of deposit	200,000	-
Interest and dividends received	5,952	15,860
Net cash provided by investing activities	300,715	98,907
Cash flows from noncapital financing activities:		
Operating grants received	183,919	12,285
Cash flows from capital financing activities:		
Principal payments on long-term debt	(96,056)	(78,088)
Interest paid on long-term debt	(6,222)	(24,190)
Capital contributions received	62,331	51,175
Capital expenditures for utility plant	(165,086)	(249,380)
Net cash used for capital financing activities	(205,033)	(300,483)
Net change in cash and cash equivalents	238,091	(516,846)
Cash and cash equivalents at beginning of year	42,881	559,727
Cash and cash equivalents at end of year	\$ 280,972	\$ 42,881
Reconciliation of loss from operations to net cash used for operating activities:		
Operating loss	\$ (689,008)	\$ (798,497)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	510,828	499,336
Bad debts	2,744	43,567
(Increase) decrease in assets:		
Accounts receivable	687	(56,686)
Prepayments	(34,472)	20,807
Inventories	125,250	(51,490)
Other assets	42,196	(31,940)
Increase (decrease) in liabilities:		
Accounts payable	(4,471)	52,522
Accrued annual leave	1,552	(4,702)
Deferred revenue	(2,186)	(659)
Accrued taxes and other	5,370	187
Net cash used for operating activities	\$ (41,510)	\$ (327,555)

See accompanying notes to financial statements.

**KOSRAE UTILITIES AUTHORITY**  
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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(1) Organization

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

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of KUA conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. KUA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

To conform to the requirements of GASB Statement No. 34, retained earnings are presented in the following net asset categories:

- Invested in capital assets; capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted:
  - Nonexpendable - Net assets subject to externally imposed stipulations that require KUA to maintain them permanently. For the years ended September 30, 2009 and 2008, KUA does not have nonexpendable restricted net assets.

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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

- Expendable - Net assets whose use by KUA is subject to externally imposed stipulations that can be fulfilled by actions of KUA pursuant to those stipulations or that expire by the passage of time. As of September 30, 2009 and 2008, KUA recorded restricted expendable net assets of \$90,000 representing appropriations received from the FSM National Government for the power extension project to Walung, which has yet to commence.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Estimates

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

Basis of Accounting

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

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand and cash held in demand deposits. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statements of net assets within investments.

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

Restricted Assets

As of September 30, 2009 and 2008, time certificates of deposit in the amounts of \$383,979 and \$579,200, respectively, are deposited with local banks with annual interest rates of 0.70% in 2009 and 1.50% in 2008 and have been internally reserved for maintenance, capital improvements and work in progress. As of September 30, 2009, the time certificate of deposit amounting to \$383,979, is pledged as collateral of KUA's loan in the same institution.

Receivables

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

Inventory

Materials and fuel inventory are substantially carried at the lower of cost (weighted average) or market.

Utility Plant

Utility plant assets were transferred from KSG's Public Works Department at estimated net book value in the absence of documents to support cost. As of September 30, 2009 and 2008, approximately 8% and 13%, respectively, of utility plant transferred to KUA was stated at estimated net book value. The net book value of the utility plant assets transferred was \$182,917 and \$304,545 as of September 30, 2009 and 2008, respectively. KUA capitalizes individual items that have a cost in excess of \$1,000 and an estimated useful life of more than one year. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets.

Compensated Absences

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

Taxes

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

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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

Revenues

Sales of electricity are recorded as billed to customers on a monthly billing cycle basis. At the end of each month, unbilled revenues are accrued based on the most recent cycle billing. Unbilled receivables at September 30, 2009 and 2008 are \$78,935 and \$104,468, respectively.

Federal Grants and Subsidies

During the years ended September 30, 2009 and 2008, KUA was the recipient of federal funds from the U.S. Department of the Interior in a direct recipient capacity.

New Accounting Standards

During fiscal year 2009, KUA implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post-employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KUA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KUA.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KUA.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of KUA.

(3) Deposits and Investments

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

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

Generally, KUA can invest in bonds and other indebtedness of the U.S. and in preferred or common stock of any corporation created or existing under the laws of the U.S. or any U.S. state, territory, or commonwealth. Additionally, a maximum of 22% of the total portfolio may be invested in non-U.S. equities.

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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(3) Deposits and Investments, Continued

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by KUA or its agent in KUA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in KUA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in KUA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, KUA'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. KUA does not have a deposit policy for custodial credit risk.

As of September 30, 2009 and 2008, cash and cash equivalents and time certificates of deposit were \$664,951 and \$622,081, respectively, and the corresponding bank balances were \$661,094 and \$621,138, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of \$250,000 and \$100,000, respectively, are FDIC insured. KUA does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by KUA or its agent in KUA's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in KUA's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in KUA's name.

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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(3) Deposits and Investments, Continued

B. Investments, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2009 and 2008, investments at fair value comprise the following:

	<u>2009</u>	<u>2008</u>
Money market funds	\$ 259,180	\$ 254,827
Common stock	<u>173,340</u>	<u>316,232</u>
	\$ <u>432,520</u>	\$ <u>571,059</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, KUA will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. KUA's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk. Based on negotiated trust and custody contracts, all of these investments were held in KUA's name by KUA's custodial financial institutions at September 30, 2009 and 2008.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for KUA. As of September 30, 2009 and 2008, there was no concentration of credit risk for KUA's investments.

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

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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(4) Accounts Receivable

Accounts receivable at September 30, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Utility:		
Residential	\$ 42,765	\$ 38,088
Commercial	167,307	117,554
Government	90,695	62,421
Fuel adjustment charge	<u>(9,018)</u>	<u>126,586</u>
	291,749	344,649
Receivable from other governments	7,785	7,785
Other	<u>69,914</u>	<u>70,776</u>
	369,448	423,210
Less allowance for doubtful accounts	<u>(200,191)</u>	<u>(248,798)</u>
	<u>\$ 169,257</u>	<u>\$ 174,412</u>

(5) Utility Plant

Capital asset activity for the years ended September 30, 2009 and 2008, was as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2008</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2009</u>
<u>Depreciable assets:</u>					
Production plant	5 to 40 years	\$ 5,122,241	\$ 2,145	\$ -	\$ 5,124,386
Distribution plant	5 to 30 years	5,593,459	87,813	-	5,681,272
General plant	3 to 20 years	<u>572,505</u>	<u>53,710</u>	-	<u>626,215</u>
Total electric plant in service		11,288,205	143,668	-	11,431,873
Less accumulated depreciation		<u>(6,625,021)</u>	<u>(510,828)</u>	-	<u>(7,135,849)</u>
		4,663,184	(367,160)	-	4,296,024
<u>Non-depreciable assets:</u>					
Construction work-in-progress		<u>194,646</u>	<u>111,340</u>	<u>(89,922)</u>	<u>216,064</u>
Electric plant in service, net		<u>\$ 4,857,830</u>	<u>\$ (255,820)</u>	<u>\$ (89,922)</u>	<u>\$ 4,512,088</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2007</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Balance at September 30, 2008</u>
<u>Depreciable assets:</u>					
Production plant	5 to 40 years	\$ 4,704,178	\$ 418,063	\$ -	\$ 5,122,241
Distribution plant	5 to 30 years	5,492,529	100,930	-	5,593,459
General plant	3 to 20 years	<u>564,533</u>	<u>7,972</u>	-	<u>572,505</u>
Total electric plant in service		10,761,240	526,965	-	11,288,205
Less accumulated depreciation		<u>(6,129,787)</u>	<u>(495,234)</u>	-	<u>(6,625,021)</u>
		4,631,453	31,731	-	4,663,184
<u>Non-depreciable assets:</u>					
Construction work-in-progress		<u>472,231</u>	<u>112,575</u>	<u>(390,160)</u>	<u>194,646</u>
Electric plant in service, net		<u>\$ 5,103,684</u>	<u>\$ 144,306</u>	<u>\$ (390,160)</u>	<u>\$ 4,857,830</u>

**KOSRAE UTILITIES AUTHORITY  
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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(6) Long-Term Debt

Long-term debt at September 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Term loan payable to bank, interest at 2.5% per annum above the TCD rate pledged as collateral, monthly repayment of \$8,523, collateralized by a first security interest in a TCD. Interest rates effective as of September 30, 2009 and 2008 range from 3.2% to 4.0%. The proceeds of the loan were used to fund the acquisition of a new 1.2 MW generator.	\$ 263,185	\$ 359,241
Less current portion	<u>(95,245)</u>	<u>(84,567)</u>
Long-term debt, net of current portion	<u>\$ 167,940</u>	<u>\$ 274,674</u>

Annual repayment requirements to maturity for principal and interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 95,245	\$ 7,033	\$ 102,278
2011	98,338	3,940	102,278
2012	<u>69,602</u>	<u>868</u>	<u>70,470</u>
	<u>\$ 263,185</u>	<u>\$ 11,841</u>	<u>\$ 275,026</u>

(7) Changes in Long-Term Liabilities

Changes in long-term liabilities during the years ended September 30, 2009 and 2008, are as follows:

	2009				
	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2009</u>	<u>Balance due in One Year</u>
Term loan	<u>\$ 359,241</u>	<u>\$ -</u>	<u>\$ (96,056)</u>	<u>\$ 263,185</u>	<u>\$ 95,245</u>
	2008				
	Balance October 1, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2008</u>	<u>Balance due in One Year</u>
Term loan	<u>\$ 437,329</u>	<u>\$ -</u>	<u>\$ (78,088)</u>	<u>\$ 359,241</u>	<u>\$ 84,567</u>

**KOSRAE UTILITIES AUTHORITY  
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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(8) Contributions

Contributions for the years ended September 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Capital Related:		
U.S. Department of the Interior operations and maintenance improvement program (OMIP) grants	\$ 62,331	\$ 51,175
Noncapital Related:		
U.S. Department of the Interior operations and maintenance improvement program (OMIP) grants	<u>8,919</u>	<u>12,277</u>
	<u>\$ 71,250</u>	<u>\$ 63,452</u>

(9) Commitments

Net assets at September 30, 2009 and 2008 have been appropriated in the amounts of \$1,416,919 and \$1,316,919, respectively, for repair and maintenance and capital improvement projects. This process will continue in fiscal year 2010 with a total of \$25,000 being further appropriated on a quarterly basis from net assets for this purpose.

During the year ended September 30, 2009, the Authority entered into a contract for expansion of its main office. Approximately \$28,000 is outstanding under the contract as of September 30, 2009.

(10) Risk Management

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

(11) Retirement Plan

KUA administers a retirement plan covering all employees with at least one year of service that is modeled after a U.S. defined contribution plan. Vesting occurs upon plan entry. Employee contributions can be made from 1% to 15% of earnings with a 50% match by KUA up to 5% of employee compensation. During the years ended September 30, 2009 and 2008, KUA incurred an expense of \$5,722 and \$6,010, respectively, for matching contributions.

As of September 30, 2009 and 2008, the retirement plan holds cash of \$114,761 and \$88,972, respectively.

(12) Related Parties

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

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

The Board of Directors  
Kosrae Utilities Authority:

We have audited the financial statements of the Kosrae Utilities Authority (KUA) as of and for the year ended September 30, 2009, and have issued our report thereon dated April 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered KUA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KUA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KUA's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

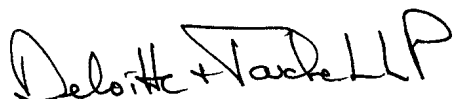
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether KUA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs (pages 21 through 23) as finding 2009-1.

This report is intended for the information and use of the Board of Directors, management of Kosrae Utilities Authority, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

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

April 23, 2010

**KOSRAE UTILITIES AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

Finding No.: 2009-1  
Federal Agency: U.S. Department of the Interior and U.S. Department of Agriculture  
Grant #:   
CFDA #: 15.875 and 10.766  
Program Name: OMIP and USDA Community Facility Program  
Requirement: Procurement  
Questioned Costs: \$36,749 (15.875) and \$28,785 (10.766)

Criteria: Procurements shall provide full and open competition among vendors, and allowable exceptions should be approved and documented in procurement file.

Condition: Three contracts have insufficient procurement documentation on file. These contracts originated in 2008 and additional expenditures were incurred in fiscal year 2009. The additional 2009 expenditures have been questioned for the same reasons set forth in the 2008 report.

<u>Program</u>	<u>Amount</u>
OMIP-KUA-2004-3	\$ 24,850
OMIP-KUA-2006-1	<u>11,899</u>
	36,749
USDA Community Facility Program	<u>28,785</u>
	\$ <u>65,534</u>

Cause: There appears to be a lack of control over ensuring compliance with the criteria.

Effect: KUA appears to be in noncompliance with the criteria and questioned costs result.

Recommendation: KUA should comply with grant requirements.

Auditee Response and Corrective Action Plan:

1. OMIP-KUA-2004-3	\$ 24,850.00
OMIP-KUA-2006-1	<u>11,899.00</u>
	\$ <u>36,749.00</u>

The projects in question were for the contracted services rendered by Robert Nelson to KUA. OMIP-KUA-2004-3 was for the Design works for the Power Plant Sub Station, OMIP- KUA-2006-1 projects were the Feasibility study on the Propane Gas Business (OMIP-KUA-2006-1G) and Disaster Preparedness Program (OMIP-KUA-2006-1J). All projects were funded by USDA OMIP programs.

As KUA have explained in the previous audit report (FY 2008), the aforementioned contracts were awarded to Robert Nelson, the previous General Manager of KUA. Considering Mr. Nelson's wide experience in the Utility business as well as his knowledge of the government system and working environment of Kosrae, the KUA management and Board of directors awarded the contracts after evaluating his proposal to undertake the study. A major factor that played in the award of the contract to Mr. Nelson was the amount of funds approved by DOI for the projects. Other parties contacted during this process were other former General Managers of KUA (Messrs. Bob Mieger, and Paul Kalv, respectively). They declined to quote their service fees or otherwise were busy with

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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

Finding No.: 2009-1, Continued

Auditee Response and Corrective Action Plan, Continued:

other activities at that time. No formal bidding were conducted as KUA contacted the persons it considers capable and in the best position to conduct the study for KUA. The Pacific Power Association (PPA) in which KUA is a member was also asked for referrals and it advised KUA to choose persons knowledgeable enough with Kosrae and KUA's system. Choosing parties without this knowledge will result in the study being costlier and longer to complete given Kosrae's distance from sources of available expertise.

It is with this background, and the desire of KUA to commence with the approved projects to meet the time frame allocated, compelled the KUA Management and Board of Directors to award the projects to Mr. Robert Nelson.

To further prove the veracity of the cost of services of Mr. Nelson for the contracts, KUA sent quotation requests to other firms and parties for pricing when the projects were already awarded to Mr. Nelson. As we have reported before, KUA sent requests to Mr. Bruce Howell of E.M. Chen Co., Guam; Bruce Frederick, Utility Services Specialists Co., Guam; Mr. Ken Takata, Termimesh Co, Hawaii; and Mr. John Shulte, Big Island Instrumentation Co., Hawaii. All of the parties contacted are members of the PPA where Mr. Robert Nelson is likewise a senior associate member. KUA did not received response from the parties contacted.

Aware of the fact that KUA could be queried by the donor agency (US DOI OMIP) about the awarded projects, KUA referred the matter to DOI representatives during the annual PPA conference in which Mr. Nelson was in attendance. KUA did not receive any negative reply from DOI representatives. All requests for fund drawdown for the projects awarded to Mr. Nelson were likewise reimbursed by DOI to KUA. This we took at KUA as a sign of the donor's approval of the undertakings.

KUA takes the findings of the auditors in a positive light and has committed to strictly follow all procurement procedures and guidelines in all its future undertakings.

2. USDA Community Facility Program                      \$ 28,785.00

The questioned amount represents the amount of USDA's reimbursement to KUA of its share in the Acquisition of Two (2) Pick Up Trucks project. The project was approved by USDA on a 75%/25% (USDA/KUA) cost sharing. The pick up trucks were purchased by KUA last May 2009 from Atkins Kroll, Guam.

KUA complied with all the requirements set by USDA and was in total coordination with the USDA Kosrae office throughout the application, processing, and reimbursement period of the project. All the forms required by USDA from KUA and Government clearances were complied and submitted to USDA.

As soon as Grant approval was secured from the donor agency, KUA secured three (3) quotations from suppliers for the Pick Up trucks. Quotations were secured from Atkins Kroll, Guam; Triple J, Guam; and Dateline Exports, mainland USA.

**KOSRAE UTILITIES AUTHORITY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

Finding No.:           2009-1, Continued

Auditee Response and Corrective Action Plan, Continued:

Evaluations of the offers were made and submitted to USDA for their comments and approval. USDA local office gave the assent to KUA to purchase the vehicles and advised us to inform their office when the Pick Up Trucks have arrived in Kosrae. As soon as the vehicles arrived in Kosrae, the USDA office inspected the trucks, took photographs and in a turn over ceremony, handed over the keys of the vehicles to KUA.

KUA prepared all the documents required by USDA (registration papers, insurance policies for the trucks, and reimbursement forms for USDA's share) and submitted them at USDA's Kosrae office.

On September 14, 2009, KUA received from USDA the reimbursement for the project amounting to \$28,758.00.

KUA on its part did everything possible to comply with the donor's requirements and has done its part in good faith and compliance. Close coordination was followed throughout the process with the Kosrae USDA office and did not in any way receive information from USDA that we failed to meet any requirement during the process of the project.

However, if some requirements were not followed or not met, we would like to be enlightened on them so as not to cause any discrepancies on future Grant awards to KUA. The matter was also referred to USDA local and Regional Office for their comments and advice.

**KOSRAE UTILITIES AUTHORITY  
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Summary Schedule of Prior Year Findings  
Year Ended September 30, 2009

The following is a summary of unresolved questioned costs of Kosrae Utilities Authority as of September 30, 2009:

	Questioned Costs Set Forth in Prior Audit Reports <u>2008</u>	Questioned Costs Resolved in Fiscal Year <u>2009</u>	Questioned Costs at <u>September 30, 2009</u>
Unresolved Questioned Costs FY 2008	\$ 44,172	\$ -	\$ 44,172
Unresolved Questioned Costs FY 2009	<u>-</u>	<u>65,534</u>	<u>65,534</u>
	\$ <u>44,172</u>	\$ <u>65,534</u>	\$ <u>109,706</u>