KOSRAE UTILITIES AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KOSRAE)
Financial Statements and
Independent Auditor's Report
Year Ended September 30, 2024

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KOSRAE UTILITIES AUTHORITY
(A Component Unit of the State of Kosrae)

Year Ended September 30, 2024

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BURGER · COMER & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kosrae Utilities Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Kosrae Utilities Authority, a component unit of the State of Kosrae, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the Kosrae Utilities Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Kosrae Utilities Authority, as of September 30 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. 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 the Kosrae Utilities Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 from 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 the Kosrae Utilities Authority'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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

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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 generally accepted auditing standards 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 the Kosrae Utilities Authority'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 the Kosrae Utilities Authority'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 to 9 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2026, 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 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 the Kosrae Utilities Authority'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 Kosrae Utilities Authority's internal control over financial reporting and compliance.

Burger Comer & Associates

Saipan, Commonwealth of the Northern Mariana Islands
June 23, 2026

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, 2024. 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-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.

KUA had continued to provide needed services to its customers and the general public with generally stable operation financially during FY2024. Although, the operation had experienced nominal increases in expenditures due to fuel prices and others, the revenues realized from the energy sales were substantially sufficient to cover the cash operational cost. Essential Renewable Energy Development Projects continue to depend on outside funds mainly from World Bank, ADB and JICA to support and reduce operation cost by increasing renewable energies into the power system. There were no major challenges or issues facing the operation during this fiscal year. The staff had mostly focused their work activities on daily task to keep the power on to service the island and preparing ground works for the implementation of the funded Renewable Energy Development Projects for Kosrae which were mostly done thru virtual conferences between the Contractor, DoRD FSM, Project Consultants and Managers, KUA and Donor Agencies.

The following table summarizes the financial position and results of operation of Kosrae Utilities Authority for 2024 through 2022:

	2024	2023	2022
Assets			
Current Assets	$ 2,984,230	$ 2,958,424	$ 2,750,105
Utility plant, net	1,426,419	1,490,411	1,564,184
Other non-current assets	252,800	252,800	252,800
	$ 4,663,449	$ 4,701,635	$ 4,567,089
Liabilities and Net Position			
Current liabilities	$ 419,144	$ 390,049	$ 329,291
Net Position:			
Invested in capital assets	1,426,419	1,490,411	1,564,184
Restricted	90,000	90,000	90,000
Unrestricted	2,727,886	2,731,175	2,583,614
Total net position	4,244,305	4,311,586	4,237,798
	$ 4,663,449	$ 4,701,635	$ 4,567,089

Revenue, Expenses and Changes in Net Position

	2024	2023	2022
Operating revenues	$ 3,556,092	$ 3,403,673	$ 3,248,137
Operating expenses	3,793,860	3,414,682	3,339,924
Net operating loss	(237,768)	(11,009)	(91,787)
Nonoperating revenue (expenses):			
Subsidies from FSN National Government	119,999	-	21,903
Gain (loss) on disposal of capital assets	-	100	(383)
Net change in fair value of investments	230,306	79,801	(167,010)
Loss from unauthorized payment	(186,268)	-	-
Interest income (expense) revenue	6,450	4,896	1,420
Total Non-operating (expense) revenue	170,487	84,797	(144,070)
Change in net position	$ (67,281)	$ 73,788	$ (235,857)

FINANCIAL HIGHLIGHTS

Operating Revenues are from electricity sales, water services and other revenues related to the utility operation. Water operation contributes less than 1% of the total revenue and the remaining are electricity related income. KUA users are on post-paid and prepaid meters which constitutes 46% and 54% respectively of the total kwhr consumption. Total revenue net of the bad debts provision increased by almost 5% as customer kwhr consumption increased by 480,931 representing roughly 8% more than last year's usage. Customer sales composition as to customer type comprises of Residential/Private sales at 30%, Kosrae State Government sales of 17%, Government Non-Kosrae State sales of 6%, Industrial sales of 3%, Commercial sales of 29%, Streetlights at 1% and Fuel Adjustment Charge (FAC) revenue of 14%.

Total kwhr sold for the period is 6,375,263 and 5,665,780 gallons for water consumption, an effect of 8% increase in electricity consumption and 57% increase in gallon usage respectively. Water billing is based on $2 for every thousand-gal usage that started March 2023.

Fuel Adjustment Revenue are earnings coming from fuel adjustments in addition to customer's tariff to cover for fluctuation of fuel prices. Average FAC rate for FY 2024 and FY 2023 is $.0859 and $.1054 respectively with an effect of reduced FAC rate of 18% and the related FAC revenue reduction of around 15%.

Operating Expenses is comprised of 19% personnel cost, 5% of repairs and maintenance expenses, fuel expenses of 61%, depreciation expense of 8% and administrative expenses of 7%. FY 2024 operating expenses increased by approximately 11% as the net effect of increases in personnel expenses from last year at 17%, repairs and maintenance cost increase of 76%, fuel expense increased at 9%, reduced in depreciation expenses of 7% and administrative expenses increased of 6% increase.

Production Fuel are expenses for fuel and lubricants consumed by the engines. Fuel usage of the engines for the year is 561,477 gallons, an increase of approximately 13% against last year's usage of 497,644 gals. Average fuel usage cost per gal is reduced by around 4% from last year's average of $4.2363/gal to this year of $4.0872/gal. Increase of fuel consumption causes the production fuel cost to increase by around 9% against last year.

Non-operating revenue and expenses are the proceeds from fuel subsidy received from National Government, increase in fair value KUA investments, loss from unauthorized payment and interest income. No interest expense is paid during the period.

Current Assets comprises the cash and cash equivalents (38%), investments (37%), time certificate of deposits (6%) accounts receivable (8%), inventories (9%) and prepayments (2%). With this composition in comparison to last year's current assets, the amount has increased slightly by around 1%, with the increase in the fair value of investments generally contributed to the increase. Current assets represent 64% and 63% respectively for FY 2024 and FY 2023.

Utility Plant/Capital asset-net are the electric plant in service composed of KUA's buildings, vehicles, equipment, system software, fixtures and work in projects net of accumulated depreciation. Total fixed assets purchases and work in progress additions of $232,308 and fixed asset write off of non-operational and fully depreciated assets of $542,503 are the transactions that affects the movement of this account. Depreciation provided for the period of $296,299; a 7% reduction as compared with the amount of depreciation expense last year.

Non-Current Assets are the deposit amount for fuel purchase contract with FSMPC. The amount still remains the same to date.

Current Liabilities are short term obligations payable to employees and suppliers. Payable to FSMPC for fuel and lubricants represents 63% of the outstanding obligation and the remaining 37% are owed to employees, other suppliers, customers and taxes. A net increase of 10% in comparison with last year's current liabilities is noted due to the net increases of the liability components significantly coming from payable to FSMPC at end of the fiscal year.

Net Position is the accumulated results of KUA's operation and contributed capital. The net change for the period represents the net loss for FY2024 compared with net income results of operation from last year.

<u>Plan of Action for 2025</u>

1. Continue working with FSM DoRD, ADB, and World Bank to push RE projects. RE and BESS projects are progressing through a repeated procurement and implementation cycle due to significant delays arising from the contractor awarded in 2024 filing for bankruptcy.

2. KUA received final Tariff Study from Quantum, the consultant contracted by World Bank to do a tariff rate study for the FSM utilities. Management awaits further recommendations from the National Government and/or review by the KUA Board.

3. A visibility assessment was completed by Tetra Tech, the consultant engaged by the World Bank. The assessment estimated $1.3 million would be needed to relocate distribution poles from vulnerable shoreline areas to more secure inland locations and to replace existing wooden poles with fiberglass poles to enhance the reliability and resilience of the power system.

4. KUA Management is awaiting the final Disaster Risk Reduction (DRR) Framework Policy from OCA through the FSM Department of Resources and Development (DoRD). Once the policy is received, the KUA Board of Directors will review and consider its adoption to guide the Authority's disaster risk reduction and climate resilience planning.

5. Trip-Savers have been installed at critical locations, particularly at feeder intersections serving inland areas where overhead primary lines are susceptible to contact from trees and overgrown vegetation. These devices automatically isolate faulted sections of the distribution network, preventing localized disturbances from causing outages along the entire feeder.

6. The remaining Sections 4, 5, and 6 have now been connected to the water distribution system. However, after all customers were connected to the network, several unforeseen issues were encountered. The system has been unable to achieve full operating water pressure, and the water pumps have experienced repeated mechanical failures, affecting the overall reliability and performance of the water supply system.

7. KUA continues to invest in workforce development to strengthen its technical and operational capacity. Two lineman workers successfully completed a Power Production and Distribution training program in Fiji, enhancing their skills in the operation and maintenance of electrical distribution systems. A power plant operator attended a Renewable Energy training program in Japan, with a focus on solar photovoltaic (PV) array troubleshooting, operation, and maintenance.

8. The two Daihatsu generators remain the primary power generation engines serving the island. Their scheduled top-end overhauls have been deferred to maintain adequate generation capacity until the arrival and commissioning of a new 1.3 MW Caterpillar (CAT) generator.

9. Suprima billing is upgraded and all prepaid meters are on KNR II.

10. Continue working with Palikir Consulting Services (PCS) to secure a grant proposal with RUS to procure a more reliable Solar Street Light brand/model.

11. KUA will continue to work with development partners, including ADB and World Bank, to secure technical and financial assistance for the implementation of the proposed Renewable Energy (RE) project and Battery Energy Storage System (BESS). KUA will also work with Palikir Consultant Services (PCS) to identify and pursue grant funding opportunities.

12. A Power Plant Operator has been designated for transfer from the Production Division to the Engineering Division to support renewable energy (RE) initiatives, including the collection, monitoring, and analysis of RE operational data. The Engineering Division is also exploring suitable data collection and reporting tools that will enable efficient data management and cloud-based sharing, providing authorized personnel with timely and convenient access to information.

13. Continue working closely with Vital to ensure that KUA is promptly notified of any changes to fuel specifications, enabling timely operational planning and compliance.

14. The Kosrae State Energy Master Plan targets renewable energy (RE) to supply 30% of the electricity grid by 2030. While the current RE contribution remains less than 5%, KUA remains committed to achieving this target by continuing to collaborate with the Kosrae State Government, development partners, and financial institutions to secure the technical and financial support necessary for expanding renewable energy generation.

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Authority's operations. This financial report is designed to provide a general overview of the Authority's finances and to demonstrate KUA's accountability for the funds it receives and expends.

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 obtained from Finance Division with the permission of the General Manager at P.O. Box KUA, Kosrae, FM 96944.

KOSRAE UTILITIES AUTHORITY
(A Component Unit of the State of Kosrae)
Statement of Net Position
September 30, 2024

ASSETS		
Current assets:		
Cash and cash equivalents	$	1,134,322
Investments		1,117,355
Time certificate of deposit		170,955
Accounts receivable, net		241,989
Prepayments		44,936
Inventories, net		274,673
Total current assets		2,984,230
Noncurrent assets:		
Deposit for fuel purchase contract		252,800
Capital assets, net		1,426,419
Total noncurrent assets		1,679,219
Total assets	$	4,663,449
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable		299,067
Accrued annual leave		35,595
Accrued taxes and other		47,034
Unearned revenue		37,448
Total liabilities		419,144
Net position:		
Net investment in capital assets		1,426,419
Restricted		90,000
Unrestricted		2,727,886
Total net position		4,244,305
Total liabilities and net position	$	4,663,449

See accompanying notes to financial statements.

KOSRAE UTILITIES AUTHORITY
(A Component Unit of the State of Kosrae)
Statement of Revenues, Expenses and Changes in Net Position
For the year ended September 30, 2024

Operating revenues:		
Electricity sales	$	3,605,379
Water sales		13,444
Bad debt expense		(62,731)
Net operating revenues		3,556,092
Operating expenses:		
Production fuel		2,332,397
Salaries and wages		710,302
Depreciation and amortization		296,299
Administrative and general		256,608
Repairs and maintenance		197,148
Provision for inventory obsolescence		1,106
Total operating expenses		3,793,860
Loss from operations		(237,768)
Nonoperating revenues (expenses):		
Subsidies from FSM National Government		119,999
Interest income, net		6,450
Net change in fair value of investments		230,306
Loss from unauthorized payment		(186,268)
Total nonoperating revenues		170,487
Change in net position		(67,281)
Net position at beginning of the year		4,311,586
Net position at end of the year	$	4,244,305

See accompanying notes to financial statements.

KOSRAE UTILITIES AUTHORITY
(A Component Unit of the State of Kosrae)
Statement of Cash Flows
For the year ended September 30, 2024

Cash flows from operating activities:	
Cash received from customers	$ 3,608,292
Cash paid to suppliers for goods and services	(2,951,879)
Cash paid to employees for services	(707,958)
Net cash used in operating activities	(51,545)
Cash flows from investing activities:	
Purchases of investments	(40,648)
Interest and dividends received on investments and others	5,174
Net cash used in investing activities	(35,474)
Cash flows from noncapital financing activities:	
Subsidies from FSM National Government	119,999
Net cash provided by noncapital financing activities	119,999
Cash flow from capital financing activities:	
Acquisition of capital assets	(232,307)
Net cash used in capital financing activities	(232,307)
Net change in cash	(199,327)
Cash and cash equivalents at beginning of year	1,333,649
Cash and cash equivalents at end of year	$ 1,134,322

See accompanying notes to financial statements.

KOSRAE UTILITIES AUTHORITY

(A Component Unit of the State of Kosrae)

Statement of Cash Flows, continued

For the year ended September 30, 2024

Reconciliation of loss from operations to net cash provided by (used in) operating activities:	
Loss from operations	$ (237,768)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation and amortization	296,299
Bad debts expense	62,731
Provision for inventory obsolescence	1,106
Loss from unauthorized payment	(186,268)
Changes in assets and liabilities:	
Accounts receivable	(63,018)
Prepayments	(16,431)
Inventories	62,709
Accounts payable	26,070
Accrued annual leave	5,146
Accrued taxes and other	8,123
Unearned revenue	(10,244)
Net cash used in operating activities	$ (51,545)

See accompanying notes to financial statements.

(1) Organization

The Kosrae Utilities Authority (the "Authority" or "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 discretely presented component unit.

(2) Summary of Significant Accounting Policies

The accounting principles of KUA conform to accounting principles accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

KUA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments*. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into four net position categories:

- *Net Investment in Capital Assets* – include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt, net of debt service reserves.
- *Restricted Nonexpendable* – net position subject to externally imposed stipulations that require the Authority to maintain such permanently.
- *Restricted Expandable* – net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.
- *Unrestricted* – net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

(2) Summary of Significant Accounting Policies, continued

As of September 30, 2024, KUA recorded restricted expendable net position of $90,000 representing appropriations received from the FSM National Government for the power extension project to Walung, which has yet to commence.

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 position. Proprietary fund operating statements present increases and decreases in net position. 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.

Accounting 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.

Utility Plant

KUA capitalizes individual items that have an estimated useful life of more than one year regardless of costs. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives of the respective capital assets are as follows:

Production plant	5 to 40 years
Distribution plant	5 to 30 years
General plant	5 to 20 years

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand and cash held in demand deposit accounts. Deposits maintained in time certificate of deposit accounts with original maturity dates greater than three months are separately classified.

(2) Summary of Significant Accounting Policies, continued

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

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 collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts recorded against operating revenues. Bad debts are written off against the allowance on the specific identification method.

Inventory

Materials and fuel inventories are carried at the lower of cost (using the first-in first-out and the average cost method, respectively) or net realizable value.

Allowance for inventory obsolescence may be provided for inventory items with no movement for two years or as specifically identified as unusable.

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 leave benefits.

Taxes

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

(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, 2024 are $114,768. Cash power revenue is recognized as revenue upon point of sale; the estimated unearned portion is determined at year end and recorded as unearned revenue in the accompanying statements of net position.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of the Authority. Non-operating revenues and expenses result from capital, investing and financing activities, costs and related recoveries from natural disasters, and certain other non-recurring income and costs.

New accounting standards

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

(2) Summary of Significant Accounting Policies, continued

New accounting standards, continued

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 also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

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.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

(2) Summary of Significant Accounting Policies, continued

New accounting standards, continued

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, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions.

(2) Summary of Significant Accounting Policies, continued

New accounting standards, continued

Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed.

This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. In addition, this Statement continues the requirement that information included in MD&A distinguish between that of the primary government and its discretely presented component units.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

In addition to the subtotals currently required in a proprietary fund statement of revenues, expenses, and changes in fund net position, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses. Subsidies are defined as (1) resources received from another party or fund (a) for which the proprietary fund does not provide goods and services to the other party or fund and (b) that directly or indirectly keep the proprietary fund's current or future fees and charges lower than they would be otherwise, (2) resources provided to another party or fund (a) for which the other party or fund does not provide goods and services to the proprietary fund and (b) that are recoverable through the proprietary fund's current or future pricing policies, and (3) all other transfers.

(2) Summary of Significant Accounting Policies, continued

New accounting standards, continued

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. State and local governments are required to provide detailed information about capital assets in notes to financial statements. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame.

(2) Summary of Significant Accounting Policies, continued

New accounting standards, continued

This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

(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 25% of the total portfolio may be invested in non-U.S. equities per the revised investment policy adopted in February 2010.

Deposits

As of September 30, 2024 cash and cash equivalents and time certificates of deposit were \$1,305,277 and the corresponding bank balances were \$1,386,781, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2024 bank deposits in the amount of \$435,932 are subject to the FDIC insurance limit. 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.

(3) Deposits and Investments, continued

Investments

As of September 30, 2024, investments at fair value comprise the following:

Fixed income securities:	
U.S. Treasury obligations	$ 223,219
Corporate notes	146,956
	370,175
Other investments:	
Common equities	739,040
Real estate investment trust	8,140
	747,180
	$ 1,117,355

As of September 30, 2024, the Authority's fixed income securities consist of the following:

	Credit rating	Fair value	Maturity 1 to 5 Years	Maturity 6 to 10 Years
U.S. Treasury obligations	Aaa	$ 223,220	146,381	76,839
Corporate notes	A1	32,872	-	32,872
Corporate notes	A2	11,845	-	11,845
Corporate notes	A3	10,909	-	10,909
Corporate notes	Baa1	45,867	33,798	12,069
Corporate notes	Baa2	45,462	34,304	11,158
		$ 370,175	214,483	155,692

KUA categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date; Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 3 are unobservable inputs for the asset or liability.

(3) Deposits and Investments, continued

Investments, continued

KUA has the following recurring fair value measurements as of September 30, 2024:

		Fair Value Measurements Using		
	Fair value	Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	$ 223,219	-	223,219	-
Corporate notes	146,956	-	146,956	-
	370,175	-	370,175	-
Equity securities:				
U.S. equities	729,097	729,097	-	-
Non U.S. equities	9,943	9,943	-	-
	739,040	739,040	-	-
Real estate investment trust	8,140	8,140		
Total investments at fair value	$1,117,355	747,180	370,175	-

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, 2024.

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, 2024 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.

(4) Accounts Receivable

Accounts receivable at September 30, 2024 are summarized as follows:

Utility:	
Commercial	$ 129,570
Residential	90,740
Government	58,792
Fuel adjustment charge	14,144
	293,246
Travel advances	36,452
Other	43,387
	373,085
Less allowance for doubtful accounts	(131,096)
Accounts receivable, net	$ 241,989

(5) Inventory

Inventory at September 30, 2024 is summarized as follows:

Parts and supplies	$ 496,617
Fuel	61,649
	558,266
Less allowance for inventory obsolescense	(283,593)
Inventories, net	$ 274,673

(6) Capital assets

Capital assets activity for the year ended September 30, 2024 is as follows:

	Balance at October 1, 2023	Transfers and Additions	Transfers and Deletions	Balance at September 30, 2024
Depreciable assets:				
Production plant	$ 3,778,937	26,475	(349,880)	3,455,532
Distribution plant	6,756,183	93,955	(190,647)	6,659,491
General plant	678,511	51,275	(1,976)	727,810
Total electric plant in service	11,213,631	171,705	(542,503)	10,842,833
Less accumulated depreciation	(9,840,823)	(296,299)	542,503	(9,594,619)
	1,372,808	(124,594)	-	1,248,214
Nondepreciable assets:				
Construction work-in-progress	117,603	60,602	-	178,205
Electric plant in service, net	$ 1,490,411	(63,992)	-	1,426,419

(7) Commitments

Net position at September 30, 2024 has been appropriated in the amount of $2,916,919 for repair and maintenance and capital improvement projects. This process will continue in fiscal year 2025 with a total of $25,000 being further appropriated on a quarterly basis from net position for this purpose.

(8) 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 also pays for workers' compensation to cover for wage replacement and medical benefits to employees injured in the course of employment. 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.

(9) Retirement Plan

KUA administers a defined contribution retirement plan (the Plan) covering all employees with at least one year of service. 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. KUA's controller is the designated Plan administrator. Contributions to the Plan during the year ended September 30, 2024 were $5,144 which were equal to the employer contributions required by the Plan. At September 30, 2024 the Plan assets were $64,130 with corresponding cash balance of $59,419.

Although the Plan does not accumulate assets in a trust where Plan assets are legally protected from the creditors of KUA and the plan administrator, KUA has concluded that the activities of the Plan are not fiduciary activities of KUA as the participants have the right to direct the exchange and the right to direct the employment of the Plan assets.

(10) Related Parties

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

A long-term deposit in the amount of $252,800, through a sub-grant from the FSMNG, is held by FSMPC as collateral for fuel and lubricant purchases.

(11) Date of Management's Review

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through June 23, 2026 which is the date the financial statements were available to be issued.

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*

To the Board of Directors
Kosrae Utilities Authority

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 Kosrae Utilities Authority, a component unit of the State of Kosrae, as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise Kosrae Utilities Authority's basic financial statements, and have issued our report thereon dated June 23, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kosrae Utilities Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kosrae Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Kosrae Utilities Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001 through 2024-006 that we consider to be significant deficiencies.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kosrae Utilities Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the schedule of findings and responses as items 2024-001 through 2024-006.

Kosrae Utilities Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Kosrae Utilities Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Kosrae Utilities Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Burger Comer & Associates

Saipan, Commonwealth of the Northern Mariana Islands
June 23, 2026

Schedule of Findings and Responses
Year ended September 30, 2024

Inadequate Segregation of Duties over Cash Disbursement and Accounting Functions

Finding No. 2024-001

Criteria: Responsibilities for authorizing, processing, recording, and reviewing cash disbursement transactions should be appropriately segregated to reduce the risk of errors, unauthorized transactions, and fraud. Where complete segregation of duties is not feasible, management should implement compensating controls, such as independent review and monitoring, to provide appropriate oversight.

Condition: Electronic payments are prepared by the Assistant Comptroller and approved by the Comptroller. However, personnel involved in the cash disbursement process also have access to the related accounting records, and independent oversight of cash disbursement activities outside the accounting function is limited.

Cause: Due to organizational and staffing constraints, KUA has limited ability to provide independent oversight outside the accounting function and to implement additional segregation of duties over cash disbursement activities.

Effect: The combination of payment processing responsibilities with access to related accounting records, together with limited independent oversight, increases the risk that unauthorized transactions, errors, or irregularities may occur and not be detected in a timely manner.

Recommendation: We recommend that KUA strengthen internal controls over cash disbursement activities by enhancing independent oversight and implementing appropriate compensating controls. Management should evaluate opportunities to assign independent review responsibilities outside the cash disbursement process where practicable. Where staffing limitations prevent further segregation of duties, compensating controls such as periodic independent reviews of electronic payment transactions, bank reconciliations, user access privileges, and cash disbursement activity should be implemented and documented to reduce the risk of unauthorized or improper transactions.

Finding No. 2024-001, continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Gillana, KUA Comptroller

Response: Due to the limited qualified personnel that has knowledge in financial operation, the reason why the accounting function is just limited to a few and with the confidentiality of information and vulnerability of online banking, we really limit the access for the payment; the reason why only the Comptroller and Assistant Comptroller has the access and enrolled users of the on-line banking.

Corrective Action: As per your recommendation to assign another person to review aside from those involved in the payment process, we will try to evaluate who among our present supervisors that can review transaction payments in lieu of the comptroller and general manager which are the usual person to approved payments. Such person, should be one of the bank signatories so we can enroll him to approve on line banking payments. The main constraints that may occur is if such person is traveling, we will have the same situation as now. We are limiting online payments to FSMPC, Arthur D. Riley and Bank of Guam payroll allotments only.

Noncompliance with Annual Leave Accrual Limits

Finding No. 2024-002

Criteria: The KUA Administrative Procedures Manual states that the maximum accrual for annual leave shall be 400 hours and excess hours are not redeemable.

Condition: We noted that an employee had an accrued annual leave balance of 561 hours as of September 30, 2024, which exceeded the maximum allowable accrual by 161 hours. The employee continued to accrue annual leave despite exceeding the established cap.

Cause: KUA did not adequately monitor and enforce compliance with the annual leave accrual limitations established in the Administrative Procedures Manual.

Effect: Failure to enforce annual leave accrual limits may result in noncompliance with established policies, inconsistent administration of employee benefits, and potential overstatement of accrued leave liabilities.

Recommendation: We recommend that KUA strengthen monitoring and enforcement of annual leave accrual limits to ensure compliance with the KUA Administrative Procedures Manual. KUA should regularly review employee leave balances, implement controls to prevent employees from accruing annual leave beyond the 400-hour maximum where feasible, and establish procedures to address existing excess leave balances in accordance with established policy.

Finding No. 2024-002, continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Gillana, KUA Comptroller

Response: We admit an oversight of this since most of the employees usually do not exceed the 400 hours annual leave credit threshold. We will advise this employee to request leave payout in order to reduce his leave credits below the 400 hours limit.

Corrective Action: We will regularly monitor annual leave hours balances not to exceed the maximum specifically OM who usually exceeds the limit and notify him if he is nearly on the limit so he can request payout.

Inadequate Controls and Documentation over Fixed Asset Disposals

Finding No. 2024-003

Criteria: KUA Policy and Procedures require disposed capital assets to be removed from the capital asset register. Sound internal control practices further require that capital asset disposals be properly authorized, supported, documented, and maintained in sufficient detail to substantiate the removal of assets from accounting records.

Condition: During FY2024, KUA recorded approximately $542,000 in capital asset disposals. KUA was only able to provide an internally prepared Excel schedule to support the disposals. Supporting documentation such as disposal approvals, asset disposition records, evidence of physical disposal, or other supporting records was not provided for audit examination.

Cause: KUA has not established comprehensive procedures and documentation requirements governing capital asset disposals and record retention.

Effect: Inadequate controls and insufficient supporting documentation over capital asset disposals increase the risk of unauthorized asset disposals, inaccurate capital asset records, misappropriation of assets, and potential misstatement of capital assets and related balances.

Recommendation: We recommend that KUA strengthen controls over capital asset disposals by establishing formal policies and procedures governing the authorization, documentation, approval, and recording of disposed assets. Supporting documentation for all disposals should be maintained, including disposal approvals, asset disposition records, supporting calculations, and evidence supporting the removal of assets from the capital asset register and accounting records.

Finding No. 2024-003, continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Gillana, KUA Comptroller

Response: We admit that no written documentation that supports the writing off of assets but before we do adjustments, we usually communicate with Operations Manager confirming the write off either by email or verbal communication. We've been doing this for few years ago but previous auditors did not call our attention, so we thought it is fine.

Corrective Action: We will do your recommendation and document approval of any writing off of assets and disposals by authorized personnel to be attached to the journal voucher.

Inadequate Payroll Authorization and Documentation Controls

Finding No. 2024-004

Criteria: KUA Payroll policies require employees to sign payroll distribution sheets to acknowledge receipt of payroll checks. Time sheets are also required to be signed and authorized by supervisors prior to submission to payroll processing.

Condition: During testing of payroll records for 15 employees across 4 pay periods, we noted:

1. 58 instances where employee timesheets were not approved by their respective supervisors; and

2. 58 instances where payroll distribution sheets were not signed by employees to acknowledge receipt of payroll payments.

Cause: KUA did not consistently enforce established payroll authorization and documentation procedures and supervisory review controls.

Effect: Failure to maintain proper authorization and supporting documentation for payroll transactions increases the risk of unauthorized payroll payments, payroll errors, fictitious or improper payments, and noncompliance with established payroll policies and procedures.

Recommendation: We recommend that KUA strengthen payroll controls by ensuring that all payroll transactions are properly reviewed, approved, and supported prior to processing and payment. Employee timesheets should be reviewed and approved by their respective supervisors, and payroll distribution sheets should be signed by employees to acknowledge receipt of payments. Management should also perform periodic supervisory reviews to monitor compliance with these procedures and promptly address any instances of noncompliance.

Finding No. 2024-004, continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Gillana, KUA Comptroller

Response 1: We really don't maintain division timesheets; we just have it to divide the works on computing the hours because we have two staffs that computes the payroll hours and both of them will review each other's computation on the division they're handling. After those division's timesheet computation, it will be transferred to one time sheet where it is signed by the preparer and verified by the Assistant Comptroller or Comptroller if I'm around. The time cards are the one that is reviewed by the supervisors before they will submit to accounting including the related overtimes and annual leaves taken.

Response 2: We have payroll distribution sign out sheet per division, maybe the findings are those from Distribution and Production employees as Operation Manager is the one distributing the checks and the sign out sheet might not be regularly returned back to accounting for filing.

Corrective Action: We will do your recommendation and have a division timesheet be prepared to include the supervisor's confirmation of the computed payroll hours. On the payroll distribution sheets, we will monitor and remind operation manager to regularly return the sign out sheet to accounting office for filing. Admin, Customer service and Planning and Engineering employees signs the distribution sheet in accounting office, hence the sign out sheet is already filed in the payroll folder.

Inadequate Personnel File Documentation and Contract Monitoring

Finding No. 2024-005

Criteria: Sound personnel administration practices require employee personnel files to contain complete and current employment documentation, including employment contracts and personnel action forms, to support employee status, compensation, and terms of employment.

Condition: During review of personnel files for 15 employees, we noted:

1. 2 employees without employment contracts on file;

2. 1 employee without a personnel action form maintained in the personnel file; and

3. 8 employees with expired employment contracts that had not been renewed or updated.

Cause: KUA did not maintain adequate procedures for monitoring, updating, and retaining employee personnel documentation.

Effect: Incomplete or outdated personnel records increase the risk of unauthorized employment arrangements, disputes regarding employment terms and compensation, inconsistent personnel administration, and unsupported payroll payments.

Recommendation: We recommend that KUA strengthen controls over personnel records by ensuring that complete and current employment documentation is maintained for all employees. Employment contracts should be properly executed, renewed, and retained in personnel files, and personnel action forms should be maintained to support employee status and compensation changes. KUA should also establish periodic reviews of personnel files to ensure records remain complete, accurate, and up to date.

Finding No. 2024-005, continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Gillana, KUA Comptroller

Response 1: 2 employees without employment contract, we lost attention to this as such employees are hired 20 years or more ago. We did not check completeness of their personnel files.

Response 2: 1 employee without personnel action form, we might have misplaced such personnel action form and was not filed.

Response 3: KUA maintains only the original contract for local employees and any changes will be through personnel action forms related to upgrading from provisionary to permanent employee, rate increase, annual leave accrual hours update and any changes in personnel status. Expatriate employees on the other hand, are subject to contract renewal and if there will be changes of the employment status within the contract, he should be subject to personnel action form initiated by the HR approved by GM and confirmed by the Comptroller.

Corrective Action: We will do as recommended and regularly monitor employee permanent file's completeness as to original employment contract and the subsequent personnel actions forms for any changes in employment status.

Noncompliance with Leave Authorization Procedures

Finding No. 2024-006

Criteria: KUA Administrative Procedures require annual leave requests to be submitted in advance on a leave request form and approved by the employee's immediate supervisor prior to leave being taken.

Condition: During testing of payroll records for 15 employees across 4 pay periods, we noted:

1. 9 instances where annual leave requests were approved after the leave had already been taken.

Cause: Established leave authorization procedures were not consistently enforced and monitored by management and supervisory personnel.

Effect: Failure to properly approve and document employee leave increases the risk of unauthorized leave usage, payroll inaccuracies, abuse of leave privileges, and inconsistent application of leave policies and procedures.

Recommendation: We recommend that KUA strengthen controls over leave administration by ensuring that all leave requests are properly completed, reviewed, and approved prior to employees taking leave, in accordance with established policies and procedures. Supervisors should consistently document leave approvals in a timely manner, and management should implement periodic monitoring procedures to ensure compliance with leave authorization requirements.

Finding No. 2024-006, continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Gillana, KUA Comptroller

Response: All annual leaves requests are approved by their supervisors. Although the date of approval in the annual leave form might be dated after the actual leave date, the request is permitted orally since the supervisor will be assigning their duty to other personnel in the employee's absence. It usually happens during emergencies.

Corrective Action: We will ensure that all leave forms should be completely attached to the time card and informed supervisors to strictly enforce their crews to submit leave forms earlier before the actual leave date.