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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2024 AND 2023

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

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Years Ended September 30, 2024 and 2023

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pohnpei Utilities Corporation:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Pohnpei Utilities Corporation (PUC), a component unit of the State of Pohnpei, which comprise the statements of net position as of September 30, 2024 and 2023, the statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the PUC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the PUC as of September 30, 2024 and 2023, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PUC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PUC's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions, or events, considered in the aggregate that raise substantial doubt about PUC's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary combining schedules on pages 35 to 37 are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary combining schedules are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary combining schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2026 on our consideration of PUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PUC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PUC's internal control over financial reporting and compliance.

Burger Comer & Associates

September 14, 2026
Tamuning, Guam

The following discussion and analysis of the financial performance and activities of the Pohnpei Utilities Corporation (PUC) is to provide an introduction and understanding of the basic financial statements of the PUC for the year ended September 30, 2024. The discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

PUC is a public corporation of the Pohnpei State Government and is the primary provider of power, water and sewer services for the island. It is under the governance of a seven-member Board of Directors that is appointed by the Governor and approved by the Legislature of Pohnpei State, which has oversight over operation of the power, water and sewer utilities services. The Chief Executive Officer, who is hired by the Board of Directors, oversees the daily operation of the PUC.

Introduction

PUC is operating with three (3) 3516C Caterpillar engines, two (2) 3516B Caterpillar engines, and two (2) C18 Caterpillar engines. Of the seven (7) gensets, unit #4 3516B is not in operation but is currently under repair. PUC has an installed diesel generation capacity of 11,090 kW and has been de-rated to 9,050 kW. A 2,000 kW diesel generation capacity under a Power Purchase Agreement with the FSM Petroleum Corporation has been de-rated to 1,400 kW. Renewables include 725 kW from Nanpil Hydro Plant, 180 kWp from Palikir Solar Plant, 200 kWp from Nett School Solar Plant, and 600 kWp from Pohnlangas Solar Plant. An additional 275 kWp was commissioned in April 2019 by the New Zealand Ministry of Foreign Affairs & Trade and a 2,000 kWp solar plant was installed in July 2020 by Keproi Solar Electric Limited. The available capacity for fiscal year 2023 fluctuated between 7,500 kW and 12,254 kW with a peak demand of 6,890 kW recorded during the month of April 2023. PUC produced 40,338,821 kWh and 40,454,095 kWh and sold 35,283,120 kWh and 35,380,581 kWh to customers in 2023 and 2024, respectively. The number of customers being serviced by the PUC is 7,738 (7,522 using cash power meters and 216 using conventional meters) in 2024. The service coverage is 96% of the population.

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

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

Introduction, Continued

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

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

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

PUC is operating and managing four separate water systems. The systems include the Central (Kolonia), Palikir, Lukop and Wapar Water Supply systems. The sources of water supply for these systems are both surface and groundwater. The Central Water Supply depends on surface water and is supplemented by groundwater wells. Groundwater wells are the main water sources for Palikir, Lukop and Wapar Water Supply system. The surface water for the central water system is transmitted from Nanpil dam to the Water treatment plant at approximately 3 miles. Since then and up to present, the surface water goes through a treatment process (rapid sand filter media) and injects with 65% to 70% calcium hypochlorite. The maximum output of chlorine plant demand ranges at 2.8 Parts per Million (PPM).

The Palikir, Lukop, and Wapar water systems are sourced from groundwater wells at a maximum depth of 300 ft. All four water systems are being distributed to the general public for consumption. To ensure that quantity is met, the systems have several holding tanks for that purpose. In all the four water systems, there are total of six holding tanks. Two (2) each 1 million and four (4) each half (.5) million gallon tanks. PUC has the aptitude to produce 5 million gallons per day. The daily water demand to existing customers varies from 2.8 to 3.1 million gallons per day. PUC produced 1.6 to 1.2 billion gallons from 2023 to 2024. PUC sold 662 million gallons and 648 million gallons to customers in 2023 and 2024, which resulted in total revenue of $1.6 million and $1.7 million for FY 2023 and FY 2024, respectively. PUC services the total of 4,011 households, 2,604 on conventional postpaid meters and 1,407 prepaid meters (cash water) which covers about 2/3 of Pohnpei in area or 61% of the population.

Financial Highlights

The PUC's financial discussion and analysis are intended to present the PUC's financial statements which comprise the basic financial statements and financial notes to present the financial position and operating results of the PUC. The statements are expected to provide the PUC's operational accountability information and to enable them to do the following:

- Understand the true financial position of the PUC, including capital and financial assets and long-term as well as short-term liabilities;

- Determine whether the entity can continue to provide current service levels and meet its obligations as they become due; and

- Determine the operating results of the entity, including the economic cost and the net cost of services, and assess the economy, efficiency, and effectiveness of operations.

The Statement of Net Position presents information on the PUC's assets, liabilities, and deferred inflows of resources (which is the acquisition of net assets by the PUC for a future period) and deferred outflows (which is the outflow of net position which will be recognized in a future period). Net position may, over time, serve as an indicator to measure or gauge the PUC's financial condition. The Statement of Revenues, Expenses, and Changes in Net Position presents information on how the PUC's net position changed during the fiscal year. All the current year's revenue and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal period.

Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position

Comparative Statements of Net Position as of September 30, 2024, 2023, and 2022 are shown below:

Statements of Net Position
Years Ended September 30, 2024, 2023 and 2022

	2024	As Restated 2023	As Restated 2022
Assets:			
Utility plant, net	$ 26,709,131	$ 28,582,322	$ 28,018,503
Current assets	8,299,428	7,760,531	4,797,116
Other noncurrent assets	1,811,478	2,234,829	4,445,974
Total assets	$ 36,820,037	$ 38,577,682	$ 37,261,593
Liabilities and Net Position:			
Notes payables	$ 232,071	$ 256,071	$ 283,767
Current portion of long-term debt	531,313	473,060	469,513
Lease liability, current portion	36,209	25,179	23,264
Other current liabilities	9,109,072	6,824,761	6,601,459
Long-term debt, net of current portion	4,707,092	5,184,620	5,567,262
Lease liability, noncurrent	148,620	140,801	165,312
Total liabilities	14,764,377	12,904,492	13,110,577

Financial Highlights, Continued

Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position, Continued:

Statements of Net Position, continued
Years Ended September 30, 2024, 2023 and 2022

Net position:	2024	As Restated 2023	As Restated 2022
Net investment in capital assets	21,470,726	22,924,642	21,981,728
Restricted	1,315,950	1,758,150	1,388,150
Unrestricted	(731,016)	990,398	781,138
Total net position	22,055,660	25,673,190	24,151,016
	$ 36,820,037	$ 38,577,682	$ 37,261,593

Comparative Statements of Revenues, Expenses, and Changes in Net Position as of September 30, 2024, 2023, and 2022 are shown below:

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2024, 2023 and 2022

Revenues, Expenses and Changes in Net Position:	2024	As Restated 2023	As Restated 2022
Operating revenues	$ 17,934,286	$ 16,428,147	$ 17,482,748
Bad debts expense	(761,018)	(10,273)	(660,526)
Operating and maintenance expenses	(20,653,476)	(17,474,048)	(19,493,274)
Operating loss	(3,480,208)	(1,056,174)	(2,671,052)
Non-operating (expenses) revenues, net	(249,392)	58,087	1,028,230
Loss before capital contributions	(3,729,600)	(998,087)	(1,642,822)
Capital contributions	112,070	1,142,491	1,003,284
Change in net position	(3,617,530)	144,404	(639,538)
Net position at beginning of year	25,673,190	24,151,016	23,788,073
Restatement - correction of an error	-	1,377,770	1,002,481
Net position at beginning of year, as restated	25,673,190	25,528,786	24,790,554
Net position at end of year	$ 22,055,660	$ 25,673,190	$ 24,151,016

Overall changes in the Statements of Net Position components from September 2023 to 2024 include a decrease of utility plant of $1,873,191, net increase of current and other noncurrent assets of $115,546, and an increase in total liabilities of $1,859,885.

Decrease of utility plant is primarily attributable to depreciation of fixed assets. There were no purchases of major assets during the period. Please see Note 4 to the financial statements for additional information on PUC's utility plants.

Increase in current assets is attributable to a combination of increases in prepayments, inventories and accounts receivable.

Financial Highlights, Continued

Increases in current liabilities are attributable to increases in accounts payable and advances extended to PUC for loan repayments. Please see Note 5, Note 6, and Note 10 to the financial statements for additional information.

Increases in operating revenue before bad debts are mainly due to the increase in electricity and water sales. This was mainly due to higher electricity rates resulting from the expiration of the fuel subsidy.

Increases in operating and maintenance expenses are mainly due to increases in fuel cost and IPP due to the expiration of the fuel subsidy and slight increase in maintenance cost of the distribution system.

PUC incurred a loss before capital contributions in 2024. Total amount of capital contributions for FY 2024 is $112,070 as compared to FY 2023 of $1,142,491.

Economic Outlook

For the past five years, PUC has continued to face challenges in recovering its full operating costs, including depreciation. PUC and the Pohnpei State Government (PSG) are working closely together to adjust tariffs to achieve full cost recovery. The Electric and Water Divisions are generating sufficient cash to support PUC's operations for the most part. However, the absence of an approved sewer tariff has resulted in funds from the electricity and water operations being used to support the sewer system's operations and maintenance.

The reliability of the power system has improved significantly. However, the system remains relatively unstable, with several power outages per week occurring in some areas, and total system blackouts are not unusual. The power distribution system is relatively old and is due for replacement. Similarly, the water infrastructure has deteriorated to the point where significant rehabilitation and replacement are required to improve the quality and reliability of water services.

PUC anticipates commissioning a medium-speed power plant in 2026, equipped with an automated protection system and SCADA to facilitate communication with all renewable energy facilities, including the Nanpil Hydro Plant, Pohnlangas Solar Plant, Nett School PV, and COM PV Plant. Funding for the complete rehabilitation of the distribution network, including the installation of nodal monitoring points to monitor losses within the distribution system, has been approved and is ready for procurement. PUC is also proactively working with the State to secure funding to rehabilitate the aging water system and treatment plant and is working with Pohnpei State on the implementation of a sewer tariff.

The water line extension from Palikir to Diadi Kitti has been completed and commissioned. This extension will enable PUC to connect and serve approximately 200 additional customers. Construction of the Kinakapw to Lehndiadi water line extension is also progressing.

Economic Outlook, Continued

PUC, in collaboration with Pohnpei State and the National Government's Department of Resources and Development (R&D), is working to secure funding for feasibility studies for the development of the Lehnmesi Hydro Plant and additional solar PV capacity, as outlined in the Pohnpei Energy Master Plan. These projects are intended to support the goal of achieving a 70% renewable energy target by 2030 while reducing the cost of electricity generation.

PUC has also been actively seeking resources to rehabilitate the existing water system, including the intake, treatment plant, storage tanks, and distribution network. These improvements are intended to enhance the quality and reliability of the water supply and reduce non-revenue water (NRW).

PUC operates two sewer treatment plants serving approximately 800 customers. PUC faces significant challenges in maintaining approximately 11 miles of sewer mains, nine lift stations, and the treatment facilities without an approved sewer tariff or government subsidy. A draft bill to support the operation and maintenance of the sewer system, recommended by two ADB consultants and PUC, is currently pending before the Legislature.

Overall, PUC has several significant improvement initiatives underway that are expected to strengthen its operations, improve the reliability and quality of its utility services, and move the organization toward meeting international utility standards.

Management's Discussion and Analysis for the year ended September 30, 2024 is set forth in PUC's report on the audit of financial statement, which is dated September 14, 2026. This concludes management's discussion and analysis of PUC's financial statements for the year ended September 30, 2024. Questions concerning the financial statements or requests for additional information should be directed to the Chief Executive Officer, Pohnpei Utilities Corporation, P.O Box C, Kolonia Pohnpei, Federated States of Micronesia 96941.

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

Statements of Net Position
September 30, 2024 and 2023

ASSETS	2024	(As Restated) 2023
Current assets:		
Cash and cash equivalents	$ 895,946	$ 2,136,284
Time certificates of deposit	235,272	235,272
Accounts receivable, net	3,319,965	3,165,863
Prepayments	2,203,867	938,747
Materials and fuel inventory, net	1,274,378	914,365
Restricted - time certificates of deposit	370,000	370,000
Total current assets	8,299,428	7,760,531
Other noncurrent assets:		
Long-term deposits	1,620,913	1,620,913
Restricted - cash and cash equivalents	5,736	447,936
Right-to-use assets, net	184,829	165,980
Total other noncurrent assets	1,811,478	2,234,829
Utility plant, at cost:		
Electric plant in service	44,235,340	44,152,779
Water and sewer plant in service	32,224,507	32,092,373
	76,459,847	76,245,152
Less accumulated depreciation	(50,195,205)	(47,928,659)
Depreciable assets, net	26,264,642	28,316,493
Construction work-in-process	444,489	265,829
Total utility plant	26,709,131	28,582,322
	$ 36,820,037	$ 38,577,682

LIABILITIES AND NET POSITION	2024	2023
Current liabilities:		
Notes payable	$ 232,071	$ 256,071
Current portion of long-term debt	531,313	473,060
Lease liability, current portion	36,209	25,179
Accounts payable:		
Operations	1,166,366	393,927
Fuel, lubricants and kWh purchased	1,534,233	433,364
Unearned revenue	598,108	643,336
Accrued taxes and other liabilities	685,344	643,804
Compensated absences	34,830	191,705
Advances from FSM National Government (FSMNG)	235,236	-
Advances from Pohnpei State Government (PSG)	4,854,955	4,518,625
Total current liabilities	9,908,665	7,579,071
Noncurrent liabilities:		
Long-term debt, net of current portion	4,707,092	5,184,620
Lease liability, noncurrent	148,620	140,801
Total liabilities	14,764,377	12,904,492
Commitments and contingencies		
Net position:		
Net investment in capital assets	21,470,726	22,924,642
Restricted	1,315,950	1,758,150
Unrestricted	(731,016)	990,398
Total net position	22,055,660	25,673,190
	$ 36,820,037	$ 38,577,682

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

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

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2024 and 2023

	2024	(As Restated) 2023
Operating revenues:		
Electricity sales	$ 16,002,484	$ 14,575,538
Water sales	1,712,655	1,626,589
Other sales	219,147	226,020
Total operating revenues	17,934,286	16,428,147
Bad debt expense	(761,018)	(10,273)
Net operating revenues	17,173,268	16,417,874
Operating and maintenance expenses:		
Production fuel	8,740,959	6,115,113
KWh purchased	3,150,421	2,863,050
Administrative and general	2,799,018	2,511,109
Depreciation	2,266,546	2,191,095
Water and sewer	1,482,670	1,478,632
Distribution	1,372,739	1,086,039
Generation	841,123	1,229,010
Total operating and maintenance expenses	20,653,476	17,474,048
Operating loss	(3,480,208)	(1,056,174)
Nonoperating revenues (expense), net:		
Interest expense, net of interest income	(170,581)	(179,378)
Foreign exchange revaluation	(108,334)	(126,247)
Grants and subsidies	29,523	815,795
Loss on impairment of utility assets	-	(443,062)
Loss on disposal of utility assets	-	(9,021)
Total nonoperating revenues (expenses), net	(249,392)	58,087
Loss before capital contributions	(3,729,600)	(998,087)
Capital contributions:		
Capital contributions	112,070	1,142,491
Total capital contributions	112,070	1,142,491
Change in net position	(3,617,530)	144,404
Net position at beginning of year	25,673,190	24,151,016
Restatement - correction of an error	-	1,377,770
Total net position - beginning of year, as restated	25,673,190	25,528,786
Net position at end of year	$ 22,055,660	$ 25,673,190

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

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

Statements of Cash Flows
Years Ended September 30, 2024 and 2023

	2024	(As Restated) 2023
Cash flows from operating activities:		
Cash received from customers	$ 16,973,938	$ 16,327,803
Cash payments to suppliers for goods and services	(14,506,883)	(13,047,033)
Cash paid to employees	(3,747,207)	(2,728,821)
Net cash provided by (used in) operating activities	(1,280,152)	551,949
Cash flows from investing activities:		
Interest and dividends on investments and bank accounts	1,291	1,047
Net cash provided by investing activities	1,291	1,047
Cash flows from noncapital financing activities:		
Net decrease in notes payable	(24,000)	(27,696)
Operating grants received	29,523	424,937
Net cash provided by noncapital financing activities	5,523	397,241
Cash flows from capital and related financing activities:		
Interest paid	(47,641)	(62,326)
Principal repayment of long-term debt	(80,274)	(123,419)
Cash receipts from grantor for capital projects	112,070	1,142,491
Acquisition of utility plant	(393,355)	(1,206,352)
Net cash used in capital and related financing activities	(409,200)	(249,606)
Net change in cash and cash equivalents	(1,682,538)	700,631
Cash and cash equivalents at beginning of year	2,584,220	1,883,589
Cash and cash equivalents at end of year	$ 901,682	$ 2,584,220
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (3,480,208)	$ (1,056,174)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,266,546	2,191,095
Bad debt	761,018	10,273
Loss on disposal of utility assets	-	9,021
(Increase) decrease in assets:		
Accounts receivable	(915,120)	(277,169)
Prepayments	(1,265,120)	(230,099)
Material and fuel inventory	(360,013)	99,183
Increase (decrease) in liabilities:		
Accounts payable	1,873,308	(458,354)
Unearned revenue	(45,228)	176,826
Accrued taxes and other liabilities	41,540	32,321
Employees' annual leave	(156,875)	55,026
Net cash provided by (used in) operating activities	$ (1,280,152)	$ 551,949

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

POHNPEI UTILITIES CORPORATION
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Statements of Cash Flows, Continued
Years Ended September 30, 2024 and 2023

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

During the year ended September 30, 2024, ADB loan principal and interest payments of $447,335 and $124,232, respectively, were made by PSG and FSMNG, which were recorded as an increase in advances from PSG and FSMNG.

During the year ended September 30, 2024, PUC was allocated $108,334 in balance adjustments relating to currency revaluation changes associated with the ADB loans. As a result, PUC increased its long-term debt and interest expense by the same amount.

During the year ended September 30, 2023 PUC recorded $1,802,270 in non-cash increases to accounts receivable, revenue and net position associated with corrections of various historical billing errors.

During the year ended September 30, 2023 ADB loan principal and interest payments of $381,923 and $116,099 respectively, were made by PSG, which were recorded as an increase in advances from PSG.

During the year ended September 30, 2023 PUC was allocated $126,247 in balance adjustments relating to currency revaluation changes associated with the ADB loans. As a result, PUC increased its long term debt and interest expense by the same amount.

During the year ended September 30, 2023, PUC recorded $2,000,646 in non-cash capital asset additions and $549,502 in internal asset transfers. Of those internal asset transfers, PUC transferred from construction work-in-process $526,022 to depreciable assets for the completion of the Waste to Heat Energy Project. For the year ended September 30, 2024 there were no non-cash capital asset additions or internal asset transfers.

Supplemental schedule of restricted and unrestricted cash and cash equivalents:

Cash and cash equivalents – unrestricted	$ 895,946	$ 2,136,284
Cash and cash equivalents – restricted	5,736	447,936
Total cash and cash equivalents	$ 901,682	$ 2,584,220

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

(1) Organization

Pohnpei Utilities Corporation (PUC) is a component unit of the Government of the State of Pohnpei. PUC commenced operations on October 1, 1991, with assets and liabilities of the Division of Public Utilities of the Pohnpei State Department of Public Works transferred as of that date. PUC has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). As of October 1, 1993, the assets, liabilities, and operations of the Division of Water and Sewer of the Pohnpei State Department of Public Works were also transferred to PUC as the result of Pohnpei State Law 3L-41-93.

PUC's financial statements are incorporated into the financial statements of the State of Pohnpei as a component unit.

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government: Omnibus*, and modified Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for government entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements. To conform to the requirement of GASB 34, equity is presented in the following net position categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

- *Restricted net position - nonexpendable* consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

- *Restricted net position - expendable* consists of resources in which PUC is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law. At September 30, 2024 and 2023, PUC reports $1,315,950 and $1,758,150 for its restricted cash (Note 13).

- *Unrestricted net position* consists of net position which does not meet the definition of the three preceding categories. Unrestricted net position often is designated (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

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

Cash, Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net position and of cash flows, cash and cash equivalents are defined as cash on hand and cash held in bank deposit accounts. Time certificates of deposit with original maturity dates greater than three months and those deposits that are restricted for use are separately classified in the statement of net position.

Custodial credit risk is the risk that in the event of a bank failure, PUC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. PUC does not have a deposit policy for custodial credit risk. As of September 30, 2024 and 2023, the carrying amount of cash and cash equivalents and time certificates of deposit was $1,506,954 and $3,189,492, respectively. Corresponding bank balances were $1,732,892 and $3,559,116, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The amount by which bank balances exceeded the $250,000 FDIC-insured limits was $1,232,892 and $3,059,116, respectively. PUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Historically, these deposits that are exposed to custodial credit risk have not experienced such losses.

Accounts Receivable and Allowance for Doubtful Accounts

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

(2) Summary of Significant Accounting Policies, Continued

Inventory

Materials and fuel inventory are substantially carried at the lower of cost (weighted average) or market, net of an allowance for obsolescence relating to parts that have been specifically identified as likely not usable. At September 30, 2024 and 2023, inventory is net of an allowance for obsolescence of $1,037,569 in each year.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2024 and 2023, PUC has no items that qualify for reporting in this category.

Utility Plant

Initial utility plant assets were transferred to PUC at the carrying value of the Division of Public Utilities and Division of Water and Sewer of the Pohnpei State Department of Public Works as of October 1, 1991 and 1993, for the electric plant and water and sewer plants, respectively, except as to certain utility plant assets which are stated at estimated net book value in the absence of documents to support cost. The net book value of the electric plant assets transferred was $17,191,311 as of October 1, 1991, and the net book value of the water and sewer plant assets transferred was $6,708,112 as of October 1, 1993. PUC capitalizes subsequent plant acquisitions with original costs in excess of $5,000, with an estimated useful life in excess of one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives for utility plant assets are 5-40 years for production plant, 5-30 years for distribution plant and 3-20 years for general plant.

Right-to-Use Assets

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

(2) Summary of Significant Accounting Policies, Continued

Impairment of Capital Assets

In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, PUC evaluates significant events or changes in circumstances that may affect the condition or service utility of its capital assets to determine whether an impairment has occurred. A capital asset is considered impaired when both of the following conditions are met: a) the decline in the asset's service utility is significant in magnitude; and b) the event or change in circumstances causing the decline is outside the normal life cycle of the asset.

Impaired capital assets that will no longer be used are reported at the lower of their carrying amount or fair value. During the fiscal year ended September 30, 2023, PUC recognized an impairment loss of $443,062 related to a generator that is no longer operable. The impairment loss is reported under nonoperating revenues and expenses in the accompanying financial statements. No such loss occurred during the fiscal year ended September 30, 2024.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of September 30, 2024 and 2023, PUC has no items that qualify for reporting in this category.

Compensated Absences

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

Revenue Recognition

Sales of electricity and water are recorded as billed to customers on a semi-monthly or monthly billing cycle basis. Unbilled revenues are accrued based on the most recent billing cycles. Cash power and water revenue are recognized as revenue upon point of sale; the estimated unearned portion is determined through an average usage accrual from the last date of sale for all registered users at the end of each year. At September 30, 2024 and 2023, estimated unearned cash power and water revenue is approximately $350,359 and $409,237, respectively; and is included as a component of unearned revenue in the accompanying statements of net position.

(2) Summary of Significant Accounting Policies, Continued

Operating and Nonoperating Revenues and Expenses

PUC considers utility revenues and costs that are directly related to utility operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Grants and Subsidies

PUC receives grants from the U.S. Government and other foreign governments or entities either as a direct recipient or as a subrecipient from the Pohnpei State Government (PSG) or the FSM National Government (FSMNG) in addition to Pohnpei State Legislature appropriated subsidies and matching funds for federal programs as required.

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2024, PUC implemented the following pronouncements:

a) In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The effective guidance from this Statement clarifies provisions of previously issued GASB Statements, specifically: GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative* Instruments.

b) In April 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections*, to enhance the reporting of accounting changes and error corrections and improve the understandability, reliability, relevance, consistency, and comparability of financial information. The Statement requires disclosure of the nature of accounting changes and error corrections and, in tabular form, the quantitative effects on beginning balances by reporting unit, reconciling previously reported balances to restated balances. It also addresses the presentation of affected RSI and SI, requiring restatement for error corrections, if practicable, but not for changes in accounting principles, for periods preceding those included in the basic financial statements.

The implementation of these statements did not have a material effect on the accompanying financial statements. PUC's implementation of GASB Statement No. 100 changed the required presentation and disclosure of the accounting-error correction described in Note 17 but did not otherwise materially affect PUC's financial position or results of operation.

(2) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*, the objective of this Statement is to address the information needs of 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. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*, the objective of this Statement is to provide users of government financial statements with essential information about risks related to certain concentrations or constraints. The Statement defines a *concentration* as a lack of diversity related to an aspect of a significant inflow or outflow of resources. A *constraint* is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, or have begun to occur, or are more likely than not to occur within 12 months of the date the financial statements are issued. If a government determines that the criteria have been met for disclosure of a concentration or constraint, it should disclose information in the notes to the financial statements in sufficient detail to enable users of the financial statement to understand the nature of the circumstances disclosed and the governments' vulnerability to the risk of a substantial impact. The provisions of Statement No. 102 will be effective for fiscal year ending September 30, 2025.

(2) Summary of Significant Accounting Policies, Continued

Upcoming Accounting Pronouncements, Continued

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*, the objective of this Statement is to improve key components of the financial reporting model, including management's discussion and analysis (MD&A), proprietary fund financial statements, and budgetary comparison information. The Statement also enhances clarity regarding unusual or infrequent items and refines presentation requirements to improve consistency and decision usefulness. The provisions of Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, the GASB issued Statement No. 104, *Disclosures About Capital Assets*, the objective of this Statement is to address the information needs of users and requires enhanced note disclosures related to capital assets, including disaggregated information by major asset class and more detailed explanations of additions, disposals, and depreciation. The Statement is intended to improve transparency and provide financial statement users with more decision-useful information about capital asset activities and conditions. The provisions of Statement No. 104 will be effective for fiscal year ending September 30, 2026.

In December 2025, the GASB issued Statement No. 105, *Subsequent Events*, the objective of this Statement is to improve the financial reporting requirements for subsequent events to enhance consistency in their application and better meet the information needs of financial statement users. This statement defines subsequent events, clarifies a two-point description for the date on which the financial statements are available to be issued, modifies the subsequent events time frame throughout the GASB literature, requires the date through which subsequent events have been evaluated to be disclosed, clarifies the distinction between recognized and nonrecognized events, and establishes specific note disclosures for nonrecognized events. The provisions of Statement No. 105 will be effective for fiscal year ending September 30, 2027.

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

Use of Estimates

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

(2) Summary of Significant Accounting Policies, Continued

Total Columns

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

(3) Accounts Receivable

Accounts receivable at September 30, 2024 and 2023, is summarized as follows:

	2024	2023
Accounts receivable - electrical:		
Residential	$ 2,089,497	$ 1,853,345
Commercial	1,649,187	2,136,177
Government	963,848	852,393
	4,702,532	4,841,915
Accounts receivable - water and sewer:		
Residential	5,537,713	5,186,018
Commercial	233,993	236,140
Government	498,817	373,753
Unbilled	58,042	56,191
	6,328,565	5,852,102
Installment receivables	64,828	64,840
Other	283,455	257,892
	348,283	322,732
	11,379,380	11,016,749
Less allowance for doubtful accounts	(8,059,415)	(7,850,886)
	$ 3,319,965	$ 3,165,863

PUC operates a prepaid cash power and water meter system in which a portion of customer payments are used to satisfy any balances in postpaid arrears prior to transition. Fifty percent (50%) of collections are applied to arrears at the time of purchase. As of September 30, 2024 and 2023 included in accounts receivable – electrical, amounts due from customers enrolled in the cash power meter system were $1,131,186 and $1,183,331, respectively. Included in accounts receivable – water and sewer, amounts due from customers enrolled in the cash water meter system were $948,615 and $953,935, respectively.

(4) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2024 and 2023 is as follows:

	Beginning Balance 10/01/2023	Additions and Transfers	Deletions and Transfers	Ending Balance 9/30/2024
Depreciable assets:				
Production plant	$ 28,018,189	$ -	$ -	$ 28,018,189
Distribution plant	14,905,419	-	-	14,905,419
General plant	1,229,171	82,561	-	1,311,732
Electric plant in service	44,152,779	82,561	-	44,235,340
Water production plant	8,964,856	132,134	-	9,096,990
Sewage collection and treatment plant	13,614,333	-	-	13,614,333
Water distribution plant	8,879,164	-	-	8,879,164
General plant	634,020	-	-	634,020
Water and sewer plant in service	32,092,373	132,134	-	32,224,507
Total utility plant in service	76,245,152	214,695	-	76,459,847
Less accumulated depreciation	(47,928,659)	(2,266,546)	-	(50,195,205)
	28,316,493	(2,051,851)	-	26,264,642
Non-depreciable assets:				
Construction work-in-process				
Electric plant	28,853	138,558	-	167,411
Water and sewer plant	236,976	40,102	-	277,078
	265,829	178,660	-	444,489
	$ 28,582,322	$ (1,873,191)	$ -	$ 26,709,131

Depreciable assets:	Beginning Balance 10/01/2022	Additions and Transfers	Deletions and Transfers	Ending Balance 9/30/2023
Production plant	$ 25,075,409	$ 2,942,780	$ -	$ 28,018,189
Distribution plant	14,851,477	53,942	-	14,905,419
General plant	1,282,544	62,327	(115,700)	1,229,171
Electric plant in service	41,209,430	3,059,049	(115,700)	44,152,779
Water production plant	8,573,998	390,858	-	8,964,856
Sewage collection and treatment plant	13,614,333	-	-	13,614,333
Water distribution plant	8,879,164	-	-	8,879,164
General plant	629,926	19,584	(15,490)	634,020
Water and sewer plant in service	31,697,421	410,442	(15,490)	32,092,373
Total utility plant in service	72,906,851	3,469,491	(131,190)	76,245,152
Less accumulated depreciation	(45,416,670)	(2,634,157)	122,168	(47,928,659)
	27,490,181	835,334	(9,022)	28,316,493
Non-depreciable assets:				
Construction work-in-process				
Electric plant	291,715	263,160	(526,022)	28,853
Water and sewer plant	236,607	23,849	(23,480)	236,976
	528,322	287,009	(549,502)	265,829
	$ 28,018,503	$ 1,122,343	$ (558,524)	$ 28,582,322

(5) Notes Payable

Notes payable of $232,071 and $256,071 at September 30, 2024 and 2023, respectively, are borrowed against a line of credit (LOC) with the Bank of the Federated States of Micronesia (BFSM) in the amount of $370,000. The LOC is collateralized by time certificates of deposit (TCD) with the bank, bearing variable interest over the TCD rate (effective rate of 6.25% and 5.01% at September 30, 2024 and 2023, respectively). The LOC matured in August 2024 and was renewed for an additional year. The agreement restricts 100% of the LOC and as such, $370,000 of the related TCD balances as of September 30, 2024 and 2023 are reflected as restricted time certificates of deposit in the accompanying statement of net position.

Changes in notes payable for the years ended September 30, 2024 and 2023, were as follows:

	Outstanding at 10/01/2023	Increases	Decreases	Outstanding at 9/30/2024
Notes Payable to:				
BFSM	$ 256,071	$ -	$ (24,000)	$ 232,071

	Outstanding at 10/01/2022	Increases	Decreases	Outstanding at 9/30/2023
Notes Payable to:				
BFSM	$ 283,767	$ -	$ (27,696)	$ 256,071

(6) Long-Term Debt

Long-term debt consists of the following at September 30, 2024 and 2023:

	2024	2023
Loan no. 1459, payable to the Asian Development Bank (ADB) borrowed through the Federated States of Micronesia National Government (FSMNG) and the Pohnpei State Government (PSG). Repayments as allocated by FSMNG indicate annual principal payments of $95,315 through FY2017 and $98,297 for FY2018 through FY2036, plus interest at 1.0%.	$ 1,131,783	$ 1,189,803
Loan no. 2099, payable to the ADB borrowed through the FSMNG and the PSG. Repayments as allocated by FSMNG indicate annual principal payments of $252,109 through FY2035, with interest payable at 1.0% per annum during the grace period and at 1.5% thereafter. Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.	2,634,341	2,759,907

(6) Long-Term Debt, Continued

	2024	2023
Loan no. 2100, payable to the ADB borrowed and administered through the FSMNG, principal due in semi-annual installments of varying amounts as a percentage of total drawings through 2029. Interest is payable at SOFR plus 0.6% (effective rate of 2.3% at September 30, 2024). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants.	$ 713,587	$ 869,002
Loan payable to United States Department of Agriculture, Rural Utilities Services (RUS) original amount of $578,000, due in monthly installments of $2,654 from October 2006 to July 2044. The loan bears fixed interest of 4.5%.	411,728	425,203
Loan payable to Bank of Guam (BOG), original amount of $830,000, interest at 10.5% and monthly installments of $7,529 from December 15, 2014 to November 15, 2019, upon which the unpaid principal is due and payable. The loan was renewed and extended until November 15, 2029 with the same terms. The loan is collateralized by a certain chattel mortgage on the three generators purchased in 2015.	346,966	413,765
Total long-term debt	5,238,405	5,657,680
Less: current portion of long-term debt	531,313	473,060
Total long-term debt, net of current portion	$ 4,707,092	$ 5,184,620

Future minimum principal and interest payments on all long-term debt for subsequent years ending September 30, are as follows:

Year	Principal	Interest	Total
2025	$ 531,313	$ 119,944	$ 651,257
2026	502,921	106,668	609,589
2027	523,014	92,739	615,753
2028	544,658	77,795	622,453
2029	609,003	84,311	693,314
2030 - 2034	1,623,087	144,260	1,767,347
2035 - 2039	729,484	50,658	780,142
2040 - 2044	174,925	11,852	186,777
	$ 5,238,405	$ 688,227	$ 5,926,632

(6) Long-Term Debt, Continued

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

PUC's BOG loan contains a provision that upon the happening of any of the following events, the holder may, at its option, forthwith accelerate maturity and the unpaid balance hereof shall thereupon immediately become due and payable without demand or notice, to wit: (a) the non-payment of any installment of interest or principal hereunder when due; (b) failure to observe or perform any term, covenant, condition, provision or agreement contained herein and/or in any instrument given to secure payment of this note; and (c) failure in business, insolvency, dissolution or termination of the existence of the borrower.

PUC's RUS loan contains a provision that upon any default, RUS at its option may declare all or any part of any such indebtedness immediately due and payable. Management believes that PUC is in compliance with all covenants as of and for the years ended September 30, 2024 and 2023, and no event of default has been declared by the lenders.

Changes in long-term debt for the years ended September 30, 2024 and 2023, are as follows:

	Outstanding at 10/1/2023	Increases	Decreases	Outstanding at 9/30/2024	Current
Loan payable to:					
PSG no. 1459	$ 1,189,803	$ 34,419	$ (92,439)	$ 1,131,783	$ 136,726
PSG no. 2099	2,759,907	73,915	(199,481)	2,634,341	215,278
FSMNG no. 2100	869,002	-	(155,415)	713,587	116,420
BOG	413,765	-	(66,799)	346,966	49,132
RUS	425,203	-	(13,475)	411,728	13,757
	$ 5,657,680	$ 108,334	$ (527,609)	$ 5,238,405	$ 531,313

	Outstanding at 10/1/2022	Increases	Decreases	Outstanding at 9/30/2023	Current
Loan payable to:					
PSG no. 1459	$ 1,243,148	$ 40,710	$ (94,055)	$ 1,189,803	$ 91,533
PSG no. 2099	2,875,352	85,537	(200,982)	2,759,907	212,300
FSMNG no. 2100	1,009,716	-	(140,714)	869,002	112,053
BOG	470,465	-	(56,700)	413,765	44,071
RUS	438,094	-	(12,891)	425,203	13,103
	$ 6,036,775	$ 126,247	$ (505,342)	$ 5,657,680	$ 473,060

(6) Long-Term Debt, Continued

PUC's notes payable to PSG are typically subject to changes resulting from currency revaluation. During the year ended September 30, 2024, PUC was allocated an increase of $108,334 for balance adjustments relating to currency revaluation and accordingly PUC increased its note payable to PSG and interest expense by the same amount. During the year ended September 30, 2023, those same adjustments resulted in an increase of $126,247, as a result PUC increased its notes payable to PSG and interest expense by the same amount.

(7) Contributions

During the year ended September 30, 1995, sole use rights for the Nanpohnmal Power Plant were contributed to PUC by the FSMNG through the State of Pohnpei. These assets were donated to the FSMNG through the Japanese Foreign Aid Program. Legal title to these assets rests with the FSMNG; however, PUC has the exclusive right to use the assets, generates revenue from their use, and is responsible for all costs associated with their operation.

(8) Grants, Subsidies and Capital Contributions

Grants, subsidies and capital contributions comprise the following for the years ended September 30, 2024 and 2023:

	2024	2023
Operating Grants:		
FSMNG Congress Appropriations	$ 29,523	$ 815,795
Capital Contributions:		
U Municipal Government - Takaieu Project	$ 20,000	$ -
U.S. Government - energy grant	92,070	1,142,491
Total Capital Contributions	$ 112,070	$ 1,142,491

At September 30, 2024 and 2023, there were no unearned revenues related to unexpended funds from PUC's FSM Public Infrastructure Sector Grant.

(9) Self Insurance Fund and Risk Management

In accordance with Section 2(5) of State Law 3L-41-93, which amended the PUC's enabling legislation, PUC established a self-insurance fund to defray the costs of unforeseen accidents or disasters. Up until the fiscal year 2012, the self-insurance fund was accumulated in a restricted account, held by a trustee, in the name of PUC. During the year ended September 30, 2012, the trustee notified PUC that it could no longer service the account and as such, the balance was transferred into a PUC bank deposit account where it has remained since.

The deposit balance continues to be reported as a component of restricted cash in the accompanying financial statements. Management has indicated that PUC maintains commercial insurance coverage meeting the insurance requirements of the enabling legislation and, accordingly, believe that the reserve is no longer required. However, the enabling legislation has not been formally amended or otherwise clarified with respect to the disposition of the existing reserve. PUC has designated the account for operations and maintenance expenditures. As of September 30, 2024 and 2023, balances in the account were $5,736 and $447,936, respectively. During the year ended September 30, 2024, the account was utilized to finance emergency repairs on generator set CAT #5.

PUC maintains commercial insurance coverage for potential losses arising from fire and lightning on its buildings and contents, as well as full coverage for bodily injury and property damage. Workers' compensation insurance covers both regular and contractual employees of the PUC. PUC, however, is self-insured for other types of losses, including errors and omissions, and natural disasters. Management believes that no material losses have been sustained as a result of this practice during the past three fiscal years. There were no significant reductions in insurance coverage from the prior year, and no settlements have exceeded insurance coverage during the past three fiscal years.

(10) Related Party Transactions

Intergovernmental Receivables

At September 30, 2024 and 2023, accounts receivable included amounts owed by the State of Pohnpei and its component units to PUC totaling $95,886 and $148,360, respectively.

Advances from PSG

PUC has two loan payables to PSG and one loan payable to the FSMNG. The loans payable to PSG (Loan Nos. 1459 and 2099) are subject to on-lending arrangements whereby the FSMNG originally borrowed funds from the ADB and on-lent the proceeds to PSG, which in turn on-lent the proceeds to PUC. Under the underlying agreements, PSG is obligated to repay the FSMNG and PUC is obligated to repay PSG. The payment obligations are joint and several such that payments received by the FSMNG reduce the respective obligations of PSG and PUC concurrently.

(10) Related Party Transactions, Continued

Advances from PSG, Continued

The loan payable to FSMNG (Loan No. 2100) was directly on-lent by the FSMNG to PUC. Consistent with the special operations tripartite default provisions applicable to PUC's notes payable to PSG, Loan Nos. 1459 and 2099, and the set-off rights of the FSMNG established under FSM Public Law No. 9-136 with respect to Loan No. 2100, if PUC is unable to make scheduled payments on these obligations, the amounts may be withheld from PSG's share of annual tax revenues payable by the FSMNG. PSG considers amounts withheld from its tax revenue share on behalf of PUC to constitute noninterest-bearing advances due from PUC. At September 30, 2024 and 2023, amounts due to PSG from PUC arising from these arrangements totaled $4,854,955 and $4,518,625, respectively.

During the year ended September 30, 2024, total debt service related to the ADB loans was approximately $571,566, consisting of principal and interest which resulted in increases to the ending note and loan balances. Of this amount, $336,330 was reflected as an increase in the noninterest-bearing advance due to PSG, while $235,236 represented debt service that was not withheld from PSG's revenue share and was recorded as an additional amount payable by PUC to the FSMNG.

With respect to these matters, on November 16, 2021, PUC and the PSG executed a two-year Memorandum of Understanding (MOU) under which the PUC agreed to make an initial payment of $150,000 upon signing, followed by four equal installments of $150,000 each. Both parties further agreed that PUC would forgive $328,497 in outstanding utility arrears due from the PSG, and in turn, the PSG would reduce PUC's advances by the same amount. The utility arrears offset clause was executed however the installment payment conditions were not complied with. The agreement expired on November 16, 2023 and there has been no renewal of terms between the PSG and the PUC relating to these matters as of September 30, 2024.

Deposits with FSM Petroleum Corporation

During the years ended September 30, 2024 and 2023, PUC purchased substantially all of its production fuel from the FSM Petroleum Corporation (FSMPC), a component unit of the FSMNG. Long-term deposits held by FSMPC on behalf of PUC totaled $1,620,913 at both September 30, 2024 and 2023. Of this amount, for both years, $940,214 was funded through a subgrant from the FSMNG and is held by FSMPC as collateral for PUC's fuel and lubricant purchase line. PUC also purchases electricity generated by FSMPC pursuant to a Power Purchase Agreement. Under the agreement, FSMPC acquired, installed, and operates a 2.0-megawatt diesel generator, and PUC purchases available generating capacity up to the contractual capacity, equivalent to an average of approximately 1,600 kilowatts per month. The agreement had an initial term of 36 months that expired in June 2017 and has continued on a holdover basis while the parties negotiate its renewal or termination.

(10) Related Party Transactions, Continued

Deposits with FSM Petroleum Corporation, Continued

At September 30, 2024 and 2023, amounts payable to FSMPC for fuel and purchased electricity totaled $1,464,653 and $433,364, respectively.

(11) Leases

PUC entered into a lease agreement for its Finance Office on April 1, 2019. The original lease term was five years, with an option to renew for an additional five-year period. Effective April 1, 2024, PUC exercised the renewal option and extended the lease for an additional five years. In connection with the extension, the monthly lease payments increased from $3,000 to $4,000. As a result, PUC remeasured the lease liability and right-to-use asset in accordance with GASB Statement No. 87.

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

Year ending September 30,	Payments	Principal	Interest
2025	$ 48,000	$ 36,209	$ 11,791
2026	48,000	38,827	9,173
2027	48,000	41,633	6,367
2028	48,000	44,643	3,357
2029	24,000	23,517	483
	$ 216,000	$ 184,829	$ 31,171

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

	2024	2023
Right-to-use asset	$ 306,777	$ 258,379
Accumulated amortization	(121,948)	(92,399)
Right-to-use asset, net	$ 184,829	$ 165,980
Lease liability, current	$ 36,209	$ 25,179
Lease liability, noncurrent	148,620	140,801
Total lease liability	$ 184,829	$ 165,980

(11) Leases, Continued

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

	2024	2023
Weighted average remaining lease term	4.58	5.58
Weighted average discount rate	7.00%	7.00%

(12) Retirement Plan

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

Effective August 2014, PUC began matching a percentage of participants' contributions. Matching contributions to the Plan for the years ended September 30, 2024 and 2023 were $99,881 and $88,866, respectively. These amounts are reported as a component of administrative and general expenses in the accompanying financial statements.

Total Plan assets amounted to $1,437,633 and $1,155,885 as of September 30, 2024 and 2023, respectively. The Plan is administered internally by PUC, which is responsible for maintaining the Plan's records and ensuring compliance with applicable policies and procedures.

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

(13) Restricted Net Position

At September 30, 2024 and 2023, net position is restricted for the following purposes:

	2024	2023
Fuel deposit from sub-grant (Note 10)	$ 940,214	$ 940,214
Collateralized time certificates of deposit (Note 5)	370,000	370,000
Self-insurance fund (Note 9)	5,736	447,936
	$ 1,315,950	$ 1,758,150

(14) Concentration of Credit Risk

Financial instruments, apart from cash and cash equivalents and time certificates of deposit discussed in (Note 2) that potentially subject PUC to concentrations of credit risk consist principally of accounts receivable. At September 30, 2024 and 2023, substantially all of PUC's customer accounts receivable balances are from individuals, companies and government agencies based in Pohnpei. Concentrations largely result from accounts receivable from Pohnpei State Government and various agencies. Management assesses the risk of loss and provides for an allowance for doubtful accounts to compensate for known credit risks.

(15) Contingencies

PUC is involved in various legal actions in the normal course of business, including a variety of legal actions and claims that seek monetary or punitive damages, which may be in a different stage of litigation proceedings. Management, after consultation with legal counsel, has determined that while adverse outcomes are reasonably possible in certain cases, none are considered probable at this time. Accordingly, no liabilities have been recorded in the accompanying financial statements. The following matters are disclosed as reasonably possible losses:

a) In December 2013, a resident was fatally electrocuted when her fruit picker contacted a power line. The trial court awarded damages totaling $100,000, the statutory maximum for wrongful death under Pohnpei law. PUC has appealed the decision, and the outcome remains pending. Management believes an adverse outcome is not probable, but the maximum potential exposure is $100,000.

b) Litigation was filed alleging negligence and nuisance related to sewage overflows between 2007–2012. The trial court entered a judgment of $21,000 against PUC. PUC has appealed the decision. Management believes an adverse outcome is not probable, but remains reasonably possible.

c) A personal injury action remains pending from a 2011 incident in which a resident was electrocuted while cutting tree branches near a power line. Legal counsel considers the outcome uncertain. The statutory maximum exposure for personal injury actions is $100,000.

d) A former PUC lineman sustained injuries in 2010 and filed suit alleging negligence and unsafe working conditions. The trial court ruled in favor of PUC, but the plaintiff has appealed. If the appellate court reverses, the maximum potential loss is $100,000 under statutory limits.

(15) Contingencies, Continued

e) A negligence claim was filed in August 2023 relating to a 2021 vehicle accident involving a PUC employee. PUC has moved to dismiss the case on the basis that it was filed beyond the statute of limitations. The statutory maximum exposure is $100,000. Management believes dismissal is likely, but the case remains pending.

f) A former PUC lineman sustained injuries in 2025 and filed suit alleging negligence and unsafe working conditions. PUC is contesting the claim, citing comparative negligence and medical evidence of recovery. The statutory maximum exposure for personal injury actions is $100,000.

g) A claim of trespass and contamination was filed regarding the Kosma sewer pump station. The court has issued partial summary judgment in PUC's favor, but a contamination claim remains unresolved. If the plaintiff prevails, damages would be limited to the value of any proven contaminated land. The potential loss cannot be reasonably estimated at this time.

h) A former employee has filed suit alleging wrongful termination and seeking reinstatement with retroactive pay. PUC is contesting the claim, and legal counsel believes the likelihood of an adverse outcome is low. The amount of any possible loss, if awarded, cannot be determined at this time.

i) The lease agreement for land on which PUC's Ipat water tank is located expired in March 2020. A new lease has not been executed, and the heirs have claimed PUC has occupied the property without rent payments since expiration. Any liability will depend on arbitration or court determination of fair rental value. The potential amount of loss cannot be estimated at this time.

j) In February 2025, a PUC employee sustained injuries while working on a power line. A settlement demand of $500,000 has been submitted. PUC is contesting the claim, citing comparative negligence and medical evidence of recovery. The ultimate outcome is uncertain, and management is unable to reasonably estimate the amount of loss at this time.

(16) Power Plant Deposit

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

(17) Restatement

Billing errors

During fiscal year 2024, PUC identified billing errors involving various commercial and non-commercial customers. The errors resulted in the understatement of electricity sales and related accounts receivable for utility services provided during fiscal year 2023 and prior periods. The correction increased accounts receivable as of September 30, 2023, by $1,802,270. Of this amount, $1,377,770 related to services provided before fiscal year 2023 and was recorded as a restatement of beginning net position as of October 1, 2022. The remaining $424,500 related to services provided during fiscal year 2023 and was recognized as additional electricity sales in the restated fiscal year 2023 financial statements.

The PUC applied the correction retroactively in accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections*. Accordingly, the fiscal year 2023 comparative financial statements have been restated. As a result of these determinations and adjustments, the 2023 financial statements have been restated from the amounts previously reported as follows:

	As Previously Reported	Adjustments	As Restated
Restatements due to the correction of an accounting error:			
For the year ended September 30, 2023			
Statement of Net Position			
Accounts receivable, net	$ 1,363,593	$ 1,802,270	$ 3,165,863
Total current assets	$ 5,588,261	$ 1,802,270	$ 7,390,531
Total assets	$ 36,775,412	$ 1,802,270	$ 38,577,682
Unrestricted net position	$ (441,872)	$ 1,802,270	$ 1,360,398
Total net position	$ 23,870,920	$ 1,802,270	$ 25,673,190
Total liabilities and net position	$ 36,775,412	$ 1,802,270	$ 38,577,682
Statement of Revenues, Expenses, and Changes in Net Position			
Electricity sales	$ 14,151,038	$ 424,500	$ 14,575,538
Change in total operating loss	$ (1,480,674)	$ 424,500	$ (1,056,174)
Change in total loss before capital contributions	$ (1,422,587)	$ 424,500	$ (998,087)
Change in net position	$ (280,096)	$ 424,500	$ 144,404
Net position at beginning of year	$ 24,151,016	$ 1,377,770	$ 25,528,786
Net position at end of year, as restated	$ 23,870,920	$ 1,802,270	$ 25,673,190

(17) Restatement, Continued

Reclassifications of Net Position and Cash and Cash Equivalents

During fiscal year 2024, PUC determined that certain time certificates of deposit with original maturities exceeding three months had been incorrectly classified as cash and cash equivalents in prior periods. Additionally, these certificates of deposit are subject to externally imposed constraints which limit PUC's ability to utilize these resources; however, they were not previously reflected as components of restricted net position. PUC has corrected these matters by reclassifying $370,000 from cash and cash equivalents to current assets and from unrestricted net position to restricted net position. These corrections affected the classification of amounts presented in the Statement of Net Position and the Statement of Cash Flows but did not affect total net position.

(18) Date of Management's Review

PUC evaluated subsequent events through September 14, 2026, the date the financial statements were available to be issued. Except for the matters described in Note 15, no events were identified that required recognition or disclosure in the financial statements.

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

Combining Statement of Net Position
September 30, 2024
(With comparative totals for year ended September 30, 2023)

ASSETS	Power and Utility	Water and Sewer	Totals 2024	Totals (As Restated) 2023
Current assets:				
Cash and cash equivalents	$ 895,946	$ -	$ 895,946	$ 2,136,284
Time certificates of deposit	235,272	-	235,272	235,272
Accounts receivable, net	2,317,530	1,002,435	3,319,965	3,165,863
Prepayments	2,203,867	-	2,203,867	938,747
Materials and fuel inventory, net	675,354	599,024	1,274,378	914,365
Restricted - time certificates of deposit	370,000	-	370,000	370,000
Total current assets	6,697,969	1,601,459	8,299,428	7,760,531
Other noncurrent assets:				
Long-term deposits	1,620,913	-	1,620,913	1,620,913
Restricted - cash and cash equivalents	5,736	-	5,736	447,936
Right-to-use assets	184,829	-	184,829	165,980
Total other noncurrent assets	1,811,478	-	1,811,478	2,234,829
Utility plant, at cost:				
Electric plant in service	44,235,340	-	44,235,340	44,152,779
Water and sewer plant in service	-	32,224,507	32,224,507	32,092,373
	44,235,340	32,224,507	76,459,847	76,245,152
Less accumulated depreciation	(32,647,276)	(17,547,929)	(50,195,205)	(47,928,659)
Depreciable assets, net	11,588,064	14,676,578	26,264,642	28,316,493
Construction work-in-process	167,411	277,078	444,489	265,829
Total utility plant	11,755,475	14,953,656	26,709,131	28,582,322
	$ 20,264,922	$ 16,555,115	$ 36,820,037	$ 38,577,682
LIABILITIES AND NET POSITION				
Current liabilities:				
Notes payable	$ 232,071	$ -	$ 232,071	$ 256,071
Current portion of long-term debt	49,132	482,181	531,313	473,060
Lease liability, current portion	36,209	-	36,209	25,179
Accounts payable:				
Operations	648,746	517,620	1,166,366	393,927
Fuel, lubricants and kWh purchased	1,534,233	-	1,534,233	433,364
Unearned revenue	409,938	188,170	598,108	643,336
Accrued taxes and other liabilities	646,648	38,696	685,344	643,804
Compensated absences	34,830	-	34,830	191,705
Advances from FSM National Government	-	235,236	235,236	-
Advances from Pohnpei State Government	-	4,854,955	4,854,955	4,518,625
Total current liabilities	3,591,807	6,316,858	9,908,665	7,579,071
Noncurrent liabilities:				
Loan payable - FSMNG	-	3,414,120	3,414,120	3,645,876
Loan payable - RUS	-	362,596	362,596	412,100
Loan payable - BOG	333,209	-	333,209	369,694
Loan payable - PSG	-	597,167	597,167	756,950
Lease liability, noncurrent	148,620	-	148,620	140,801
Total noncurrent liabilities	481,829	4,373,883	4,855,712	5,325,421
Total liabilities	4,073,636	10,690,741	14,764,377	12,904,492
Commitments and contingencies				
Net position:				
Net investment in capital assets	11,373,134	10,097,592	21,470,726	22,924,642
Restricted	1,315,950	-	1,315,950	1,758,150
Unrestricted	3,502,202	(4,233,218)	(731,016)	990,398
Total net position	16,191,286	5,864,374	22,055,660	25,673,190
	$ 20,264,922	$ 16,555,115	$ 36,820,037	$ 38,577,682

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2024
(With comparative totals for the year ended September 30, 2023)

	Power and Utility	Water and Sewer	Totals 2024	Totals (As Restated) 2023
Operating revenues:				
Residential	$ 322,202	$ 1,076,207	$ 1,398,409	$ 1,035,984
Cash power	9,273,068	-	9,273,068	8,399,280
Cash water	-	247,543	247,543	272,665
Commercial	3,874,225	153,205	4,027,430	3,957,831
Government	2,547,501	221,188	2,768,689	2,536,367
Other sales	204,635	14,512	219,147	226,020
Total operating revenues	16,221,631	1,712,655	17,934,286	16,428,147
Bad debt recovery (expense)	(807,905)	46,887	(761,018)	(10,273)
Net operating revenues	15,413,726	1,759,542	17,173,268	16,417,874
Operating and maintenance expenses:				
Production fuel	8,740,959	-	8,740,959	6,115,113
Depreciation	1,472,250	794,296	2,266,546	2,191,095
Administrative and general:				
Salaries and wages	807,588	-	807,588	644,861
Employee benefits	485,003	-	485,003	564,910
Communications	120,146	-	120,146	84,793
Customer service and collection	57,799	-	57,799	78,145
Insurance	108,234	-	108,234	65,260
Vehicle, POL	133,059	-	133,059	115,761
Travel	248,526	-	248,526	262,728
Contractual services	56,225	-	56,225	47,601
Consumables and supplies	103,840	-	103,840	162,249
Repairs and maintenance	35,754	-	35,754	50,079
Other	642,844	-	642,844	434,722
	2,799,018	-	2,799,018	2,511,109
KWh purchased	3,150,421	-	3,150,421	2,863,050
Generation:				
Salaries and wages	662,088	-	662,088	522,225
Repairs and maintenance	123,639	-	123,639	491,720
Other	55,396	-	55,396	215,065
	841,123	-	841,123	1,229,010
Distribution:				
Salaries and wages	926,503	-	926,503	798,187
Repairs and maintenance	416,943	-	416,943	269,186
Consumables and supplies	29,293	-	29,293	18,666
	1,372,739	-	1,372,739	1,086,039

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenses, and Changes in Net Position, Continued
Year Ended September 30, 2024
(With comparative totals for the year ended September 30, 2023)

	Power and Utility	Water and Sewer	Totals 2024	Totals (As Restated) 2023
Water and sewer:				
Salaries and wages	$ -	$ 917,416	$ 917,416	$ 819,697
Repairs and maintenance	-	246,280	246,280	380,453
Consumables and supplies	-	109,644	109,644	124,159
Employee benefits	-	77,995	77,995	113,322
Other	-	131,335	131,335	41,001
	-	1,482,670	1,482,670	1,478,632
Total operating and maintenance expenses	18,376,510	2,276,966	20,653,476	17,474,048
Operating loss	(2,962,784)	(517,424)	(3,480,208)	(1,056,174)
Nonoperating revenues (expenses), net:				
Interest income (expense), net	1,291	(171,872)	(170,581)	(179,378)
Foreign exchange revaluation	-	(108,334)	(108,334)	(126,247)
Grant and subsidies	29,523	-	29,523	815,795
Loss on impairment of utility asset	-	-	-	(443,062)
Loss on disposal of utility assets	-	-	-	(9,021)
Total nonoperating revenues (expenses), net	30,814	(280,206)	(249,392)	58,087
Loss before capital contributions	(2,931,970)	(797,630)	(3,729,600)	(998,087)
Capital contributions:				
Capital contributions	112,070	-	112,070	1,142,491
Total capital contributions	112,070	-	112,070	1,142,491
Change in net position	(2,819,900)	(797,630)	(3,617,530)	144,404
Net position at beginning of year	19,011,186	6,662,004	25,673,190	24,151,016
Restatement - correction of an error	-	-	-	1,377,770
Net position at end of year, as restated	$ 16,191,286	$ 5,864,374	$ 22,055,660	$ 25,673,190

See accompanying Independent Auditors' Report.

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

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*

Year Ended September 30, 2024

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

Board of Directors
Pohnpei Utilities Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Pohnpei Utilities Corporation (PUC), which comprise the statement of net position as of September 30, 2024, and the related statement of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 14, 2026.

Report on Internal Control Over Financial Reporting

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

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 a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2024-001 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PUC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PUC's Responses to Findings

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

Purpose of this Report

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

Burger Comer & Associates

September 14, 2026
Tamuning, Guam

Finding No. 2024-001 – Untimely Account Reconciliations

Criteria:

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

Condition:

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

Cause:

PUC lacks adequate internal controls over the monitoring of the month-end close processes.

Effect:

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

Identification as a Repeat Finding:

This condition was also cited in the prior year audit as Finding 2023-001 and remains uncorrected.

Recommendation:

PUC should strengthen internal controls as necessary to reduce the amount of post-closing adjustments made to its accounts at year-end. PUC should establish a formal monthly closing checklist requiring timely preparation and independent review of reconciliations for all significant balance sheet and revenue accounts, with documented review and follow-up of reconciling items.

View of Responsible Officials:

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

POHNPEI UTILITIES CORPORATION

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CORRECTIVE ACTION PLAN
Year Ended September 30, 2024

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2024-001	PUC concurs with the auditor's recommendation. Management will strengthen the monthly general ledger reconciliation process to ensure that all significant accounts are reconciled accurately and timely. A standardized monthly reconciliation schedule and review process will be implemented, with clear responsibility assigned to appropriate accounting personnel. Monthly reconciliations will be completed within a defined timeframe following month-end close and will include supporting documentation, identification of reconciling items, and evidence of management review and approval. Outstanding reconciling items will be investigated and resolved promptly. Management will also implement a reconciliation tracking log to monitor completion, review status, and unresolved items. The Controller or designated reviewer will perform periodic oversight to ensure compliance with the established procedures.	January 2027	Daisy Nanpei, CFO

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SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended September 30, 2024

Finding Number	Status
2021-001	Not corrected or resolved. On-going. Refer to Note 1
2022-001	Not corrected or resolved. On-going. Refer to Note 1
2022-002	Corrected and resolved.
2023-001	Not corrected or resolved. On-going. Refer to Note 1
2023-002	Corrected and resolved.
2023-003	Not corrected or resolved. On-going. Refer to Note 1

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

Nixon Anson
General Manager/CEO

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