

*Financial Statements, Required Supplementary
Information and Compliance and Internal Control*

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

*Years ended September 30, 2023 and 2022
with Report of Independent Auditors*



Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Financial Statements and Required Supplementary Information

Years ended September 30, 2023 and 2022

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Report of Independent Auditors

The Board of Directors
Chuuk Public Utility Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Chuuk Public Utility Corporation (CPUC), as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise CPUC'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 Chuuk Public Utility Corporation at September 30, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CPUC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 CPUC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 CPUC'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 CPUC's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2024, on our consideration of CPUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CPUC'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 CPUC's internal control over financial reporting and compliance.

Ernst + Young LLP

October 18, 2024

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Management's Discussion and Analysis

Years ended September 30, 2023 and 2022

The following Management's Discussion and Analysis of the Chuuk Public Utility Corporation's (CPUC) activities and financial performance provides the reader with an introduction and overview to the financial statements as of and for the fiscal year ended September 30, 2023.

GASB 34 of the U.S. Government Accounting Standards Board requires that financial statements must contain a management's discussion and analysis. This section of the CPUC's annual report presents management's discussion of CPUC's performance for years ended September 30, 2023, 2022 and 2021. It should be read in conjunction with the financial statements that follow this section.

CPUC is a component unit of the Government of the State of Chuuk. Its primary objective is to provide electrical, water, and sewer services to the public. The following table summarizes the financial position and results of operations of CPUC for fiscal years 2023, 2022 and 2021.

FINANCIAL HIGHLIGHTS

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets:			
Utility plant in service, net	\$20,995,110	\$22,661,216	\$23,429,302
Current assets	4,317,244	3,760,974	3,251,439
Non-current assets	<u>1,267,040</u>	<u>1,217,689</u>	<u>730,788</u>
Total assets	<u>\$26,579,394</u>	<u>\$27,639,879</u>	<u>\$27,411,529</u>
Net Position and Liabilities:			
Net investment in capital assets	\$18,006,742	\$19,392,057	\$19,783,469
Restricted	526,156	550,067	363,204
Unrestricted	<u>4,496,730</u>	<u>3,696,912</u>	<u>3,046,856</u>
Total net position	<u>23,029,628</u>	<u>23,639,036</u>	<u>23,193,529</u>
Long-term liabilities	2,677,864	3,020,663	3,380,654
Current liabilities	<u>871,902</u>	<u>980,180</u>	<u>837,346</u>
Total liabilities	<u>3,549,766</u>	<u>4,000,843</u>	<u>4,218,000</u>
Total net position and liabilities	<u>\$26,579,394</u>	<u>\$27,639,879</u>	<u>\$27,411,529</u>
Revenues, Expenses, and Changes in Net Position:			
Total operating revenues	\$ 8,661,671	\$ 8,397,884	\$ 6,751,255
Operating expenses	<u>9,725,679</u>	<u>9,098,387</u>	<u>6,660,563</u>
Operating (loss) income	(1,064,008)	(700,503)	90,692
Grants, subsidies and other income	2,171,269	2,197,768	3,553,488
Asian Development Bank grant expense	(1,652,068)	(1,001,481)	(1,076,100)
Interest expense	<u>(64,601)</u>	<u>(50,277)</u>	<u>(53,624)</u>
Total nonoperating revenue, net and capital contributions	<u>454,600</u>	<u>1,146,010</u>	<u>2,423,764</u>
Change in net position	(609,408)	445,507	2,514,456
Net position at beginning of year	<u>23,639,036</u>	<u>23,193,529</u>	<u>20,679,073</u>
Net position at end of year	<u>\$23,029,628</u>	<u>\$23,639,036</u>	<u>\$23,193,529</u>

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Management's Discussion and Analysis, continued

Assets:

CPUC is steadily expanding its asset base to ensure the provision of essential utility services to the residents of Chuuk State. As of the close of FY2023, the total value of its operational assets stands at \$26.6 million, a slight decrease from \$27.6 million at the end of FY2022.

Revenue:

Revenue:

An increase in revenue amounting to \$0.26 million this year, from \$8.40 million in 2022 to \$8.66 million in 2023, primarily resulted from more units sold in 2023 as further detailed below.

Explanation of increase in revenue:

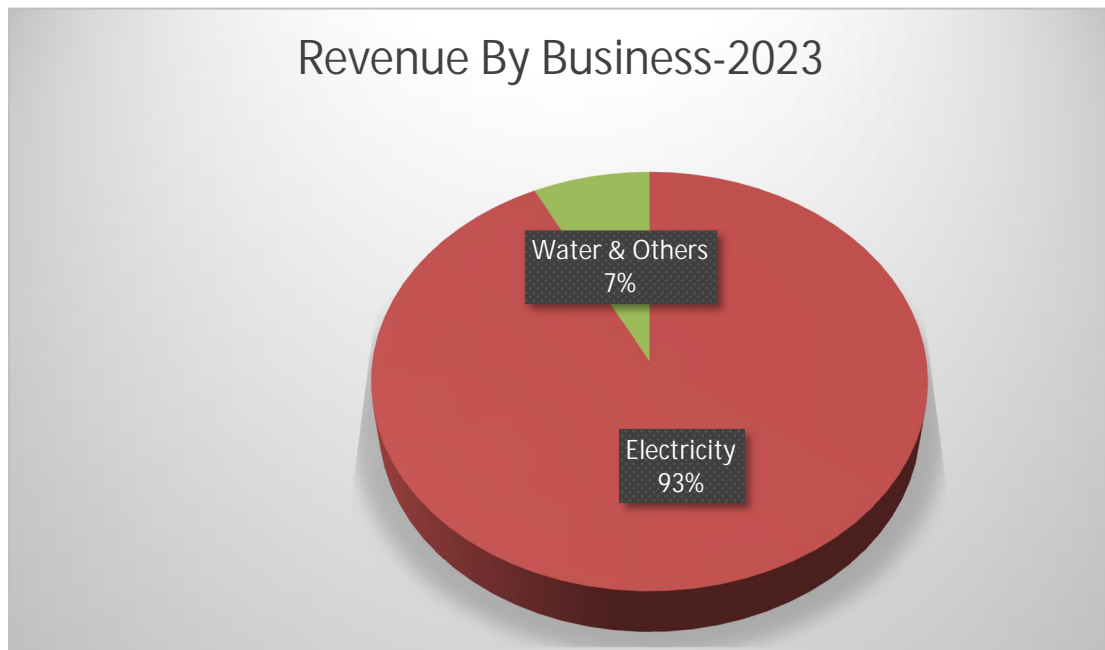
	2023	2022	Increase (decrease)
Revenue	\$8,661,671	\$8,397,884	\$ 263,787
Avg. Tariff	0.5163	0.5694	(0.053)
Revenue decrease due to reduction in electricity tariff			\$(141,223)
More kwh units sold this year			\$ 410,104
Decrease in other sales			\$(5,094)
Increases in Revenue			\$ 263,787

Overall operating revenue is broken down by two businesses below.

Business	2023	2022		
	Revenue	%	Revenue	%
Electricity	\$8,017,566	93%	\$7,748,685	92%
Water & Others	644,105	7%	649,199	8%
Total Revenue	\$8,661,671	100%	\$8,397,884	100%

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Management's Discussion and Analysis, continued



Expenses:

The table below highlights the expenses by cost center for both years and related changes.

Cost Center	2023	2022	Increase (decrease)
Production Fuel	\$4,567,560	\$4,494,689	\$ 72,871
Admin and general	\$2,704,183	\$2,492,958	\$211,225
Depreciation	\$2,188,584	\$1,904,975	\$283,609
Management support	\$ 265,352	\$ 205,765	\$ 59,587
Total	\$9,725,679	\$9,098,387	\$627,292

The primary contributors to the rise in expenses for 2023 are depreciation and administrative and general costs.

The pie chart presented below illustrates the distribution of costs across various cost centers for the year 2023, expressed as percentages.

Chuuk Public Utility Corporation
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Management's Discussion and Analysis, continued



Change in Net position:

The net position decreased by \$0.60 million in FY 2023, due to reduced revenue and increased expenditure.

Capital Assets and Debts

For additional information concerning capital assets, please refer to notes 4 and 5 of the financial statements.

For additional information concerning debt, refer to note 7 of the financial statements.

FISCAL YEAR (FY) 2024 OUTLOOK

The CPUC projects sustained enhancement in its operating position for FY2024 by optimizing power generation through increased solar grid utilization, reducing power distribution losses, enhancing collections, and expanding as well as upgrading water and sewer services.

For FY 2024, a target has been established to limit power loss to 10%.

The FSM Energy Sector is receiving grant funding from the World Bank, with a significant portion allocated towards an extensive investment in a solar plant to be constructed on Weno between 2024 and 2025.

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Management's Discussion and Analysis, continued

CPUC has successfully installed a cumulative 456 kWp of grid-connected solar PV systems on the Weno power grid. These installations include 65 kWp at Chuuk International Airport, 200 kWp at Chuuk State High School, a recent addition of 100 kWp at the airport parking space, and another 100 kWp around the CPUC power station compound. Collectively, these systems contribute over 5% to the daily power generation on average.

CPUC is collaborating with FSM Petroleum Corporation (FSMPC) to deliver power supply to the approximately 4,000 residents of Tonoas.

With regards to water supply and sewerage services, the CPUC will continue to prioritize the installation of water metering throughout the supply system, the reduction of water loss, and the reassessment of water and sewer tariffs. A \$32 million grant from ADB has been approved to enhance the water supply and sewer collection on the island of Weno. The project is currently in progress.

CONTACTING CPUC'S FINANCIAL MANAGEMENT

Management's Discussion and Analysis for the year ended September 30, 2022, is set forth in the report on the audit of CPUC's financial statements, which is dated September 29, 2023, and that Discussion and Analysis explains the major factors impacting the 2022 financial statements and can be viewed at the Office of the Public Auditor's website at www.fsmopa.fm.

For additional information about this report, please contact Ms. Leialoha Shirai, Chief Financial officer, Chuuk Public Utility Corporation, A's Mart Building 2, 2nd Floor, Weno, Chuuk FM 96942.

Chuuk Public Utility Corporation
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Statements of Net Position

	September 30, <u>2023</u>	<u>2022</u>
Assets		
Utility plant, at cost:		
Depreciable utility plant:		
Electric plant in service	\$24,977,384	\$24,547,529
Water and sewer plant in service	16,535,127	16,039,736
General plant in service	<u>472,319</u>	<u>472,319</u>
	41,984,830	41,059,584
Less accumulated depreciation	<u>(21,502,422)</u>	<u>(19,313,838)</u>
	<u>20,482,408</u>	<u>21,745,746</u>
Non-depreciable utility plant:		
Construction in progress	<u>512,702</u>	<u>915,470</u>
Total utility plant	<u>20,995,110</u>	<u>22,661,216</u>
Current assets:		
Cash	1,622,619	1,863,389
Accounts receivable, net	784,988	565,384
Receivable from grantor	381,756	212,878
Inventory	1,230,727	946,652
Prepaid expenses	278,228	159,487
Prepaid land lease, current portion	<u>18,926</u>	<u>13,184</u>
Total current assets	<u>4,317,244</u>	<u>3,760,974</u>
Noncurrent assets:		
Deposits	499,423	499,423
Prepaid land lease, net of current portion	<u>767,617</u>	<u>718,266</u>
Total noncurrent assets	<u>1,267,040</u>	<u>1,217,689</u>
	<u>\$26,579,394</u>	<u>\$27,639,879</u>

See accompanying notes.

Chuuk Public Utility Corporation
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Statements of Net Position, continued

	September 30, <u>2023</u>	<u>2022</u>
Liabilities and Net Position		
Current liabilities:		
Current portion of long-term debt	\$ 323,337	\$ 283,815
Accounts payable	12,403	279,333
Accrued taxes and other liabilities	316,664	301,385
Payable to grantor	48,952	48,952
Unearned revenue	99,721	59,212
Accrued annual leave, current portion	<u>70,825</u>	<u>7,483</u>
Total current liabilities	871,902	980,180
Accrued annual leave, net of current portion	12,834	35,319
Long-term debt, net of current portion	<u>2,665,030</u>	<u>2,985,344</u>
Total liabilities	<u>3,549,766</u>	<u>4,000,843</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	18,006,742	19,392,057
Restricted	526,156	550,067
Unrestricted	<u>4,496,730</u>	<u>3,696,912</u>
Total net position	<u>23,029,628</u>	<u>23,639,036</u>
	<u>\$26,579,394</u>	<u>\$27,639,879</u>

See accompanying notes.

Chuuk Public Utility Corporation
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Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Operating revenues:		
Electricity sales	\$ 3,833,179	\$ 3,484,982
Cash power	4,184,387	4,263,703
Water sales	601,978	581,371
Other sales	<u>42,127</u>	<u>67,828</u>
Total net operating revenues	<u>8,661,671</u>	<u>8,397,884</u>
Operating and maintenance expenses:		
Production fuel	4,567,560	4,494,689
Administrative and general	2,704,183	2,492,958
Depreciation	2,188,584	1,904,975
Management support	<u>265,352</u>	<u>205,765</u>
Total operating and maintenance expenses	<u>9,725,679</u>	<u>9,098,387</u>
Operating loss	(<u>1,064,008</u>)	(<u>700,503</u>)
Nonoperating revenues (expenses), net:		
Operating grant-Asian Development Bank	1,652,068	1,001,481
Operating grant-United States Government	206,100	---
Other income, net	76,008	62,654
Operating grant-South Pacific Community	61,500	61,500
Operating grant-Chuuk State Government	17,507	44,092
Operating grant-Japanese Fuel Subsidy	---	143,000
Foreign exchange gain	---	147,785
Interest expense	(64,601)	(50,277)
Asian Development Bank grant expense	(<u>1,652,068</u>)	(<u>1,001,481</u>)
Total nonoperating revenues, net	<u>296,514</u>	<u>408,754</u>
Loss before capital contributions	(767,494)	(291,749)
Capital contributions:		
Grants from Asian Development Bank	<u>158,086</u>	<u>737,256</u>
Change in net position	(609,408)	445,507
Net position at beginning of year	<u>23,639,036</u>	<u>23,193,529</u>
Net position at end of year	<u>\$23,029,628</u>	<u>\$23,639,036</u>

See accompanying notes.

Chuuk Public Utility Corporation
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Statements of Cash Flows

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers	\$8,558,584	\$8,337,219
Cash payments to suppliers for goods and services	(6,890,746)	(6,044,632)
Cash payments to employees	(1,315,052)	(1,246,207)
Net cash provided by operating activities	<u>352,786</u>	<u>1,046,380</u>
Cash flows from noncapital financing activities:		
Cash receipts - ADB grant	1,652,068	1,001,481
Cash disbursements - ADB grant	(1,652,068)	(1,001,481)
Cash receipts from grantors	<u>285,107</u>	<u>248,592</u>
Net cash provided by noncapital financing activities	<u>285,107</u>	<u>248,592</u>
Cash flows from capital and related financing activities:		
Interest paid	(64,601)	(50,276)
Cash receipts from grantors for capital projects	(10,792)	878,621
Acquisition of utility plant	(522,478)	(1,136,889)
Payments of long-term debt	(280,792)	(228,889)
Net cash used in capital and related financing activities	<u>(878,663)</u>	<u>(537,433)</u>
Net change in cash	(240,770)	757,539
Cash at beginning of year	<u>1,863,389</u>	<u>1,105,850</u>
Cash at end of year	<u>\$1,622,619</u>	<u>\$1,863,389</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(1,064,008)	\$(700,503)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,188,584	1,904,975
Other income, net	76,008	62,654
(Increase) decrease in assets:		
Accounts receivable	(219,604)	(106,105)
Inventory	(284,075)	283,737
Prepaid expenses	(173,834)	(414,896)
Deposits	---	(142,999)
(Decrease) increase in liabilities:		
Accounts payable	(266,930)	277,303
Accrued taxes and other liabilities	15,279	(86,930)
Accrued annual leave	40,857	(13,689)
Unearned revenue	<u>40,509</u>	<u>(17,167)</u>
Net cash provided by operating activities	<u>\$ 352,786</u>	<u>\$1,046,380</u>
Supplemental information on noncash financing activities:		
Effect of foreign currency translation on long-term debt	<u>\$ ---</u>	<u>\$(147,785)</u>

See accompanying notes.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements

Years Ended September 30, 2023 and 2022

1. Organization

The Chuuk Public Utility Corporation (CPUC) is a component unit of the State of Chuuk. CPUC was created by Chuuk State Law 192-12. Its primary objective is to operate all public utilities within the State of Chuuk including providing, maintaining and improving the water, electric, and sewerage systems to the public. CPUC is governed by a five-member Board of Directors, which comprises one member from each of the five senatorial districts of the State appointed by the Governor with the advice and consent of the Chuuk State Legislature.

CPUC's financial statements are incorporated into the financial statements of the State of Chuuk as a component unit.

2. Summary of Significant Accounting Policies

GASB establishes financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of related debts.
- Restricted: Nonexpendable - net position subject to externally imposed stipulations that requires CPUC to maintain such permanently. At September 30, 2023 and 2022, CPUC does not have nonexpendable net position. Expendable - net position whose use by CPUC is subject to externally imposed stipulations that can be fulfilled by actions of CPUC pursuant to those stipulations or that expire by the passage of time.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

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, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in bank deposit accounts.

Custodial credit risk is the risk that in the event of a bank failure, CPUC'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. CPUC does not have a deposit policy for custodial credit risk.

As of September 30, 2023 and 2022, the carrying amount of cash was \$ 1,622,619 and \$1,863,389, respectively and the corresponding bank balance was \$ 1,595,700 and \$1,991,655, respectively, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023 and 2022, bank deposits of \$250,000 were subject to FDIC insurance coverage. CPUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables and Allowance for Uncollectable Accounts

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

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Inventories

Inventories of materials and fuel are determined by physical count and are valued at the lower of cost (first in, first out method), or market value.

Utility Plant and Depreciation

Utility plant is stated at cost with the exception of certain utility plant assets transferred to CPUC at the carrying value of the Department of Public Works as of September 30, 2001, which have a zero net book value as of September 30, 2023 and 2022. CPUC's capitalization threshold is \$3,000, with an estimated useful life in excess of one year.

Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 25 years.

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2023 and 2022, CPUC has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of September 30, 2023 and 2022, CPUC has no items that qualify for reporting in this category.

Compensated Absences

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

Chuuk Public Utility Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of systems to provide utility services to the state of Chuuk. Non-operating revenues and expenses result from capital; financing and investing activities, costs and related recoveries from natural disasters, operating grants, and certain other non-recurring income and costs.

Revenue Recognition

Sales of electricity are recorded as billed to customers. Customer accounts are read and billed weekly for large customers and on a bi-weekly basis for other customers. Billings are due and payable 15 days after billing. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Cash power revenue is recognized as revenue at point of sale with the estimated unearned portion at year-end recognized as unearned revenue if determined to be significant. At September 30, 2023 and 2022, unearned revenue recognized on cash power revenue was \$99,721 and \$59,212, respectively which is presented as unearned revenue in the accompanying statements of net position.

Grants and Subsidies

CPUC receives grants from the United States Government and other foreign governments or organizations either as a direct recipient or as a sub-recipient from the Chuuk State Government (CSG) and FSM National Government (FSMNG).

Taxation

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

Recently Adopted Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The adoption of GASB issued Statement No. 91 did not result in a material effect on the accompanying financial statements.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. The adoption of GASB issued Statement No. 94 did not result in a material effect on the accompanying financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The adoption of GASB issued Statement No. 96 did not result in a material effect on the accompanying financial statements.

In April 2022, GASB issued Statement No. 99, Omnibus 2022. This statement provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:

- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives. This implementation did not have a material effect on the accompanying financial statements.
- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. This implementation did not have a material effect on the accompanying financial statements.
- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. This implementation did not have a material effect on the accompanying financial statements.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. This implementation did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In December 2023, 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 a government's vulnerabilities due to certain concentrations or constraints. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

CPUC is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

3. Accounts Receivable

Accounts receivable at September 30, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Government	\$ 600,595	\$ 440,924
Residential	434,119	342,817
Commercial	150,758	164,178
Unbilled	41,718	67,284
Chuuk State Government service tax	24,270	28,183
Other	<u>33,632</u>	<u>22,102</u>
	1,285,092	1,065,488
Less allowance for uncollectable accounts	(<u>500,104</u>)	(<u>500,104</u>)
	<u>\$ 784,988</u>	<u>\$ 565,384</u>

Receivables as of September 30, 2023 and 2022 include \$98,657 and \$107,769, respectively, of balances in arrears from customers who converted to the cash power meter system. These account balances are reduced through an application of 30% of the delinquent customer's cash power purchase at the time of collection during the years ended September 30, 2023 and 2022. Starting in November 2013, a 5% Chuuk State service tax was applied to power tariffs. CPUC records service tax receivables in a separate account.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

4. Utility Plant

Utility plant consists of the following detailed balances at September 30, 2023 and 2022:

	Balance at October <u>1, 2022</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2023</u>
Depreciable assets:				
Electric plant in service	\$24,547,529	\$ 429,855	\$ ---	\$24,977,384
Water and sewer plant in service	16,039,736	566,529	(71,138)	16,535,127
General plant in service	<u>472,319</u>	<u>---</u>	<u>---</u>	<u>472,319</u>
	41,059,584	996,384	(71,138)	41,984,830
Less accumulated depreciation	<u>(19,313,838)</u>	<u>(2,188,584)</u>	<u>---</u>	<u>(21,502,422)</u>
	21,745,746	(1,192,200)	(71,138)	20,482,408
Non-depreciable assets:				
Construction in progress	<u>915,470</u>	<u>575,282</u>	<u>(978,050)</u>	<u>512,702</u>
	<u>\$22,661,216</u>	<u>\$(- 616,918)</u>	<u>\$(-1,049,188)</u>	<u>\$20,995,110</u>
	Balance at October <u>1, 2021</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2022</u>
Depreciable assets:				
Electric plant in service	\$22,987,458	\$1,560,071	\$ ---	\$24,547,529
Water and sewer plant in service	15,360,013	679,723	---	16,039,736
General plant in service	<u>454,237</u>	<u>18,082</u>	<u>---</u>	<u>472,319</u>
	38,801,708	2,257,876	---	41,059,584
Less accumulated depreciation	<u>(17,408,863)</u>	<u>(1,904,975)</u>	<u>---</u>	<u>(19,313,838)</u>
	21,392,845	352,901	---	21,745,746
Non-depreciable assets:				
Construction in progress	<u>2,036,457</u>	<u>700,769</u>	<u>(1,821,756)</u>	<u>915,470</u>
	<u>\$23,429,302</u>	<u>\$1,053,670</u>	<u>\$(-1,821,756)</u>	<u>\$22,661,216</u>

During the year ended September 30, 2023, construction in progress of \$512,702 represents water treatment plant project and electrification project in Tonoas. Of the total amount, \$107,117 was funded by grants from South Pacific Community, \$5,053 from World Bank through FSMNG, \$342,844 from the Asian Development Bank through FSMNG, and remaining amount of \$57,688 was funded internally.

During the year ended September 30, 2022, construction in progress of \$915,470 represents water treatment plant project and electrification project in Tonoas. Of the total amount, \$17,867 was funded by grants from South Pacific Community, \$7,671 from World Bank through FSMNG, \$550,176 from the Asian Development Bank through FSMNG, and remaining amount of \$339,756 was funded internally.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

5. Contributed Assets

During the year ended September 30, 1999, CSG contributed various electric plant and water and sewer plant assets to CPUC. The contributions from the FSMNG result from compliance with Section 7.01 of the Financing Agreement between FSMNG, CSG and CPUC wherein the FSMNG is obligated to finance 10% (ceiling of \$186,900) of the actual costs of civil and mechanical work of the FSMNG Water Supply and Sanitation Project. The remaining 90% is financed through a loan from the Asian Development Bank which was passed through the FSMNG to CSG and then to CPUC. The loan was transferred to CSG in 2010.

6. Grants and Subsidies

During the year ended September 30, 2023, CPUC received and expended federal grants from the U.S. as a direct recipient of \$206,100 used for professional management support. During the year ended September 30, 2022 CPUC did not receive or expended federal grants from the U.S. either as a direct recipient or passed through by the FSMNG. At September 30, 2023 and 2022, \$48,952 represent prior year advances from the grantor used for infrastructure projects. The advances are to be repaid at the end of the grant term and are presented as payable to grantor in the accompanying statement of net position.

On December 13, 2019, FSMNG entered into a grant agreement (Grant Number 6026-FSM (SF)) with the Asian Development Bank (ADB) in the amount of \$5,000,000 for Project Readiness Financing (PRF) phase of the Chuuk Water Supply and Sanitation Project (“CWSSP”), with a grant closing date of June 30, 2023, which was extended to June 30, 2025. The grant is for the preparation of the proposed CWSSP Project and for the facilitation of a smooth transition to project implementation. The PRF phase finances the services of consulting firms and individual consultants, as well as the equipment to achieve three outputs, (i) creating and enabling environment for the ensuing investment project; (ii) identifying the investment scope, preparing the project and procuring key project components; and (iii) enabling a smooth transition to implementation by strengthening the CPUC’s water supply network operations.

On December 4, 2020, FMSNG entered into another grant agreement (Grant Number 0727-FSM (SF)) with the ADB in the amount of \$12,760,000 for the CWSSP with a grant closing date of June 30, 2029. The primary objective of the project will improve the efficiency, climate change and disaster resiliency, and sustainability of safe water supply and sanitation in the Chuuk State. The project will have the following outputs: i) continuing and safe water supplies provided; (ii) effective, efficient, and safe sanitation provided; and (iii) CPUC made financially and technically sustainable.

During the years ended September 30, 2023 and 2022, CPUC recorded grant revenue totaling \$1,810,154 and \$1,738,737, respectively, related to CWSSP. At September 30, 2023 and 2022, reimbursable grant expenditures of \$381,756 and \$212,878, respectively, are included as receivable from grantor in the accompanying statements of net position.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

7. Long-term Debt and Noncurrent Liabilities

Long-term Debt

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

	<u>2023</u>	<u>2022</u>
ADB loan no. 2099, administered by FSMNG, drawn against total Standard Drawing Rights (SDR), principal due in semi-annual installments of \$85,883 from January 15, 2013 to July 15, 2036. Interest is payable semi-annually at 1% per annum during the grace period and at 1.5% thereafter. Proceeds are to be used for infrastructure projects: power distribution upgrades, decommissioning and environmental remediation of the existing power station and institutional strengthening.	\$1,301,454	\$1,423,569
ADB loan no. 2100, administered by FSMNG, drawn against total SDR, principal due in semi-annual installments of varying amounts as a percentage of total SDRs through January 15, 2029. Interest is payable semi-annually at LIBOR plus 0.6% (effective 2.3% and 2.1% at September 30, 2022 and 2021, respectively). Proceeds are used for the purchase of two generator sets and related costs.	<u>1,686,913</u>	<u>1,845,590</u>
Total long-term debt	2,988,367	3,269,159
Less current portion of long-term debt	(<u>323,337</u>)	(<u>283,815</u>)
Long-term debt, net of current portion	<u>\$ 2,665,030</u>	<u>\$2,985,344</u>

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

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

7. Long-term Debt and Noncurrent Liabilities, continued

Long-term Debt, continued

Principal payments for subsequent years ending September 30, 2023 and applicable interest due are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 323,337	\$ 73,175	\$ 396,512
2025	346,564	63,700	410,264
2026	371,118	53,578	424,696
2027	398,771	42,578	441,349
2028	428,294	30,660	458,954
2029-2033	1,068,829	60,193	1,129,022
2034-2036	<u>51,454</u>	<u>1,213</u>	<u>52,667</u>
	<u>\$2,988,367</u>	<u>\$325,097</u>	<u>\$3,313,464</u>

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

	<u>Outstanding October 1, 2022</u>	<u>Addition</u>	<u>Reduction</u>	<u>Outstanding September 30, 2023</u>	<u>Amount due Within One Year</u>
Long-term debt	\$ <u>3,269,159</u>	\$ <u>---</u>	\$ <u>(280,792)</u>	\$ <u>2,988,367</u>	\$ <u>323,337</u>
	<u>Outstanding October 1, 2021</u>	<u>Addition</u>	<u>Reduction</u>	<u>Outstanding September 30, 2022</u>	<u>Amount due Within One Year</u>
Long-term debt	\$ <u>3,645,833</u>	\$ <u>---</u>	\$ <u>(376,674)</u>	\$ <u>3,269,159</u>	\$ <u>283,815</u>

Noncurrent Liabilities

Change in noncurrent liabilities for the years ended September 30, 2023 and 2022 are as follows:

	<u>Outstanding October 1, 2022</u>	<u>Addition</u>	<u>Reduction</u>	<u>Outstanding September 30, 2023</u>	<u>Amount due Within One Year</u>
Accrued annual leave	\$ <u>42,802</u>	\$ <u>48,340</u>	\$ <u>(7,483)</u>	\$ <u>83,659</u>	\$ <u>70,825</u>
	<u>Outstanding October 1, 2021</u>	<u>Addition</u>	<u>Reduction</u>	<u>Outstanding September 30, 2022</u>	<u>Amount due Within One Year</u>
Accrued annual leave	\$ <u>56,491</u>	\$ <u>24,166</u>	\$ <u>(37,855)</u>	\$ <u>42,802</u>	\$ <u>7,485</u>

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

8. Related Party Transactions

Revenue received from CSG representing power, water and other sales for the years ended September 30, 2023 and 2022 were \$ 1,782,119 and \$1,727,965, respectively.

CPUC purchases virtually all of its fuel from FSMPC, a component unit of the FSMNG. Purchase prices are based on movements of the base price for fuel and lubricants plus add-on costs, fees and taxes. Purchases are payable up to a maximum of thirty days. At September 30, 2023 and 2022, deposits in the amount of \$499,424, all of which were received through a sub-grant from the FSMNG, are held by FSMPC as collateral for a fuel and lubricant purchase line. At September 30, 2023 and 2022, payable to FSMPC were \$0 and \$269,221, respectively.

CPUC engages the service of a law firm where a member of management is a listed attorney. Total legal fees incurred for the years ended September 30, 2023 and 2022 were \$129,946 and \$ 145,643, respectively.

9. Commitments

Leases

CPUC occupies office and warehouse spaces currently on a month-to-month basis.

In 2013, CPUC entered into three land leases effective from February 2013 to January 2033. The leases require advance payments totaling \$378,520. All required payments have been paid in full as of September 30, 2023 and 2022.

In 2019, CPUC entered into a land lease agreement for the solar farm project effective from June 2019 to May 31, 2044. The agreement requires total payments of \$390,000 which was revised to \$330,000 in 2022. All required payments have been paid in full as of September 30, 2023 and 2022.

In 2022, CPUC entered into five additional land lease agreements for the water treatment plant in Tonoas, effective from October 2021 to October 2046. The leases require total payments of \$387,000 of which \$137,000 and \$250,000 and was paid during the year ended September 30, 2023 and 2022, respectively.

In 2023, CPUC entered into two additional land lease agreements for the Water Tank Pipeline, effective from July 2023 to June 2048. The leases require total payments of \$23,000 of which \$11,000 was paid during the year ended September 30, 2023.

As of September 30, 2023 and 2022, unamortized prepaid lease of \$786,543 and \$731,450, respectively, has been included in the accompanying statements of net position and is amortized on a straight-line basis over the lease term as follows:

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

9. Commitments, continued

Leases, continued

<u>Year Ending September 30,</u>	
2024	\$ 18,926
2025	48,481
2026	48,481
2027	48,481
2028	48,481
2029-2033	242,405
2034-2038	160,953
2039-2043	153,998
2044-2047	<u>16,337</u>
	<u>\$786,543</u>

10. Contingencies

Litigation

CPUC is party to various outstanding court judgments. CPUC has provided for an amount that it believes it will actually be responsible for. The ultimate impact of any remaining judgments is not currently predictable. Therefore, no additional liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome. Any changes in this estimate will be resolved prospectively.

Risk Management

CPUC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CPUC has elected to purchase general liability, fire, automobile, and workmen's compensation insurance from independent third parties for the risks of loss to which it is exposed while CPUC is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the last three years.

Federal Award Programs

CPUC has received federal grants for specific purposes that are subject to review and audit by the grantor agencies (see note 6). Audits of federal program funds may also be performed by various federal agencies. If the audits result in cost disallowances, CPUC may be liable. There are no reported questioned costs as of September 30, 2023 and 2022.

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Notes to Financial Statements, continued

11. Retirement Plan

Effective March 1, 2021, CPUC established a Retirement Savings Plan (the Plan). The Plan is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. CPUC matches a percentage of participants' contributions, generally at 50% of the employee contributions, not to exceed 6% of eligible compensation in each pay period. Matching contributions to the Plan during the years ended September 30, 2023 and 2022 were \$17,215 and \$14,302, respectively. Total Plan assets as of September 30, 2023 and 2022 were \$98,826 and \$49,075, respectively. Management is of the opinion that the Plan does not represent an asset or a liability of CPUC and as such no related assets or liabilities have been recorded in the accompanying statements of net position.

12. Restricted Net Position

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

	<u>2023</u>	<u>2022</u>
Capital improvements	\$ 26,733	\$ 50,644
Fuel deposit from fuel operating grant	<u>499,423</u>	<u>499,423</u>
	<u>\$526,156</u>	<u>\$550,067</u>

Report of Independent Auditors 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*

Management and the Board of Directors
Chuuk Public Utility 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 Chuuk Public Utility Corporation (the Corporation), which comprise the statement of net position as of September 30, 2023, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 18, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2022-001, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 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*.

CPUC's Responses to Findings

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

Purpose of this Report

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

Ernst + Young LLP

October 18, 2024

Chuuk Public Utility Corporation
(A Component Unit of the State of Chuuk)

Schedule of Findings

Year Ended September 30, 2023

Finding No. 2023-001

Fixed Asset Register

Criteria: Fixed asset register should be maintained with sufficient detail to identify individual assets and be periodically reviewed for accuracy and ongoing pertinence.

Condition: Several fixed assets do not have a detailed asset description, including fixed assets additions during the year ended September 30, 2023 totaling \$1 million. Additionally, CPUC records fixed asset purchases based on payments and not on individual assets.

Cause: The cause of the above condition is ineffective internal controls over monitoring and review of the fixed asset register, reconciliation and recording of fixed asset transactions.

Effect: The effect of the above condition is a potential misstatement of fixed assets, as CPUC would not be able to accurately verify physical existence of assets, identify related costs for asset disposals and may misstate depreciation expense.

Recommendation: Management should perform a complete review of the current fixed asset register, verify against historical purchases information and make necessary corrections. Management should also develop policies and procedures for the appropriate identification of assets in the detailed registers. Asset description should be specific and include sufficient detail, such as an asset tag number. Cost incurred for a single asset or project should be capitalized and entered into the register as a single asset. Fixed asset acquisition date should be the actual date when an asset is placed in service.

Auditee Response and Corrective Action Plan: CPUC concurs with the finding and will implement the recommendation of the auditor by the end of September 30, 2024. CPUC purchased a Fixed Asset Module in Sage to address the finding and are working with a Sage Consultant for training on the application usage.

Chuuk Public Utility Corporation
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Unresolved Prior Year Findings

Year Ended September 30, 2023

Summary Schedule of Prior Audit Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2022-001	Fixed Asset Register	Not Corrected or Resolved.