

**POHNPEI UTILITIES CORPORATION**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2000 AND 1999**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Pohnpei Utilities Corporation:

We have audited the accompanying balance sheets of the Pohnpei Utilities Corporation (PUC), a component unit of the Government of the State of Pohnpei, as of September 30, 2000 and 1999, and the related statements of operations and capitalization and cash flows for the years then ended. These financial statements are the responsibility of the PUC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Pohnpei Utilities Corporation as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 11-13 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements of Pohnpei Utilities Corporation as of and for the year ended September 30, 2000, and in our opinion, is fairly stated, in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2001, on our consideration of PUC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is stylized and appears to be written in a cursive or semi-cursive script.

March 5, 2001

**POHNPEI UTILITIES CORPORATION**

Balance Sheets  
September 30, 2000 and 1999

<u>Assets</u>	<u>2000</u>	<u>1999</u>
Utility plant, at cost (notes 2 and 8):		
Electric plant in service	\$ 34,790,980	\$ 33,083,086
Water and sewer plant in service	10,114,136	10,046,327
Construction work-in-process	2,147,051	2,441,815
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	47,052,167	45,571,228
Less accumulated depreciation	(16,389,680)	(14,455,617)
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Total utility plant	30,662,487	31,115,611
Other noncurrent assets:		
Self insurance fund (note 3)	115,632	104,659
Scholarship fund (note 4)	3,881	3,881
Interest receivable	1,130	1,130
Materials inventory	242,665	410,135
Settlement notes receivable (note 6)	18,916	46,514
	<hr/>	<hr/>
Total other noncurrent assets	382,224	566,319
Current assets:		
Cash (note 7)	511,061	483,644
Internally restricted investments (note 12)	602,293	552,642
Accounts receivable, net (note 5)	2,643,449	2,331,232
Grants receivable	140,979	97,326
Prepayments	48,104	2,640
Materials and fuel inventory	1,014,248	896,462
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Total current assets	4,960,134	4,363,946
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	\$ 36,004,845	\$ 36,045,876
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<u>Capitalization and Liabilities</u>		
Capitalization:		
Contributed capital (note 8)	\$ 25,340,061	\$ 26,958,255
Retained earnings	9,087,914	8,124,393
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Total capitalization	34,427,975	35,082,648
Current liabilities:		
Current portion of notes payable (note 7)	-	250,000
Accounts payable:		
Fuel oil	105,094	254,851
Operations	195,620	68,630
Deferred revenue	60,192	79,939
Accrued taxes and other liabilities	164,059	139,584
Employees' annual leave	208,907	170,224
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Total current liabilities	733,872	963,228
Noncurrent liabilities:		
Notes payable (note 7)	842,998	-
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Total liabilities	1,576,870	963,228
Contingencies (notes 3 and 11)	\$ 36,004,845	\$ 36,045,876
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See accompanying notes to financial statements.

**POHNPEI UTILITIES CORPORATION**

Statements of Operations and Capitalization  
Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Operating revenues:		
Electricity sales	\$ 6,172,812	\$ 5,476,397
Water sales	895,027	884,041
Other sales	260,616	191,079
	<u>7,328,455</u>	<u>6,551,517</u>
Total operating revenues		
Operating and maintenance expenses:		
Production fuel	3,121,639	2,096,068
Depreciation	1,934,062	2,159,351
Administrative and general	1,863,773	2,041,293
Generation	860,610	971,882
Water and sewer	620,648	622,859
Distribution	433,980	426,670
	<u>8,834,712</u>	<u>8,318,123</u>
Total operating expenses		
Operating loss	<u>(1,506,257)</u>	<u>(1,766,606)</u>
Nonoperating revenues:		
Federal grants and subsidies (note 9)	604,398	409,990
Spurline projects	178,235	136,780
Other income	68,951	71,268
	<u>851,584</u>	<u>618,038</u>
Total nonoperating revenues		
Net loss	(654,673)	(1,148,568)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	<u>1,618,194</u>	<u>1,826,528</u>
Increase in retained earnings	963,521	677,960
Retained earnings at beginning of year	<u>8,124,393</u>	<u>7,446,433</u>
Retained earnings at end of year	<u>9,087,914</u>	<u>8,124,393</u>
Contributed capital at beginning of year	26,958,255	28,784,783
Less depreciation on assets acquired by capital contributions	<u>(1,618,194)</u>	<u>(1,826,528)</u>
Contributed capital at end of year	<u>25,340,061</u>	<u>26,958,255</u>
Total capitalization at end of year	<u>\$ 34,427,975</u>	<u>\$ 35,082,648</u>

See accompanying notes to financial statements.

**POHNPEI UTILITIES CORPORATION**

Statements of Cash Flows  
Years Ended September 30, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Cash received from customers	\$ 7,085,189	\$ 6,825,111
Cash payments to suppliers and employees	(6,848,188)	(6,312,125)
Net cash provided by operating activities	237,001	512,986
Cash flows from investing activities:		
Payments to self insurance fund	(10,973)	-
Payments to PUC sinking fund, restricted investments	(49,650)	(244,134)
Net used for investing activities	(60,623)	(244,134)
Cash flows from noncapital financing activities:		
Proceeds from notes payable	592,998	250,000
Operating grants received	560,745	463,180
Spurline projects	178,235	136,780
Net cash provided by noncapital financing activities	1,331,978	849,960
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(1,480,939)	(1,169,163)
Net cash used for capital and related financing activities	(1,480,939)	(1,169,163)
Net increase (decrease) in cash	27,417	(50,351)
Cash at beginning of year	483,644	533,995
Cash at end of year	\$ 511,061	\$ 483,644
<u>Reconciliation of operating loss to net cash provided</u>		
<u>by operating activities:</u>		
Operating loss	\$ (1,506,257)	\$ (1,766,606)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,934,062	2,159,351
Provision for bad debts	469,520	742,522
Other income	68,951	71,268
(Increase) decrease in assets:		
Accounts receivable	(781,737)	(540,196)
Settlement notes receivable	27,598	(24,040)
Prepayments	(45,464)	55,436
Inventory	49,684	(167,560)
Increase (decrease) in liabilities:		
Accounts payable	(22,767)	(75,831)
Deferred revenue	(19,747)	23,241
Accrued taxes and other liabilities	24,475	11,489
Employees' annual leave	38,683	23,912
Net cash provided by operating activities	\$ 237,001	\$ 512,986

See accompanying notes to financial statements.

# POHNPEI UTILITIES CORPORATION

Notes to Financial Statements  
September 30, 2000 and 1999

## (1) Summary of Significant Accounting Policies

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

General: The 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.

Utility Plant: 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. At September 30, 2000 and 1999, approximately 17.8 percent and 18.3 percent, respectively, of utility plant was stated at estimated 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.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation expense for 2000 and 1999 is approximately five percent of the cost of depreciable properties.

PUC follows the generally accepted accounting principle of closing depreciation expense on assets acquired through contributed capital to the related contributed capital account.

Annual and Sick Leave: Earned but unused annual leave is paid to employees upon termination of their employment. Accordingly, PUC accrues these benefits in the period earned. It is the policy of PUC to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of sick leave at September 30, 2000 was \$172,703.

Revenues: Sales of electricity and water are recorded as billed to customers on a monthly billing cycle basis. At September 30, 2000 and 1999, unbilled revenues are accrued based on the most recent billing cycles.

Inventory: Materials and fuel inventory are substantially carried at the lower of cost (weighted average) or market. Inventory is classified as current or long-term based on anticipated usage in planned projects.

# POHNPEI UTILITIES CORPORATION

Notes to Financial Statements  
September 30, 2000 and 1999

## (1) Summary of Significant Accounting Policies, Continued

Federal Grants and Subsidies: PUC receives federal grants as a subrecipient from Pohnpei State in addition to Pohnpei State Legislature appropriated subsidies and matching funds for federal programs as required.

Cash: For purposes of the balance sheets and statements of cash flows, cash includes cash on hand and cash in banks. Of the cash, up to \$100,000 is covered by FDIC. PUC does not require collateralization of its deposits. Therefore, the amounts which exceed FDIC insurable limitations are characterized as uncollateralized.

Investments: Investments are carried at market values.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent 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) Utility Plant

Utility plant consists of the following at September 30, 2000 and 1999:

	<u>Estimated Useful Life</u>	<u>2000</u>	<u>1999</u>
Production plant	5 - 40 years	\$ 22,064,569	\$ 22,064,569
Distribution plant	5 - 30 years	10,909,244	9,542,549
General plant	3 - 20 years	<u>1,817,167</u>	<u>1,475,968</u>
Electric plant in service		<u>34,790,980</u>	<u>33,083,086</u>
Water production plant	5 - 40 years	4,482,962	4,482,962
Sewage collection and treatment plant	20 - 40 years	4,387,101	4,387,101
Water distribution plant	20 - 30 years	885,287	838,198
General plant	3 - 7 years	<u>358,786</u>	<u>338,066</u>
Water and sewer plant in service		<u>10,114,136</u>	<u>10,046,327</u>
Total utility plant in service		44,905,116	43,129,413
Less accumulated depreciation		<u>(16,389,680)</u>	<u>(14,455,617)</u>
		<u>28,515,436</u>	<u>28,673,796</u>
Construction work-in-process:			
Electric plant		580,259	1,622,245
Water and sewer plant		<u>1,566,792</u>	<u>819,570</u>
		<u>2,147,051</u>	<u>2,441,815</u>
		<u>\$ 30,662,487</u>	<u>\$ 31,115,611</u>

## POHNPEI UTILITIES CORPORATION

Notes to Financial Statements  
September 30, 2000 and 1999

### (3) Self Insurance Fund

In accordance with section 2(5) of State Law 3L-41-93, an amendment to the enabling legislation for the PUC, a self-insurance fund was established to defray costs of any unforeseen accidents or disasters. The funds are accumulated in a restricted self-insurance fund, held by a trustee, in the name of the PUC. Management is of the opinion that no material losses have been sustained as a result of this practice. PUC purchases commercial insurance to cover potential risks from fire on its building and contents and property damage.

### (4) Scholarship Fund

The scholarship fund is designated to account for funds to be used for scholarships in exchange for a related term of employment with PUC subsequent to graduation. Funds are provided by voluntary donations of 1% of the purchases of PUC from their vendors and by designations of the Board of Directors.

### (5) Accounts Receivable

Bills are issued to customers near mid-month approximately one month subsequent to providing the service. Therefore, approximately forty-five days of service is accrued at September 30, 2000 and 1999, which is classified as accounts receivable - unbilled. Accounts receivable at September 30, 2000 and 1999, are summarized as follows:

	<u>2000</u>	<u>1999</u>
Accounts receivable - electrical:		
Residential	\$ 1,406,512	\$ 954,188
Commercial	1,148,368	1,116,070
Government	128,210	43,881
Unbilled	<u>822,500</u>	<u>621,801</u>
	<u>3,505,590</u>	<u>2,735,940</u>
Accounts receivable - water and sewer:		
Residential	714,133	706,185
Commercial and government	121,559	112,110
Unbilled	<u>121,214</u>	<u>105,637</u>
	<u>956,906</u>	<u>923,932</u>
Other	4,462,496	3,659,872
	<u>16,264</u>	<u>37,151</u>
	4,478,760	3,697,023
Less allowance for doubtful receivables	<u>(1,835,311)</u>	<u>(1,365,791)</u>
	<u>\$ 2,643,449</u>	<u>\$ 2,331,232</u>

All of PUC's accounts receivable are with customers and government agencies based in Pohnpei.



# POHNPEI UTILITIES CORPORATION

Notes to Financial Statements  
September 30, 2000 and 1999

## (6) Notes Receivable

PUC has entered into several settlement agreements with customers who have large outstanding balances resulting from inaccurate billings in previous years. The agreements have terms of from one to five years, including interest at eight to fifteen percent. Management is of the opinion that the current portion of notes receivable is not material to the financial statements.

## (7) Notes Payable

Notes payable consist of the following at September 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Balance outstanding on a 90 day revolving line of credit, interest at 4% over a collateralizing savings deposit rate (7.25% at September 30, 2000).	\$ -	\$ 250,000
Amount drawn on a note payable with an available total of \$1,851,000 to the State of Pohnpei, facilitated by an Asian Development Bank loan to the FSM, interest at 6.85%, due in semi-annual principal installments commencing October 10, 2007. The loan is ultimately collateralized by a Pohnpei State pledge of Compact of Free Association revenues to the FSM National Government. The State of Pohnpei has not imposed collateralization on the Corporation.	<u>842,998</u>	<u>-</u>
	\$ <u>842,998</u>	\$ <u>250,000</u>

## (8) Contributions

During the year ended September 30, 1995, sole use rights for the Nanpohnmal Power Plant were contributed to PUC by the FSM National Government through the State of Pohnpei. These assets were donated to the FSM National Government through the Japanese Foreign Aid Program. Official title to the ownership of these assets rests with the FSM National Government. However, substantial revenue is generated by PUC from the use of these assets and PUC bears responsibility for all costs associated with the operation of these assets. Therefore, PUC has recorded these assets as contributed capital in the accompanying financial statements.

## POHNPEI UTILITIES CORPORATION

Notes to Financial Statements  
September 30, 2000 and 1999

### (9) Federal Grants and Subsidies

Federal grants and subsidies comprise the following for the years ended September 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
U.S. Department of the Interior:		
Operations and maintenance improvement program (OMIP) - electrical year four	\$ 180,811	\$ 17,975
OMIP - electrical year five	163,556	165,727
OMIP – electrical year six – apprentice training	34,345	-
OMIP - water year two	47,381	26,009
OMIP - water year three	92,003	127,297
OMIP - water year four	86,302	17,317
DOI Technical Assistance – Y2K Program	<u>-</u>	<u>55,665</u>
	<u>\$ 604,398</u>	<u>\$ 409,990</u>

### (10) Reclassifications

Certain reclassifications have been made to the 1999 presentation in order to conform with the 2000 presentation.

### (11) Contingencies

PUC is party to various legal proceedings, the ultimate impact of which is not currently predictable. Therefore, no liability has been recorded in the accompanying financial statements due to management's inability to predict the ultimate outcome of these proceedings.

### (12) Sinking Fund

During fiscal year 1998, Pohnpei Utilities Corporation management established a sinking fund. The purpose of this fund is to finance future expansion and upgrade of the power plant and equipment. The goal of PUC is to build this fund to \$2,000,000 by June of 2003, in anticipation of certain equipment purchases and upgrades.

The sinking fund is comprised of the following at September 30, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Money market funds	\$ 18,647	\$ 27,759
U.S. Government Obligations	84,475	78,824
Corporate bonds and others	156,733	136,267
Common stock	<u>342,438</u>	<u>309,792</u>
	<u>\$ 602,293</u>	<u>\$ 552,642</u>

# POHNPEI UTILITIES CORPORATION

Notes to Financial Statements  
September 30, 2000 and 1999

## (13) Risk Management

Pohnpei Utilities Corporation carries life insurance. Pohnpei Utilities Corporation 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.

**POHNPEI UTILITIES CORPORATION**

Combining Balance Sheet  
September 30, 2000  
(With comparative totals as of September 30, 1999)

	Power and Utility	Water and Sewer	Eliminating Entries	Totals	
				2000	1999
<u>Assets</u>					
Utility plant, at cost:					
Electric plant in service	\$ 34,790,980	\$ -	\$ -	\$ 34,790,980	\$ 33,083,086
Water and sewer plant in service	-	10,114,136	-	10,114,136	10,046,327
Construction work-in-process	660,602	1,486,449	-	2,147,051	2,441,815
	<u>35,451,582</u>	<u>11,600,585</u>	<u>-</u>	<u>47,052,167</u>	<u>45,571,228</u>
Less accumulated depreciation	(13,385,906)	(3,003,774)	-	(16,389,680)	(14,455,617)
Total utility plant	<u>22,065,676</u>	<u>8,596,811</u>	<u>-</u>	<u>30,662,487</u>	<u>31,115,611</u>
Other noncurrent assets:					
Self insurance fund	115,632	-	-	115,632	104,659
Scholarship fund	3,881	-	-	3,881	3,881
Interest receivable	1,130	-	-	1,130	1,130
Inventory parts-generation	122,682	-	-	122,682	277,668
Inventory parts-distribution	89,312	-	-	89,312	29,560
Inventory parts-water/sewer	-	30,671	-	30,671	102,907
Settlement notes receivable	18,916	-	-	18,916	46,514
Total other noncurrent assets	<u>351,553</u>	<u>30,671</u>	<u>-</u>	<u>382,224</u>	<u>566,319</u>
Current assets:					
Cash	649,009	(137,948)	-	511,061	483,644
Internally restricted investments	602,293	-	-	602,293	552,642
Accounts receivable, net	1,905,960	737,489	-	2,643,449	2,331,232
Grants receivable	89,221	51,758	-	140,979	97,326
Prepayments	48,104	-	-	48,104	2,640
Fuel and material inventory	1,014,248	-	-	1,014,248	896,462
Total current assets	<u>4,308,835</u>	<u>651,299</u>	<u>-</u>	<u>4,960,134</u>	<u>4,363,946</u>
	<u>\$ 26,726,064</u>	<u>\$ 9,278,781</u>	<u>\$ -</u>	<u>\$ 36,004,845</u>	<u>\$ 36,045,876</u>
<u>Capitalization and Liabilities</u>					
Capitalization:					
Contributed capital	\$ 18,341,682	\$ 6,998,379	\$ -	\$ 25,340,061	\$ 26,958,255
Retained earnings	7,756,035	1,331,879	-	9,087,914	8,124,393
Total capitalization	<u>26,097,717</u>	<u>8,330,258</u>	<u>-</u>	<u>34,427,975</u>	<u>35,082,648</u>
Current liabilities:					
Current portion of notes payable	-	-	-	-	250,000
Accounts payable:					
Fuel oil	105,094	-	-	105,094	254,851
Operations	156,497	39,123	-	195,620	68,630
Deferred revenue	60,192	-	-	60,192	79,939
Accrued taxes and other liabilities	131,247	32,812	-	164,059	139,584
Employees' annual leave	175,317	33,590	-	208,907	170,224
Total current liabilities	<u>628,347</u>	<u>105,525</u>	<u>-</u>	<u>733,872</u>	<u>963,228</u>
Noncurrent liabilities:					
Notes payable	-	842,998	-	842,998	-
Total liabilities	<u>628,347</u>	<u>948,523</u>	<u>-</u>	<u>1,576,870</u>	<u>963,228</u>
	<u>\$ 26,726,064</u>	<u>\$ 9,278,781</u>	<u>\$ -</u>	<u>\$ 36,004,845</u>	<u>\$ 36,045,876</u>

See accompanying Independent Auditors' Report.

**POHNPEI UTILITIES CORPORATION**

Combining Statement of Operations and Capitalization  
Year Ended September 30, 2000  
(With comparative totals for the year ended September 30, 1999)

	Power and Utility	Water and Sewer	Eliminating Entries	Totals	
				2000	1999
Operating revenues:					
Residential	\$ 2,176,343	\$ 679,155	\$ -	\$ 2,855,498	\$ 2,773,118
Commercial	2,144,819	130,589	-	2,275,408	2,178,968
Government	1,851,650	85,283	-	1,936,933	1,408,352
Intercompany sales	105,454	-	(105,454)	-	-
Other sales	207,787	52,829	-	260,616	191,079
Total operating revenues	<u>6,486,053</u>	<u>947,856</u>	<u>(105,454)</u>	<u>7,328,455</u>	<u>6,551,517</u>
Operating and maintenance expenses:					
Production fuel	<u>3,121,639</u>	<u>-</u>	<u>-</u>	<u>3,121,639</u>	<u>2,096,068</u>
Depreciation	<u>1,185,958</u>	<u>748,104</u>	<u>-</u>	<u>1,934,062</u>	<u>2,159,351</u>
Administrative and general:					
Employee benefits	391,802	-	-	391,802	332,390
Salaries and wages	316,127	-	-	316,127	314,767
Consumables	131,535	-	-	131,535	171,348
General repairs	111,955	-	-	111,955	145,699
Training and safety	107,141	-	-	107,141	95,279
Customer service and collection	67,004	-	-	67,004	62,212
Vehicle, POL	107,646	-	-	107,646	55,966
Legal fees	4,332	-	-	4,332	46,213
Communications	60,911	-	-	60,911	34,997
Travel	93,300	-	-	93,300	32,860
Insurance	2,500	-	-	2,500	7,040
Utility expense	30,507	-	(30,507)	-	-
Bad debts	375,616	93,904	-	469,520	742,522
	<u>1,800,376</u>	<u>93,904</u>	<u>(30,507)</u>	<u>1,863,773</u>	<u>2,041,293</u>
Generation:					
Salaries and wages	414,638	-	-	414,638	444,576
Repairs and maintenance	425,780	-	-	425,780	496,692
Other production	20,192	-	-	20,192	30,614
	<u>860,610</u>	<u>-</u>	<u>-</u>	<u>860,610</u>	<u>971,882</u>
Water and sewer:					
Salaries and wages	-	335,824	-	335,824	371,858
Employee benefits	-	63,957	-	63,957	72,323
Repairs and maintenance	-	141,777	-	141,777	58,215
Training and safety	-	24,081	-	24,081	31,341
Chemicals	-	48,066	-	48,066	60,642
Utility expense	-	74,947	(74,947)	-	-
Other production	-	6,943	-	6,943	28,480
	<u>-</u>	<u>695,595</u>	<u>(74,947)</u>	<u>620,648</u>	<u>622,859</u>
Distribution:					
Salaries and wages	289,210	-	-	289,210	285,785
Repairs and maintenance	144,770	-	-	144,770	140,885
	<u>433,980</u>	<u>-</u>	<u>-</u>	<u>433,980</u>	<u>426,670</u>
Total operating expenses	<u>7,402,563</u>	<u>1,537,603</u>	<u>(105,454)</u>	<u>8,834,712</u>	<u>8,318,123</u>
Operating loss	<u>(916,510)</u>	<u>(589,747)</u>	<u>-</u>	<u>(1,506,257)</u>	<u>(1,766,606)</u>

See accompanying Independent Auditors' Report.

**POHNPEI UTILITIES CORPORATION**

Combining Statement of Operations and Capitalization, Continued  
 Year Ended September 30, 2000  
 (With comparative totals for the year ended September 30, 1999)

	<u>Power and Utility</u>	<u>Water and Sewer</u>	<u>Eliminating Entries</u>	<u>Totals</u>	
				<u>2000</u>	<u>1999</u>
Nonoperating revenues:					
Federal grants and subsidies	378,712	225,686	-	604,398	409,990
Spurline projects	139,954	-	-	139,954	136,780
Ngetik Solar	38,281	-	-	38,281	-
Interest income, net	60,261	-	-	60,261	-
Other income	8,690	-	-	8,690	71,268
	<u>625,898</u>	<u>225,686</u>	<u>-</u>	<u>851,584</u>	<u>618,038</u>
Total nonoperating revenues					
Net loss	(290,612)	(364,061)	-	(654,673)	(1,148,568)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	<u>1,253,435</u>	<u>364,759</u>	<u>-</u>	<u>1,618,194</u>	<u>1,826,528</u>
Increase in retained earnings	962,823	698	-	963,521	677,960
Retained earnings at beginning of year	<u>6,793,212</u>	<u>1,331,181</u>	<u>-</u>	<u>8,124,393</u>	<u>7,446,433</u>
Retained earnings at end of year	<u>7,756,035</u>	<u>1,331,879</u>	<u>-</u>	<u>9,087,914</u>	<u>8,124,393</u>
Contributed capital at beginning of year	19,595,117	7,363,138	-	26,958,255	28,784,783
Less depreciation on assets acquired by capital contributions	<u>(1,253,435)</u>	<u>(364,759)</u>	<u>-</u>	<u>(1,618,194)</u>	<u>(1,826,528)</u>
Contributed capital at end of year	<u>18,341,682</u>	<u>6,998,379</u>	<u>-</u>	<u>25,340,061</u>	<u>26,958,255</u>
Total capitalization at end of year	<u>\$ 26,097,717</u>	<u>\$ 8,330,258</u>	<u>\$ -</u>	<u>\$ 34,427,975</u>	<u>\$ 35,082,648</u>

See accompanying Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Pohnpei Utilities Corporation:

We have audited the financial statements of the Pohnpei Utilities Corporation (PUC), as of and for the year ended September 30, 2000, and have issued our report thereon dated March 5, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

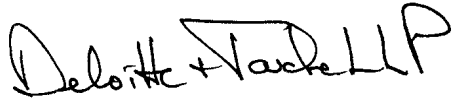
As part of obtaining reasonable assurance about whether PUC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered PUC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of PUC in a separate letter dated March 5, 2001.

This report is intended for the information of the Board of Directors and management of PUC, federal awarding agencies, pass-through entities, cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

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

March 5, 2001





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH  
MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors  
Pohnpei Utilities Corporation:

Compliance

We have audited the compliance of the Pohnpei Utilities Corporation (PUC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 2000. PUC's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 18). Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of PUC's management. Our responsibility is to express an opinion on PUC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PUC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on PUC's compliance with those requirements.

In our opinion, PUC complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 2000.

Internal Control Over Compliance

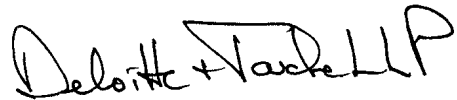
The management of PUC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered PUC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Pohnpei Utilities Corporation, as of and for the year ended September 30, 2000, and have issued our report thereon dated March 5, 2001. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of the Pohnpei Utilities Corporation. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

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

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

March 5, 2001

**POHNPEI UTILITIES CORPORATION**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2000

Grantor/Program Title	CFDA No.	Total Authorizations	Prior Years' Expenditures	Expenditures for the Year Ended Sept. 30, 2000	Total Program Expenditures
<u>U.S. Department of the Interior:</u>					
Office of Territorial and International Affairs:					
<u>Compact of Free Association:</u>					
Energy Program funds, Section 214(B)	15.875	\$ 2,774,370	\$ 2,822,274	\$ -	\$ 2,822,274
Capital Account funds, Section 211(A):	15.875				
OMIP-First Year Electrical Match		322,250	296,592	-	296,592
OMIP-First Year Water and Sewer Match		1,535,250	1,535,250	-	1,535,250
Power Hook-Ups		492,500	492,500	-	492,500
Kolonias Sewer		33,119	33,119	-	33,119
OMIP-Second Year Water and Sewer Match		280,425	280,425	-	280,425
Second Year Water and Sewer Subsidy		110,200	110,200	-	110,200
Pingelap Solar		196,000	217,046	-	217,046
		<u>2,969,744</u>	<u>2,965,132</u>	<u>-</u>	<u>2,965,132</u>
<u>Operations and Maintenance Improvement Programs (OMIP):</u>					
Initialization of the PUC	15.875	430,250	430,249	-	430,249
Pohnpei Water, Sewage, and Solid Waste Utilities Development, First-Year		810,000	809,999	-	809,999
Pohnpei Water, Sewage, and Solid Waste Utilities Development, Second-Year		665,000	589,441	47,381	636,822
Pohnpei Water, Sewage, and Solid Waste Utilities Development, Third-Year		443,500	227,011	92,003	319,014
Pohnpei Water, Sewage, and Solid Waste Utilities Development, Fourth-Year		285,000	52,902	86,302	139,204
Pohnpei Power Generation and Distribution Second-Year		273,468	273,468	-	273,468
Pohnpei Power Generation and Distribution Third-Year		370,000	370,000	-	370,000
Pohnpei Power Generation and Distribution Fourth-Year		465,498	292,259	180,811	473,070
Pohnpei Power Generation and Distribution Fifth-Year		456,000	230,555	163,556	394,111
Pohnpei Power Generation and Distribution Sixth-Year		60,000	-	34,345	34,345
Continuation of Prepaid Meter Program		250,000	-	-	-
OMIP Bench		71,000	71,000	-	71,000
		<u>4,579,716</u>	<u>3,346,884</u>	<u>604,398</u>	<u>3,951,282</u>
<u>Technical Assistance:</u>					
PUC FSM-58	15.875	110,000	110,000	-	110,000
ALCO Repairs		25,000	25,000	-	25,000
Y2K Program		55,665	55,665	-	55,665
		<u>190,665</u>	<u>190,665</u>	<u>-</u>	<u>190,665</u>
Meter Calibration/Facility Inventory	15.875	100,000	100,000	-	100,000
Overhaul ALCO Generators-Pohnpei State	15.875	100,000	100,000	-	100,000
DOI Hazard Mitigation Program	15.875	1,100,000	1,086,021	-	1,086,021
Audit Grant	15.875	32,000	32,000	-	32,000
		<u>1,332,000</u>	<u>1,318,021</u>	<u>-</u>	<u>1,318,021</u>
<u>Trust Territory of the Pacific Islands (TTPI):</u>					
Deficiency Funding:	15.875				
Pohnpei Power		328,271	328,271	-	328,271
Kolonias Sewer		659,328	797,411	*	797,411
		<u>987,599</u>	<u>1,125,682</u>	<u>-</u>	<u>1,125,682</u>
Kolonias Water Improvement:	15.875	290,700	290,700	-	290,700
		<u>\$ 13,124,794</u>	<u>\$ 12,059,358</u>	<u>\$ 604,398</u>	<u>\$ 12,663,756</u>

Note: The above programs are passed through Pohnpei State to the Pohnpei Utilities Corporation (PUC). The difference between expenditures per this Schedule and the sum of federal grants and contributions per the financial statements, represents PUC contributions to the projects expended in excess of federal contributions.

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

\*The Kolonias Sewer Project is contracted with the State of Pohnpei and therefore this information is provided to the State relative to the amount of expenditures incurred to September 30, 1997.

# POHNPEI UTILITIES CORPORATION

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2000

## Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were not identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were not identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Organization's major program was:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Other U.S. Department of the Interior Operations and Maintenance Improvement Programs – Fifth Year Electrical Program	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133.
9. The Organization did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

## Part II - Financial Statement Findings Section

No matters are reportable.

## Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.

**POHNPEI UTILITIES CORPORATION**

Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2000

There are no prior audit findings relative to Federal awards.