

CHUUK PUBLIC UTILITY CORPORATION

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2001 AND 2000



INDEPENDENT AUDITORS' REPORT

The Board of Directors
Chuuk Public Utility Corporation:

We have audited the accompanying balance sheets of the Chuuk Public Utility Corporation (CPUC), a component unit of the Government of the State of Chuuk, as of September 30, 2001 and 2000, and the related statements of operations and capitalization and cash flows for the years then ended. These financial statements are the responsibility of the CPUC'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 CPUC as of September 30, 2001 and 2000, 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 of the financial statements for the year ended September 30, 2001, was made for the purpose of expressing our opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures on Asia Development Bank Financed Projects on page 9 is presented for purposes of additional analysis. This additional information is the responsibility of CPUC's management. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2001, on our consideration of CPUC'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.

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December 18, 2001

CHUUK PUBLIC UTILITY CORPORATION

Balance Sheets
September 30, 2001 and 2000

<u>Assets</u>	<u>2001</u>	<u>2000</u>
Utility plant, at cost (notes 2, 6 and 7):		
Electric plant in service	\$ 14,658,307	\$ 14,254,078
Water and sewer plant in service	10,061,111	6,315,283
Construction work-in-process	27,000	1,396,942
	<hr/>	<hr/>
	24,746,418	21,966,303
Less accumulated depreciation	<u>(13,701,909)</u>	<u>(12,441,905)</u>
Total utility plant	<hr/> <u>11,044,509</u>	<hr/> <u>9,524,398</u>
Current assets:		
Cash	35,909	24,431
Accounts receivable, net (notes 3, 7 and 8)	641,422	579,115
Other receivables	444,105	129,762
Inventory (note 7)	22,973	49,015
	<hr/>	<hr/>
Total current assets	<u>1,144,409</u>	<u>782,323</u>
	<hr/>	<hr/>
	<u>\$ 12,188,918</u>	<u>\$ 10,306,721</u>
 <u>Capitalization and Liabilities</u> 		
Capitalization:		
Contributed capital (note 6)	\$ 6,387,075	\$ 6,617,937
Retained earnings	902,140	1,181,098
	<hr/>	<hr/>
Total capitalization	<u>7,289,215</u>	<u>7,799,035</u>
Current liabilities:		
Current portion of notes payable (note 7)	211,141	29,368
Accounts payable:		
Fuel oil	316,837	281,176
Fixed assets	709,162	-
Operations	19,996	149,159
Accrued taxes and other liabilities	37,856	48,315
Accrued interest expense	208,718	-
Deferred income	50,000	-
Accrued annual leave	100,656	66,985
Contract retention payable	-	137,003
	<hr/>	<hr/>
Total current liabilities	1,654,366	712,006
Noncurrent liabilities:		
Notes payable (note 7)	<u>3,245,337</u>	<u>1,795,680</u>
Total liabilities	<hr/> <u>4,899,703</u>	<hr/> <u>2,507,686</u>
Contingencies (notes 5 and 7)	<hr/> <u>\$ 12,188,918</u>	<hr/> <u>\$ 10,306,721</u>

See accompanying notes to financial statements.

CHUUK PUBLIC UTILITY CORPORATION

Statements of Operations and Capitalization Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Electricity sales (note 8)	\$ 3,125,928	\$ 2,652,897
Other sales	65,918	84,843
Total operating revenues	<u>3,191,846</u>	<u>2,737,740</u>
Operating and maintenance expenses:		
Production fuel	2,246,736	2,067,529
Administrative and general	1,847,952	1,607,262
Depreciation	1,260,004	1,065,002
Bad debts	456,150	230,067
Total operating and maintenance expenses	<u>5,810,842</u>	<u>4,969,860</u>
Operating loss	<u>(2,618,996)</u>	<u>(2,232,120)</u>
Nonoperating revenues:		
Federal grants and subsidies (note 4)	585,744	710,950
Chuuk State grants and subsidies (note 4)	1,000,000	1,050,000
Other income	5,333	-
Total nonoperating revenues	<u>1,591,077</u>	<u>1,760,950</u>
Net loss	<u>(1,027,919)</u>	<u>(471,170)</u>
Retained earnings at beginning of year	1,181,098	911,703
Add depreciation on fixed assets acquired by:		
capital contributions that reduce contributed capital	726,932	740,565
inventory used	22,029	-
Retained earnings at end of year	<u>902,140</u>	<u>1,181,098</u>
Contributed capital at beginning of year	6,617,937	7,213,903
Contributions (note 6)	518,099	144,599
Less: depreciation on acquired contributed capital assets	(726,932)	(740,565)
inventory used	<u>(22,029)</u>	<u>-</u>
Contributed capital at end of year	<u>6,387,075</u>	<u>6,617,937</u>
Total capitalization at end of year	<u>\$ 7,289,215</u>	<u>\$ 7,799,035</u>

See accompanying notes to financial statements.

CHUUK PUBLIC UTILITY CORPORATION

Statements of Cash Flows Years Ended September 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Cash received from customers	\$ 2,673,608	\$ 2,446,932
Cash payments to suppliers and employees	(3,789,929)	(3,393,375)
Net cash used for operating activities	(1,116,321)	(946,443)
Cash flows from noncapital financing activities:		
Operating grants received	1,720,618	1,631,567
Net cash provided by noncapital financing activities	1,720,618	1,631,567
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(2,298,243)	(2,080,574)
Proceeds from notes payable	1,631,430	1,311,396
FSM contribution	73,994	99,596
Net cash used for capital and related financing activities	(592,819)	(669,582)
Net increase in cash	11,478	15,542
Cash at beginning of year	24,431	8,889
Cash at end of year	\$ 35,909	\$ 24,431
<u>Reconciliation of operating loss to net cash</u>		
<u>used for operating activities:</u>		
Operating loss	\$ (2,618,996)	\$ (2,232,120)
Adjustments to reconcile operating loss to net cash		
<u>used for operating activities:</u>		
Depreciation	1,260,004	1,065,002
Allowance for bad debts	456,150	230,067
Decrease (increase) in assets:		
Accounts receivable	(518,238)	(290,806)
Inventory	26,042	(4,012)
Increase (decrease) in liabilities:		
Accounts payable	171,554	346,446
Accrued liabilities	107,163	(61,020)
Net cash used for operating activities	\$ (1,116,321)	\$ (946,443)

Statement of non-cash activities:

During the years ended September 30, 2001 and 2000, the Corporation received donated net plant assets and inventory in the amount of \$444,105 and \$45,003, respectively, and recorded a corresponding increase to contributed capital.

See accompanying notes to financial statements.

CHUUK PUBLIC UTILITY CORPORATION

Notes to Financial Statements
September 30, 2001 and 2000

(1) Summary of Significant Accounting Policies

General

The Chuuk Public Utility Corporation (CPUC) is a component unit of the Government of the State of Chuuk. CPUC was created by Chuuk State Law 192-12. Its primary objective is to provide electrical, water and sewer services to the public. CPUC has adopted the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC).

The financial statements of CPUC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting", requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The CPUC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Utility Plant

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, 2000. The net book value of electric plant assets and water and sewer plant assets so transferred to CPUC was \$3,319,165 and \$2,427,641, respectively, as of September 30, 2001.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Capitalization of Interest

CPUC charges to construction in progress interest incurred during the period of construction. Interest capitalized is computed based on the interest expense incurred on the loans proceeds restricted to construction. Interest capitalization ceases when constructed facilities are placed in service.

Annual and Sick Leave

Earned but unused annual leave is paid to employees upon termination of their employment. Accordingly, CPUC accrues these benefits in the period earned. It is the policy of CPUC 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, 2001 and 2000, was \$102,136 and \$90,000, respectively.

Revenues

Sales of electricity are recorded as billed to customers on a monthly billing cycle basis. At September 30, 2001 and 2000, unbilled revenues are accrued based on the most recent billing cycles.

CHUUK PUBLIC UTILITY CORPORATION

Notes to Financial Statements
September 30, 2001 and 2000

(1) Summary of Significant Accounting Policies, Continued

Federal Grants and Subsidies

CPUC receives various federal grants as a subrecipient from Chuuk State in addition to Chuuk 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. CPUC does not require collateralization of its deposits. Therefore, the amounts which exceed FDIC insurable limitations are characterized as uncollateralized.

Inventories

Inventories of materials and merchandise are determined by physical count and are valued at the lower of cost or market.

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.

Risk Management

Chuuk Public Utility Corporation carries workmen's compensation liability insurance for all employees of the Corporation. Chuuk Public Utility 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.

(2) Utility Plant

Utility plant consists of the following at September 30, 2001 and 2000:

	<u>Estimated Useful Life</u>	<u>2001</u>	<u>2000</u>
General plant in service	3 - 7 years	\$ 299,916	\$ 257,494
Electric plant in service	3 - 20 years	14,358,391	13,996,584
Water and sewer plant in service	3 - 20 years	<u>10,061,111</u>	<u>6,315,283</u>
Total utility plant in service		24,719,418	20,569,361
Less accumulated depreciation		<u>(13,701,909)</u>	<u>(12,441,905)</u>
		11,017,509	8,127,456
Construction work-in-process		<u>27,000</u>	<u>1,396,942</u>
		\$ <u>11,044,509</u>	\$ <u>9,524,398</u>

For the year ended September 30, 2001, CPUC capitalized interest amounting to \$174,768 to utility plant.

CHUUK PUBLIC UTILITY CORPORATION

Notes to Financial Statements
September 30, 2001 and 2000

(3) 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, 2001 and 2000, which is classified as accounts receivable - unbilled. Accounts receivable at September 30, 2001 and 2000, are summarized as follows:

	<u>2001</u>	<u>2000</u>
Accounts receivable - electrical:		
Residential	\$ 540,413	\$ 313,532
Commercial	448,059	348,642
Government	234,326	147,542
Unbilled	<u>403,038</u>	<u>297,663</u>
	1,625,836	1,107,379
Less allowance for doubtful receivables	<u>(984,414)</u>	<u>(528,264)</u>
	\$ <u>641,422</u>	\$ <u>579,115</u>

All of CPUC's accounts receivable are with customers and government agencies based in Chuuk.

(4) Grants and Subsidies

Chuuk State and Federal grants and subsidies are comprised of the following for the years ended September 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Chuuk State fuel subsidy	\$ 1,000,000	\$ 1,050,000
Trust Territory of the Pacific Islands (TTPI)	330,418	527,262
U.S. Department of the Interior:		
Operations and maintenance improvement program (OMIP) – various grants	244,732	183,688
Buddy system	<u>10,594</u>	<u>-</u>
	\$ <u>1,585,744</u>	\$ <u>1,760,950</u>

(5) Contingencies

CPUC 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.

CPUC is a component unit of the State of Chuuk. The ability of CPUC to pay liabilities in the ordinary course of business is dependent on subsidies from the State and from providing power and water services at fair utility rates.

CHUUK PUBLIC UTILITY CORPORATION

Notes to Financial Statements
September 30, 2001 and 2000

(6) Contributed Assets

During the fiscal year ended September 30, 1999, the State of Chuuk contributed various electric plant and water and sewer plant assets to the Corporation. The Corporation has recorded these assets as contributed capital in the accompanying financial statements.

The contributions from the FSM National Government result from compliance with Section 7.01 of the Financing Agreement between the National Government of the FSM (FSM), State of Chuuk and CPUC wherein the FSM is obligated to finance 10% (ceiling of \$186,900) of the actual costs of the civil and mechanical works of the FSM Water Supply and Sanitation Project. The remaining 90% is financed through a loan from the Asian Development Bank which is passed through the FSM National Government to Chuuk State and then to CPUC.

Net contributions for the years ended September 30, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Electric plant assets	\$ -	\$ 45,003
Water and sewer plant assets	444,105	-
FSM National Government	<u>73,994</u>	<u>99,596</u>
	<u>\$ 518,099</u>	<u>\$ 144,599</u>

(7) Notes Payable

	<u>2001</u>	<u>2000</u>
Note payable to a corporation, interest at 16%, due in monthly principal installments of \$9,014 commencing June 1, 2000.	\$ -	\$ 29,368

Notes payable to a commercial bank, ninety-day terms, interest at prime plus 2.00% on a \$150,000 line of credit. The loan is collateralized by Bank of the FSM deposit and security interest in fixed assets, accounts receivable and inventories.	130,000	-
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Amount drawn on a note payable with an available total of \$549,743, facilitated by Federated States of Micronesia Development Bank (FSMDB), interest at 9%, due in monthly installments of \$11,412. The loan is collateralized by major machinery, equipment and assignment of income.	508,760	-
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Amount drawn on a note payable with an available total of \$2,795,540 to the State of Chuuk, facilitated by an Asian Development Bank loan to the FSM, interest at 6.82%, due in semi-annual principal installments commencing August 1, 2007. The loan is ultimately collateralized by a Chuuk State pledge of Compact of Free Association revenues to the FSM National Government. The State of Chuuk has not imposed collateralization on the Corporation.	<u>2,817,718</u>	<u>1,795,680</u>
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	3,456,478	1,825,048
Less current maturities	<u>211,141</u>	<u>29,368</u>
Long-term portion of notes payable	<u>\$ 3,245,337</u>	<u>\$ 1,795,680</u>

CHUUK PUBLIC UTILITY CORPORATION

Notes to Financial Statements
September 30, 2001 and 2000

(7) Notes Payable, Continued

The note to the commercial bank is due currently. Management has not paid off the line but has submitted a proposal to term the loan out over three years. Since this proposal has yet to be accepted by the bank, the entire loan balance is reflected as current.

The loan from the FSMDB requires that CPUC maintain hazard insurance. Hazard insurance has not been obtained and the ultimate impact of this matter is currently unknown.

Notes payable mature as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2002	\$ 211,141	\$ 204,348
2003	102,623	226,489
2004	112,250	216,863
2005	122,779	206,333
2006	89,967	194,997
Thereafter	<u>2,817,718</u>	<u>2,919,891</u>
	\$ <u>3,456,478</u>	\$ <u>3,968,921</u>

(8) Related Party Transactions

At September 30, 2001, accounts receivable from the board of directors and related companies amount to \$95,124. The revenue received from those related entities for the year ended September 30, 2001 amounted to \$76,574.

CHUUK PUBLIC UTILITY CORPORATION

Schedule of Expenditures on Asian Development Bank Financed Projects
Year Ended September 30, 2001

<u>Project</u>	<u>Paid by FSM National Government</u>	<u>Paid from Asian Development Loan Proceeds</u>	<u>Accounts Payable and Contract Retention</u>	<u>Total</u>
Procurement of drilling rig, ancillary equipment, spare parts and training services*	\$ -	\$ 252,780	\$ -	\$ 252,780
Procurement of well construction materials*	-	52,433	-	52,433
Procurement of well drilling consumables*	-	68,522	-	68,522
Procurement of vehicles*	-	20,154	-	20,154
Procurement of pipes, valves, fittings, submersible pumps, control panels, hydrants and appurtenances*	-	312,123	-	312,123
Procurement of meters and fittings*	-	50,618	-	50,618
Procurement of pick-up truck for meter installation*	-	13,995	-	13,995
Procurement of power poles, transformers and electrical materials*	-	123,830	-	123,830
Procurement of fending materials*	-	4,860	-	4,860
Well drilling and construction**	16,897	152,070	-	168,967
Rehabilitation and expansion of Weno Island Waster Supply System**	<u>156,693</u>	<u>1,766,333</u>	<u>709,162</u>	<u>2,632,188</u>
	<u>\$ 173,590</u>	<u>\$ 2,817,718</u>	<u>\$ 709,162</u>	<u>\$ 3,700,470</u>

* Expenditures are financed 100% by the Asian Development Bank (ADB).

** The FSM National Government (FSM) contributed 10% of expenditures, in compliance with Section 7.01 of the Financing Agreement between the FSM, State of Chuuk and CPUC.

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
Chuuk Public Utility Corporation:

We have audited the financial statements of the Chuuk Public Utility Corporation (CPUC), as of and for the year ended September 30, 2001, and have issued our report thereon dated December 18, 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

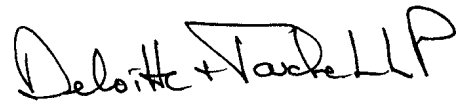
As part of obtaining reasonable assurance about whether CPUC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination 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 CPUC'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect the CPUC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2001-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information of the Board of Directors and management of CPUC, 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 those specified parties.

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December 18, 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
Chuuk Public Utility Corporation:

Compliance

We have audited the compliance of the Chuuk Public Utility Corporation (CPUC) 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 two major federal programs for the year ended September 30, 2001. CPUC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (page 14). Compliance with the requirements of laws, regulations, contracts and grants applicable to its two major federal programs are the responsibility of CPUC's management. Our responsibility is to express an opinion on CPUC'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 CPUC'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 CPUC's compliance with those requirements.

In our opinion, CPUC complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2001.

Internal Control Over Compliance

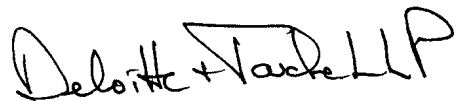
The management of CPUC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered CPUC's internal control over compliance with 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 Chuuk Public Utility Corporation, as of and for the year ended September 30, 2001, and have issued our report thereon dated December 18, 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 Chuuk Public Utility 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 CPUC, 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 those specified parties.

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

December 18, 2001

CHUUK PUBLIC UTILITY CORPORATION

Schedule of Expenditures of Federal Awards Year Ended September 30, 2001

Grantor/Program Title	CFDA No.	Expenditures
<u>U.S. Department of the Interior:</u>		
<u>Office of Territorial and International Affairs:</u>		
<u>Compact of Free Association:</u>		
Energy Program funds, Section 214(C)	15.875	\$ <u>1,000,000</u>
 <u>Operations and Maintenance Improvements Programs (OMIP)</u>		
OMIP 91-1:		
Legal counsel	15,875	6,046
Weno Water	15.875	149,341
Electrical Engineer	15.875	5,922
OMIP 2000-2:		
Chief executive officer	15.875	32,700
Sanitary engineer	15.875	19,663
Legal counsel	15.875	16,122
Electrical engineer	15.875	14,938
Buddy system	15.875	<u>10,594</u>
		<u>255,326</u>
 <u>Trust Territory of the Pacific Islands (TTPI)</u>	 15.875	 <u>330,418</u>
		\$ <u>1,585,744</u>

Note: The Compact of Free Association programs are passed through Chuuk State to the Chuuk Public Utility Corporation. The OMIP and TTPI grants are received in a direct capacity from the U.S. Department of the Interior.

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

CHUUK PUBLIC UTILITY CORPORATION

Schedule of Findings and Questioned Costs Year Ended September 30, 2001

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. One reportable condition in internal control over financial reporting was identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were 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 Corporation's major programs for the year ended September 30, 2001 were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association, Energy Grant	15.875
Trust Territory of the Pacific Islands (TTPI)	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 Corporation did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2001-1	Water Project Compliance	\$ -

Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.

CHUUK PUBLIC UTILITY CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

Water Project Compliance

Finding Number 2001-1

Criteria: The conditions set forth in the FSM Water Supply and Sanitation Project should be updated and compliance therewith should occur.

Condition: It appears that conditions associated with the Project have not been updated and adjusted based on changes in the project. Additionally, there is uncertainty surrounding the manner in which the State of Chuuk is to meet its contribution.

Cause: The cause of this condition appears to be failure to update the Project documents and to adequately monitor and explain the manner that Chuuk State is to meet its contribution requirements. This condition is further compounded by a potential flaw in Chuuk State legislation appropriating the funds for the 10% contribution.

Effect: The effect of this condition is that it is difficult to ascertain whether the State has met its 10% contribution requirement.

Recommendation: We believe that management should obtain a definitive recapitulation of the Project from the FSM Water and Supply & Sanitation Project management. Based on that recapitulation, the Chuuk State Legislature should be contacted to correct the aforementioned legislation.