

CHUUK PUBLIC UTILITY CORPORATION

**(A COMPONENT UNIT OF THE
STATE OF CHUUK)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2015 AND 2014



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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Chuuk Public Utility Corporation:

Report on Financial Statements

We have audited the accompanying financial statements of Chuuk Public Utility Corporation (CPUC), a component unit of the State of Chuuk, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chuuk Public Utility Corporation as of September 30, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2016, 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 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.

Deloitte & Touche LLP

June 27, 2016

**CHUUK PUBLIC UTILITY CORPORATION
(A COMPONENT UNIT OF THE STATE OF CHUUK)**

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

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, 2015.

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, 2015 and 2014. 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 2015, 2014 and 2013.

FINANCIAL HIGHLIGHTS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Utility plant, net	\$ 12,199,661	\$ 8,891,991	\$ 7,298,925
Current assets	3,527,492	2,246,291	1,865,089
Non-current assets	<u>1,063,643</u>	<u>864,313</u>	<u>883,239</u>
Total assets	<u>\$ 16,790,796</u>	<u>\$ 12,002,595</u>	<u>\$ 10,047,253</u>
Net Position and Liabilities:			
Net investment in capital assets	\$ 7,442,961	\$ 3,840,735	\$ 2,835,322
Restricted	673,539	652,423	784,331
Unrestricted	<u>1,533,148</u>	<u>708,714</u>	<u>(173,337)</u>
Total net position	<u>9,649,648</u>	<u>5,201,872</u>	<u>3,446,316</u>
Long-term liabilities	4,603,719	4,843,618	3,653,277
Current liabilities	<u>2,537,429</u>	<u>1,957,105</u>	<u>2,947,660</u>
Total liabilities	<u>7,141,148</u>	<u>6,800,723</u>	<u>6,600,937</u>
Total net position and liabilities	<u>\$ 16,790,796</u>	<u>\$ 12,002,595</u>	<u>\$ 10,047,253</u>
Revenues, Expenses, and Changes in Net Position:			
Total operating revenues	\$ 5,501,614	\$ 6,277,663	\$ 6,445,773
Total operating and maintenance expenses	<u>6,112,423</u>	<u>6,846,514</u>	<u>6,417,995</u>
Operating (loss) income	<u>(610,809)</u>	<u>(568,851)</u>	<u>27,778</u>
Grants, subsidies and other income	5,058,585	2,374,721	3,883,855
Interest expense	<u>-</u>	<u>(50,314)</u>	<u>(189,661)</u>
Total nonoperating revenue, net and capital contributions	<u>5,058,585</u>	<u>2,324,407</u>	<u>3,694,194</u>
Change in net position	4,447,776	1,755,556	3,721,972
Net position at beginning of year	<u>5,201,872</u>	<u>3,446,316</u>	<u>(275,656)</u>
Net position at end of year	<u>\$ 9,649,648</u>	<u>\$ 5,201,872</u>	<u>\$ 3,446,316</u>

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Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

CPUC continues to build up its asset-base to provide the essential utility services to the people of Chuuk State. Total assets at the end of FY2015 are \$16.8 million, compared with \$12.0 million at the end of FY2014.

CPUC's net position at the end of the FY2015 is \$9.6 million compared to \$5.2 million in FY2014, and a significant improvement from the \$3.4 million in FY2013.

Operating revenue in FY2015 reduced by \$776,049 (12%), this reduction was due to a reduction in the price of fuel compared to prior year (from US\$4.18/gallon in October 2014 to 2.94/gallon in September 2015, an average drop of 15% across the period). The price reduction is being passed directly onto customers through the automatic Fuel Adjustment in the tariff. The reduction in fuel cost can be seen in the statements of revenues, expenses and changes in net position presented herein.

Operating expense in FY2015 reduced by \$0.7 million from FY 2014. The reduction is due to reduction in fuel price.

Overall, the operating loss is \$0.6 million which included depreciation and the management support funded by external grants. The total change in net position is an increase of \$4.4 million.

Capital Assets and Debts

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

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

FISCAL YEAR (FY) 2016 OUTLOOK

CPUC anticipates continued improvement in operating position during FY2016 through improvements in power generating efficiency and power distribution power distribution efficiency as well as expansion of water and sewer services.

Two power rehabilitation projects will be ongoing in FY 2016, namely the CPUC Power Plant Project for the installation of two new slow speed engine generators; new switchgear and protection systems and the integration of three of the existing generators to deliver a power plant of 7.8 MW – anticipated completion is Q2 of FY2017; and the remainder of the Typhoon Recovery Project which will see the complete replacement of the Weno power distribution system by the end of Q1 FY2017. Both projects will contribute to long term supply-side efficiency improvements.

A power loss target of 17% has been set for FY 2016.

World Bank grant funding is being provided to the FSM Energy Sector. A key component of the grant is the preparation of a compressive investment master plan for electricity service expansion within Chuuk State. With the investment master plan in place CPUC will be able to seek funding to increase electricity service across the State and thereby achieve the State and National Energy service coverage Targets.

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Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

CPUC now have a total of 256 kWp of grid connected solar PV systems connected to the Weno power grid. This is installed at Chuuk International Airport (65 kWp) and Chuuk State High School (200 kWp). Jointly they contribute on average just over 2% to daily power generation. A further 200 kWp is scheduled to be installed under the World Bank Energy Sector Grant by the end of FY2017. The World Bank grant will also support the purchase of 390 LED streetlights by the end of FY2016 – these will be distributed across the whole power network in Weno - these lights will provide approximately 40% more lighting power per unit with a reduction in power use of 45%/unit in power consumed.

With regards to water supply and sewerage services, CPUC focus will remain on the installation of water metering across the whole of the supply system.

CPUC Waste Water Treatment Plant (WWTP) Rehabilitation will be completed in FY2016 and handed over to CPUC operation. Extensive training for CPUC staff will be provide. The rehabilitation will improve the quality of wastewater being discharged to the lagoon and comply with environmental regulations.

As part of the WWTP rehabilitation project, CPUC is also undertaking the rehabilitation of 10 sewer grinder stations in the Northern part of Weno – these stations were built many years ago and have never been commissioned. This work will be completed within FY2016.

SUBSEQUENT EVENT

CPUC management has settled the outstanding obligation to FSM National Government for income tax unpaid in the period 2004-2010 (US\$207,000). This was achieved through taking of a loan from the FSM Development Bank for the principle amount owed. The interest and penalties on the income tax was waived.

CONTACTING CPUC'S FINANCIAL MANAGEMENT

Management's Discussion and Analysis for the year ended September 30, 2014, is set forth in the report on the audit of CPUC's financial statements, which is dated June 28, 2015, and that Discussion and Analysis explains the major factors impacting the 2014 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 Mr. Kelly Keller, 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, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Utility plant, at cost:		
Depreciable utility plant:		
Electric plant in service	\$ 19,080,460	\$ 19,972,175
Water and sewer plant in service	9,961,408	9,536,512
General plant in service	<u>4,027</u>	<u>10,913</u>
	29,045,895	29,519,600
Less accumulated depreciation	<u>(21,001,895)</u>	<u>(23,227,729)</u>
	<u>8,044,000</u>	<u>6,291,871</u>
Non-depreciable utility plant:		
Construction in progress	<u>4,155,661</u>	<u>2,600,120</u>
Total utility plant	<u>12,199,661</u>	<u>8,891,991</u>
Current assets:		
Cash	1,019,760	542,834
Accounts receivable, net	454,144	366,393
Receivable from grantor	820,111	-
Inventory	1,180,346	1,306,541
Prepaid expenses	8,481	11,597
Prepaid land lease, current	<u>44,650</u>	<u>18,926</u>
Total current assets	<u>3,527,492</u>	<u>2,246,291</u>
Noncurrent assets:		
Deposits	754,518	536,262
Prepaid land lease, net of current portion	<u>309,125</u>	<u>328,051</u>
Total noncurrent assets	<u>1,063,643</u>	<u>864,313</u>
	<u>\$ 16,790,796</u>	<u>\$ 12,002,595</u>
<u>Liabilities and Net Position</u>		
Current liabilities:		
Notes payable	\$ -	\$ 104,044
Current portion of long-term debt	191,411	137,690
Accounts payable	402,974	519,595
Accrued taxes and other liabilities	1,018,023	628,116
Payable to grantor	870,172	514,164
Unearned revenue	47,490	46,137
Accrued annual leave, current	<u>7,359</u>	<u>7,359</u>
Total current liabilities	2,537,429	1,957,105
Accrued annual leave, net of current portion	38,430	34,095
Long-term debt, net of current portion	<u>4,565,289</u>	<u>4,809,523</u>
Total liabilities	<u>7,141,148</u>	<u>6,800,723</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	7,442,961	3,840,735
Restricted	673,539	652,423
Unrestricted	<u>1,533,148</u>	<u>708,714</u>
Total net position	<u>9,649,648</u>	<u>5,201,872</u>
	<u>\$ 16,790,796</u>	<u>\$ 12,002,595</u>

See accompanying notes to financial statements.

CHUUK PUBLIC UTILITY CORPORATION
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Electricity sales	\$ 5,120,711	\$ 5,989,455
Other sales	380,903	355,902
	5,501,614	6,345,357
Provision for uncollectable accounts	-	(67,694)
Total operating revenues	5,501,614	6,277,663
Operating and maintenance expenses:		
Production fuel	2,826,588	4,193,839
Administrative and general	2,132,842	1,836,036
Depreciation	610,337	311,087
Management support	542,656	505,552
Total operating and maintenance expenses	6,112,423	6,846,514
Operating loss	(610,809)	(568,851)
Nonoperating revenues (expense), net:		
Operating grant-management support	542,656	505,552
Operating grant-other	380,081	478,225
Other income, net	253,971	211,371
Interest expense	-	(50,314)
Total nonoperating revenues, net	1,176,708	1,144,834
Income before capital contributions	565,899	575,983
Capital contributions:		
Contributions from foreign entities	22,698	-
Grants from the United States Government	3,859,179	1,179,573
Change in net position	4,447,776	1,755,556
Net position at beginning of year	5,201,872	3,446,316
Net position at end of year	\$ 9,649,648	\$ 5,201,872

See accompanying notes to financial statements.

CHUUK PUBLIC UTILITY CORPORATION
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Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 5,669,187	\$ 6,490,187
Cash payments to suppliers for goods and services	(4,087,650)	(5,409,700)
Cash payments to employees	(1,232,558)	(1,224,973)
Net cash provided by (used in) operating activities	348,979	(144,486)
Cash flows from noncapital financing activities:		
Cash receipts from grantor	898,664	766,813
Net cash provided by noncapital financing activities	898,664	766,813
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	148,433	1,530,682
Cash receipts from grantor for capital projects	3,419,149	419,881
Acquisition of utility plant	(4,030,306)	(1,904,153)
Payments of notes payable and long-term debt	(307,993)	(285,075)
Payment of interest	-	(148,702)
Net cash used in capital and related financing activities	(770,717)	(387,367)
Net change in cash	476,926	234,960
Cash at beginning of year	542,834	307,874
Cash at end of year	\$ 1,019,760	\$ 542,834
<u>Reconciliation of operating loss to net cash provided by (used in) operating activities:</u>		
Operating loss	\$ (610,809)	\$ (568,851)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	610,337	311,087
Other income, net	253,971	211,371
Provision for uncollectable accounts	-	67,694
Decrease (increase) in assets:		
Accounts receivable	(87,751)	(94,985)
Inventory	126,195	(176,226)
Prepaid expenses	(3,682)	76,201
Long-term deposits	(218,256)	-
Increase (decrease) in liabilities:		
Accounts payable	(116,621)	16,126
Accrued taxes and other liabilities	389,907	(15,192)
Accrued annual leave	4,335	(155)
Unearned revenue	1,353	28,444
Net cash provided by (used) in operating activities	\$ 348,979	\$ (144,486)

Supplemental schedule of noncash activities:

In 2015, CPUC recorded grant receivables of \$820,111 for Typhoon recovery efforts, of which \$440,030 was for capital projects.

In 2015, CPUC was allocated a decrease of \$134,997 of balance adjustments relating to currency re-evaluation changes associated with its long-term debt, for which capital assets and long-term debt decreased by the same amount.

In 2014, CPUC repaid accrued taxes of \$478,225 through a nonoperating grant.

In 2014, CPUC repaid a note payable and accrued interest of \$657,953 and \$101,739, respectively, through a capital grant.

See accompanying notes to financial statements.

**CHUUK PUBLIC UTILITY CORPORATION
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Notes to Financial Statements
September 30, 2015 and 2014

(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

Basis of Accounting

The accounting policies of CPUC conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. CPUC utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Position

Net position represents the residual interest in CPUC's assets after liabilities are deducted and consist of four sections: Net investment in capital assets, restricted expendable and nonexpendable, and unrestricted. Net investment in capital assets includes capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. All other net position is unrestricted.

Cash

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.

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2015 and 2014, the carrying amount of cash was \$1,019,760 and \$542,834, respectively, and the corresponding bank balances were \$1,032,906 and \$602,331, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, bank deposits of \$250,000 were FDIC insured. 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.

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Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

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 charged to expense. Accounts deemed uncollectible are written off against the allowance based on the specific identification method.

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 has a zero net book value as of September 30, 2015 and 2014. 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.

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.

Operating and Nonoperating Revenues and Expenses

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

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 the rest of the customers. Billings are due and payable 15 days after 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, 2015 and 2014, unearned revenue recognized on cash power revenue was \$47,490 and \$46,137, respectively, which is included as a component of unearned revenue in the statements of net position.

**CHUUK PUBLIC UTILITY CORPORATION
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Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Grants and Subsidies

CPUC receives federal grants either as a direct recipient or as a subrecipient 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 or FSM National Government, if any, in such manner as provided by law.

New Accounting Standards

During fiscal year 2015, CPUC implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on CPUC's financial statements.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies, Continued

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

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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements in order to conform with the 2014 presentation.

(3) Accounts Receivable

Accounts receivable at September 30, 2015 and 2014, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Residential	\$ 374,466	\$ 358,335
Commercial	165,303	157,431
Government	135,796	12,602
Unbilled	29,610	105,876
Other	46,229	37,545
Chuuk State Government service tax	<u>30,370</u>	<u>24,649</u>
	781,774	696,438
Less allowance for uncollectable accounts	<u>(327,630)</u>	<u>(330,045)</u>
	\$ <u>454,144</u>	\$ <u>366,393</u>

Receivables as of September 30, 2015 and 2014 include \$154,459 and \$158,501, 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, 2015 and 2014. In November 2013, a 5% Chuuk State service tax was applied to power tariffs. CPUC records service tax receivables in a separate account.

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(4) Utility Plant

Utility plant and construction in progress consist of the following detailed balances at September 30, 2015 and 2014:

	Balance at October <u>1, 2014</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2015</u>
Depreciable assets:				
Electric plant in service	\$ 19,972,175	\$ 1,935,471	\$ (2,827,186)	\$ 19,080,460
Water and sewer plant in service	9,536,512	424,896	-	9,961,408
General plant in service	<u>10,913</u>	<u>2,099</u>	<u>(8,985)</u>	<u>4,027</u>
	29,519,600	2,362,466	(2,836,171)	29,045,895
Less accumulated depreciation	<u>(23,227,729)</u>	<u>(610,337)</u>	<u>2,836,171</u>	<u>(21,001,895)</u>
	6,291,871	1,752,129	-	8,044,000
Non-depreciable assets:				
Construction in progress	<u>2,600,120</u>	<u>3,482,003</u>	<u>(1,926,462)</u>	<u>4,155,661</u>
	\$ <u>8,891,991</u>	\$ <u>5,234,132</u>	\$ <u>(1,926,462)</u>	\$ <u>12,199,661</u>
	Balance at October <u>1, 2013</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2014</u>
Depreciable assets:				
Electric plant in service	\$ 18,806,335	\$ 1,273,697	\$ (107,857)	\$ 19,972,175
Water and sewer plant in service	9,636,438	-	(99,926)	9,536,512
General plant in service	<u>10,913</u>	<u>-</u>	<u>-</u>	<u>10,913</u>
	28,453,686	1,273,697	(207,783)	29,519,600
Less accumulated depreciation	<u>(23,124,425)</u>	<u>(311,087)</u>	<u>207,783</u>	<u>(23,227,729)</u>
	5,329,261	962,610	-	6,291,871
Non-depreciable assets:				
Construction in progress	<u>1,969,664</u>	<u>1,885,266</u>	<u>(1,254,810)</u>	<u>2,600,120</u>
	\$ <u>7,298,925</u>	\$ <u>2,847,876</u>	\$ <u>(1,254,810)</u>	\$ <u>8,891,991</u>

At September 30, 2015, almost all construction in progress represents infrastructure projects such as rehabilitation of the waste water treatment plant, power plant, waterline extension and others that are funded by a grant from the U.S. Department of the Interior (US DOI) (see note 6).

During the year ended September 30, 2015, CPUC replaced \$440,030 of fixed assets related to Typhoon Maysak which was funded by USAID contributions (see note 6).

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(5) Contributed Assets

During the fiscal 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 years ended September 30, 2015 and 2014, CPUC recorded federal grants from the U.S. DOI passed through by CSG totaling \$3,961,805 and \$2,163,350, respectively. Of the total grant proceeds at September 30, 2015 and 2014, \$542,656 and \$505,552, respectively, represent advances from the grantor used for management support costs. The advances are to be repaid at the end of the grant term and are presented as payable to grantor in the accompanying statements of net position. The rest of the grant proceeds were used for other infrastructure projects.

During the year ended September 30, 2015, CPUC recorded an \$820,111 grant receivable from USAID for assistance relating to typhoon recovery costs, including replacements of capital assets of \$440,030. The claim was subsequently formalized and received in February 2016.

During the year ended September 30, 2015, CPUC received generator assets of \$22,698 donated by the International Organization for Migration in relation to typhoon recovery efforts.

(7) Borrowings and Noncurrent Liabilities

Long-term Debt

Long-term debt consists of the following at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</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 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.	\$ 2,318,825	\$ 2,688,057
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 at LIBOR plus 0.6% (effective 2.1% at September 30, 2015 and 2014). Proceeds are used for the purchase of two generator sets and related costs.	<u>2,437,875</u>	<u>2,259,156</u>
Total long-term debt	4,756,700	4,947,213
Less current portion of long-term debt	<u>191,411</u>	<u>137,690</u>
Long-term debt, net of current portion	\$ <u>4,565,289</u>	\$ <u>4,809,523</u>

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(7) Borrowings and Noncurrent Liabilities, Continued

Long-term Debt, Continued

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

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 191,411	\$ 92,523	\$ 283,934
2017	201,708	81,632	283,340
2018	213,153	77,907	291,060
2019	225,183	73,943	299,126
2020	238,923	69,832	308,755
2021-2025	1,442,596	274,221	1,716,817
2026-2030	1,690,052	124,499	1,814,551
2031-2035	<u>553,674</u>	<u>17,475</u>	<u>571,149</u>
	<u>\$ 4,756,700</u>	<u>\$ 812,032</u>	<u>\$ 5,568,732</u>

Changes in noncurrent liabilities for the years ended September 30, 2015 and 2014 are as follows:

	<u>Outstanding</u> <u>October 1,</u> <u>2014</u>	<u>Addition</u>	<u>Reduction</u>	<u>Outstanding</u> <u>September</u> <u>30, 2015</u>	<u>Amount</u> <u>due</u> <u>Within</u> <u>One Year</u>
Notes payable	\$ 104,044	\$ -	\$ (104,044)	\$ -	\$ -
Long-term debt	4,947,213	148,433	(338,946)	4,756,700	191,411
Accrued annual leave	<u>41,454</u>	<u>4,335</u>	<u>-</u>	<u>45,789</u>	<u>7,359</u>
	<u>\$ 5,092,711</u>	<u>\$ 152,768</u>	<u>\$ (442,990)</u>	<u>\$ 4,802,489</u>	<u>\$ 198,770</u>
	<u>Outstanding</u> <u>October 1,</u> <u>2013</u>	<u>Addition</u>	<u>Reduction</u>	<u>Outstanding</u> <u>September</u> <u>30, 2014</u>	<u>Amount</u> <u>due</u> <u>Within</u> <u>One Year</u>
Notes payable	\$ 739,243	\$ 22,394	\$ (657,593)	\$ 104,044	\$ 104,044
Long-term debt	3,724,360	1,508,288	(285,435)	4,947,213	137,690
Accrued annual leave	<u>41,609</u>	<u>-</u>	<u>(155)</u>	<u>41,454</u>	<u>7,359</u>
	<u>\$ 4,505,212</u>	<u>\$ 1,530,682</u>	<u>\$ (943,183)</u>	<u>\$ 5,092,711</u>	<u>\$ 249,093</u>

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(8) Related Party Transactions

Revenue received from CSG representing power, water and other sales for the years ended September 30, 2015 and 2014 was \$1,355,073 and \$1,521,502, respectively.

Effective November 1, 2013, CPUC entered into a contract with the FSM National Government to provide maintenance services on the lift stations. The contract expired in June 2014 was extended through December 2015. Related income recorded of approximately \$136,000 and \$127,000 for the years September 30, 2015 and 2014, respectively, is included as a component of other nonoperating revenue in the accompanying financial statements.

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, 2015 and 2014, long-term deposits in the amount of \$754,518 and \$536,262, respectively, for which \$536,262 was received through a sub-grant from the FSMNG, are held by FSMPC as collateral for a fuel and lubricant purchase line. At September 30, 2015 and 2014, payables to FSMPC were \$402,974 and \$519,595, respectively.

In March 2015, Typhoon Maysak ravaged Chuuk, causing significant damage to CPUC's power distribution system. CPUC entered into an agreement with Pohnpei Utilities Corporation, a component unit of the State of Pohnpei, to assist in power restoration efforts. Additionally, CPUC obtained advances from the FSMNG disaster relief fund to purchase parts and for other costs relating to its recovery efforts. At September 30, 2015, payables to PUC and FSMNG approximated \$400,000 and are included as a component of accrued taxes and other liabilities in the accompanying financial statements.

(9) Commitments

Leases

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

In 2013, CPUC entered into 3 land leases which are effective from February 2013 to January 2033. The leases require advance payments totaling \$378,520. As of September 30, 2015 and 2014, unamortized prepaid lease of \$328,051 and \$346,977, 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:

<u>Year Ending September 30,</u>	
2016	\$ 18,926
2017	18,926
2018	18,926
2019	18,926
2020	18,926
2021-2025	94,630
2026-2030	94,630
2031-2034	<u>44,161</u>
	\$ <u>328,051</u>

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(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.

(11) Restricted Net Position

At September 30, 2015 and 2014, net position is restricted for the following purposes:

	<u>2015</u>	<u>2014</u>
Capital improvements	\$ 137,277	\$ 116,161
Fuel deposit from fuel operating grant	<u>536,262</u>	<u>536,262</u>
	\$ <u>673,539</u>	\$ <u>652,423</u>

(12) Subsequent Event

Subsequent to year-end, CPUC obtained a \$207,000 five-year term loan from FSM Development Bank, a component unit of the FSM National Government, for the full settlement of past due withholding income taxes of which accrued interest and penalties of approximately \$112,000 were waived and will be reversed during the year ended September 30, 2016.