

**CHUUK PUBLIC UTILITY CORPORATION**

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

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

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**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

## **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, 2016 and 2015, 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, 2016 and 2015, 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 30, 2017, 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 30, 2017

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

Management's Discussion and Analysis  
Years Ended September 30, 2016 and 2015

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 (FY) ended September 30, 2016.

Statement 34 of the U.S. Government Accounting Standards Board (GASB) 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, 2016, 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 2016, 2015 and 2014.

**FINANCIAL HIGHLIGHTS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Assets:</b>			
Total utility plant	\$ 19,338,815	\$ 12,199,661	\$ 8,891,991
Current assets	3,120,701	3,527,492	2,246,291
Non-current assets	<u>1,176,281</u>	<u>1,063,643</u>	<u>864,313</u>
Total assets	\$ <u>23,635,797</u>	\$ <u>16,790,796</u>	\$ <u>12,002,595</u>
<b>Net Position and Liabilities:</b>			
Net investment in capital assets	\$ 14,395,978	\$ 7,442,961	\$ 3,840,735
Restricted	551,551	673,539	652,423
Unrestricted	<u>2,075,385</u>	<u>1,533,148</u>	<u>708,714</u>
Total net position	<u>17,022,914</u>	<u>9,649,648</u>	<u>5,201,872</u>
Long-term liabilities	4,732,089	4,603,719	4,843,618
Current liabilities	<u>1,880,794</u>	<u>2,537,429</u>	<u>1,957,105</u>
Total liabilities	<u>6,612,883</u>	<u>7,141,148</u>	<u>6,800,723</u>
Total net position and liabilities	\$ <u>23,635,797</u>	\$ <u>16,790,796</u>	\$ <u>12,002,595</u>
<b>Revenues, Expenses, and Changes in Net Position:</b>			
Net operating revenues	\$ 5,641,727	\$ 5,501,614	\$ 6,277,663
Operating and maintenance expenses	<u>6,103,626</u>	<u>6,112,423</u>	<u>6,846,514</u>
Operating loss	<u>(461,899)</u>	<u>(610,809)</u>	<u>(586,851)</u>
Grants, subsidies and other income	7,835,165	5,058,585	2,374,721
Interest expense	<u>-</u>	<u>-</u>	<u>(50,314)</u>
Total nonoperating revenue, net and capital contributions	<u>7,835,165</u>	<u>5,058,585</u>	<u>2,324,407</u>
Change in net position	7,373,266	4,447,776	1,755,556
Net position at beginning of year	<u>9,649,648</u>	<u>5,201,872</u>	<u>3,446,316</u>
Net position at end of year	\$ <u>17,022,914</u>	\$ <u>9,649,648</u>	\$ <u>5,201,872</u>

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Management's Discussion and Analysis  
Years Ended September 30, 2016 and 2015

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 FY2016 are \$23.6 million, compared with \$16.8 million at the end of FY2015.

There was a significant improvement in CPUC's net position during FY2016, \$17 million compared to \$9.6 million in FY2015.

There is a slight increase in operating revenue compared to the last year. The increase is due to increase in power sales and expanding services for water and sewer to the community of Weno Chuuk. Operating expenses have also seen a positive improvement as it comes out to the about same level as last year.

When taking all the above into consideration, CPUC comes out positive in net income at the end of the fiscal year with \$334,296.

Capital Assets and Debts

In FY2016, CPUC completed and placed in service the Waste Water Treatment Plant and Rehabilitation Project. As September 30, 2016, a significant portion of the construction in progress relates to the two power rehabilitation projects which are expected to be completed in FY2017. 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) 2017 OUTLOOK**

CPUC anticipates continued improvement in operating position during FY2017 through improvements in power generating efficiency and power distribution efficiency as well as expansion and efficiency improvements in water and sewer services.

Two power rehabilitation projects will be completed in FY2017, 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 the Q3 of FY2017; and the balance of the Typhoon Recovery Project which will see the complete replacement of the Weno power distribution system by the end of Q2 FY2017. Both projects will contribute to long term supply side efficiency improvements.

A power loss target of 15% has been set for FY2017.

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. Master Planning consultants will be appointed by the FSM Department of R&D in FY2017. Also under the World Bank project is the introduction in FY2017 of LED street lighting across the whole island of Weno – this is completed by end of Q1 FY2017.

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Management's Discussion and Analysis  
Years Ended September 30, 2016 and 2015

CPUC now has 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 Q3 FY2018.

CPUC will also be working in partnership with FSM Petroleum Corporation to reinstate the power supply in Tonoas (population 4,000) by mid FY2018; CPUC will commence power distribution construction in Q3 FY2017 and will enter into a power purchase agreement with FSM Petroleum Corporation whereby they sell power to CPUC.

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 was completed in FY2016 and handed over to CPUC operation. Extensive training for CPUC staff was provided on water and sewerage system operation and maintenance. The quality of wastewater being discharged to the lagoon is now compliant 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 Q3 of FY2017.

**CONTACTING CPUC'S FINANCIAL MANAGEMENT**

Management's Discussion and Analysis for the year ended September 30, 2015, is set forth in the report on the audit of CPUC's financial statements, which is dated June 27, 2016, and that Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://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, 2<sup>nd</sup> Floor, Weno, Chuuk FM 96942.

**CHUUK PUBLIC UTILITY CORPORATION**  
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Statements of Net Position  
September 30, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Utility plant, at cost:		
Depreciable utility plant:		
Electric plant in service	\$ 10,540,545	\$ 19,080,460
Water and sewer plant in service	13,713,770	9,961,408
General plant in service	<u>150,318</u>	<u>4,027</u>
	24,404,633	29,045,895
Less accumulated depreciation	<u>(11,438,096)</u>	<u>(21,001,895)</u>
	<u>12,966,537</u>	<u>8,044,000</u>
Non-depreciable utility plant:		
Construction in progress	<u>6,372,278</u>	<u>4,155,661</u>
Total utility plant	<u>19,338,815</u>	<u>12,199,661</u>
Current assets:		
Cash	1,445,550	1,019,760
Accounts receivable, net	470,195	454,144
Other receivable	-	820,111
Inventory	1,119,645	1,180,346
Prepaid expenses	66,385	8,481
Prepaid land lease, current	<u>18,926</u>	<u>44,650</u>
Total current assets	<u>3,120,701</u>	<u>3,527,492</u>
Noncurrent assets:		
Deposits	886,083	754,518
Prepaid land lease, net of current portion	<u>290,198</u>	<u>309,125</u>
Total noncurrent assets	<u>1,176,281</u>	<u>1,063,643</u>
	<u>\$ 23,635,797</u>	<u>\$ 16,790,796</u>
<u>Liabilities and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 243,529	\$ 191,411
Accounts payable	376,933	402,974
Accrued taxes and other liabilities	558,004	1,018,023
Payable to grantor	605,618	870,172
Unearned revenue	89,351	47,490
Accrued annual leave, current	<u>7,359</u>	<u>7,359</u>
Total current liabilities	1,880,794	2,537,429
Accrued annual leave, net of current portion	32,781	38,430
Long-term debt, net of current portion	<u>4,699,308</u>	<u>4,565,289</u>
Total liabilities	<u>6,612,883</u>	<u>7,141,148</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	14,395,978	7,442,961
Restricted	551,551	673,539
Unrestricted	<u>2,075,385</u>	<u>1,533,148</u>
Total net position	<u>17,022,914</u>	<u>9,649,648</u>
	<u>\$ 23,635,797</u>	<u>\$ 16,790,796</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Electricity sales	\$ 5,202,728	\$ 5,120,711
Other sales	<u>460,852</u>	<u>380,903</u>
	5,663,580	5,501,614
Provision for uncollectable accounts	<u>(21,853)</u>	<u>-</u>
Net operating revenues	<u>5,641,727</u>	<u>5,501,614</u>
Operating and maintenance expenses:		
Production fuel	2,695,490	2,826,588
Administrative and general	2,268,370	2,132,842
Depreciation	665,240	610,337
Management support	<u>474,526</u>	<u>542,656</u>
Total operating and maintenance expenses	<u>6,103,626</u>	<u>6,112,423</u>
Operating loss	<u>(461,899)</u>	<u>(610,809)</u>
Nonoperating revenues (expense), net:		
Operating grant-management support	474,526	542,656
Operating grant-other	199,673	380,081
Other income, net	<u>121,996</u>	<u>253,971</u>
Total nonoperating revenues, net	<u>796,195</u>	<u>1,176,708</u>
Income before capital contributions	334,296	565,899
Capital contributions:		
Contributions from foreign entities	-	22,698
Grants from the United States Government	<u>7,038,970</u>	<u>3,859,179</u>
Change in net position	7,373,266	4,447,776
Net position at beginning of year	<u>9,649,648</u>	<u>5,201,872</u>
Net position at end of year	<u>\$ 17,022,914</u>	<u>\$ 9,649,648</u>

See accompanying notes to financial statements.

**CHUUK PUBLIC UTILITY CORPORATION**  
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Statements of Cash Flows  
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 5,789,533	\$ 5,669,187
Cash payments to suppliers for goods and services	(4,839,327)	(4,087,650)
Cash payments to employees	(1,174,885)	(1,232,558)
Net cash (used in) provided by operating activities	(224,679)	348,979
Cash flows from noncapital financing activities:		
Cash receipts from grantor	1,229,756	898,664
Net cash provided by noncapital financing activities	1,229,756	898,664
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	325,306	148,433
Cash receipts from grantor for capital projects	7,038,970	3,419,149
Acquisition of utility plant	(7,804,394)	(4,030,306)
Payments of notes payable and long-term debt	(139,169)	(307,993)
Net cash used in capital and related financing activities	(579,287)	(770,717)
Net change in cash	425,790	476,926
Cash at beginning of year	1,019,760	542,834
Cash at end of year	\$ 1,445,550	\$ 1,019,760
<u>Reconciliation of operating loss to net cash (used in) provided by operating activities:</u>		
Operating loss	\$ (461,899)	\$ (610,809)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation	665,240	610,337
Other income, net	121,996	253,971
Provision for uncollectable accounts	21,853	-
Decrease (increase) in assets:		
Accounts receivable	(37,904)	(87,751)
Inventory	60,701	126,195
Prepaid expenses	(13,253)	(3,682)
Deposits	(131,565)	(218,256)
Increase (decrease) in liabilities:		
Accounts payable	(26,041)	(116,621)
Accrued taxes and other liabilities	(460,019)	389,907
Accrued annual leave	(5,649)	4,335
Unearned revenue	41,861	1,353
Net cash (used in) provided by operating activities	\$ (224,679)	\$ 348,979

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.

See accompanying notes to financial statements.

**CHUUK PUBLIC UTILITY CORPORATION  
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Notes to Financial Statements  
September 30, 2016 and 2015

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures*, establish financial reporting standards for governmental entities, which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, equity is presented in the following net position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation, plus construction or improvement of those assets, net of related debts.
- Restricted: Nonexpendable - net position subject to externally imposed stipulations that requires CPUC to maintain such permanently. At September 30, 2016 and 2015, CPUC does not have nonexpendable net position. Expendable - net position whose use by CPUC is subject to externally imposed stipulations that can be fulfilled by actions of CPUC pursuant to those stipulations or that expire by the passage of time.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Basis of Accounting

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

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Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Cash

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

Custodial credit risk is the risk that in the event of a bank failure, CPUC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. CPUC does not have a deposit policy for custodial credit risk.

As of September 30, 2016 and 2015, the carrying amount of cash was \$1,445,550 and \$1,019,760, respectively, and the corresponding bank balances were \$1,412,031 and \$1,032,906, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, 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.

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 uncollectable 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 have a zero net book value as of September 30, 2016 and 2015. 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.

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Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. As of September 30, 2016 and 2015, CPUC has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. As of September 30, 2016 and 2015, CPUC has no items that qualify for reporting in this category.

Compensated Absences

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

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. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing. Cash power revenue is recognized as revenue at point of sale with the estimated unearned portion at year-end recognized as unearned revenue if determined to be significant. At September 30, 2016 and 2015, unearned revenue recognized on cash power revenue was \$89,351 and \$47,490, respectively, which is presented as unearned revenue in the accompanying statements of net position.

Grants and Subsidies

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

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Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

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 FSMNG, if any, in such manner as provided by law.

New Accounting Standards

During fiscal year 2016, CPUC implemented the following pronouncements:

- GASB 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 implementation of this standard did not have a material effect on the accompanying financial statements.
- GASB 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 No. 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 implementation of this standard did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this standard did not have a material effect on the accompanying financial statements.

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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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 the 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 the financial statements.

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

New Accounting Standards, Continued

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 the 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 the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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 the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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 the financial statements.

**CHUUK PUBLIC UTILITY CORPORATION**  
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Notes to Financial Statements  
September 30, 2016 and 2015

(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.

(3) Accounts Receivable

Accounts receivable at September 30, 2016 and 2015, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Residential	\$ 354,853	\$ 374,466
Commercial	197,273	165,303
Government	141,941	135,796
Unbilled	15,914	29,610
Other	28,032	46,229
Chuuk State Government service tax	<u>29,806</u>	<u>30,370</u>
	767,819	781,774
Less allowance for uncollectable accounts	<u>(297,624)</u>	<u>(327,630)</u>
	<u>\$ 470,195</u>	<u>\$ 454,144</u>

Receivables as of September 30, 2016 and 2015 include \$125,463 and \$154,459, 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, 2016 and 2015. In November 2013, a 5% Chuuk State service tax was applied to power tariffs. CPUC records service tax receivables in a separate account.

(4) Utility Plant

Utility plant and construction in progress consist of the following detailed balances at September 30, 2016 and 2015:

	Balance at October 1, 2015	Additions and Transfers	Deletions and Transfers	Balance at September 30, 2016
Depreciable assets:				
Electric plant in service	\$ 19,080,460	\$ 1,888,689	\$ (10,428,604)	\$ 10,540,545
Water and sewer plant in service	9,961,408	3,752,362	-	13,713,770
General plant in service	<u>4,027</u>	<u>146,291</u>	<u>-</u>	<u>150,318</u>
	29,045,895	5,787,342	(10,428,604)	24,404,633
Less accumulated depreciation	<u>(21,001,895)</u>	<u>(665,240)</u>	<u>10,229,039</u>	<u>(11,438,096)</u>
	8,044,000	5,122,102	(199,565)	12,966,537
Non-depreciable assets:				
Construction in progress	<u>4,155,661</u>	<u>7,699,027</u>	<u>(5,482,410)</u>	<u>6,372,278</u>
	<u>\$ 12,199,661</u>	<u>\$ 12,821,128</u>	<u>\$ (5,681,974)</u>	<u>\$ 19,338,815</u>

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Notes to Financial Statements  
September 30, 2016 and 2015

(4) Utility Plant, Continued

	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>

At September 30, 2016, almost all construction in progress represents infrastructure projects such as power plant, waterline extension and others that are funded by grants from the U.S. Department of the Interior (US DOI) (see note 6).

(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, 2016 and 2015, CPUC recorded federal grants from the U.S. DOI passed through by the FSM National Government totaling \$7,513,496 and \$3,961,805, respectively. Of the total grant proceeds at September 30, 2016 and 2015, \$605,618 and \$870,172, respectively, represent advances from the grantor used for infrastructure projects. The advances are to be repaid at the end of the grant term and are presented as payable to grantor in the accompanying 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 receivable from International Organization for Migration funded by 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.

During the year ended September 30, 2016, CPUC received LED light fixtures totaling \$199,673 from the World Bank.

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Notes to Financial Statements  
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(7) Borrowings and Noncurrent Liabilities

Long-term Debt

Long-term debt consists of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</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.	\$ 2,195,038	\$ 2,318,825
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, 2016 and 2015). Proceeds are used for the purchase of two generator sets and related costs.	2,561,395	2,437,875
A \$207,000 loan with the FSM Development Bank, bearing interest fixed at 7% per annum, payable over 60 monthly installments of \$4,099, maturing in February 2021. The loan is collateralized by a security interest in fixed assets. Proceeds were used to pay off an existing outstanding payable.	<u>186,404</u>	<u>-</u>
Total long-term debt	4,942,837	4,756,700
Less current portion of long-term debt	<u>243,529</u>	<u>191,411</u>
Long-term debt, net of current portion	<u>\$ 4,699,308</u>	<u>\$ 4,565,289</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 243,529	\$ 109,417	\$ 352,946
2018	258,425	95,270	353,695
2019	274,271	87,791	362,062
2020	293,176	79,788	372,964
2021	283,702	71,065	354,767
2022-2026	1,621,874	259,660	1,881,534
2027-2031	1,546,530	98,018	1,644,548
2032-2036	<u>421,330</u>	<u>10,077</u>	<u>431,407</u>
	<u>\$ 4,942,837</u>	<u>\$ 811,086</u>	<u>\$ 5,753,923</u>

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Notes to Financial Statements  
September 30, 2016 and 2015

(7) Borrowings and Noncurrent Liabilities, Continued

Long-term Debt, Continued

Changes in noncurrent liabilities for the years ended September 30, 2016 and 2015 are as follows:

	Outstanding October 1, <u>2015</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September <u>30, 2016</u>	Amount due Within <u>One Year</u>
Long-term debt	\$ 4,756,700	\$ 325,306	\$ (139,169)	\$ 4,942,837	\$ 243,529
Accrued annual leave	<u>45,789</u>	<u>-</u>	<u>(5,649)</u>	<u>40,140</u>	<u>7,359</u>
	<u>\$ 4,802,489</u>	<u>\$ 325,306</u>	<u>\$ (144,818)</u>	<u>\$ 4,982,977</u>	<u>\$ 250,888</u>
	Outstanding October 1, <u>2014</u>	<u>Addition</u>	<u>Reduction</u>	Outstanding September <u>30, 2015</u>	Amount due Within <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>

(8) Related Party Transactions

Revenue received from CSG representing power, water and other sales for the years ended September 30, 2016 and 2015 was \$1,213,328 and \$1,355,073, respectively.

Effective November 1, 2013, CPUC entered into a contract with FSMNG to provide maintenance services on the lift stations. The contract expired in June 2014 was extended through September 2016. Related income recorded of approximately \$92,396 and \$72,866 for the years September 30, 2016 and 2015, 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, 2016 and 2015, deposits in the amount of \$886,083 and \$754,518, 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, 2016 and 2015, payables to FSMPC were \$376,933 and \$402,974, respectively.

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Notes to Financial Statements  
September 30, 2016 and 2015

(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, 2016 and 2015, unamortized prepaid lease of \$309,124 and \$353,775, 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:

Year Ending September 30,

2017		\$ 18,926
2018		18,926
2019		18,926
2020		18,926
2021		18,926
2022-2026		94,630
2027-2031		94,630
2032-2033		<u>25,234</u>
		<u>\$ 309,124</u>

(10) Contingencies

Litigation

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

Risk Management

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

(11) Restricted Net Position

At September 30, 2016 and 2015, net position is restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Capital improvements	\$ 15,289	\$ 137,277
Fuel deposit from fuel operating grant	<u>536,262</u>	<u>536,262</u>
	<u>\$ 551,551</u>	<u>\$ 673,539</u>