Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

January 13, 2022

The Board of Directors
Pohnpei Utilities Corporation

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Pohnpei Utilities Corporation (PUC) as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated January 13, 2022.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of PUC is responsible.

This report is intended solely for the information and use of PUC management, the Board of Directors, and others within PUC, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Deloitte & Touche LLP

cc: The Management of Pohnpei Utilities Corporation

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards"), have been described in our engagement letter dated January 19, 2021, a copy of which has been provided to you. As described in that letter, the objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether the statement of net position of PUC as of September 30, 2020, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and perform specified procedures on the required supplementary information for the year ended September 30, 2020;

- Express an opinion on whether the supplementary information that accompanies the financial statements is fairly stated, in all material respects, in relation to the financial statements taken as a whole; and

- Report on PUC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grants and other matters for the year ended September 30, 2020 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in generally accepted government auditing standards.

Our responsibilities under generally accepted auditing standards and generally accepted government auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to PUC's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of PUC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PUC's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in PUC's 2020 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based on past collection experience and aging of the accounts; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2020, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS, RECLASSIFICATIONS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments and account reclassifications that we believe, either individually or in the aggregate, would have a significant effect on PUC's financial reporting process. Such proposed adjustments and reclassifications, listed in Appendix A to Attachment III, have been recorded in the accounting records and are reflected in the 2020 financial statements.

In addition, listed in Appendix B to Attachment III, are summaries of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

PUC's significant accounting policies are set forth in Note 2 to PUC's 2020 financial statements. During the year ended September 30, 2020, there were no significant changes in previously adopted accounting policies or their application.

We have evaluated the significant qualitative aspects of PUC's accounting policies, including accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

During the year ended September 30, 2020 , GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to PUC's 2020 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2020.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as PUC's 2020 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in PUC's 2020 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence, were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of PUC's management and staff and had unrestricted access to PUC's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of PUC's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations PUC is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment III, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated January 13, 2022, on PUC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. Within that report, we noted certain matters that we considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have also identified, and included in Attachment I, deficiencies related to PUC's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention.

The definition of a deficiency is also set forth in Attachment I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in Attachment II and should be read in conjunction with this report.

ATTACHMENT I

SECTION I – DEFICIENCIES

We identified the following deficiencies involving PUC's internal control over financial reporting as of September 30, 2020:

1. Advances Due from Employees

   Comment: At September 30, 2020, receivable – others of $174,502 are mainly travel advances due from employees, former employees or former board members which have been outstanding for several years.

   Recommendation: PUC should timely liquidate travel vouchers in accordance with PUC's travel policy.

2. Prepayments

   Comment: At September 30, 2020, the following prepayment matters were noted:

   - Of the total prepayments of $313,464, $107,129 pertains to long outstanding balances and relate to 2011-2019 transactions that are not yet cleared as of September 30, 2020. Further, $50,152 relates to prepaid water meters carried over from 2019 which are pending resolution with the vendor.

   - Of the total current year addition of $141,152 tested, $18,718 pertains to purchases already received and used, but still recorded as prepayment as of fiscal year end, which resulted in an audit adjustment of the same amount.

   Recommendation: PUC should perform a reconciliation, monitor status and determine validity of prepayments. In addition, PUC should continue to follow up on the delivery of these assets.

3. Construction in Progress (CIP)

   Comment: Generators #4 and #5, donated by the World Bank, were placed in operation at the end of FY2016. PUC's matching contribution of $86,264 for the generators has remained in the CIP account as the generators have not been officially transferred to PUC from the FSM National Government.

   Recommendation: PUC should obtain the fixed asset transfer document from the FSM National Government and capitalize the generators.

4. Account Payable

   Comment: At September 30, 2020, the following accounts payable and accrual matters were noted:

   - Accounts payable (AP) includes several balances that had been carried over from the prior year without any current year movement.

   - AP aging balance was not reconciled with the general ledger and resulted in a proposed adjustment of $19,816.

   Recommendation: PUC should verify the validity of these accounts. Also, we recommend that management perform timely reconciliation of AP aging and GL balances.

SECTION I – DEFICIENCIES, CONTINUED

5. Metered Power and Water Account

Comment: The status of one power metered and two water metered customers were not updated and did not appear to have any metering activities during the year. Such customer accounts were tagged as "ACTB", active and billable, but due to inactivity and an absence of billing statements issued, these accounts should be classified as inactive accounts.

Recommendation: PUC should improve the review of customer status and disconnect as necessary in accordance with policy.

6. Tax Payment

Comment: PUC is responsible for withholding income and social security taxes on the cost of living allowance (COLA) from employees and for timely filing tax returns with respective tax authorities. Although estimated tax liabilities were recorded in the financial statements as of September 30, 2020, through audit adjustments, tax returns have not been filed since the inception of the COLA program in April 2015.

Recommendation: PUC should withhold the said taxes and timely file tax returns with respective tax authorities.

SECTION II – DEFINITION

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

ATTACHMENT II

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

PUC's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

POHNPEI UTILITIES CORPORATION

"Dedicated to Improving the Quality of Life on Pohnpei"

January 13, 2022

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of net position of Pohnpei Utilities Corporation (the Corporation), a component unit of the State of Pohnpei, as of September 30, 2020 and 2019 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, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Corporation in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The preparation and fair presentation in the basic financial statements of financial position of the Corporation in conformity with GAAP.

b. 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
- To prevent and detect fraud

c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

P.O. Box C, Kolonia, Pohnpei
Federated States of Micronesia 96941
Phone: (691) 320-2374 Fax: (691) 320-2422 E-mail: puc@mail.fm

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

    a. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

    b. Deposits and investment securities are properly classified in category of custodial credit risk.

    c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

    d. Required supplementary information is measured and presented within prescribed guidelines.

    e. Applicable laws and regulations are followed in adopting, approving and amending budgets.

    f. The Corporation's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and the related net position is properly recognized under the policy.

    g. The financial statements properly classify all funds and activities, including special and extraordinary items.

2. The Corporation has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Corporation has made available to you:

    a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings up to November 9, 2021, for which minutes of meetings after that date until the date of this letter have not been prepared but did not contain significant matters of audit concern.

    b. All financial records and related data for all financial transactions of the Corporation and for all funds administered by the Corporation. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Corporation and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

    c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with regulatory agencies.

4. There have been no:

    a. Action taken by the Corporation's management that contravenes the provisions of federal laws and FSM National and state laws and regulations, or of contracts and grants applicable to the Corporation.

b. Communications with other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

6. We understand prepaid expenses was tested using statistical or other sampling techniques and that certain errors in recording prepaid expenses as of September 30, 2020, were found by you in the sample items selected. The effect of the factual errors identified has been included in the summary of uncorrected misstatements attached to this letter as Appendix B. We also understand that to estimate the total amount of errors in prepaid expenses, a mathematical projection of the errors has been computed, which results in a potential overstatement of $21,941 of prepaid expense at September 30, 2020, and a potential understatement of operating expenses for the year then ended. Only additional testing and verification by either the Company or you would produce a more accurate estimate of the errors within prepaid expenses. Such potential overstatement is not included as part of Appendix B. Based on our judgment of the materiality of the overstatement, we believe the effects of such potential unrecorded errors, as well as the effects when considered with the items in Appendix B, are immaterial to the financial statements taken as a whole.

7. The Corporation has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Corporation and do not believe that the financial statements are materially misstated as a result of fraud.

8. We have no knowledge of any fraud or suspected fraud affecting the Corporation involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

   c. Others, where the fraud could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation received in communications from employees, former employees, analysts, regulators, or others.

10. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments.*

11. The methods, significant assumptions, and the data used by us in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement, or disclosure that is in accordance with GAAP.

12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the provisions of grants and contracts relating to the Corporation's operations. We are responsible for understanding and complying with the requirements of the federal statutes and regulations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. We are responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

13. We have informed you of all investigations or legal proceedings that have been initiated during the year ended September 30, 2020 or are in process as of September 30, 2020.

14. We are responsible for all non-audit services performed by you during the year ended September 30, 2020 and through January 13, 2022.

15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

16. No changes in internal control over compliance or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by the Corporation with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2020.

17. We are responsible for taking corrective action on audit findings and have developed a corrective action plan. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

18. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

19. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity.*

Except where otherwise stated below, immaterial matters less than $59,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

20. Except as listed in Appendix B, there are no transactions that have not been properly recorded and reflected in the financial statements.

21. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

22. Regarding related parties:

    a. We have disclosed to you the identity of the Corporation's related parties and all the related party relationships and transactions of which we are aware.

b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

23. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events

    b. The effect of the change would be material to the financial statements.

24. There are no:

    a. Instances of identified or suspected noncompliance with laws, regulations or provisions of contracts or grant agreements whose effects should be considered when preparing the financial statements, or other instances that warrant the attention of those charged with governance.

    b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.

    c. Known actual or likely instances of abuse that have occurred that could be quantitatively or qualitatively material to the financial statements.

    d. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.

25. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the financial statements.

26. The Corporation has complied with all aspects of contractual agreements that may affect the financial statements.

27. No department or agency of the Corporation has reported a material instance of noncompliance to us.

28. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information.

    b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report.*

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

29. Agreements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

30. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

31. Receivables recorded in the financial statements represent valid claims or other charges arising on or before the date of the statements of net position and have been appropriately reduced to their estimated net realizable value.

32. The Corporation is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

33. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Corporation and do not include any items consigned to it or any items billed to customers.

34. We believe that all expenditures that have been deferred to future periods are recoverable.

35. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.

36. All additions to the Corporation's property accounts consist of replacements or additions that are properly capitalizable. Construction work-in-process recorded in the financial statements represent valid ongoing projects which are expected to be completed.

37. The Corporation has determined whether a capital asset has been impaired in accordance with GASB Codification Section 1400.180-1400.200, *Impairment of Capital Assets*. In making this determination, the Corporation considered the following factors:

    a. The magnitude of the decline in service utility is significant.

    b. The decline in service utility is unexpected.

38. During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No.'s 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

39. Regarding the future implementation of GASB Statements effective for the years ending September 30, 2021 and after, as detailed in the note 2 of the financial statements, the Corporation does not believe the implementation will have a material effect on its financial statements with the exception of *Statement No. 87, Leases*, which will be effective for fiscal year ending September 30, 2022. The Corporation has not completed

the process of evaluating the impact that will result from adopting GASB Statement No. 87 *Leases*, as discussed in Note 2. The Corporation is therefore unable to disclose the impact that adopting GASB Statement No. 87 will have on its financial position, results of operations, and cash flows when such statement is adopted.

40. The Corporation purchases commercial insurance to cover its potential risks of loss from fire on its building and the contents and full coverage on property damages. It 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.

41. We are in compliance with terms and conditions of the United States Department of Agriculture Rural Development (USDARD) $578,000 loan dated September 2004 and do not believe that the loan is classified as federal financial assistance. We are not aware of and have not received any correspondence from USDARD regarding any additional compliance requirements.

42. There are no material subsequent events that have occurred after September 30, 2020 but before January 13, 2022, the date of the financial statements were available to be issued that require consideration as adjustments to, or disclosures in, the financial statements.

Very truly yours,

Nixon Anson
General Manager

Daisy Nanpei
Comptroller

APPENDIX A
CORRECTED MISSTATEMENTS

Journal Entries - AJE

GL Code	Name	Debit	Credit
	1 AJE To expense out prepaid items - parts		
554-17-03	REPAIRS & MAINT. - PARTS	18,179.00	
165-01-00	PREPAID PURCHASE ORDERS		18,179.00
		18,179.00	18,179.00
	To expense out prepaid items - parts		
	2 AJE To recognize bad debts		
904-00-06	UNCOLLECTIBLE ACCOUNTS	562,568.00	
144-00-02	ACCUM-PROV-UNCOLLECT OTHER A/R	22,849.00	
144-00-01	ACCUM PROV-UNCOLLECT-WATER		585,417.00
		585,417.00	585,417.00
	To recognize bad debts		
	3 AJE To recognize unearned portion		
414-22-01	USDA-RUS / COFA INFRASTUCTURE GRANT	91,082.00	
235-00-00	CUSTOMER DEPOSITS		91,082.00
		91,082.00	91,082.00
	To recognize unearned revenue		
	4 RJE Curernt portion of LTD		
223-00-00	ADB SEWER LOAN	320,900.00	
224-01-00	RUS LOAN	11,497.00	
224-01-01	ASIAN DEV. BANK LOAN	97,069.00	
226-01-00	BANK OF GUAM LOAN	49,642.00	
231-01-00	NOTES PAYABLE CURRENT PORTION		479,108.00
		479,108.00	479,108.00
	To reclass the current portion of LT debts to 231-01-00		
	5 RJE To reclass restricted portion of TCD		
129-03-02	PUC TCDS @ BOFSM restricted	120,484.00	
129-03-00	PUC TCDS @ BFSM		120,484.00
		120,484.00	120,484.00
	To reclass restricted portion of TCDs		

APPENDIX B
UNCORRECTED MISSTATEMENTS RELATED TO CURRENT YEAR
SEPTEMBER 30, 2020

	Balance Sheet			Change in Net position
Misstatement Description	**Assets Dr (Cr)**	**Liabilities Dr (Cr)**	**Net Position Dr (Cr)**	**Revenue Expenses Dr (Cr)**
#1 To reconcile AP Aging and GL		(19,816)		19,816
#2 To expensed out aged/unidentified prepayment carried over from 2011-2019	(107,129)			107,129
#3 To accrue unpaid taxes	16,848	(26,208)		9,360
#4 To recognize reversal of allowance for obsolete inventory	54,984			(54,984)
_	**(35,297)**	**(46,024)**	**-**	**81,321**