

*The Auditor's Communication With Those Charged
With Governance*

Kosrae Utilities Authority
(A Component Unit of the State of Kosrae)

Year Ended September 30, 2022



October 5, 2023

The Board of Directors
Kosrae Utilities Authority

We have performed an audit of the financial statements of Kosrae Utilities Authority (the Authority), a component unit of the Federated States of Micronesia National Government, as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated October 5, 2023.

Provided below is a summary of required communications between the audit team and those charged with governance, as required by AICPA Clarified US Auditing Standard (AU-C) 260, *"The Auditor's Communication With Those Charged With Governance"*, and other applicable auditing standards.

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

Very truly yours,



REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide the Board of Directors (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board (or those charged with governance) in overseeing the financial reporting and disclosure processes which the management of the Authority is responsible. We summarize these required communications as follows:

Overview of the planned scope and timing of the audit

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated February 6, 2023 and at our audit planning meeting with management.

Auditor's responsibility under GAAS, including our discussion of the type of auditor's report we are issuing and the circumstances that affect the form and content of our auditor's report, if applicable

Our responsibilities are included in our audit engagement agreement. A copy of such agreement has previously been provided to you.

We have issued an unmodified opinion on the Authority's financial statements as of and for the year ended September 30, 2022.

An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Changes to the audit strategy, timing of the audit and significant risks identified

Our audit strategy is consistent with the plan communicated during the February 2023 meeting.

Matters relevant to our evaluation of the entity's ability to continue as a going concern

We did not identify any events or conditions that led us to believe there was substantial doubt about the Authority's ability to continue as a going concern.

Our views about the qualitative aspects of the Authority's significant accounting practices, including:

- **Accounting policies**
- **Accounting estimates**

Management has not selected or changed any significant policies or changed the application of those policies in the current year.

We have provided a discussion of significant accounting policies and our views regarding significant accounting estimates and financial statement disclosures and related matters in Note 2 of the basic financial statements.

We determined that those charged with governance are informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Significant findings and issues arising during the audit relating to related parties

We noted no significant matters regarding the Authority's relationships and transactions with related parties.

Changes to the terms of the audit with no reasonable justification for the change

None.

Significant unusual transactions

We are not aware of any significant unusual transactions executed by the Authority.

Difficult or contentious matters subject to consultation outside of the audit team

None.

Material corrected misstatements, related to accounts and disclosures

Refer to "Management Representations Letter" in Appendix A.

Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial

Refer to the "Management Representations Letter" in Appendix A.

Significant deficiencies and material weaknesses in internal control over financial reporting

No material weaknesses have been identified.

Fraud and illegal acts

We are not aware of any matters that require communication.

Independence matters

We are not aware of any matters that in our professional judgment would impair our independence.

New accounting pronouncements

Management is still assessing the impact of adopting the following GASB Statements:

- GASB Statement No. 91
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101

Significant issues discussed with management in connection with the auditor's initial appointment or recurring retention

None.

Disagreements with management and significant difficulties encountered in dealing with management when performing the audit

None.

Management's consultations with other accountants

We are not aware of any consultations made by management with other accountants or specialists.

Other material written communications with management

None.

Other findings or issues regarding the oversight of the financial reporting process

There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

AICPA ethics ruling regarding third-party service providers

From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with the Company or its affiliates directly, although EY alone will remain responsible to you for the Audit Services and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.

Representations we are requesting from management

Refer to “Management Representations Letter” in Appendix A.

Engagement team’s involvement with preparation of the financial statements

Under GAS 2011 Revision, Chapter 3 General Standards, Paragraph 3.34 Requirements for Performing Non-audit Services explains that the audit team should make consideration of management’s ability to effectively oversee the non-audit (or non-attest) services to be performed. The engagement team should determine that the audited entity has designated an individual who possesses suitable skill, knowledge or experience and that the individual understands the services to be performed sufficiently to oversee them. The engagement team should document consideration of management’s ability to oversee non-audit services to be performed.

The engagement team believes that this significant threat is reduced to an acceptable level upon application of the following safeguards:

- An engagement quality control review was performed by a qualified Ernst & Young Partner who was not otherwise involved in the audit.
- The preparation of the financial statements is based on the Authority’s trial balance with our understanding that the Authority’s underlying books and records are maintained by the Authority’s accounting department and that the final trial balance prepared by the Authority is complete.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of the Authority.
- The Authority’s Accounting Manager has the skill sets to oversee and review the completeness and accuracy of the financial statements and footnote disclosures.

Appendix

A – Management Representations Letter

Appendix A – Management Representations Letter



State of Kosrae
Federated States of Micronesia

KOSRAE UTILITIES AUTHORITY

Tofol Government Center, KUA Plaza
P.O. Box KUA Kosrae, FM 96944

TEL: (691) 370-3799/3344
FAX: (691) 370-3798

October 5, 2023

Ernst & Young LLP
231 Ypao Road
Suite 201 Ernst and Young Building
Tamuning, Guam 96913

In connection with your audit of the basic financial statements of Kosrae Utilities Authority (the Authority) as of September 30, 2022 and for year then ended, and the related notes to the financial statements, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Kosrae Utilities Authority in accordance with accounting principles generally accepted in the United States of America (US GAAP).

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.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated February 6, 2023, for the preparation and fair presentation of the financial statements (including disclosures) in accordance with US GAAP applied on a basis consistent with that of the preceding periods except for the effects of adopting new accounting standards.

In preparing the financial statements, we evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for one year after the date that the financial statements are issued (or available to be issued, if applicable), and to provide appropriate financial statement disclosure, when applicable, related to going concern and using the going concern basis of accounting unless we prepared the financial statements in accordance with the liquidation basis of accounting.

We acknowledge our responsibility for 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. We have provided you with:

Appendix A – Management Representations Letter, continued

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Authority from whom you determined it necessary to obtain evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

From October 1, 2021 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

Uncorrected misstatements

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current and prior audit period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Internal control

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We have communicated to you all deficiencies in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2022.

Minutes and contracts and internal audit reports

The dates of meetings of shareholders, directors, committees of directors and important management committees from October 1, 2021 to October 5, 2023 are as follows:

- | | |
|--------------------------------------|-------------------------------------|
| •Special Meeting – October 14, 2021 | •Regular Meeting – February 8, 2023 |
| •Regular Meeting – October 29, 2021 | •Special Meeting – March 6, 2023 |
| •Regular Meeting – February 10, 2022 | •Special Meeting – March 9, 2023 |
| •Regular Meeting – April 28, 2022 | •Regular Meeting – April 28, 2023 |
| •Regular Meeting – August 5, 2022 | •Special Meeting – June 19, 2023 |
| •Special Meeting - September 6, 2022 | •Regular Meeting – August 4, 2023 |
| •Special Meeting – September 7, 2022 | •Special Meeting – August 15, 2023 |
| •Regular Meeting - October 21, 2022 | •Special Meeting – August 23, 2023 |

Appendix A – Management Representations Letter, continued

•Special Meeting – August 24, 2023

•Special Meeting – September 15, 2023

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

Methods, significant assumptions, and data used in making accounting estimates

The appropriateness of the methods, the consistency in application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in developing accounting estimates and related disclosures, including those measured at fair value, are reasonable and supportable.

Ownership and pledging of assets prior to the adoption of ASC 842, Leases

Except for right-of-use assets, the Authority has satisfactory title to all assets appearing in the statements of net position as of September 30, 2022. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged except as disclosed in the financial statements. All assets to which the Authority has satisfactory title appear in the statements of net positions.

Receivables and revenues

Receivables represent valid claims against the debtors indicated and do not include amounts for services provided subsequent to the statement of net position dates or other types of arrangements not constituting sales. Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62 – as amended.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the statement of net position dates in respect of sales and services rendered prior to that those dates and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at those dates.

We have disclosed to you all contract terms (both expressed and implied), including all rights of return or price adjustments and warranty provisions. We have made available to you all significant contracts, communications (either written or oral), and other relevant information pertaining to arrangements with our customers, including distributors and resellers.

Inventories

Inventories for which cost is determined by methods other than last-in first-out (LIFO) and the retail inventory method (RIM), including goods that are defective, slow-moving, obsolete or unusable, are stated at amounts not in excess of their estimated net realizable values.

Physical counts and measurements of inventories were made by competent employees under the

Appendix A – Management Representations Letter, continued

supervision of management and book records were appropriately adjusted after giving recognition to cut-off for materials received and products shipped.

Adequate provision has been made for losses under firm purchase commitments for goods or inventory. There have been no reductions of the selling prices of finished goods subsequent to September 30, 2022 and none are contemplated.

Long-lived assets to be held and used, including amortizable intangible assets

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets (asset groups) to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

Fair value measurements

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. Our valuation techniques have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72—as amended. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72—as amended.

Related party relationships and transactions

We have made available to you the names of all related parties and all relationships and transactions with related parties.

Transactions with related parties, as defined in GASB Statement No. 56 – as amended, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration have been properly recorded and disclosed in the financial statements, and information concerning these transactions and amounts has been made available to you.

Side agreements and other arrangements

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with GASB Statement No. 62 – as amended.

Appendix A – Management Representations Letter, continued

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives in any jurisdiction concerning investigations or allegations of noncompliance with laws or regulations, noncompliance with or deficiencies in financial reporting practices, or other matters that could affect the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by GASB Statement No. 62 – as amended, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62 – as amended.

Oral or written guarantees

There are no oral or written guarantees, including guarantees of the debt of others.

Purchase commitments

At September 30, 2022 the Authority had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at that date.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2022 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Non-compliance with laws and regulations, including fraud

We acknowledge that we are responsible to determine that the Authority's business activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws or regulations, including fraud.

We acknowledge our responsibility for the design, implementation and maintenance of a system of internal control to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

Independence

We have communicated to you the names of all the Authority's affiliates, officers and directors.

Appendix A – Management Representations Letter, continued

We are not aware of any business relationship between the Authority and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be independent for purposes of the Authority's audit.

Conflicts of interest

There are no instances where any officer or employee of the Authority has an interest in a company with which the Authority does business that would be considered a "conflict of interest." Such an interest would be contrary to Authority policy.

Effects of new accounting principles

As discussed in Note 2, we have not completed the process of evaluating the effects that will result from adopting the amendments to the codification provided in Governmental Accounting Standards Board (GASB):

- GASB Statement No. 91
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101

As discussed in Note 2, the Authority is therefore unable to disclose the effects that adopting the amendments in the aforementioned GASB Statements will have on its financial position and the results of its operations when such statements are adopted.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on the management's discussion and analysis on pages 4 through 9, which have been measured and presented in conformity with the guidelines established by the GASB in its applicable GASB Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. We are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations used are reasonable.

Going concern

The Corporation's ability to continue as a going concern was evaluated and appropriate disclosures are made in the financial statements as necessary under GASB requirements.

Other representations

We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

Appendix A – Management Representations Letter, continued

We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments and tax levies and refunds.

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

Provisions for uncollectible receivables have been properly identified and recorded.

Special and extraordinary items are appropriately classified and reported.

Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

Investments are properly valued.

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

Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available is appropriately disclosed and net assets were properly recognized under the policy.

The Authority is in compliance with post issuance requirements as specified in the Internal Revenue Code, including but not limited to the areas of arbitrage and private business use, for each of its outstanding bond issues.

Other matters

We have received a draft copy of the financial statements of the Authority as of and for the year ended September 30, 2022. The accuracy and completeness of the financial statements, including footnote disclosures, are the responsibility of the management of the Authority.

You have assisted in the preparation of the Authority's financial statements based on the information in the Authority's trial balance and accounting records. It is our understanding that:

- The Authority's underlying books and records are maintained by the Authority's accounting department and that the final trial balance prepared by the Authority is complete; and
- Management of the Authority has designated a competent representative to oversee our services and that there are the Authority personnel with sufficient financial competence who are able to challenge and review the completeness and accuracy of the financial statements.

We acknowledge that we have reviewed the draft financial statements for accuracy and completeness, and we take responsibility for them.

Subsequent events

Appendix A – Management Representations Letter, continued

Subsequent to October 5, 2023, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Authority's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Authority.

We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statements as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



Fred Skiffing, General Manager 10/5/23



Robert Gillana, Comptroller 10/5/23

Appendix A – Management Representations Letter, continued

Communication schedule for corrected misstatements

Entity: Kosrae Utilities Authority (KUA) Period ended: 30-Sep-2022 Currency: USD

Corrected misstatements		Analysis of misstatements Debit/(Credit)					Income statement effect of the current period			
No.	W/P ref.	Account	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Debit/(Credit)	Non taxable
(misstatements are recorded as journal entries with a description)										
1		Correction of accumulated depreciation.								
		ACCUM DEPREC - DISTRIB. PLANT		36,027						
		RETAINED EARNINGS - PRIOR					(36,027)			
		To correct accumulated depreciation for the year.								
Total of corrected misstatements before income tax			0	36,027	0	0	0	(36,027)	0	0
Financial statement amounts			2,750,105	1,816,984	(329,291)	0	(4,237,798)		(235,857)	
Effect of corrected misstatements on F/S amounts			0.0%	2.0%	0.0%	0.0%	0.9%		0.0%	

[For US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAD.]

Management's representation:
The above adjustment were discussed with us and we agree to record them:

10/5/23 10/5/23
Fred Skilling, General Manager Robert Gillane, Comptroller
Date Date

Appendix A – Management Representations Letter, continued

Communication schedule for uncorrected misstatements

Entity: Period Ended: Currency:

Uncorrected misstatements			Analysis of misstatements						Effect on the current period OCI		Income statement effect of the prior period		
No.	W/P ref.	Account (Note 1) (misstatements are recorded as journal entries with a description)	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Prior period Debit/(Credit)	Non taxable
Factual misstatements:													
Judgmental misstatements:													
1		GASB 87, Leases											
		ROU Asset		33,499									
		Lease Liability				(33,499)							
		Amortization of lease asset											
		Accumulated amortization, ROU Asset		(14,688)							14,688		
		Interest Expense											
		Lease Liability				15,513							
		Rent Expense											
		To recognize entries after assessment of KUAF's leases in accordance with GASB 87, Leases.									(15,540)		
Total of uncorrected misstatements before income tax			0	18,811	0	(17,966)	0	0	(825)			0	
Total of uncorrected misstatements			0	18,811	0	(17,966)	0	0	(825)			0	
Financial statement amounts			2,750,105	1,816,984	(329,291)	0	(4,237,798)		(235,657)			0	
Effect of uncorrected misstatements on F/S amounts			0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.3%			0.0%	
Memo: Total of non-taxable items (marked 'X' above)			0										
Uncorrected misstatements before income tax			-0.3%										
Less: Tax effect of misstatements at current year marginal rate			0%										
Uncorrected misstatements in income tax			0										
Cumulative effect of uncorrected misstatements after tax but before turnaround			0										
Turnaround effect of prior period uncorrected misstatements			0.3%										
After tax			(825)										
Memo: Before tax			0										
Cumulative effect of uncorrected misstatements, after turnaround effect			0.3%										
Current year income before tax			273,917										
Current year income after tax			(235,657)										

Management's representation:
We believe that the effects of any uncorrected misstatement, summarized in the above schedule, accumulated by you during the current audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Fred Skilling, General Manager	Date	Robert Gillana, Comptroller	Date
 10/5/23		 10/5/23	

Form 430GL (3 August 2022)