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March 23, 2023

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, 2021, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated March 23, 2023.

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,

cc: The Management of Pohnpei Utilities Corporation

Board of Directors  
Pohnpei Utilities Corporation  
March 23, 2023

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## **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 April 19, 2022, 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, 2021, 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, 2021;
- 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, 2021 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.

Board of Directors  
Pohnpei Utilities Corporation  
March 23, 2023

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## **SIGNIFICANT ACCOUNTING POLICIES**

PUC's significant accounting policies are set forth in Note 2 to PUC's 2021 financial statements. In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement No. 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.

During the year ended September 30, 2021, PUC implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves 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.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

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.

## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 are effective for the 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.

## **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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 would typically perform; (2) mitigate costs associated with the reporting of certain defined contribution other post employment (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. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

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

## **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 2021 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, 2021 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 I, have been recorded in the accounting records and are reflected in the 2021 financial statements.

In addition, listed in Appendix B to Attachment I, 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.

Board of Directors  
Pohnpei Utilities Corporation  
March 23, 2023

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## **OTHER INFORMATION INCLUDED IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as PUC's 2021 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 2021 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.

## **DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to PUC's 2021 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 2021.

## **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 I, a copy of the representation letter we obtained from management.

Board of Directors  
Pohnpei Utilities Corporation  
March 23, 2023

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## **CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated March 23, 2023, 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.



# POHNPEI UTILITIES CORPORATION

## “Dedicated to Improving the Quality of Life on Pohnpei”

March 23, 2023

### BOARD OF DIRECTORS

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

*Erick Paul*  
*Chairman*

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, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, 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) and your single audit of the Corporation for the year ended September 30, 2021.

*Joseph Felix, Jr.*  
*Vice-Chairman*

*Gardner Edgar*  
*Secretary*

We confirm that we are responsible for the following:

*William Hawley*  
*Member*

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 controls:

- Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

*Cindy Henry-Ehmes*  
*Member*

- To prevent and detect fraud.

*Sister Christina Elias*  
*Member*

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.

*Nixon Anson*  
*General Manager/CEO*

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

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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 GAAP. 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 for which minutes have not yet been prepared. Board meetings were held on the following dates:
  - 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 federal agencies.
4. There has been no:
  - a. Action taken by the Corporation management that contravenes the provisions of federal laws and Federated States of Micronesia's (FSM) 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. 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.
7. 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.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation financial statements communicated by employees, former employees, analysts, regulators, or others.
9. 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 of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. We are responsible for compliance with State, FSM 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 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. The Corporation is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
12. 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.
13. 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.
14. No organizations were identified that meet the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$55,000 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.

15. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
16. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
17. 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.
18. 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.
19. There are no:
  - a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
  - 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*, except as disclosed in Note 6 to the financial statements.
20. 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 specified in Note 6 to the financial statements.

21. The Corporation has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
22. No department or agency of the Corporation has reported a material instance of noncompliance to us.
23. 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
24. 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.
25. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
26. 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.
27. 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.
28. 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.
29. We believe that all expenditures that have been deferred to future periods are recoverable.
30. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
31. 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.
32. 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.

33. 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.

During the year ended September 30, 2021, the Corporation implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the fiscal year ending September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.


34. 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.
35. 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.
36. 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.
37. 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.
  38. 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. Management does not believe that this statement upon implementation, will have a material effect on the financial statements.
  39. 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.
  40. 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.
  41. 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.
  42. 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.

- 43. 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.
- 44. No events have occurred subsequent to September 30, 2021, but before March 23 2023, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

  
\_\_\_\_\_  
Nixon Anson  
General Manager

  
\_\_\_\_\_  
Daisy Nanpei  
Comptroller

**Appendix A**  
**Corrected Misstatements**

**Journal Entries - AJE**

#	Name	Debit	Credit
<b>1 CJE To reverse 9/30/2020 payroll accrual</b>			
242-01-00	ACCRUED WAGES & SALARIES	129,293.30	
546-01-03	SAL & WAGES - STANDARD		25,076.72
580-01-05	SAL & WAGES - STANDARD		35,375.85
601-01-09	SAL & WAGES-STANDARD/WATER		28,407.68
676-05-09	EE BENEFITS - SOCIAL SECURITY		1,998.41
902-01-06	SAL & WAGES - STANDARD		23,548.48
926-01-07	EE BENEFITS- PUC RETIREMENT PL		3,910.92
926-02-07	EE BENEFITS-GROUP HEALTH		4,871.27
926-04-07	EE BENEFITS-SOCIAL SECURITY		6,103.97
		<u>129,293.30</u>	<u>129,293.30</u>
	To post AJ-005463 - reversal of 9/30/2020 accrued payroll reversal on 10/1/2020.		
<b>2 AJE To recognize bad debts</b>			
904-00-06	UNCOLLECTIBLE ACCOUNTS		701,954.00
144-00-02	ACCUM-PROV-UNCOLLECT OTHER A/R	2,678.00	
144-00-01	ACCUM PROV-UNCOLLECT-WATER	699,276.00	
		<u>701,954.00</u>	<u>701,954.00</u>
	To recognize bad debts		
<b>2 CJE To correct AR</b>			
142-01-01	A/R - RESIDENTIAL /WATER	19,063.43	
142-02-01	A/R - COMMERCIAL /WATER	2,353.23	
142-03-01	A/R - GOVERNMENT/WATER	116,735.77	
444-00-01	GOVERNMENT SALES/WATER		19,063.43
442-00-01	COMERCIAL SALES/WATER		2,353.23
444-00-01	GOVERNMENT SALES/WATER		116,735.77
		<u>138,152.43</u>	<u>138,152.43</u>
	To post adjustment to reconcile AR after factoring in negative AR reclass.		
<b>3 CJE To correct fuel inventory</b>			
154-01-00	FUEL INVENTORY	1,667.52	
547-01-03	POL - FUEL		1,667.52
		<u>1,667.52</u>	<u>1,667.52</u>
	To post entity post-closing adjustment - AJ-005569		



**Appendix A, Continued**  
**Corrected Misstatements, Continued**

	<b>4 CJE To adjust FSMPC / fuel etc</b>		
547-02-03	POL - LUB/OIL	3,802.39	
547-03-03	POL - SOLVENT		3,802.39
547-00-01	KWh	133,771.15	
547-00-03	FUEL		12,656.79
233-00-00	EMPLOYEE ALLOTMENTS		38,479.37
547-01-03	POL - FUEL		82,634.99
232-01-00	ACCOUNTS PAYABLE - FSM Petro Corp	54,280.93	
547-01-03	POL - FUEL		54,280.93
		<u>191,854.47</u>	<u>191,854.47</u>
	To record post-closing adjustments (AJ-005581, AJ-005582 and AJ-005583).		
	<b>5 CJE To adjust inventory/prepayments</b>		
154-02-00	PARTS INVENTORY - GENERATION	78,820.69	
165-01-00	PREPAID PURCHASE ORDERS		63,056.55
554-18-03	REPAIRS & MAINT. - REPAIRS		15,764.14
165-02-00	OTHER PREPAID EXPENSES	351,064.00	
154-04-00	PARTS INVENTORY - WATER/SEWER		351,064.00
165-01-00	PREPAID PURCHASE ORDERS	63,056.55	
165-00-00	PREPAYMENTS		63,056.55
		<u>492,941.24</u>	<u>492,941.24</u>
	To post AJ-005564, AJ-005565, AJ-005566		
	<b>6 CJE To correct ADB loans</b>		
419-00-00	INTEREST & DIVIDEND INCOME	51,600.84	
223-00-00	ADB SEWER LOAN		51,600.84
419-00-00	INTEREST & DIVIDEND INCOME	20,231.46	
223-00-00	ADB SEWER LOAN		20,231.46
		<u>71,832.30</u>	<u>71,832.30</u>
	To post AJ-005610 and AJ-005611		
	<b>7 CJE To correct prepayment</b>		
165-00-00	PREPAYMENTS	161,732.59	
107-08-00	W I P WATER/SEWER		161,732.59
		<u>161,732.59</u>	<u>161,732.59</u>
	Correction of prepayments		

**Appendix A, Continued**  
**Corrected Misstatements, Continued**

	<b>8 CJE To correct prepayment</b>		
930-20-07	MISC. GENERAL EXPENSES	19,091.28	
165-03-00	PREPAYMENTS - TRAVEL		19,091.28
		<u>19,091.28</u>	<u>19,091.28</u>
	Correction of prepayments for travel		
	<b>9 CJE To correct repayment</b>		
921-00-07	OFFICE SUPPLIES & EXPENSES	25,176.02	
554-18-03	REPAIRS & MAINT. - REPAIRS	78,764.51	
165-00-00	PREPAYMENTS		103,940.53
		<u>103,940.53</u>	<u>103,940.53</u>
	To correct prepayments		
	<b>10 CJE To correct AP</b>		
154-03-00	PARTS INVENTORY-DISTRIBUTION		10,780.00
232-00-00	ACCOUNTS PAYABLE	124,748.81	
554-17-03	REPAIRS & MAINT. - PARTS		89,416.81
921-00-07	OFFICE SUPPLIES & EXPENSES		24,552.00
		<u>124,748.81</u>	<u>124,748.81</u>
	To correct AP		
	<b>11 AJE To correct capital contributions</b>		
141-01-01	DEPOSIT AT PETRO - KWH	1,818,547.50	
107-07-00	W I P GENERATION		1,818,547.50
		<u>1,818,547.50</u>	<u>1,818,547.50</u>
	To adjust CWIP for the generation project as of 9/30/21		

**Journal Entries - RJE**

#	Name	Debit	Credit
	<b>3 RJE Curernt portion of LTD</b>		
223-00-00	ADB SEWER LOAN	330,565.00	
224-01-00	RUS LOAN	12,025.00	
224-01-01	ASIAN DEV. BANK LOAN	97,069.00	
226-01-00	BANK OF GUAM LOAN	53,283.00	
231-01-00	NOTES PAYABLE CURRENT PORTION		492,942.00
		<u>492,942.00</u>	<u>492,942.00</u>
	To reclass the current portion of LT debts		
	<b>1 RJE To reclass unreleased checks to PUCSC</b>		
130-02-00	CASH AT BANK	200,318.71	
232-00-00	ACCOUNTS PAYABLE		200,318.71
		<u>200,318.71</u>	<u>200,318.71</u>
	To reclassify unleased checks to PUC Social Club at 9/30/2021.		

**Appendix B**  
**Uncorrected Misstatements**

Misstatement Description	Balance Sheet			Change in Net Position
	Assets	Liabilities	Net Position	Revenue Expenses
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
<b>PAJE No. 1</b>				
To recognize stale dated checks	30,758	(30,758)		
<b>PAJE No. 2</b>				
To reconcile AP aging and GL		(20,087)		20,087
<b>PAJE No. 3</b>				
To adjust BOG loan difference with bank balance		14,875		(14,875)
<b>PAJE No. 4</b>				
To reverse aged/potentially invalid unearned revenue items		17,515		(17,515)
<b>PAJE No. 5</b>				
To accrue unpaid taxes	16,848	(26,208)		9,360
<b>Totals</b>	<b>47,606</b>	<b>(44,663)</b>		<b>(2,943)</b>