



BURGER · COMER · & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

July 28, 2025

The Board of Directors
Pohnpei Utilities Corporation

Dear Members of the Board of Directors,

We have audited the financial statements of the Pohnpei Utilities Corporation (PUC), a component unit of the Pohnpei State Government, for the year ended September 30, 2023, in accordance with the auditing standards generally accepted in the United States of America (generally accepted auditing standards) and have issued our report thereon dated July 28, 2025.

The comments in this letter will assist you in fulfilling your obligations in providing oversight of financial reporting and disclosure processes for which the management of PUC is responsible.

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

We extend our gratitude to the staff and management of PUC for their cooperation and assistance during this engagement.

Respectfully,

Tamuning, Guam

cc: Management of the Pohnpei Utilities Corporation

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Our Responsibility Under Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards

Our responsibilities under (1) generally accepted auditing standards, (2) 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”), the objectives of an audit conducted in accordance with the auditing standards are:

- To express an opinion on whether the Statement of Net Position of PUC as of September 30, 2023 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 to perform specified procedures on the required supplementary information for the year ended September 30, 2023.
- To report 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 for the year ended September 30, 2023, based on an audit of financial statements performed in accordance with 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 judgement, 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 consider internal control over the financial reporting relevant to the 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 the PUC’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the PUC are described in Note 2 to the financial statements. Apart from the implementation of new GASB Statements highlighted below, no new accounting policies were adopted, and the application of existing policies was not changed during 2023.

Significant Audit Matters

Qualitative Aspects of Accounting Practices, Continued

We noted no transactions entered into by the PUC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

During the year ended September 30, 2023, the PUC implemented the following pronouncements:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*.
- GASB Statement No. 96, *Subscription – Based Information Technology Arrangements*.
- Certain required provisions of GASB Statement No. 99, *Omnibus 2022*. Particularly:
 - Provisions relating to the clarification of GASB Statement No. 87.
 - Provisions relating to the clarification of GASB Statement No. 94.
 - Provisions relating to the clarification of GASB Statement No. 96.
 - Provisions relating to the modification of accounting and reporting guidance for the termination of hedges as established in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

The implementation of these statements did not have a material effect on the PUC's financial statements.

Management of the PUC is currently evaluating the future impact of adopting the following upcoming GASB statements:

- Certain provisions in GASB Statement No. 99, *Omnibus 2022*. Particularly those relating to:
 - Modifications to the guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.
 - Guidance on the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
- GASB Statement No. 100, *Accounting Changes and Error Corrections*.
- GASB Statement No. 101, *Compensated Absences*.
- GASB Statement No. 102, *Certain Risk Disclosures*

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

Management Judgement and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgements are ordinarily based on knowledge and experience about past and current events and on assumptions about future events.

Management Judgement and Accounting Estimates, Continued

Significant accounting estimates reflected in PUC's financial statements include:

- Management's estimates of the allowance for uncollectible accounts which is determined based upon past collection experience and aging of the accounts.
- Management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets.
- Management's estimate of the allowance for stock obsolescence which is determined based on management's current year assessment of parts inventory.

During the year ended September 30, 2023, we are not aware of any significant changes in accounting estimates or in management's judgements relating to such estimates.

The financial statement disclosures are neutral, consistent, and clear.

Audit Adjustments and Reclassifications

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 a result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on PUC's financial statements. Such adjustments and reclassifications, listed in **Appendices A and B to Attachment II**, were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period and are reflected in the 2023 financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level. **Appendix C to Attachment II** includes a listing of uncorrected misstatements that were presented to management during our audit. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 28, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the PUC's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We discussed a variety of matters, including certain application of accounting principles and auditing standards, with management; however, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Control Related Matters

We have issued as a separate report to you, also dated July 28, 2025, on the 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 on the audit performed in accordance with *Government Auditing Standards*.

We have identified, and included in **Attachment I**, certain deficiencies related to the PUC's internal control over financial reporting as of September 30, 2023, that we wish to bring to your attention.

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 the attached **Attachment II** and should be read in conjunction with this report.

Restriction on Use

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

ATTACHMENT I – DEFICIENCIES AND OTHER MATTERS

We identified the following deficiencies involving the PUC’s internal control over financial reporting as of September 30, 2023:

(1) Internal Policies and Procedures

Comment: PUC’s accounting policies and procedures manual has not been updated since fiscal year 1993. As a result, the manual does not reflect current accounting standards, regulatory requirements, or PUC’s present operating practices.

Recommendation: PUC should update its accounting policies and procedures manual to align with current accounting standards, internal control requirements, and organizational practices. The updated manual should be formally adopted by management and communicated to staff to ensure consistency and compliance across all financial operations.

(2) Bank Reconciliations

Comment: Bank reconciliations for the Bank of Guam and the Bank of the FSM lacked evidence of preparer and reviewer sign-off, dates of preparation, and review. Several reconciliations were not performed timely, and one outstanding check was not properly reversed to cash at year-end.

Recommendation: Bank reconciliations should be prepared and reviewed monthly, with both preparer and reviewer providing dated sign-offs. Outstanding and stale checks should be monitored through a supplementary report to ensure year-end balances are accurate.

(3) Allowance for Uncollectible Accounts

Comment: As of September 30, 2023, PUC did not adjust its allowance for uncollectible accounts based on historical customer payment activity. This resulted in an inaccurate estimate that required subsequent correction through audit procedures.

Recommendation: PUC should implement a policy requiring at least an annual review of customer payment history and collection trends. Adjustments to the allowance should be made in a timely manner to ensure receivables are stated at net realizable value throughout the year.

(4) Accounts Receivable

Comment: The subsidiary ledger contains significant inactive receivable balances, adequately provisioned but still totaling approximately \$2.27 million as of September 30, 2023.

Recommendation: PUC should formally review these inactive receivable accounts with the Board of Directors and determine which balances are uncollectible. A policy for periodic write-off of accounts deemed uncollectible should be adopted to maintain an accurate accounts receivable ledger.

(5) Capital Assets

Comment: The last physical inventory of capital assets was conducted in FY2018. Our testing identified assets on the register that are no longer operable, along with reconciliation issues involving asset cost, depreciation, and accumulated depreciation. These errors were subsequently corrected by management.

Recommendation: PUC should:

- Conduct an entity-wide physical inventory of capital assets at least every two years.
- Implement a standardized tagging and tracking system by asset type (e.g., vehicles, machinery, furniture).
- Assign responsibility for maintaining accurate records at the departmental level, with Finance performing ongoing reconciliation and oversight.

(6) Impairment Policy for Capital Assets

Comment: During our audit, we noted that management has not established a formal impairment policy for assessing potential impairment of capital assets. While PUC periodically reviews its assets for operational and maintenance purposes, there are no documented procedures or criteria requiring management to evaluate whether events or changes in circumstances indicate that capital assets may be impaired, as required under GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

The absence of a formal impairment policy increases the risk that impairments may not be timely identified, measured, or reported, which could result in the overstatement of capital assets and related depreciation expense, and could potentially misstate PUC's financial position and results of operations.

Recommendation: We recommend that management develop and implement a written capital asset impairment policy consistent with GASB 42. The policy should:

- Define potential indicators of impairment, such as physical damage, obsolescence, changes in technology or regulations, or significant declines in service utility;
- Establish responsibilities, timing, and documentation requirements for impairment assessments, such as performing evaluations annually or when significant triggering events occur;
- Provide clear guidance on the methods of measuring impairment losses, including restoration cost, service units, or cash flow approaches; and
- Require that impairment determinations and related disclosures be reviewed and approved by management and communicated to the Board of Directors.

Implementing such a policy will strengthen PUC's internal control over capital asset management, improve consistency in financial reporting, and ensure compliance with applicable accounting standards.

(7) Cash Disbursements

Comment: Our substantive testing identified several control weaknesses:

- 7 of 56 disbursements lacked required authorizing signatures.
- One (1) disbursement had no supporting documentation.
- One invoice was paid twice, though the duplicate payment was later reclassified.

Recommendation: Management should strengthen controls by requiring complete documentation, review, and proper authorization before releasing funds. Periodic monitoring should be performed to detect duplicate or unsupported payments.

(8) General Journal Entry Documentation

Comment: PUC does not have established policies requiring the retention of documentation for adjusting journal entries. As a result, there is limited evidence of review, approval, or the underlying support for such entries.

Recommendation: To strengthen internal controls and facilitate future audits, PUC should implement policies requiring:

1. Retention of signed and dated copies (physical or electronic) of all adjusting journal entries by both the preparer and reviewer.
2. Retention of supporting documentation for each journal entry, including narrative explanations for non-recurring or corrective adjustments.

Narrative explanations beyond the entry description in SAGE are not necessary for recurring operational adjustments (e.g., revenue or depreciation). However, they should be documented for corrections or unusual transactions. In addition, management should compile an annual report of all adjusting entries, organized by date or entry number to verify that postings are complete and properly supported. This report should be retained for year-end audit purposes.

(9) Advances from Pohnpei State

Comment: Under the Memorandum of Agreement dated November 16, 2021, PUC agreed to remit a down payment of \$150,000 to the State of Pohnpei upon signing, followed by four annual installment payments of \$150,000 each. As of September 30, 2023, no payments had been made under the agreement. Management explained that insufficient cash flows during the fiscal year hindered PUC's ability to comply with the established payment schedule.

Recommendation: PUC develop and implement a realistic repayment plan to fulfill its obligations under the agreement. When cash flows improve, management should prioritize compliance with the agreed-upon terms. Establishing a structured repayment schedule and monitoring mechanism will promote fiscal discipline, ensure timely settlement of obligations, and help maintain a positive financial relationship with the State of Pohnpei.

(10) Allowance for Stock Obsolescence

Comment: Prior to the audit, PUC did not maintain (1) a historical listing of inventory items by cost supporting the allowance for stock obsolescence, or (2) a current-year itemized listing by cost to update its assessment of the allowance. This limits management's ability to evaluate the adequacy of the allowance and ensure that obsolete or slow-moving items are appropriately identified.

Recommendation: PUC maintain a detailed itemized inventory report documenting the basis and composition of the allowance for stock obsolescence. As part of the annual physical inventory count, management should review and update this report to identify obsolete or slow-moving items and determine whether adjustments to the allowance are necessary. Implementing this process will improve inventory management controls and enhance the accuracy of reported inventory balances.

(11) Donated Inventory

Comment: Audit procedures identified donated inventory from prior years that had no recorded cost in PUC's accounting system. Management explained that documentation was not retained to support fair market value determinations at the time of receipt, and that efforts are ongoing to establish donation dates for these items, some of which predate the current administration. The absence of supporting documentation limits PUC's ability to ensure accurate valuation and accountability for donated assets.

Recommendation: PUC establish formal policies and procedures governing the recording and documentation of donated inventory. These policies should require the retention of donor cost or valuation documentation and outline alternative valuation methods (such as market comparison or appraisal estimates) when such documentation cannot be obtained. Implementing these procedures will help ensure that donated assets are properly recognized, valued, and accounted for in accordance with applicable accounting standards.



POHNPEI UTILITIES CORPORATION

“Dedicated to Improving the Quality of Life on Pohnpei”

July 28, 2025

BOARD OF DIRECTORS

Burger Comer Magliari, LLC
333 South Marine Corps Drive
Tamuning, GU 96913

Joseph Felix, Jr.
Chairman

William Hawley
Vice-Chairman

Gardner Edgar
Secretary

Casiano Shoniber
Member

Hainrick Panuelo
Member

Cindy Henry-Ehmes
Member

(Vacant)
Member

Nixon Anson
***General
Manager/CEO***

This representation letter is provided in connection with your audit of the financial statements of the Pohnpei Utilities Corporation (PUC) which comprise the statements of net position, statements of revenue, expenses, and changes in net position and statements of cash flows for the years then ended September 30, 2023 and 2022, 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 PUC in conformity with accounting principles generally accepted in the United States of America (U.S. 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. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Financial Statements:

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

1. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds as follows:
 - a. Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (non-spendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
 - b. Investments, derivative instrument transactions, and land and other real estate held by endowments are properly valued.
 - c. Provisions for uncollectible receivables have been properly identified and recorded.
 - d. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

- e. Revenues are appropriately classified in the statement of activities.
 - f. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 - g. Deposits and investment securities and derivative instrument transactions are properly classified as to risk and are properly disclosed.
 - h. Inventory quantities at the financial statement dates were determined from physical counts, which have been adjusted on the basis of physical inventories taken by competent employees during the year. Provisions have been made for losses to be sustained as a result of obsolescence.
 - i. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
 - j. Applicable laws and regulations are followed in adopting, approving and amending budgets.
2. As part of your audit, you assisted with the preparation of the financial statements and disclosures. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and disclosures. Additionally, we agree with the adjusting and reclassification journal entries listed in: **Appendix A and B**, respectively, to this letter.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. 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.
5. PUC is responsible for determining and maintaining the adequacy of the allowance for uncollectible accounts receivable, as well as estimates used to determine such accounts. Management believes the allowances are adequate to absorb estimated bad debts in its receivable account balances.
6. PUC is responsible for determining and maintaining the adequacy of the allowance for stock obsolescence, as well as estimates used to determine such accounts. Management believes the allowances are adequate to absorb estimated obsolescence in its inventory balances.
7. Quantitative and qualitative information regarding the allowance for doubtful accounts and allowance for stock obsolescence has been properly disclosed in the financial statements.
8. Significant assumptions PUC used in making accounting estimates, including those measured at fair value, are reasonable. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that:

- a. It is 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.
- 9. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 10. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 11. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter under **Appendix C**.
- 12. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 13. Guarantees, whether written or oral, under which PUC is contingently liable, if any, have been properly recorded or disclosed.
- 14. 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.
- 15. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 16. Management is aware of its responsibility to disclose whether, subsequent to September 30, 2023, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred. We represent to you that no such changes or corrective actions has occurred.

Information provided:

- 17. PUC has provided to you all relevant information and access.
- 18. PUC 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 date of this letter, 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 PUC and for all funds administered by PUC. The records, books, and accounts, as provided to you, record the

financial and fiscal operations of all funds administered by PUC. 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.
 - d. Additional information that you have requested from us for the purpose of the audit.
19. PUC 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 PUC and do not believe that the financial statements are materially misstated as a result of fraud.
20. We have no knowledge of any fraud or suspected fraud that affects PUC and involves—
- a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where fraud could have a material effect on the financial statements.
21. We have no knowledge of any allegations of fraud or suspected fraud affecting PUC's financial statements communicated by employees, former employees, regulators, or others.
22. 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 Judgements*.
23. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.
24. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

Entity specific:

25. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
26. We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
27. We have disclosed to you the identity of PUC's related parties and all the related party relationships and transactions of which we are aware that includes sales, purchases, loans, transfers, lease agreements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
28. 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.

29. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
30. PUC has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
31. 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.
32. 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 PUC'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. PUC is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
33. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
34. PUC has, as applicable, disclosed all information for conduit debt obligations in accordance with GASBS No. 91.
35. PUC 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.
36. PUC has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
37. The financial statements include all fiduciary funds and activities required by GASBS No. 84, as amended.
38. The financial statements properly classify all funds and activities in accordance with [GASBS No. 34](#), as amended.
39. All funds that meet the quantitative criteria in [GASBS Nos. 34](#) and [37](#) for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
40. We have appropriately disclosed PUC'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 and have determined that net position is properly recognized under the policy.

41. We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

42. 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 Statement No. 98, *Annual Comprehensive Financial Report*.
- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

43. During the year ended September 30, 2023, PUC implemented the following GASB pronouncements:

- a. In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The PUC implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The PUC has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
- b. GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The PUC implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The PUC has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
- c. GASB Statement No. 96, *Subscription – Based Information Technology Arrangements*. The PUC implemented the GASB pronouncement with the applicable transition guidance prescribed in the Statement. The PUC has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.
- d. Certain required provisions of GASB Statement No. 99, *Omnibus 2022*. Particularly those relating to: (1) clarification on the provisions of GASB Statement No. 87, *Leases*, (2) clarification on the provisions of GASB Statement No. 94, (3) clarification on the provisions of GASB Statement No. 96 and (4) modifications to the accounting and reporting guidance in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, relating to the termination of hedges. The PUC has sufficient and appropriate documentation supporting the conclusion that the implementation of this standard had no material impact on the financial statements.

44. The PUC is still in the process of evaluating the impact which upcoming GASB pronouncements may have on the financial statements of PUC:
- a. Certain provisions in GASB Statement No. 99, *Omnibus 2022*. Particularly those relating to:
 - o Modifications to the guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.
 - o Guidance on the classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.
 - b. GASB Statement No. 100, *Accounting Changes and Error Corrections*.
 - c. GASB Statement No. 101, *Compensated Absences*.
 - d. GASB Statement No. 102, *Certain Risk Disclosures*.
45. PUC's retirement plan (the Plan) is a self-administered program established to pay retirement, disability and survivor income to employees and their survivors to supplement similar benefits that employees receive from the FSM Social Security System. Management is of the opinion that the Plan does not represent an asset or a liability of PUC.
46. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
47. PUC acknowledges its responsibility for the accuracy of information and assumptions underlying the adjustments that resulted in the restatement of the 2022 audited financial statements. Specifically:
- a. That the estimate of fair market value assigned to the capitalized donated assets are based on PUC's transactions made with other vendors for technically similar assets. That adequate documentation is retained by the PUC to support that estimate of the fair market value. That the valuation is true, accurate, and reasonable.
 - b. That reclassifications made from current year work-in-progress to the capitalized donated assets were appropriate.
 - c. That in the absence of official transfer documentation, the PUC in substance has ownership of the donated asset.
 - d. That the useful life assigned to the donated asset is appropriate and accurate.
 - e. That the in-service date assigned to the donated asset appropriate and accurate.
 - f. PUC represents that Generator Set 5, as of September 30, 2023 is no longer operational due to events during the year that triggered its impairment.

Federal award programs

48. We are responsible for understanding and complying with and have complied with, the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including requirements relating to preparation of the schedule of expenditures of federal awards.
49. We acknowledge our responsibility for preparing and presenting the Schedule of Expenditures of Federal Awards (SEFA) and related disclosures in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.

50. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
51. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
52. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
53. We are responsible for establishing, designing, implementing, and maintaining, and have established, designed, implemented, and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
54. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
55. We have received no requests from a federal agency to audit one or more specific programs as a major program.
56. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement* relating to federal awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.
57. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
58. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
59. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E).
60. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

61. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
62. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
63. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
64. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report.
65. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
66. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
67. We have charged costs to federal awards in accordance with applicable cost principles.
68. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
69. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
70. We are responsible for and will accurately prepare the auditee section of the Data Collection Form as required by the Uniform Guidance.
71. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

Very truly yours,



Nixon Anson
General Manager



Daisy Nanpei
Comptroller

Appendix A

Adjusting Journal Entries

AJE #	Account Number	Account Name	Debit	Credit
#1	154-04-00	PARTS INVENTORY - WATER/SEWER		3,199.35
	154-02-00	PARTS INVENTORY - GENERATION	25,944.31	
	154-03-00	PARTS INVENTORY - DISTRIBUTION	925.60	
	154-07-00	ALLOWANCE FOR STOCK OBSOLESCENCE		3,455.84
	617-02-09	MAINTENANCE-PARTS/WATER		39,163.66
	921-15-07	MISC. - OTHER	18,948.94	
			45,818.85	45,818.85
	<i>Adjustment to correct inventory and to correct AJ-007455 based on comparison of unadjusted G/L (Beg. Water sewer inv balance).</i>			
#2	144-00-00	ACCUM PROV-UNCOLLECTIBLE ACCTS	240,222.51	
	904-00-06	UNCOLLECTIBLE ACCOUNTS		88,547.93
	144-00-01	ACCUM PROV-UNCOLLECT-WATER		140,101.74
	144-00-02	ACCUM-PROV-UNCOLLECT OTHER A/R		11,572.84
			240,222.51	240,222.51
	<i>FY23 allowance adjustments based on managements review of receivable collectibility.</i>			
#3	904-00-06	UNCOLLECTIBLE ACCOUNTS	98,820.50	
	142-02-00	A/R - COMMERCIAL & INDUSTRIAL		5,216.59
	142-03-00	A/R - GOVERNMENT		36,628.51
	142-02-01	A/R - COMMERCIAL /WATER		56,975.40
			98,820.50	98,820.50
	<i>Adjustment to remove inter-company and non-collectible accounts. Accts: 3108900000 and 4615708100.</i>			
#4	440-00-01	RESIDENTIAL SALES/WATER	218,628.11	
	142-01-01	RESIDENTIAL /WATER		218,628.11
			218,628.11	218,628.11
	<i>Adjustment to reverse cash water revenue posted into residential water revenue.</i>			
#5	547-01-03	POL-FUEL	176,203.46	
	547-00-01	KWH		138,668.72
	232-00-00	ACCOUNTS PAYABLE		17,403.38
	232-01-00	ACCOUNTS PAYABLE - FSM PETRO CORP		7,268.10
	434-00-00	MISCELLANEOUS INCOME		12,863.26
			176,203.46	176,203.46
	<i>Adjustment to: (1) reconcile G/L to A/P aging subledger balance for division 00 and (2) to reconcile G/L to confirmation balances for FSMPC A/P and kwh fuel expenditures.</i>			

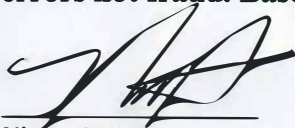
Appendix A
Adjusting Journal Entries, Continued

AJE #	Account Number	Account Name	Debit	Credit
#6	546-01-03	SAL & WAGES - STANDARD	21,874.91	
	580-01-05	SAL & WAGES - STANDARD	27,888.77	
	601-01-09	SAL & WAGES-STANDARD/WATER	32,462.90	
	676-05-09	EE BENEFITS - SOCIAL SECURITY	1,803.60	
	902-01-06	SAL & WAGES - STANDARD	22,538.97	
	926-01-07	EE BENEFITS- PUC RETIREMENT PL	3,639.98	
	926-02-07	EE BENEFITS-GROUP HEALTH	3,837.00	
	926-04-07	EE BENEFITS-SOCIAL SECURITY	3,957.69	
	242-01-00	ACCRUED WAGES & SALARIES		118,003.82
	<i>To reverse AJ-006913</i>		118,003.82	118,003.82
#7	546-01-03	SAL & WAGES - STANDARD		9,890.18
	580-01-05	SAL & WAGES - STANDARD		11,451.26
	601-01-09	SAL & WAGES - STANDARD/WATER		13,728.62
	676-05-09	EE BENEFITS - SOCIAL SECURITY		874.81
	902-01-06	SAL & WAGES - STANDARD		10,017.73
	926-01-07	EE BENEFITS - SOCIAL SECURITY		1,559.99
	926-02-07	EE BENEFITS - GROUP HEALTH		1,644.43
	926-04-07	EE BENEFITS - SOCIAL SECURITY		2,045.49
	242-01-00	ACCRUED WAGES & SALARIES	51,212.51	
	<i>To reverse FY22 PP21 Accrual</i>		51,212.51	51,212.51
#8	101-10-00	RIGHT-TO-USE ASSETS		22,596.23
	227-00-00	LEASE LIABILITY - NON-CURRENT	24,511.25	
	243-00-00	CAPITAL LEASES - CURRENT		1,915.02
	931-00-07	RENTS		36,000.00
	932-01-10	OPERATING LEASE EXPENSE	36,000.00	
			60,511.25	60,511.25
	<i>Corrective FY23 adjustment for right-to-use assets, lease liability, and to recognize current portion of lease liability.</i>			
#9	421-20-00	LOSS ON DISPOSAL OF PROPERTY	9,021.16	
	108-00-01	ACCUM DEPRECIATION - WAT/SEW	12,853.40	
	110-00-00	ACCUM DEPRE-POWER UTIL PLANT	109,314.90	
	101-04-01	GENERAL PLANT - VEHICLES		15,489.51
	101-04-00	GENERAL PLANT - VEHICLES		115,699.95
			131,189.46	131,189.46
	<i>Adjustment to recognize impairment loss and disposal of non-operative vehicles at the end of FY23.</i>			
#10	101-01-00	PRODUCTION PLANT	998,859.00	
	107-07-00	W I P GENERATION		86,264.00
	110-00-00	ACCUM DEPRE-POWER UTIL PLANT		298,922.87
	403-01-00	DEPRE - PRODUCTION PLANT	53,569.18	
	921-15-07	MISC. - OTHER		217,595.00
	215-00-00	APPROPRIATED RETAINED EARNINGS		449,646.31
			1,052,428.18	1,052,428.18
	<i>Adjustment to recognize Gen 4 and capitalized improvements.</i>			

Appendix A
Adjusting Journal Entries, Continued

AJE #	Account Number	Account Name	Debit	Credit
#11	101-01-00	PRODUCTION PLANT	695,000.00	
	110-00-00	ACCUM DEP-POWER UTIL PLANT		695,000.00
	215-00-00	APPROPRIATED RETAINED EARNINGS		477,812.50
	403-01-00	DEPRE - PRODUCTION PLANT	34,750.00	
	421-20-00	LOSS ON DISPOSAL OF PROPERTY	443,062.50	
			<u>1,172,812.50</u>	<u>1,172,812.50</u>
<i>Adjustment to recognize Gen 5, its prior year effects, and the current year impact of its impairment and conversion to non-operating status at the end of FY23.</i>				
	Grand Total		<u>3,365,851.15</u>	<u>3,365,851.15</u>

The above adjustments were discussed with management and were the result of bookkeeping errors not fraud. Based on discussions with the auditor, we agree to record them.



Nilton Anson
General Manager



Daisy Nanpei
Comptroller

Appendix B
Reclassification Adjusting Journal Entries

RAJE #	Account Number	Account Name	Debit	Credit
#1	440-00-00	RESIDENTIAL SALES	86,427.47	
	442-00-01	COMERCIAL SALES/WATER	16,887.56	
	440-00-01	RESIDENTIAL SALES/WATER		64,710.15
	449-00-01	OTHER SALES/WATER		21,717.32
	444-00-01	GOVERNMENT SALES/WATER		16,887.56
			<u>103,315.03</u>	<u>103,315.03</u>
<i>To correct the classification of residential water sales and cash water sales.</i>				
#2	154-04-00	PARTS INVENTORY - WATER/SEWER	358,441.60	
	232-00-00	ACCOUNTS PAYABLE		358,441.60
			<u>358,441.60</u>	<u>358,441.60</u>
<i>To correct A/P and inventory.</i>				
#3	143-00-00	ACCOUNTS RECEIVABLE - OTHER	28,154.18	
	232-00-00	ACCOUNTS PAYABLE		28,154.18
			<u>28,154.18</u>	<u>28,154.18</u>
<i>AJ-007457 CAJE by client indicates that a vendor was overpaid via either CHK 45631 dtd 04/17/2023 or CHK 46181 08/30/2023 both in the amount of \$28,154.18.</i>				
#4	223-00-00	ADB SEWER LOAN	324,353.55	
	224-01-00	RUS LOAN	13,103.02	
	224-01-01	ASIAN DEV. BANK LOAN	91,532.80	
	226-01-00	BANK OF GUAM LOAN	44,071.00	
	231-01-00	NOTES PAYABLE CURRENT PORTION		473,060.37
			<u>473,060.37</u>	<u>473,060.37</u>
<i>AJ-007457 CAJE by client indicates that a vendor was overpaid via either CHK 45631 dtd 04/17/2023 or CHK 46181 08/30/2023 both in the amount of \$28,154.18.</i>				
#5	921-15-07	MISC. - OTHER	217,595.18	
	554-17-03	REPAIRS & MAINT. - PARTS		217,595.18
			<u>217,595.18</u>	<u>217,595.18</u>
<i>Reclassification for CO22-09, correction of expenditure portion of AJ-007487.</i>				

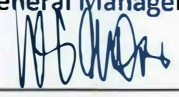
Appendix B**Reclassification Adjusting Journal Entries, Continued**

RAJE #	Account Number	Account Name	Debit	Credit
#6	232-00-00	ACCOUNTS PAYABLE	37,092.77	
	242-01-00	ACCRUED WAGES & SALARIES		37,092.77
	<i>To reclass FY23 unreleased checks to correct account.</i>		<u>37,092.77</u>	<u>37,092.77</u>
	Grand Total		<u>1,217,659.13</u>	<u>1,217,659.13</u>

The above reclassification adjustments were discussed with management and were the result of bookkeeping errors not fraud. Based on discussions with the auditor, we agree to record them.


Nixon Anson

General Manager


Daisy Nanpei

Comptroller

Appendix C

Passed Adjusting Journal Entries

PAJE #	Account Number	Account Name	Financial Statement Effect—Amount of Over (Under) Statement of:				
			Total Assets	Total Liabilities	Equity	Net Income	Expense
			Debit (Credit)	Debit (Credit)	Debit (Credit)	Debit (Credit)	Debit (Credit)
#1	921-15-07	MISC. - OTHER					10,531.56
	154-03-00	PARTS INVENTORY - DISTRIBUTION	(386.41)				
	154-04-00	PARTS INVENTORY - WATER/SEWER	(7,914.32)				
	154-02-00	PARTS INVENTORY - GENERATION	(2,230.83)				
		<i>Passed adjustments for inventory valuation differences.</i>					
#2	235-00-00	CUSTOMER DEPOSITS		15,234.61			
	434-00-00	MISCELLANEOUS INCOME				(15,234.61)	
		<i>Passed adjustment to correct potentially aged invalid items.</i>					
#3	130-02-00	CASH AT BANK - BFSM	9,895.00				
	232-00-00	ACCOUNTS PAYABLE		(9,895.00)			
		<i>Passed adjustment to correct unreleased checks.</i>					
#4	440-00-01	RESIDENTIAL SALES/WATER				17,854.66	
	447-00-01	CASH WATER SALES				(162.98)	
	442-00-01	COMERCIAL SALES/WATER				3,938.00	
	444-00-01	GOVERNMENT SALES/WATER				2,186.74	
	142-01-01	A/R - RESIDENTIAL /WATER	(17,854.66)				
	142-04-01	A/R - CASH WATER	162.98				
	142-02-01	A/R - COMMERCIAL /WATER	(3,938.00)				
	142-03-01	A/R - GOVERNMENT/WATER	(2,186.74)				
		<i>Passed adjustment for immaterial differences noted during water revenue recalculation.</i>					
#5	142-01-00	A/R - RESIDENTIAL	25,087.00				
	142-04-00	A/R - CASH POWER	3,021.34				
	447-00-00	CASH POWER SALES				(25,087.00)	
	440-00-00	RESIDENTIAL SALES				(3,021.34)	
		<i>Passed adjustment for immaterial differences noted during power revenue recalculation.</i>					
Grand Total			3,655.36	5,339.61	-	(19,526.53)	10,531.56