

June 27, 2016

The Board of Directors
Chuuk Public Utility Corporation

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Chuuk Public Utility Corporation (CPUC) as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 27, 2016.

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 CPUC is responsible.

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 October 5, 2015, 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 CPUC as of September 30, 2015, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year ended September 30, 2015 (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, 2015;
- Report on CPUC’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, 2015 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in generally accepted government auditing standards; and
- To report on CPUC’s compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (“OMB Circular A-133”) and on the schedule of expenditures of federal awards.

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

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 CPUC'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 CPUC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CPUC'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.

We also considered CPUC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of CPUC's compliance with those requirements.

MANAGEMENT JUDGMENTS AND 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 CPUC's 2015 financial statements include management's estimate of 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 fixed assets. During the year ended September 30, 2015, 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 CPUC's financial reporting process. Such proposed adjustments and reclassifications, listed in Appendix A to Attachment III, have been recorded in the accounting records and are reflected in the 2015 financial statements.

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

SIGNIFICANT ACCOUNTING POLICIES

CPUC's significant accounting policies are set forth in note 2 to CPUC's 2015 financial statements. During the year ended September 30, 2015, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by CPUC:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on CPUC's financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to CPUC's 2015 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 2015.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CPUC's 2015 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 CPUC's 2015 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 27, 2016, on CPUC'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*. We have also issued a separate report to you, also dated June 27, 2016, involving CPUC's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

We have identified, and included in Attachment I, certain control deficiencies related to CPUC's internal control over financial reporting as of September 30, 2015 that we wish to bring to your attention.

CONTROL-RELATED MATTERS, CONTINUED

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

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.

* * * * *

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

Very truly yours,

Deloitte & Touche LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving CPUC's internal control over financial reporting as of September 30, 2015:

(1) Fixed Asset Depreciation

Comment: For the year ended September 30, 2015, depreciation expense was understated by \$41,060 in CPUC's unaudited financial statements.

Recommendation: Management should review the fixed asset register and related reconciliations in a timely manner.

(2) Review of Electric Bills

Comment: Six of forty-four electric revenue samples tested contained incorrect tariff rates. As CPUC was unable to perform back billing, the errors represented a loss of revenue.

Recommendation: Management should strengthen billing and review procedures to verify that the proper tariff is used.

SECTION II – DEFINITION

The definition of a deficiency is as follows:

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

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

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

Management's Responsibility

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

Objectives of Internal Control over Financial Reporting

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

Inherent Limitations of Internal Control over Financial Reporting

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



June 27, 2016

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning GU 96913

Gentlemen:

We are providing this letter in connection with your audits of the financial statements of the Chuuk Public Utility Corporation ("CPUC"), a component unit of the State of Chuuk, which comprise of statements of net position as of September 30, 2015, and 2014, the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of CPUC in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the basic financial statements of financial position, results of operations, and cash flows in conformity with GAAP.
- b. The design, implementation, and maintenance of internal control:
 - a. Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud
 - b. To prevent and detect fraud.
- c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the stand-alone business-type activities checklist by the Government Finance Officers Association. Additionally, we agreed with the adjusting and reclassification entries included in Appendix A.

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

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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 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. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating revenues, non-operating revenues and expenses.
2. CPUC have provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. CPUC 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, subsequent to those provided to you during the prior year audit and listed in our letter dated June 28, 2015, are as follows:

-May 22, 2015	- May 29, 2015	-June 30, 2015
-September 9, 2015	-September 25, 2015	-October 23, 2015
-October 30, 2015	- November 27, 2015	-December 15, 2015
-December 23, 2015	-January 29, 2016	-February 24, 2016
-April 12, 2016	-May 5, 2016	-May 26, 2016
 - b. All financial records and related data for all financial transactions of CPUC and for all funds administered by CPUC. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by CPUC 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.

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4. There have been no:
 - a. Actions taken by CPUC management that contravene the provisions of federal laws and Chuuk State laws and regulations, or of contracts and grants applicable to CPUC.
 - b. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in aggregate, to the financial statements for the year ended September 30, 2014 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C.
7. CPUC 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 its understanding about the risks of fraud in CPUC and does not believe that the financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting CPUC involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting
 - c. Others if the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting CPUC's financial statements communicated by employees, former employees, analysts, regulators, or others.
10. There are no unasserted claims or assessments that we are aware of 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 Board ("GASB Codification") Section C50, Accounting Standards Codification (ASC) 450, *Claims and Judgments*.
11. Significant assumptions used by us in making accounting estimates are reasonable.



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12. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). We have identified and disclosed all of CPUC's government programs and related activities subject to the OMB Circular A-133 compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
13. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to CPUC'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. CPUC is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
14. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
15. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
16. No events have occurred subsequent to September 30, 2015 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
17. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2015.
18. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by CPUC with regard to significant deficiencies and material weaknesses in internal control over compliance, subsequent to September 30, 2015.
19. Federal awards expenditures have been charged in accordance with applicable cost principles.
20. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) does not contain protected personally identifiable information.
21. We have:
 - a. 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 federal program under audit.



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- b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
 - d. Made available all federal awards (including amendments, if any) and financial reports and claims for advances and reimbursements, and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities. Management has made available 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. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - e. Identified and disclosed all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards, including the results of other audits, program reviews, or any communications from federal awarding agencies and pass-through entities concerning possible noncompliance related to the objectives of the audit.
 - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
22. During FY2015, CPUC recorded claims receivables from USAID of \$820K and subsequently received the funds in February 2016. As of date of this letter, with assistance of FSM National Government, it has been unable to fully determine if this represent a federal grant that would be subject to compliance requirements. CPUC is of the opinion that it is not a federal grant, based on all available documents and correspondence. Furthermore, as the final reimbursement claim was not approved and funds received until FY16, CPUC believes that even if such is deemed a federal grant, the related expenditures would be reported in the FY16 SEFA. CPUC shall continue to follow up with FSMNG to verify with USAID regarding the classification of award.
23. 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.
24. 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 \$29,000 collectively are not



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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.

25. Except as listed in Appendices B and C, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

26. CPUC has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

27. Regarding related parties:

- a. We have disclosed to you the identity of the entity'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.


28. 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.


29. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

- a. The concentration exists at the date of the financial statements.
- b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
- c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

30. 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.
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- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section 450, *Claims and Judgments*.
31. 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.
32. CPUC has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.
33. CPUC has complied with all aspects of contractual agreements that may have an effect on the financial statements.
34. No department or agency of CPUC has reported a material instance of noncompliance to us.
35. Arrangements 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.
36. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
37. CPUC 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.
38. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of CPUC and do not include any items consigned to it or any items billed to customers.
39. We believe that all expenditures that have been deferred to future periods are recoverable.
40. All additions to CPUC's property accounts consist of replacements or additions that are properly capitalizable.
41. CPUC 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, CPUC considered the following factors:
- a. The magnitude of the decline in service utility is significant.
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b. The decline in service utility is unexpected.

42. During fiscal year 2015, CPUC implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

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

Further, the following pronouncements will be effective subsequent to September 30, 2015:

- In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on CPUC's financial statements.
- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.
- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.

- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on CPUC's financial statements.
43. CPUC is involved in various legal actions in the normal course of business, including a variety of legal actions and claims that seek monetary damages or punitive damages. Based on current information, including legal consultation, management believes any ultimate liability that may arise from these actions would not materially affect CPUC's financial position, results of operations or cash flows. CPUC has provided for an amount that it believes it will actually be responsible for. The ultimate impact of any remaining judgments is not currently predictable. Therefore, no additional liability has been recorded in the financial statements due to management's ability to predict the ultimate outcome. Any changes in this estimate will be resolved prospectively. However, management's evaluation of likely impact of these actions could change in the future and an unfavorable outcome, depending upon the amount and timing, could have a material

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effect on CPUC's results of operations or cash flows in the future period. This condition has been disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

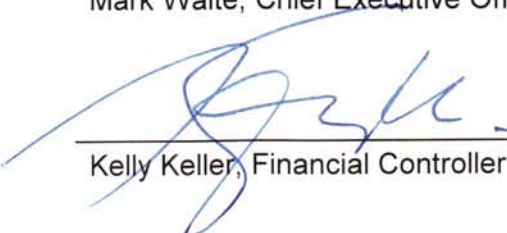
44. CPUC obtained a \$207,000 five-year term loan from FSM Development Bank, a component unit of the FSM National Government, for the full settlement of past due withholding income taxes of which accrued interest and penalties of approximately \$112,000 were waived and will be reversed during the year ended September 30, 2016.

Except as discussed above, no events have occurred after September 30, 2015 but before June 27, 2016, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.

Very truly yours,



Mark Waite, Chief Executive Officer



Kelly Keller, Financial Controller

APPENDIX A

Journal Entries - AJE

#	Name	Debit	Credit
1 AJE To record professional management salaries as oper			
Audit 1	Professional management	542,183.31	-
16408-ADM-A	WIP - professional Mngt CRISP Fy 2014	-	542,183.31
		542,183.31	542,183.31
	To record FY2015 professional management salaries as operational expenses		
2 AJE To adjust internal utilities usage			
40006-ELE-0	SALES - ELECTRIC -INTERCOMPANY SALES	325,631.41	-
54024-ADM-A	UTILITIES - ELECTICITY	-	49,058.05
40006-WTR-0	SALES - WATER INTERCOMPANY SALES	275.00	-
54025-ADM-A	UTILITY EXPENSE - WATER PUMPING	-	149,898.24
54026-ADM-A	UTILITY EXPENSE - SEWER PUMPING	-	126,950.12
		325,906.41	325,906.41
	To adjust internal utilities usage		
3 AJE To adjust deferred payment			
40003-WTR-0	SALES - WATER (RESIDENTIAL)	7,918.79	-
12006-WTR-0	DEFERRED PAYMENT PLAN WATER	-	7,918.79
		7,918.79	7,918.79
	To adjust water deferred payment		
4 AJE To adjust depreciation			
55001-ELE-P	DEPR. EXPENSE - POWER GEN	8,773.33	-
16503-ELE-P	ACCUM DEPREC - PROD PLANT	-	8,773.33
16504-WTR-G	ACCUM DEPREC - WATER PLANT	-	32,286.94
55001-WTR-G	DEPR. EXPENSE - WATER GEN	32,286.94	-
		41,060.27	41,060.27
	Entity adjustment - to adjust depreciation and accumulated depreciation for FY15		
5 AJE To write off replaced assets			
16311-000-0	CONTRIBUTED ASSETS - ELECTRIC	-	2,298,836.95
16503-ELE-P	ACCUM DEPREC - PROD PLANT	2,298,836.95	-
		2,298,836.95	2,298,836.95
	Entity adjustment - to write off replaced assets as of FY15		
6 AJE To adjust capitalized interest expense			
62002-000-0	INTEREST ON LONG TERM DEBT	-	123,195.96
16304-ELE-P	WIP DISTRIBUTION UPGRADE ADB	123,195.96	-
		123,195.96	123,195.96
	To adjust cap. interest related to the ADB loan as of 9/30/2015		

APPENDIX A, CONTINUED

Journal Entries - AJE, continued

7 AJE To record ADB loan SDR gain			
16304-ELE-P	WIP DISTRIBUTION UPGRADE ADB	-	134,998.00
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	134,998.00	-
		<u>134,998.00</u>	<u>134,998.00</u>

To record the SDR gain of the ADB loan as 9/30/2015

8 AJE To adjust ADB loan to agree to FSMNG			
16304-ELE-P	WIP DISTRIBUTION UPGRADE ADB	-	47,926.22
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	47,926.22	-
		<u>47,926.22</u>	<u>47,926.22</u>

To adjust CPUC's recorded ADB loan to agree to FSMNG's confirmed amount as of 9/30/2015

9 AJE To adjust long term fuel deposit LOC			
17001-ELE-P	LONG TERM DEPOSIT (INVESTMENT)	83,636.10	-
53001-ELE-P	DIESEL FUEL - POWER GENERATION	-	217,994.29
67001-ADM-A	MISCELLANEOUS INCOME	134,358.19	-
		<u>217,994.29</u>	<u>217,994.29</u>

To record accrual of increased LOC and adjust recording of the initial increase from misc income to fuel expense as of 9/30/15

Journal Entries - RJE

#	Name	Debit	Credit
1 RJE to reclass electric unbilled			
12001-ELE-0	A/R ELECTRICITY -COMMERCIAL	-	2,787.60
12002-ELE-0	A/R ELECTRICITY -RESIDENCE	-	95.53
12003-ELE-0	A/R ELECTRICITY - CHUUK GOV	-	912.25
Audit6	AR - unbilled	3,795.38	-
		<u>3,795.38</u>	<u>3,795.38</u>

to reclass AR electric unbilled from trade receivables resident, commercial, and government

2 RJE to reclass water unbilled			
12001-WTR-0	A/R WATER-COMMERCIAL	-	8,405.70
12002-WTR-0	A/R WATER-RESIDENCE	-	10,399.28
12003-WTR-0	A/R WATER- CHUUK GOV	-	7,009.15
Audit6	AR - unbilled	25,814.13	-
		<u>25,814.13</u>	<u>25,814.13</u>

To reclass water unbilled from commercial, government, and residential receivables

APPENDIX A, CONTINUED

Journal Entries - RJE, continued

3 RJE to reclass deferred payment			
12001-ELE-0	A/R ELECTRICITY -COMMERCIAL	5,912.63	-
12002-ELE-0	A/R ELECTRICITY -RESIDENCE	143,361.51	-
12003-ELE-0	A/R ELECTRICITY - CHUUK GOV	5,184.38	-
12007-ELE-0	DEFERRED PAYMENT PLAN ELECTRICITY	-	154,458.52
		<u>154,458.52</u>	<u>154,458.52</u>
	to reclass cash power (deferred plan) receivables to respective category for FS presentation purposes		
4 RJE to reclass compact crisp grant			
61002-ELE-0	COMPACT CRISP GRANT	542,183.31	-
Audit 9	Operational grants revenue	-	542,183.31
		<u>542,183.31</u>	<u>542,183.31</u>
	To reclass a portion of the compact crisp grant related to professional management salaries in FY2015		
5 RJE to reclass water deferred payment			
12001-WTR-0	A/R WATER-COMMERCIAL	686.11	-
12002-WTR-0	A/R WATER-RESIDENCE	4,485.09	-
12003-WTR-0	A/R WATER- CHUUK GOV	590.00	-
12006-WTR-0	DEFERRED PAYMENT PLAN WATER	-	5,761.20
		<u>5,761.20</u>	<u>5,761.20</u>
	to reclass water (deferred plan) receivables to respective category for FS presentation purposes		
6 RJE to reclass bad debt expense			
56053-ADM-A	MISC. - MEMBERSHIP FEES	8,977.51	-
54000-ADM-A	PROVISION FOR BAD DEBTS	-	8,977.51
		<u>8,977.51</u>	<u>8,977.51</u>
	to reclass bad debt expense to membership fees		
7 RJE to reclass prepaid lease			
Audit 8	Prepaid lease, noncurrent	309,125.00	-
13004-000-0	PREPAID POWER PLANT LEASE	-	309,125.00
		<u>309,125.00</u>	<u>309,125.00</u>
	To reclass current prepaid lease to non-current prepaid lease		
8 RJE to reclass accrued interest to ADB			
21001-000-0	ACCRUED INTEREST PAYABLE	123,195.96	-
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	-	123,195.96
		<u>123,195.96</u>	<u>123,195.96</u>
	To reclass accrued interest payable to ADB loan as of 9/30/2015		

APPENDIX A, CONTINUED

Journal Entries - RJE, continued

9 RJE to reclass current portion of LTD			
21044-000-0	CURRENT PORTION OF LT -ADB	-	53,721.00
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	53,721.00	-
		<u>53,721.00</u>	<u>53,721.00</u>
To adjust current portion of ADB loans based on updated amortization schedule.			

APPENDIX B

UNCORRECTED MISSTATEMENTS

Description of Misstatement	Assets	Liabilities	Equity	Income
	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)
<1> to record allowance for doubtful accounts Bad debt expense Allowance for bad debt	(28,435)			28,435
<2> to adjust difference in CHSP confirmation expense AP - CHSP		(30,283)		30,283
<3> to adjust amount waived by FSM Dept of Finance Accrued taxes payable Misc income		112,193		(112,193)

APPENDIX C

Prior-Period Misstatements Identified in Current Period

Description of Misstatement	Assets	Liabilities	Equity	Income
	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)	Dr. (Cr.)
<1> to adjust LOC increase for FY14 Long term deposit LOC Fuel expense	110,369			(110,369)