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June 30, 2017

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, 2016, 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 30, 2017.

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.

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

cc: The Management of Chuuk Public Utility Corporation

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards"), have been described in our engagement letter dated September 30, 2016, 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, 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year ended September 30, 2016 (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, 2016;

- 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, 2016 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

- Report on CPUC's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the Title 2 U.S. *Code of Federal Regulatio*ns Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

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 Uniform Guidance. 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 2016 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, 2016, 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 2016 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 2016 financial statements. During the year ended September 30, 2016, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by CPUC:

- GASB 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.

- GASB 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 No. 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.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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 the 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 the 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 the 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 the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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 the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14,* which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 the financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73,* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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 the financial statements.

We have evaluated the significant qualitative aspects of the Authority'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.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to CPUC's 2016 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 2016.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CPUC's 2016 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 2016 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 30, 2017, 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 30, 2017, involving CPUC's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Uniform Guidance.

We have identified, and included in Attachment I, a deficiency related to CPUC's internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention.

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

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

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ATTACHMENT I

SECTION I – DEFICIENCY

We identified the following deficiency involving CPUC's internal control over financial reporting as of September 30, 2016:

(1) Fixed Asset Depreciation

Comment: Ten assets, with an aggregate cost of $1,297,822, do not have a detailed asset description and consequently CPUC personnel are unable to locate them.

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

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 30, 2017

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 the statements of net position as of September 30, 2016, and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes 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:

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

- 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 and investment securities are properly classified in the category of custodial credit risk.

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

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

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

   f. 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.

   g. Revenues are appropriately classified in the statement of activities.

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 through May 24, 2017, 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 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.

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

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

6. We 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, 2015 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, where the fraud could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting 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 or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards 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.

12. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("OMB Uniform Guidance"). We have identified and disclosed all of CPUC's government programs and related activities subject to the OMB Uniform Guidance 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 Uniform Guidance, and the 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 federal statutes, regulations, and the terms and conditions of the federal awards 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, 2016 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, 2016.

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, 2016.

19. Federal awards expenditures have been charged in accordance with applicable cost principles.

20. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the OMB Uniform Guidance section 2CFR200.512(3)(c) 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.

    b. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal awards.

    c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

    d. Made available all federal awards (including amendments, if any) 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 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.

    g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

22. 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.

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

Except where otherwise stated below, immaterial matters less than $30,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

24. 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.

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

26. 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.

27. 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.

28. 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.

29. There are no:

    a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

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

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section 450, *Claims and Judgments.*

30. 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.

31. 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.

32. CPUC has complied with all aspects of contractual agreements that may have an effect on the financial statements.

33. No department or agency of CPUC has reported a material instance of noncompliance to us.

34. 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.

35. 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.

36. 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.

37. 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.

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

39. All additions to CPUC's property accounts consist of replacements or additions that are properly capitalizable.

40. 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.

    b. The decline in service utility is unexpected.

41. During fiscal year 2016, CPUC implemented the following pronouncements:

    - GASB 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.

    - GASB 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 No. 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.

    - GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

42. 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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No.* 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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 the financial statements.

43. In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Pla*ns, 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 the financial statements.

44. 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 the financial statements.

45. 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 the financial statements.

46. In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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 the financial statements.

47. In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14,* which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 the financial statements.

48. In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

49. In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73,* which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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 the financial statements.

50. CPUC is party to various outstanding court judgments. 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 inability to predict the ultimate outcome. Any changes in this estimate will be resolved prospectively.

51. During the year ended September 30, 2015, CPUC recorded an $820,111 receivable from International Organization for Migration funded by USAID for assistance relating to typhoon recovery costs, including replacements of capital assets of $440,030. CPUC, together with the FSM National Government, have determined that these do not represent federal grant expenditures.

52. No events have occurred after September 30, 2016 but before June 30, 2017, 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

30 June 2017

Kelly Keller, Financial Controller

APPENDIX A
RECORDED ADJUSTMENTS AND RECLASSIFICIAOTNS

AUDIT ADJUSTING ENTRIES

#	Name	Debit	Credit
	1 AJE To adjust internal utilities usage		
40006-ELE-0	SALES - ELECTRIC -INTERCOMPANY SALES	277,668.00	-
54024-ADM-A	UTILITIES - ELECTICITY	-	39,975.00
54025-ADM-A	UTILITY EXPENSE - WATER PUMPING	-	134,476.00
54026-ADM-A	UTILITY EXPENSE - SEWER PUMPING	-	103,217.00
		277,668.00	277,668.00
	To adjust internal utilities usage		
	2 AJE To adjust accounts receivable		
12050-000-0	ALLOWANCE FOR BAD DEBTS	33,661.53	-
12004-ELE-0	A/R ELECTRICITY - STREET LIGHT SALES	-	33,661.53
		33,661.53	33,661.53
	To adjust street lights receivable		
	3 AJE To record additional bad debt		
12050-000-0	ALLOWANCE FOR BAD DEBTS	-	19,586.00
54000-ADM-A	PROVISION FOR BAD DEBTS	19,586.00	-
		19,586.00	19,586.00
	To record additional bad debt as of 9/30/16		
	4 AJE To adjust fixed asset capitalization		
16003-ELE-P	FIXED ASSETS - PROD PLANT	-	211,264.00
55001-ELE-P	DEPR. EXPENSE - POWER GEN	-	8,450.56
16503-ELE-P	ACCUM DEPREC - PROD PLANT	8,450.56	-
16305-ELE-P	WIP - POWER PLANT PROJECT OIA	211,264.00	-
		219,714.56	219,714.56
	To correct capitalization of fixed assets as of 9/30/16		
	5 AJE To write off replaced assets		
16311-000-0	CONTRIBUTED ASSETS - ELECTRIC	-	10,166,104.00
16503-ELE-P	ACCUM DEPREC - PROD PLANT	10,166,104.00	-
		10,166,104.00	10,166,104.00
	To write off replaced assets as of FY16		
	6 AJE To adjust capitalized interest expense		
62002-000-0	INTEREST ON LONG TERM DEBT	-	126,319.00
16304-ELE-P	WIP DISTRIBUTION UPGRADE ADB	112,264.00	-
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	14,055.00	-
		126,319.00	126,319.00
	To adjust cap. interest related to the ADB loan as of 9/30/2016		
	7 AJE To adjust loss on disposal		
16503-ELE-P	ACCUM DEPREC - PROD PLANT	21,875.00	-
64001-000-0	EXTRAORDINARY INCOME	-	262,500.00
Audit 20	Loss on Retirement of Capital Assets	240,625.00	-
		262,500.00	262,500.00
	To correct loss on retirement of capital assets		
	8 AJE To adjust payable to grantor		
21008-000-0	PAYABLE TO FEDERAL GOV'T	13,793.00	-
61002-ELE-0	COMPACT CRISP GRANT	-	13,793.00
		13,793.00	13,793.00

#	Name	Debit	Credit
	To adjust payable to grantor as of 9/30/16		
	9 AJE to adjust prepaid plant lease		
13004-000-0	PREPAID POWER PLANT LEASE	-	33,402.00
13001-000-0	PREPAID PURCHASE ORDERS	33,402.00	-
		33,402.00	33,402.00
	To adjust prepaid power plant lease as of 9/30/16		
	10 AJE to adjust CIP fema project		
16002-ELE-D	FIXED ASSETS - DST PLANT	339,459.01	-
16407-ELE-D	WIP SPURLINES AND OTHER DIST. EXTENSIONS	-	339,459.01
		339,459.01	339,459.01
	To close out FEMA project as of 9/30/16		

FINANCIAL STATEMENTS RECLASSIFICATION ENTRIES

#	Name	Debit	Credit
	1 RJE to reclass water sales to other income		
40006-WTR-0	SALES - WATER INTERCOMPANY SALES	19,275.00	-
40019-WTR-0	OTHER OPERATION INCOME - WATER SEWER	-	19,275.00
		19,275.00	19,275.00
	to reclass water sales to other income - water		
	2 RJE to reclass prepaid lease		
Audit 8	Prepaid lease, noncurrent	290,198.00	-
13004-000-0	PREPAID POWER PLANT LEASE	-	290,198.00
		290,198.00	290,198.00
	To reclass current prepaid lease to non-current prepaid lease		
	3 RJE to reclass electric unbilled		
12001-ELE-0	A/R ELECTRICITY -COMMERCIAL	-	286.69
12002-ELE-0	A/R ELECTRICITY -RESIDENCE	-	3,662.73
12003-ELE-0	A/R ELECTRICITY - CHUUK GOV	-	11,964.91
Audit6	AR - unbilled	15,914.33	-
		15,914.33	15,914.33
	to reclass AR electric unbilled from trade		
	receivables resident, commercial, and govenment		
	4 RJE to reclass current portion of LTD		
21044-000-0	CURRENT PORTION OF LT -ADB	-	68,408.00
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	68,408.00	-
		68,408.00	68,408.00
	To adjust current portion of ADB loans based on updated amortization schedule.		
	5 RJE to reclass current portion of FSMDB LTD		
23004-000-0	FSM DEVELOPMENT BANK LOAN	37,431.00	-
Audit 24	Current portion of FSMDB LTD	-	37,431.00
		37,431.00	37,431.00
	To reclass current portion of FSMDB loan as of 9/30/16		
	6 RJE to reclass special projects		
67001-ADM-A	MISCELLANEOUS INCOME	-	42,601.32
61011-ELE-0	SPECIAL PROJECTS	42,601.32	-
		42,601.32	42,601.32

to reclass non-related special projects grants to misc income

We concur to the above AJEs and RJEs (Appendix A) and confirm that this is not a result of fraud.

Kelly Keller, CFO	30 June 2017 Date
Mark Waite, CEO	30 June 2017 Date

APPENDIX B
UNCORRECTED MISSTATEMENTS

	ASSETS DR (CR)	LIABILITIES DR (CR)	BEGINNING NET POSITION DR (CR)	CHANGE IN NET POSITION DR (CR)
<1> - To adjust unreleased check				
Dr. Cash	8,550			
Cr. Accrued liabilities		(8,550)		
<2> - To expense prepaid lease				
Dr. Expense				25,724
Cr. Prepaid lease	(25,724)			

We concur to the above uncorrected mistatements (Appendix B)
and confirm that this is not a result of fraud.

30 June 2017

Kelly Keller, CFO — Date

30 June 2017

Mark Waite, CEO — Date

APPENDIX C
PRIOR YEAR UNCORRECTED MISSTATEMENT DISCOVERED IN THE CURRENT YEAR

	ASSETS DR (CR)	LIABILITIES DR (CR)	BEGINNING NET POSITION DR (CR)	CHANGE IN NET POSITION DR (CR)
<1> - To reverse prior year overstatement of depreciation expense				
Dr. Accumulated depreciation	41,061			
Cr. Depreciation expense				(41,061)

We concur to the above prior year uncorrected mistatement discovered in Current Year (Appendix C) and confirm that this is not a result of fraud.

Kelly Keller, CFO

30 June 2017
Date

Mark Waite, CEO

30 June 2017
Date