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

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

June 27, 2018

The Board of Directors
Pohnpei Utilities Corporation

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Pohnpei Utilities Corporation (PUC) as of and for the year ended September 30, 2017, 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, 2018.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of PUC is responsible.

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

Very truly yours,

Deloitte & Touche LLP

cc: The Management of Pohnpei Utilities 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 11, 2017, a copy of which has been provided to you. As described in that letter, the objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether the statement of net position of PUC as of September 30, 2017, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and perform specified procedures on the required supplementary information for the year ended September 30, 2017;

- Express an opinion on whether the supplementary information that accompanies the financial statements is fairly stated, in all material respects, in relation to the financial statements taken as a whole; and

- Report on PUC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grants and other matters for the year ended September 30, 2017 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in generally accepted government auditing standards.

Our responsibilities under generally accepted auditing standards and generally accepted government auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to PUC's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of PUC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PUC's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in PUC's 2017 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based on past collection experience and aging of the accounts; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2017, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS, RECLASSIFICATIONS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments and account reclassifications that we believe, either individually or in the aggregate, would have a significant effect on PUC's financial reporting process. Such proposed adjustments and reclassifications, listed in Appendix A to Attachment III, have been recorded in the accounting records and are reflected in the 2017 financial statements.

In addition, included as Appendix B to Attachment III, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

PUC's significant accounting policies are set forth in note 2 to PUC's 2017 financial statements. During the year ended September 30, 2017, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by PUC, which did not have a material effect on the financial statements:

- GASB 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.

- GASB 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).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- GASB 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*.

- GASB 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.

- GASB 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.

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 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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. 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 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to PUC's 2017 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 2017.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as PUC's 2017 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in PUC's 2017 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 PUC's management and staff and had unrestricted access to PUC's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of PUC's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations PUC is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment 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, 2018, on PUC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. Within that report, we noted certain matters that we considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have also identified, and included in Attachment I, deficiencies related to PUC's internal control over financial reporting as of September 30, 2017 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.

ATTACHMENT I

SECTION I – DEFICIENCIES

We identified the following deficiencies involving PUC's internal control over financial reporting as of September 30, 2017:

1. Allowance for Doubtful Accounts

   Comment: PUC did not perform an analysis of the allowance for doubtful accounts. During the audit, PUC assessed the collectability of accounts and increased the allowance by approximately $775,000. At September 30, 2017, the adjusted allowance for uncollectible power and water accounts approximated $1,859,000 and $4,579,000, which represents 65% and 94% of total outstanding power and water accounts receivable, respectively.

   Additionally, at September 30, 2017, the majority of the accounts receivable - others are deemed uncollectible. These receivables are mainly from employees, former employees or former board members which have been outstanding for several years.

   Recommendation: PUC should perform periodic reviews of the collectability of its receivables to determine an appropriate allowance. PUC should analyze water accounts for potential write-offs.

2. Fixed Assets Reconciliation

   Comment: Fixed asset records should be periodically reconciled and be timely recorded. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. PUC did not timely and completely perform fixed asset reconciliations. The preliminary fixed asset inventory provided for the year ended September 30, 2017 reflected several unidentified assets, which were written off through an audit adjustment.

   Recommendation: PUC should perform timely reconciliations and assessments of the condition of the assets. Assets that are obsolete or are unrepairable should be written off. A formal company-wide inventory program should also be developed.

3. Construction in Progress (CIP)

   Comment: The status of six on-going projects totaling $432,844 at September 30, 2017 is not properly monitored. There is a lack of timely communication between the accounting and engineering.

   Recommendation: PUC should develop job status reporting guidelines and require the departments responsible for the projects to provide timely update.

4. Prepaid Expense – Travel

   Comment: At September 30, 2017, of the $40,919 prepaid travel expense, $19,045 represents amounts carried over from the prior years that had not been reconciled and adjusted. Additionally, the remaining $21,874 related to travel that was completed as of September 30, 2017 and was corrected through an audit adjustment.

   Recommendation: Prepaid travel should be regularly reconciled and final trip settlements be timely recorded.

SECTION I – DEFICIENCIES, CONTINUED

5. Account Payable

Comment: At September 30, 2017, accounts payable includes fifty-one accounts aggregating $157,512 that had been carried over from the prior year without any current year movement.

Recommendation: PUC should verify these accounts to determine validity.

6. Accrued Leave

Comment: At September 30, 2017, a variance of approximately $60,000 between the accrued leave liability general ledger balance and the payroll report was not reconciled.

Recommendation: PUC should verify the payroll report to validate the accuracy of leave balances as reported, and make necessary adjustment to the general ledger.

7. Water Meter Reading

Comment: Two of eleven water billings tested noted zero meter readings, resulting in a minimum monthly charge of $5. Examination of these customers' account histories noted monthly billings of $5. There appears to be a lack of sufficient and effective procedures over monitoring of water meter readings.

Recommendation: PUC should enhance its current procedures to review monthly water meter readings prior to bill processing, so that readings that are outside of certain parameters (such as a low or high) can be promptly investigated for correction.

8. Procurement

Comment: For an equipment rental expense item tested (check #37349, $5,047, February 27, 2017), the sole source procurement method was utilized. Documentation supporting the procurement method was not made available.

Recommendation: Procurement policies and guidelines should be followed. Use of sole source procurement method should be clearly documented and supported.

9. Travel Documentation

Comment: For a travel expense item tested (check #37393, $1,345, March 14, 2017), supporting documents such as boarding pass, airfare invoice and car rental were not provided.

Recommendation: Documents supporting validity of expense should be obtained and filed.

10. Deferred Revenues

Comment: At September 30, 2017, deferred revenues include a $14,554 unreconciled variance that has been carried over since 2012.

Recommendation: PUC should reconcile and make the required adjustment.

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.

ATTACHMENT II

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

PUC'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.

ATTACHMENT III

POHNPEI UTILITIES CORPORATION

"Dedicated to Improving the Quality of Life on Pohnpei"

June 27 2018

Deloitte & Touche, Inc.
P.O. Box 753
Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of net position of the Pohnpei Utilities Corporation (the Corporation), a component unit of the State of Pohnpei, which comprise the statements of net position as of September 30, 2017 and 2016 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 financial statements present fairly, in all material respects, the financial position and results of operations, and cash flows of the Corporation 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 financial statements of financial position, changes in net position, and cash flows of the Corporation 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 or error
    - To prevent and detect fraud.
c. The review and approval of the financial statements and related notes and acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the recorded adjustments included in Appendix A.

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 charged or influenced by the omission or misstatement.

P.O. Box C, Kolonia, Pohnpei
Federated States of Micronesia 96941
Phone: (691) 320-2374 Fax: (691) 320-2422 E-mail: puc@mail.fm

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

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

    b. Deposits and investment securities are properly classified in category of custodial credit risk.

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

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

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

    f. 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. The Corporation has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Corporation has made available to you:

    a. All minutes of the meetings of the Board of Directors or summaries of actions of recent meetings up to April 12, 2018, 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 the Corporation and for all funds administered by the Corporation. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Corporation and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

    c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with regulatory agencies.

4. There have been no:

    a. Action taken by the Corporation management that contravenes the provisions of federal and Federated State of Micronesia's (FSM) laws and regulations, or of contracts and grants applicable to the Corporation; and

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

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

6. The Corporation has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risk of fraud in the Corporation and do not believe that the financial statements are materially misstated as a result of fraud.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation involving:

   a. Management

   b. Employees who have significant roles in internal control over financial reporting.

   c. Others, where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation's financial statements communicated by employees, former employees, analysts, regulators, or others.

9. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

10. Significant assumptions used by us in making accounting estimates are reasonable.

11. 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.

12. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. No organizations were identified that meet the criteria established in GASB Codification Section 2100, Defining the Financial Reporting Entity, for inclusion as a component unit.

13. We are responsible for compliance with local and FSM laws, rules and regulations, and provisions of grants and contracts relating to the Corporation's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Corporation is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets and liabilities.

14. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Corporation's ability to initiate, record, process, and report financial information.

Except where otherwise stated below, immaterial matters less than $45,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

15. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

16. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

17. Regarding related parties:

    a. We have disclosed to you the identity of the Corporation's related parties and all the related party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

18. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

19. There are no:

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

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

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 13 to the financial statements.

20. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the notes to the financial statements.

21. The Corporation has complied with all aspects of contractual agreements that may affect the financial statements.

22. No department or agency of the Corporation has reported a material instance of noncompliance to us.

23. The Corporation has disclosed whether, subsequent to September 30, 2017, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

24. 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 of Government Accounting and Financial Reporting Standards 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.

25. Regarding supplementary information:

    a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GAAP.

    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

26. 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.

27. 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.

28. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Corporation and do not include any items consigned to it or any items billed to customers.

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

30. During fiscal year 2017, the Corporation implemented the following pronouncements, which had no material effect on the Corporation's financial statements:

- GASB 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.

- GASB 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).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB 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.*

- GASB 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.

- GASB 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.

31. 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.

32. 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.

33. In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

34. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

35. In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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.

36. In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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.

37. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

38. The Corporation purchases commercial insurance to cover its potential risks of loss from fire on its building and the contents and full coverage on property damages. It is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

39. At September 30, 2017, construction in progress (CIP) include seven projects totaling $433,000 which had no or minimum activities during the year. These projects are still valid and are expected to be resumed or completed during the year ended September 30, 2018.

40. No events have occurred after September 30, 2017, but before June 27, 2018, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Nixon Anson
General Manager

Daisy Nanpei
Comptroller

APPENDIX A
RECORDED ADJUSTMENTS AND RECLASSIFICATIONS

AUDIT ADJUSTING ENTRIES

#	Name	Debit	Credit
	1 AJE To adjust other sales to other income		
449-00-00	OTHER SALES	251,573.82	
434-00-00	MISCELLANEOUS INCOME		251,573.82
		251,573.82	251,573.82
	To adjust other sales to miscellaneous income		
	2 AJE To adjust general plant		
101-05-00	GENERAL IMPROVEMENTS	81,718.00	
101-04-00	GENERAL PLANT		81,718.00
		81,718.00	81,718.00
	To adjust general plant and general improvements		
	3 AJE To adjust AR others		
143-00-01	A/R - OTHERS/WATER	45,088.00	
154-03-00	PARTS INVENTORY-DISTRIBUTION		45,088.00
		45,088.00	45,088.00
	To adjust CCB reimbursement from AR others		
	4 AJE To adjust interest income		
129-03-00	PUC TCDS @ BOG & BFSM	2,086.38	
419-00-00	INTEREST & DIVIDEND INCOME		2,086.38
		2,086.38	2,086.38
	To record interest income earned from the TCD accounts		
	5 AJE To adjust fuel payable		
232-00-00	ACCOUNTS PAYABLE	20,137.00	
547-00-01	KWh		20,137.00
		20,137.00	20,137.00
	To correct fuel payables as of 9/30/17		
	6 AJE To correct interest expense		
431-00-00	OTHER INTEREST EXPENSE	47,945.00	
232-00-00	ACCOUNTS PAYABLE		47,945.00
		47,945.00	47,945.00
	To correct interest expense as of 9/30/17		
	7 AJE To write off non existent/operational fixed assets		
110-00-00	ACCUM DEPRE-POWER UTIL PLANT	37,915.50	
108-00-01	ACCUM. DEPRECIATION - WAT/SEW	6,463.50	
101-04-00	GENERAL PLANT		38,853.45
101-04-01	GENERAL PLANT - WATER/SEWER		6,463.50
411-60-00	GAIN/LOSS FR. DISPOSAL-UTIL PLANT	937.95	
		45,316.95	45,316.95
	To adjust for fixed assets not in existent or in use as of 9/30/17		

APPENDIX A
RECORDED ADJUSTMENTS AND RECLASSIFICATIONS

	8 AJE To adjust allowance for doubtful accounts		
144-00-00	ACCUM PROV-UNCOLLECTIBLE ACCTS		252,895.00
144-00-01	ACCUM PROV-UNCOLLECT-WATER		523,517.00
144-00-02	ACCUM-PROV-UNCOLLECT OTHER A/R	1,381.00	
904-00-06	UNCOLLECTIBLE ACCOUNTS	775,031.00	
		776,412.00	776,412.00
	To adjust allowance for doubtful accounts based on 9/30/17 audit analysis.		
	9 AJE To close out CIP		
101-02-01	SEWERAGE COLL.& TREATM. PLANT	174,667.00	
107-14-00	W I P ADB-SEWER UPGRADE		174,667.00
		174,667.00	174,667.00
	To close out ADB sewer project as of 9/30/17		
	10 AJE To adjust prepaid travel expenses		
921-05-07	TRAVEL - AIRFARE	21,874.00	
165-03-00	PREPAYMENTS - TRAVEL		21,874.00
		21,874.00	21,874.00
	To expense prepaid travel as of 9/30/17		

FINANCIAL STATEMENTS RECLASSIFICATION ENTRIES

	1 RJE To reclass fuel expenses		
547-00-01	KWh	21,761.00	
547-01-03	POL - FUEL		21,761.00
		21,761.00	21,761.00
	To reclass fuel expenses		
	2 RJE To reclass credit balances in the AR		
235-00-00	CUSTOMER DEPOSITS		127,656.24
142-01-00	A/R - RESIDENTIAL	125,396.07	
142-01-01	A/R - RESIDENTIAL /WATER	2,260.17	
		127,656.24	127,656.24
	To reclass credit balances in the AR as of 9/30/17.		
	3 RJE To reclass power commercial and government		
142-02-00	A/R - COMMERCIAL & INDUSTRIAL	24,325.00	
142-03-00	A/R - GOVERNMENT		24,325.00
		24,325.00	24,325.00
	To reclass commercial and government receivables to agree to SL		

APPENDIX A
RECORDED ADJUSTMENTS AND RECLASSIFICATIONS

	4 RJE To reclass current portion of LTD		
223-00-00	ADB SEWER LOAN	324,039.00	
224-00-00	OTHER LONG-TERM DEBT	110,754.00	
224-01-00	RUS LOAN	7,571.00	
224-01-01	ASIAN DEV. BANK LOAN	98,297.00	
226-01-00	BANK OF GUAM LOAN	36,403.00	
231-01-00	NOTES PAYABLE CURRENT PORTION		577,064.00
		577,064.00	577,064.00
	To reclassify the current portion of loan balances as of 9/30/17		
	5 RJE To reclass unreleased checks		
130-02-00	CASH AT BANK - BANK OF FSM	74,173.60	
232-00-00	ACCOUNTS PAYABLE		74,173.60
		74,173.60	74,173.60
	To reclass unreleased checks to PUC social club as of 9/30/17		

APPENDIX B
UNCORRECTED MISSTATEMENTS

	ASSETS DR (CR)	LIABILITIES DR (CR)	NET INCOME DR (CR)	INCOME TAXES DR (CR)
<1> - To adjust unreconciled unearned revenues				
Dr. Unearned revenues		14,554		
Cr. Mis. Revenues				(14,554)
<2> - To adjust invalid deposit in transit				
Dr. AP		25,000		
Cr. Cash	(25,000)			
<3> - To adjust bfsm unreconciled cash account				
Dr. Other expense				6,972
Cr. Cash	(6,972)			
<4> - To adjust expense prepayment				
Dr. R&M expense				18,221
Dr. Insurance expense				6,632
Dr. Travel expense				19,045
Cr. Prepayment	(43,898)			
<5> - To adjust unreconciled accounts payable				
Dr. Misc expense				13,550
Cr. Accounts payable		(13,550)		
<6> - To adjust unreconciled accrued annual leave				
Dr. Accrued leave		60,532		
Cr. Employee benefits				(60,532)