



Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

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

www.deloitte.com

June 25, 2019

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, 2018, 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 25, 2019.

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.

We wish to thank the staff and management of CPUC for their cooperation and assistance during the course of this engagement.

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 21, 2018, 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, 2018, 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, 2018; and
- 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, 2018 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 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.

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 2018 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, 2018, 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 2018 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 2018 financial statements. During the year ended September 30, 2018, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by CPUC, which did not have a material effect on the financial statements:

- GASB 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.
- GASB 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.
- GASB 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).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

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.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 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 June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to CPUC's 2018 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 2018.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CPUC's 2018 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 2018 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 25, 2019, 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 identified, and included in Attachment I, deficiencies related to CPUC's internal control over financial reporting as of September 30, 2018 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.

SECTION I – DEFICIENCIES

We identified the following deficiencies involving CPUC's internal control over financial reporting as of September 30, 2018:

(1) Fixed Asset Description

Comment: Eighteen assets, with an aggregate cost of \$1,638,296, do not have a detailed asset description.

Recommendation: Management should review the fixed asset register and related reconciliations and make necessary corrections. Management should also develop procedures for the appropriate identification of assets in the detailed registers. Asset descriptions should be specific and include sufficient detail, such as an asset tag number. Costs incurred for a single asset or project should be capitalized and entered into the register as a single asset.

(2) Expired Leases

Comment: One lease agreement that expired in 2015 has not been formally renewed in writing. Total rent expense relating to the expired agreement was \$42,000 for the year ended September 30, 2018.

Recommendation: Expired lease agreements should be renewed in writing to avoid future disputes.

(3) Beginning Net Position

Comment: Beginning net position did not agree with the prior year audited net position due to an adjustment directly posted to the beginning net position. This was corrected during the audit.

Recommendation: We recommend management review beginning net position and ensure such agrees with the prior year audited balance.

(4) Customer Master File Update

Comment: The status of several customers was not timely updated. We noted two of fourteen customer accounts tested were tagged as "ACTB" active and billable, but due to inactivity and an absence of issued billings, these accounts should be classified as inactive.

Recommendation: We recommend management timely revisit and improve internal controls over the review of customer status.

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 25, 2019

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, 2018 and 2017, 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 the financial position, results of operations, and cash flows in conformity with GAAP.
- b. The design, implementation, and maintenance of internal controls:
 - Relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - 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 financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agreed with the adjusting 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.

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.
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 April 5, 2019, 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 the aggregate, to the financial statements for the year ended September 30, 2017 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 their understanding about the risks of fraud in CPUC and do 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 the CPUC involving:
 - a. Management.
 - b. Employees who have significant roles in CPUC's internal control.
 - 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 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*.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. 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.
13. 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 \$37,000 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.

14. 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.
15. CPUC has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
16. 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.
17. 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.
18. 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*.
19. 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.

20. 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.
21. CPUC has complied with all aspects of contractual agreements that may have an effect on the financial statements.
22. No department or agency' of CPUC has reported a material instance of noncompliance to us.
23. 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.
24. 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.
25. 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.
26. 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.
27. We believe that all expenditures that have been deferred to future periods are recoverable.
28. All additions to CPUC's property accounts consist of replacements or additions that are properly capitalizable.
29. 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.
30. During fiscal year 2018, CPUC implemented the following pronouncements, which had no material effect on the financial statements:
 - GASB 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.

- GASB 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.
- GASB 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).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

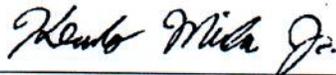
The implementation of these statements did not have a material effect on the financial statements.

31. 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.
32. 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.
33. 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.
34. In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 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.
35. In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

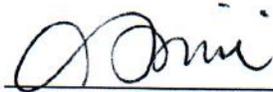
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36. In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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.
37. 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.
38. No events have occurred after September 30, 2018 but before June 25, 2019, 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,



Kembo Mida, Chief Executive Officer



Leialoha Shirai, Chief Financial Officer

**APPENDIX A
RECORDED ADJUSTMENTS AND RECLASSIFICATIONS**

AUDIT ADJUSTING ENTRIES

	1 AJE To adjust internal utilities usage		
40006-ELE-0	SALES - ELECTRIC -INTERCOMPANY SALES	210,661.66	
54024-ADM-A	UTILITIES - ELECTICITY		53,518.49
54025-ADM-A	UTILITY EXPENSE - WATER PUMPING		68,575.25
54026-ADM-A	UTILITY EXPENSE - SEWER PUMPING		88,567.92
		<u>210,661.66</u>	<u>210,661.66</u>
	To adjust internal utilities usage		
	2 CAJE To correct beginning net position		
51009-ADM-A	SAL & WAG (Bonus)-adm	25,000.00	
31000-000-0	RETAINED EARNINGS - PRIOR		25,000.00
		<u>25,000.00</u>	<u>25,000.00</u>
	To correct beginning net position FY18.		
	3 CAJE Tonoas inventory at year end		
16407-ELE-D	WIP TONOAS ELECTRIFICATION PROJECT	109,745.60	
15401-ELE-T	TONOAS SUPPLIES INVENTORY		109,745.60
		<u>109,745.60</u>	<u>109,745.60</u>
	Tonoas Inventory at year end		
	4 CAJE To correct drawdown payment not recorded as grant		
16408-ADM-A	WIP - professional Mngt CRISP Fy 2014	11,153.00	
61002-ELE-0	COMPACT CRISP GRANT		11,153.00
		<u>11,153.00</u>	<u>11,153.00</u>
	To correct drawdown payment not recorded as grant revenue		
	5 CAJE To amend grant revenue and payable to fed to match		
21008-000-0	PAYABLE TO FEDERAL GOV'T	39,268.00	
61002-ELE-0	COMPACT CRISP GRANT		39,268.00
		<u>39,268.00</u>	<u>39,268.00</u>
	To amend grant revenue and payable to fed to match the prof management SEFA		
	6 CAJE To reclass residential water and residential sewer		
12002-WTR-0	A/R WATER-RESIDENCE	30,878.19	
12002-SWG-0	A/R SEWERAGE-RESIDENCE		30,878.19
		<u>30,878.19</u>	<u>30,878.19</u>
	To reclass residential water and residential sewer		

7 CAJE To correct GL to match the main warehouse inventory

15002-ADM-A	GENERAL STORES INVENTORY	9,037.54	
52001-ELE-P	MAINTENANCE (GENL)- POWER GEN		9,037.54
		<u>9,037.54</u>	<u>9,037.54</u>

To correct GL to match the Main warehouse inventory

8 CAJE To correct interest accrual and current portion

21001-000-0	ACCRUED INTEREST PAYABLE	10,000.00	
21044-000-0	CURRENT PORTION OF LT -ADB		10,000.00
		<u>10,000.00</u>	<u>10,000.00</u>

To correct interest accrual and the current portion of ADB Loan

9 CAJE To correct GL to match Chlorine inventory

15402-WTR-N	CHLORINE SUPPLIES INVENTORY - WT	3,817.30	
54011-WTR-G	WATER CHLORINE		3,817.30
		<u>3,817.30</u>	<u>3,817.30</u>

To correct GL to match Chlorine inventory

10 CAJE To correct presentation of land and office lease

54055-ADM-A	ACCRUED LOCAL VENDORS EXPENSES	6,300.00	
54017-WTR-B	LEASE FOR GRINDER STATIONS AND WTR WELLS	285.58	
54016-WTR-G	RENTAL EQUIPMENT EXPENSE	3,946.42	
54019-ADM-A	OFFICE RENTAL EXPENSE		10,532.00
		<u>10,532.00</u>	<u>10,532.00</u>

To correct presentation of land and office lease.

11 CAJE To correct government water sewer AR

12003-SWG-0	A/R SEWERAGE- CHUUK GOV	6,433.07	
12003-WTR-0	A/R WATER- CHUUK GOV	6,433.07	
40006-ADM-A	SALES - (CONTRA POWER REBATES)		12,866.14
		<u>12,866.14</u>	<u>12,866.14</u>

To correct government water sewer AR

12 AJE To correct ADB interest expense and agree to FSMNG

23003-000-0	ASIAN DEVELOPMENT BANK LOAN	51,349.39	
62002-000-0	INTEREST ON LONG TERM DEBT		51,349.39
		<u>51,349.39</u>	<u>51,349.39</u>

To correct ADB interest expense and agree to FSMNG's roll-forward

13 CAJE To correct reconcile AR per UTP and per GL

40019-000-0	OTHER OPERATION INCOME		70,032.00
12002-ELE-0	A/R ELECTRICITY -RESIDENCE	1,955.52	
12001-ELE-0	A/R ELECTRICITY -COMMERCIAL	38,738.14	
12003-ELE-0	A/R ELECTRICITY - CHUUK GOV	9,482.96	
40006-ADM-A	SALES - (CONTRA POWER REBATES)	19,855.38	
		<u>70,032.00</u>	<u>70,032.00</u>

To reconciled AR per UTP and GL

FINANCIAL STATEMENTS RECLASSIFICATION ENTRIES

1 RJE to reclass electric unbilled

Audit6	AR - unbilled	50,176.62	
12001-ELE-0	A/R ELECTRICITY -COMMERCIAL		38,738.14
12003-ELE-0	A/R ELECTRICITY - CHUUK GOV		9,482.96
12002-ELE-0	A/R ELECTRICITY -RESIDENCE		1,955.52
		<u>50,176.62</u>	<u>50,176.62</u>

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

2 RJE to reclass water unbilled

Audit6	AR - unbilled	35,940.17	
12002-WTR-0	A/R WATER-RESIDENCE		8,745.28
12001-WTR-0	A/R WATER-COMMERCIAL		10,117.50
12003-WTR-0	A/R WATER- CHUUK GOV		4,970.33
12001-SWG-0	A/R COMMERCIAL SEWER		7,027.17
12003-SWG-0	A/R SEWERAGE- CHUUK GOV		2,379.92
12002-SWG-0	A/R SEWERAGE-RESIDENCE		2,699.97
		<u>35,940.17</u>	<u>35,940.17</u>

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

3 RJE to reclass prepaid lease

Audit 8	Prepaid lease, noncurrent	269,846.00	
13004-000-0	PREPAID POWER PLANT LEASE		269,846.00
		<u>269,846.00</u>	<u>269,846.00</u>

To reclass current prepaid lease to non-current prepaid lease

4 RJE to reclass current portion of LTD

21044-000-0	CURRENT PORTION OF LT -ADB	61,659.00	
23003-000-0	ASIAN DEVELOPMENT BANK LOAN		61,659.00
		<u>61,659.00</u>	<u>61,659.00</u>

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		6,285.00
22002-000-0	FSM DEVT BANK - CURRENT	<u>6,285.00</u>	
		<u>6,285.00</u>	<u>6,285.00</u>

To reclass current portion of FSMDB loan as of 9/30/18

**APPENDIX B
UNCORRECTED MISSTATEMENTS
YEAR ENDED SEPTEMBER 30, 2018**

	ASSETS DR (CR)	LIABILITIES DR (CR)	BEGINNING NET POSITION DR (CR)	CHANGE IN NET POSITION DR (CR)
<1> to adjust potential understatement of allowance Dr. Bad debts expense Cr. Allowance for doubtful accounts	(81,000)			81,000
<2> to void transaction due to error Dr. Cash Cr. Payable	11,980	(11,980)		
<3> to recognize accrued liability based on legal confirmation Dr. Expense Cr. Accrued payable		(30,000)		30,000

APPENDIX C
 PRIOR YEAR ERROR DISCOVERED IN CURRENT YEAR
 YEAR ENDED SEPTEMBER 30, 2018

	ASSETS DR (CR)	LIABILITIES DR (CR)	BEGINNING NET POSITION DR (CR)	CHANGE IN NET POSITION DR (CR)
<1> to recognize unrecorded expense in FY17 Dr. Salaries and wages Cr. Accrued payable		(25,000)		25,000
<2> Settlement of PY lease payments with lease entered in FY2017 Dr. Lease expense Cr. Prepaid lease	(12,930)			12,930