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July 7, 2021

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, 2020, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated July 7, 2021.

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 January 19, 2021, 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, 2020, 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, 2020; 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, 2020 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 2020 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, 2020, 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 2020 financial statements.

In addition, included as Appendix B to Attachment III, are summaries 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

CPUC's significant accounting policies are set forth in Note 2 to CPUC's 2020 financial statements. During the year ended September 30, 2020, there were no significant changes in previously adopted accounting policies or their application.

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

During the year ended September 30, 2020 , GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ended September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statement No.s 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to CPUC's 2020 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 2020.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CPUC's 2020 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 2020 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 July 7, 2021, 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*. 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 CPUC's internal control over financial reporting and other matters as of September 30, 2020 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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SECTION I – DEFICIENCIES

We identified the following deficiencies involving CPUC's internal control over financial reporting as of September 30, 2020:

(1) Customer Deposit Subsidiary Ledger

Comment: CPUC does not maintain a subsidiary ledger for the customer deposit liability account of $142,600 as of September 30, 2020, which increased from $127,754 as of September 30, 2019.

Recommendation: Management should maintain a subsidiary ledger and perform regular review and reconciliation with the general ledger.

(2) Inventories

Comment: Of twenty inventory items counted in October 2020, two items showed discrepancies between the inventory listing and actual counts.

Recommendation: Management should consider perform periodic reconciliation of inventories, including periodic physical counts during the year.

(3) Inventory Issuances

Comment: Materials and inventories should be periodically reviewed. A year-end $136,587 adjustment was recorded to reconcile the General Ledger inventory balances with the physical inventory, which resulted from inventory directly transferred to the job sites without recording the related inventory receipts and issuances. Inventory issuances supported by signed issuances and an issuance log were not timely recorded, reviewed and monitored.

Recommendation: Management should properly account for inventory transactions by recording all receipts and issuances and perform periodic reconciliations of inventory movements.

(4) Journal Voucher

Comment: Independent review prior to posting of journal entries as evidenced by preparer and reviewer signature was not consistently performed throughout the year.

Recommendation: Management should perform documented reviews and approvals of journal vouchers.

(5) Postpaid Water Billings

Comment: Of six postpaid water billings tested, one customer account tagged as active and billable (ACTB) has no activities since the year ended September 30, 2018. This account should be classified as inactive.

Recommendation: Management should improve internal controls over the review of customer status and postpaid water billings.

SECTION II – OTHER MATTERS

We identified, and have included below, other matters involving CPUC's internal control over financial reporting as of September 30, 2020, that we wish to bring to your attention

(1) 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, 2020.

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

(2) Timely remittance of withholding taxes

Comment: The September 30, 2020 quarterly tax return included penalties and interest for late filing and payment.

Recommendation: Management should timely file and remit withholding tax payments in accordance with requirements.

(3) Accrued leave benefits

Comment: Manually prepared accrued leave benefits report for top management employees did not include details of carry-over, used and available hours as of September 30, 2020.

Recommendation: Accrued leave benefit report should include carry-over, year-to-date accrued, used, and available leave credits.

SECTION III – 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.

July 7, 2021

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, 2020 and 2019, 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.

   f. CPUC's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available is appropriately disclosed and the related net position is properly recognized under the policy.

   g. The financial statements properly classify all funds and activities, including special and extraordinary items.

2. CPUC has 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 22, 2021, 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 understand inventory was tested using statistical or other sampling techniques and that certain errors in recording inventory as of September 30, 2020, were found by you in the sample items selected. The effect of the factual errors identified has been included in the summary of uncorrected misstatements attached to this letter as Appendix B. We also understand that to estimate the total amount of errors in inventory, a mathematical projection of the errors has been computed, which results in a potential understatement of $27,958 of inventory at September 30, 2020, and a potential overstatement of $27,958 in expense for the year ended September 30, 2020. Only additional testing and verification by either CPUC or you would produce a more accurate estimate of the errors within inventory. Such potential understatement is not included as part of Appendix B. Based on our judgment of the materiality of the understatement, we believe the effects of such potential unrecorded errors, as well as the effects when considered with the items in Appendix B, are immaterial to the financial statements taken as a whole.

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 we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments.*

11. The methods, significant assumptions, and the data used by us in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement, or disclosure that is in accordance with GAAP.

12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the provisions of grants and contracts relating to CPUC's operations. We are responsible for understanding and complying with the requirements of the federal statutes and regulations. 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. We are responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

13. We have informed you of all investigations or legal proceedings that have been initiated during the year ended September 30, 2020 or are in process as of September 30, 2020.

14. We are responsible for all nonaudit services performed by you during the year ended September 30, 2020 and through July 7, 2021.

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 changes in internal control over compliance or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by CPUC with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2020.

17. We are responsible for taking corrective action on audit findings and have developed a corrective action plan. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

18. 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.

19. 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 $42,000 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.

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

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

22. 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.

23. 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.

24. 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* .

25. 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.

26. 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.

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

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

29. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

30. 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.

31. 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.

32. 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.

33. 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.

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

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

36. 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.

37. CPUC has evaluated the outstanding construction in progress of $1,927,813 at September 30, 2020 and determined that they are valid ongoing projects. For projects with minimum or no progress during the year ended September 30, 2020, the temporary delays were due to COVID-19 related travel restrictions and are expected to resume once such restrictions have been lifted.

38. During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No.'s 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

39. Regarding the future implementation of GASB Statements effective for the years ending September 30, 2021 and after, as detailed in the note 2 of the financial statements, CPUC does not believe the implementation will have a material effect on its financial statements with the exception of *Statement No. 87, Leases*, which will be effective for fiscal year ending September 30, 2022. CPUC has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 87 *Leases*, as discussed in Note 2. CPUC is therefore unable to disclose the impact that adopting GASB Statement No. 87 will have on its financial position, results of operations, and cash flows when such statement is adopted.

40. 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.

41. No events have occurred after September 30, 2020 but before July 7, 2021, 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 Jr.

Kembo Mida, Chief Executive Officer

Leialoha Shirai, Chief Financial Officer

APPENDIX A
RECORDED ADJUSTMENTS AND RECLASSIFICATIONS

AUDIT ADJUSTING ENTRIES

Journal Entries – AJE and CAJE

GL Code	Account Description	Debit	Credit
	1 AJE To adjust internal utilities usage		
40006-ELE-0	SALES - ELECTRIC -INTERCOMPANY SALES	192,770.00	
54024-ADM-A	UTILITIES - ELECTICITY		49,674.00
54025-ADM-A	UTILITY EXPENSE - WATER PUMPING		63,282.00
54026-ADM-A	UTILITY EXPENSE - SEWER PUMPING		79,814.00
		192,770.00	192,770.00
	To adjust internal utilities usage		
	2 CJE To amortize prepaid insurance for FY2020		
54009-ADM-A	INSURANCE - PROPERTY	36,737.44	
13002-000-0	PREPAID INSURANCE		36,737.44
		36,737.44	36,737.44
	To amortize prepaid insurance for FY2020 - per schedule 13002-000		
	3 CJE To update SEFA		
12025-ELE-0	OTHER GRANTS RECEIVABLE - ELE	22,769.00	
61002-ELE-0	COMPACT CRISP GRANT	5,722.00	
21008-000-0	PAYABLE TO FEDERAL GOV'T		28,491.00
		28,491.00	28,491.00
	To update SEFA		
	4 CJE To update fuel consumption and fuel inventory		
53001-ELE-P	DIESEL FUEL - POWER GENERATION	19,890.00	
15101-ELE-P	FUEL INVENTORY ELECTRICITY		19,890.00
		19,890.00	19,890.00
	To update fuel consumption and fuel inventory at year-end		
	5 CJE To update power plant inventory and lube oil		
53002-ELE-P	LUBE OIL	31,455.42	
52001-ELE-P	MAINTENANCE (GENL)- POWER GEN	13,520.00	
15003-ADM-A	FUEL INVENTORY		31,455.42
15102-ELE-P	PRO SUPPLIES INVENTORY - ELE		13,520.00
		44,975.42	44,975.42
	To update power plant inventory and lube oil		
	6 CJE To accrue additional insurance expense		
54009-ADM-A	INSURANCE - PROPERTY	18,899.47	
13002-000-0	PREPAID INSURANCE		18,899.47
		18,899.47	18,899.47

	To accrue additional insurance expense		
	7 CJE To correct overstated water sales and AR		
40006-ADM-A	SALES - (CONTRA POWER REBATES)	6,950.04	
40003-WTR-0	SALES - WATER (RESIDENTIAL)	4,355.30	
40003-WTR-0	SALES - WATER (RESIDENTIAL)	9,237.77	
12002-WTR-0	A/R WATER-RESIDENCE		20,543.11
		20,543.11	20,543.11
	To correct overstated water sales and AR		
	8 AJE To accrue legal services - Sept 2020		
56052-ADM-A	MISC. - LEGAL FEES	10,950.00	
20002-ADM-0	ACCOUNTS PAYABLE- OTHERS		10,950.00
		10,950.00	10,950.00
	To accrue legal services - Sept 2020		
	9 AJE To correct ADB interest expense and agree to FSMNG		
62002-000-0	INTEREST ON LONG TERM DEBT	56,864.00	
23003-000-0	ASIAN DEVELOPMENT BANK LOAN		56,864.00
		56,864.00	56,864.00
	To correct ADB interest expense and agree to FSMNG's roll-forward		
	10 AJE To adjust potential understatement of allowance		
54000-ADM-A	PROVISION FOR BAD DEBTS	60,733.00	
12050-000-0	ALLOWANCE FOR BAD DEBTS		60,733.00
		60,733.00	60,733.00
	To adjust potential understatement of allowance		
	11 CJE To reclassify PO-129-00 Hawthorne		
13001-000-0	PREPAID PURCHASE ORDERS	253,416.00	
16302-ELE-P	WIP REBUILD GENERATION #4 (POWER SECURITY GRNT)		253,416.00
		253,416.00	253,416.00
	To reclassify PO-129-00 Hawthorne		
	12 CJE To reverse capital asset and cap contribution		
61015-ELE-0	CONTRIBUTED CAPITAL	800,000.00	
16030-000-0	FIXED ASSETS - PRO EQUIPMENT		800,000.00
		800,000.00	800,000.00
	To reverse capital asset		
	13 CJE To accrue grant revenue - ADB		
12030 AUD	GRANTS RECEIVABLE - ADB	168,861.00	
61008 AUD	GRANT CONTRIBUTION - ADB		168,861.00
		168,861.00	168,861.00
	To accrue grant revenue - ADB		

	14 AJE To reverse capital contribution - WB		
61015-ELE-0	CONTRIBUTED CAPITAL	1,331,668.00	
16030-000-0	FIXED ASSETS - PRO EQUIPMENT		1,331,668.00
16503-ELE-P	ACCUM DEPREC - PROD PLANT	33,292.00	
55001-ELE-P	DEPR. EXPENSE - POWER GEN		33,292.00
		1,364,960.00	1,364,960.00
	To reverse capital contribution - WB		

FINANCIAL STATEMENTS RECLASSIFICATION ENTRIES

Journal Entries - RJE

GL Code	Account Description	Debit	Credit
	1 RJE to reclass water unbilled		
Audit6	AR - unbilled	41,865.74	
12001-SWG-0	A/R COMMERCIAL SEWER		7,839.73
12001-WTR-0	A/R WATER-COMMERCIAL		9,525.12
12003-WTR-0	A/R WATER- CHUUK GOV		7,778.87
12002-SWG-0	A/R SEWERAGE-RESIDENCE		3,468.98
12002-WTR-0	A/R WATER-RESIDENCE		13,253.04
		41,865.74	41,865.74
	to reclass unbilled AR water and sewer from trade receivables res, com, and govt.		
	2 RJE to reclass prepaid lease - solar farm		
Auditfy20	Noncurrent prepaid lease - Solar Farm	108,600.00	
13001-000-1	PREPAID LEASE-SOLAR PLANT		108,600.00
		108,600.00	108,600.00
	To reclass noncurrent prepaid lease - solar farm		
	3 RJE to reclass current portion of ADB loan		
21044-000-0	CURRENT PORTION OF LT -ADB	42,664.00	
23003-000-0	ASIAN DEVELOPMENT BANK LOAN		42,664.00
		42,664.00	42,664.00
	To adjust current portion of ADB loans based on updated amortization schedule.		
	4 RJE To reclass CAJE no. 11		
Audit 10	Deposit for asset acquisition	253,416.00	
13001-000-0	PREPAID PURCHASE ORDERS		253,416.00
		253,416.00	253,416.00
	To reclass CAJE no. 11		
	5 RJE To reclass non current portion of accrued leave		
21003-ELE-0	ACCRUED ANNUAL LEAVE- CURRENT PORTION	66,050.00	
21003-000-0	ACCRUED ANNUAL LEAVE		66,050.00
		66,050.00	66,050.00
	To reclass estimated noncurrent portion of accrued leave		

APPENDIX B
UNCORRECTED MISSTATEMENTS
YEAR ENDED SEPTEMBER 30, 2020

	ASSETS DR (CR)	LIABILITIES DR (CR)	EQUITY DR (CR)	CHANGE IN NET POSITION DR (CR)
PAJE no. 1 – to reclass credit Balance on AR	$ 17,552	$ (17,552)	$ -	$ -
PAJE no. 2 – to adjust potential understatement of allowance	(85,000)			85,000
PAJE no. 3 – to adjust WIP ADB	(22,571)			22,571
PAJE no. 4 – to recognize diff in CSHCP confirmation		(53,222)		53,222
	$ (90,019)	$ (70,774)	$ -	$ 160,793