Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

April 14, 2010

The Board of Directors
Pohnpei Utilities Corporation

Dear Members of the Board:

We have performed an audit of the financial statements of Pohnpei Utilities Corporation (PUC) as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated April 14, 2010.

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

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

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated August 21, 2009. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of PUC's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;

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

- To report on PUC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2009 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under auditing standards generally accepted in the United States of America and 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.

We considered PUC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PUC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PUC's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily 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 by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in PUC's 2009 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; management's estimate of unearned cash power revenue, which is based on power consumption of power by cash power customers; and, management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2009, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on PUC's financial reporting process. Such proposed adjustments, listed in Appendix II, have been recorded in the accounting records and are reflected in the 2009 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

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

SIGNIFICANT ACCOUNTING POLICIES

PUC's significant accounting policies are set forth in Note 1 to PUC's 2009 financial statements. During the year ended September 30, 2009, there were no significant changes in previously adopted accounting policies or their application. New accounting policies adopted during the year ended September 30, 2009 are also set forth in Note 1 to PUC's 2009 financial statements.

OTHER INFORMATION IN THE ANNUAL REPORTS

To the date of this letter, the 2009 audited financial statements have not been included in documents containing other information such as an Annual Report.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to PUC's 2009 financial statements.

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 2009.

MANAGEMENT'S REPRESENTATIONS

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

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated April 14, 2010, containing information regarding our consideration of PUC's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements.

We have identified, and included in the attached Appendix I, certain control deficiencies related to PUC's internal control over financial reporting and also other matters as of September 30, 2009 that we wish to bring to your attention.

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

* * * * * * * *

This report is intended solely for the information and use of the Board of Directors, management, and others within PUC 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 PUC for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving PUC's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

1. Post Closing Entries

   Comment: Though the size and number has been reduced compared with the prior year post closing adjustments, we still noted a number of post closing adjustments in the current year. This indicates that a more thorough review of the general ledger is required.

   Recommendation: Month-end and year-end closing timetables should be implemented, and review of the general ledger should be performed on a timely basis. This was also brought to management's attention in our previous management letter.

2. Analysis of Allowance for Doubtful Accounts

   Comment: PUC does not perform a comprehensive analysis of the allowance for doubtful accounts. During the audit, we proposed an additional allowance for doubtful accounts of $530,500 to be recorded in the PUC's financial statements. Additionally, we noted that PUC does not enforce a disconnection policy for water accounts.

   Recommendation: PUC should perform a periodic review of the collectability of its receivables to determine that an appropriate allowance, if any, is established. PUC should consider implementing a disconnect policy for past due water accounts.

3. Analysis of Allowance for Inventory Obsolescence

   Comment: PUC does not perform periodic analysis of parts inventory to identify obsolete or non-useable items. From a sample of 15 items, four items were identified as having no movement (purchases or usage) during the year ended September 30, 2009.

   Recommendation: PUC should implement procedures to perform a periodic analysis of parts inventory and should establish an allowance for parts determined to be obsolete or unusable.

4. Inaccurate Peak and Loss Report

   Comment: The Peak and Loss Report for the year ended September 30, 2009 erroneously excluded the kwh sold on demand accounts and easy power/cash power vending sales, understating total kwh sold by approximately 2.2 million kwh.

   Recommendation: Reports should be reviewed for accuracy.

5. Unearned Cash Power

   Comment: The cash power sales by account summary report for the year ended September 30, 2009, which was the basis to estimate unearned cash power revenue, reflected an understatement of 5 million kwh of total cash power sales for the year. As a result, unearned cash power revenue as of September 30, 2009 was estimated using 2008 data.

   Recommendation: Reports should be reviewed for accuracy.

6. Stale Dated Checks

   Comment: Stale dated checks totaling $25,384 were included as outstanding checks as of September 30, 2009.

   Recommendation: To strengthen PUC's internal control over cash, reasons for the non-encashment of long outstanding checks should be investigated in a timely manner.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

1. Long Outstanding Receivables from Employees

   Comment: At September 30, 2009, $89,737 of $98,874 of accounts receivable – others are deemed to be uncollectible. These receivables are mainly from employees, former employees or former board members which have been outstanding for several years. These receivables have been fully provided for.

   Recommendation: Though fully provided with an allowance, management should strengthen its collection efforts to ensure that advances to employees are collected in a timely manner.

2. Production and Line Losses

   Comment: For the year ended September 30, 2009, production and line losses remained significantly above industry standards at 1.9 million kWh and 6.9 million kWh, (or 5.1% and 18.6% of total production), respectively. Losses may be caused by equipment problems, inefficiencies at generation plants or in transmission and distribution, or by theft of service. Production and line losses for the year ended September 30, 2008 approximated 4.7% and 20.5%, respectively.

   Recommendation: PUC should determine the cause(s) of the production and line losses and take steps to reduce losses to a more acceptable level. This was also brought to management's attention in our previous management letter.

3. Bank Reconciling Items

   Comment: The September 2009 savings account reconciliation contains two credit card sales ($2,199.30 and $3,600.00) that have not been processed by the bank as of March 2010. Management indicated that various discussions had been held with bank personnel at various times; however, the informal follow ups have not been documented in writing. Additionally, the September 2009 checking account reconciliation includes reconciling items of approximately $3,000 carried over from prior year that are identified as "bank errors". These items may no longer be recoverable.

   Recommendation: An appropriate level of PUC management should follow up with the bank in writing.

4. Annual Leave

   Comment: Several contract employees used more annual leave hours than earned in FY2009, resulting in negative annual leave balances at year-end.

   Recommendation: PUC should strengthen controls over monitoring annual leave usage.

5. Segregation of Power and Water Activities

   Comment: The PUC operations comprise both power and water. The accounting records have separately identified certain applicable revenues and expenses. Given the issues involved in rate making and in potential debt financing, it may be appropriate to consider whether additional segregation may be of benefit.

   Recommendation: We believe that management may wish to consider whether additional disaggregation of water and power operations may be beneficial to the Corporation.

6. Perpetual Inventory System

   Comment: The PUC maintains a perpetual accounting of inventory receipts and issuances off balance sheet through the MAS 90 inventory module, but inventory movement is recorded in the general ledger only at year end based on the physical inventory count.

   Recommendation: We recommend that PUC update its inventory balances monthly based on receipts and issuances recorded through the inventory module.

SECTION II – DEFINITION

The definition of a control deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *control 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 properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

APPENDIX II

RECORDED AUDIT ADJUSTMENTS

	Assets	Liabilities	Equity	Profit & Loss
DR Bad debt expense				530,500
CR Allowance for doubtful accounts - water	(504,112)			
CR Allowance for doubtful accounts - power	(26,388)			
To adjust allowance for doubtful accounts				
DR Customer deposit (unearned revenues)		30,000		
CR Cash power sales				(30,000)
To adjust estimated unearned cash power				
DR Beginning net assets			797	
CR Miscellaneous expense				(797)
To correct unbalanced beginning net assets				

APPENDIX III

UNRECORDED AUDIT ADJUSTMENTS

	Assets	Liabilities	Equity	Profit & Loss
DR Cash CR Liability **To record stale dated checks**	7,204	(7,204)		
DR Cash CR Liability **To record stale dated checks**	18,180	(18,180)		
DR Cash CR Accounts payable **To reclassify unreleased checks to liability account**	14,611	(14,611)		
DR Sales CR Accounts receivable - water **To reconcile receivable balance per G/L to schedules**	(12,692)			12,692
DR Interest expense CR Interest payable **To accrue interest expense on loans**		(5,735)		5,735
DR Grant receivable CR Grant revenue **To record subsequent reimbursement in Oct 09**	10,000			(10,000)
DR WIP CR Accounts payable **To accrue liability at year end**	20,391	(20,391)		
DR Receivable from employees CR Accrued annual leave **To adjust negative annual leave at year-end**	3,688	(3,688)		
TOTAL KNOWN MISSTATEMENTS	**61,382**	**(69,809)**		**8,427**
TOTAL LIKELY MISSTATEMENTS - NONE	**-**	**-**		**-**
TOTAL	**61,382**	**(69,809)**		**8,427**

POHNPEI UTILITIES CORPORATION

"Dedicated to improving the Quality of Life on Pohnpei"

April 14, 2010

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

We are providing this letter in connection with your audits of the financial statements of Pohnpei Utilities Corporation (the Corporation) as of September 30, 2009 and 2008 and for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Corporation in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

a. The fair presentation in the financial statements of the Corporation's net assets, related statements of revenues, expenses and change in net assets, and cash flows, in conformity with accounting principles generally accepted in the United States of America (GAAP.

b. The fair presentation of the required supplementary information, including the Management's Discussion and Analysis, and the supplemental schedules accompanying the financial statements that are presented for the purpose of additional analysis of the financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.

d. Establishing and maintaining effective internal control over financial reporting.

e. Compliance with local and federal laws, rules and regulations, including compliance with the requirements of grants and contracts relating to the Corporation's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations.

f. The review and approval of the financial statements, accompanying schedules and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the stand-alone business-type activities checklist by the Government Finance Officers Association. Additionally, we agreed with the adjusting and reclassification entries included in Appendix A.

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

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 financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

   a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.

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

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

   d. Costs to federal awards have been charged in accordance with applicable cost principles.

2. The Corporation has made available to you all:

   a. Financial records and related data for all financial transactions of the Corproation. The records, books, and accounts, as provided to you, record the financial and fiscal operations of the Corporation and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   b. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There has been no:

   a. Action taken by the Corporation's management that contravenes the provisions of federal and local laws and regulations, or of contracts and grants applicable to the Corporation.

   b. Communication from 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.

4. 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.

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

misstated as a result of fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Corporation involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation received in communications from employees, former employees, analysts, regulators, or others.

8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) Topic No. 450 *Contingencies* (formerly FASB Statement No. 5, *Accounting for Contingencies*).

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

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

11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, matters less than $44,000 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.

12. There are no transactions that have been improperly recorded in the accounting records underlying the financial statements except for those listed in Appendix B.

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

14. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements:

    a. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

    b. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

15. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

We are not aware of any estimates at September 30, 2009 that may change and that the effect of the change would be material to the financial statements.

16. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC Topic No. 450, *Contingencies* other than that disclosed in the financial statements.

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

18. The Corporation has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.

19. No events have occurred subsequent to September 30, 2009 to the dates of our signatures below that require consideration as adjustments to or disclosures in the financial statements.

20. We have disclosed to you that no change in the Corporation's internal control over financial reporting has occurred during the Corporation's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

21. No corporation or agency of the Federal Government, the Pohnpei State Government, or the FSM National Government has reported a material instance of noncompliance to us.

22. We have no intention of terminating our retirement plan or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our retirement plan to which we contribute. We are of the opinion that the plan does not represent an asset or liability of the Corporation. However, in June 2008, we stopped employer contributions to the plan until such time as the Corporation's financial standing improves. We do not believe that this act constitutes a violation of our plan, termination of the plan or a reportable event for the plan since we believe that such contributions are discretionary.

23. We do not plan to make frequent amendments to our pension or other postretirement benefit plans.

24. Provisions have been made to reduce accounts receivable to their estimated net realizable value.

25. The Corporation 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. We have identified to you all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.

27. Provision has been made, when applicable, for any loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

28. The Corporation has established a self insurance fund in accordance with Pohnpei State Law to defray costs of any unforeseen accidents or disasters. The Corporation is substantially self-insured for all other risks. We are of the opinion that no material losses have been sustained as a result of this practice.

29. The Corporation is a party to several legal proceedings, the ultimate impact of which is not currently predictable. Management is of the opinion that the ultimate impact of these proceedings, though not predictable, will not be material and accordingly, no liability for such proceedings has been recorded in the financial statements.

30. The Corporation has obligated, expended, received, and used public funds of the Corporation in accordance with the purpose for which such funds have been appropriated or otherwise authorized by federal law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by federal law.

31. Money or similar assets handled by the Corporation on behalf of the Federal Government have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.

32. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Corporation has been discovered.

33. During fiscal year 2009, the Corporation implemented the following pronouncements

    - GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

    - GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

    - GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. The effect of the implementation of this statement on the financial statements of the Corporation has not been determined.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.

34. PUC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. PUC has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.

35. The Corporation has not received written communication from its lenders regarding any loan covenant noncompliance and believes that the non-compliance with certain covenants associated with its loan with the Bank of the FSM will have no effect on the financial statements.

36. The Corporation is responsible for establishing a provision to reduce excess or obsolete inventories to their estimated net realizable value. Management is of the opinion that no material provision is necessary to reduce inventories to their net realizable value at September 30, 2009.

Feliciano M. Perman
General Manager

04/15/10
Date

Johnny Adolph
Acting Comptroller

04/15/10
Date