

June 11, 2011

The Board of Directors
Chuuk Public Utility Corporation:

We were engaged to perform an audit of the financial statements of the Chuuk Public Utility Corporation (CPUC), as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated June 11, 2011.

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.

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 (“generally accepted auditing standards”), 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 September 30, 2010. 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 CPUC’s basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2010 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects; and
- To report 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 for the year ended September 30, 2010 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 generally accepted 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 CPUC’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 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 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 CPUC's 2010 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 the allowance for inventory obsolescence, which is determined based upon expected inventory turnover and inventory aging; 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, 2010, 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 CPUC's financial reporting process. Such adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2010 financial statements.

We have attached to this letter, as Appendix II, 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.

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 previous period 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 1 to CPUC's 2010 financial statements. During the year ended September 30, 2010, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the CPUC:

- GASB 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.
- GASB 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.
- GASB 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.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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 has not evaluated the effect that the implementation of this statement will have on the financial statements of the Plan.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Plan.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Plan.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CPUC's 2010 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 2010 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.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to CPUC's 2010 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 2010.

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 Appendix IV, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR RETENTION AS AUDITORS

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.

CONTROL-RELATED MATTERS

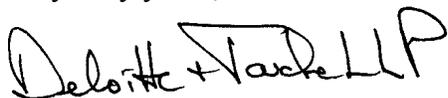
We have issued a separate report to you, dated June 11, 2011, wherein no matters involving CPUC's internal control over financial reporting that were considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have communicated to management, in a separate letter also dated June 11, 2011, control deficiencies and other matters that we identified during our audit.

* * * * *

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

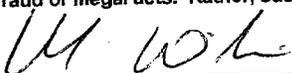
Very truly yours,

Handwritten signature of Deloitte + Touche LLP in black ink.

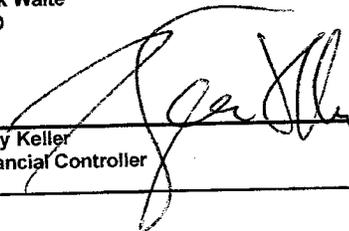
**CHUUK PUBLIC UTILITY CORPORATION
SEPTEMBER 30, 2010
AUDIT ADJUSTING ENTRIES**

#	Name	Debit	Credit
1 AJE To adjust for the correction of depreciation exp			
55001-ELE-P	DEPR. EXPENSE - POWER GEN	-	6,914.00
64001-000-0	EXTRAORDINARY INCOME	6,914.00	-
		<u>6,914.00</u>	<u>6,914.00</u>
To adjust for the correction of depreciation expense account.			
2 AJE To adjust for additional allowance			
12050-000-0	ALLOWANCE FOR BAD DEBTS	-	190,908.00
54002-ADM-A	BAD DEBT EXPENSE	190,908.00	-
		<u>190,908.00</u>	<u>190,908.00</u>
To adjust for additional allowance.			
3 AJE To adjust for the reversal of F/A vehicle			
16015-ADM-A	FIXED ASSETS - ADM VEHICLES	-	4,770.00
61006-WTR-0	OTHER REIMBURSEMENTS	4,770.00	-
		<u>4,770.00</u>	<u>4,770.00</u>
To adjust for the reversal of F/A vehicle recorded during FY 2010.			
4 AJE To adjust for the recording of other revenue			
40010-ELE-0	SALES - ELECTRIC TONOAS	-	96,596.00
61011-ELE-0	SPECIAL PROJECTS	96,596.00	-
		<u>96,596.00</u>	<u>96,596.00</u>
To correct proper recording of other revenue resulting from related construction work.			
5 AJE To adjust for the correction of misc. income acct.			
20002-ADM-0	ACCOUNTS PAYABLE- OTHERS	-	6,803.00
61006-WTR-0	OTHER REIMBURSEMENTS	6,803.00	-
		<u>6,803.00</u>	<u>6,803.00</u>
To adjust for the correction of miscellaneous income account.			
6 AJE To adjust for the offsetting of accounts			
12003-ELE-0	A/R ELECTRICITY - CHUUK GOV	-	106,588.00
20002-ADM-0	ACCOUNTS PAYABLE- OTHERS	30,000.00	-
21001-000-0	ACCRUED INTEREST PAYABLE	1,405,113.00	-
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	3,490,435.00	-
54054-ADM-A	INTEREST EXPENSE - ADB LOAN	-	233,455.00
Blank100	MISCELLANEOUS INCOME	-	4,963,171.00
20001-000-0	AP-C. STATE PRIDE (EDUCATION)	51,929.00	-
21044-000-0	CURRENT PORTION OF LT -ADB	59,737.00	-
20009-000-0	AP-C. STATE HOUSING AUTHORITY	220,000.00	-
64001-000-0	EXTRAORDINARY INCOME	46,000.00	-
		<u>5,303,214.00</u>	<u>5,303,214.00</u>
To adjust the offsetting of accounts between Chuuk State and CPUC (MOU agreement).			
7 AJE To accrue lease settlement obligation			
Audit 10-1	Lease settlement liability	-	125,000.00
Audit 10-2	Lease settlement expense	125,000.00	-
		<u>6,803.00</u>	<u>6,803.00</u>
To accrue for lease obligation subsequently reached in February 2011 for lease period from May 11, 2007 through May 11, 2010.			

We concur with the recording of the adjustments and represent that such does not result from fraud or illegal acts. Rather, such represent misstatements.

 6/14/10
Date

Mark Waite
CEO

 6/14/10
Date

Kelly Keller
Financial Controller

Appendix A
 September 30, 2010
 Summary of Current Year Misstatements

	Assets	Liabilities	Income
	Dr (Cr)	Dr (Cr)	Dr (Cr)
To adjust for underrecording of A/D	(40,361)		40,361
To adjust for underrecording of allowance	(80,280)		80,280
To adjust for overrecording of other A/R account	(6,451)		6,451
To adjust for the correction of FSMDB balance		9,702	(9,702)
To adjust for estimated lease payment from May 11, 2010 to September 30, 2010		(15,625)	15,625
To accrue for unbilled revenue from 9/16/10 to 9/30/10	46,000		(46,000)
Total Misstatements	(81,092)	(5,923)	87,015



Mark Waite
 CEO

6/14/11
 Date

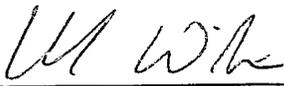


Kelly Keller
 Financial Controller

6/14/11
 Date

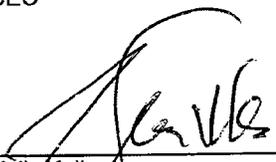
Appendix B
 September 30, 2010
 Summary of Misstatements in Prior Year Detected in Current Year

	Assets	Liabilities	Beginning Equity	Income Statement
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
To adjust for lease settlement for period relating to FY09 and prior		(109,375)	67,708	41,667
Total Misstatements	0	(109,375)	67,708	41,667



 Mark Waite
 CEO

6/14/10
 Date



 Kelly Keller
 Financial Controller

6/14/10
 Date



June 11, 2011

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

We are providing this letter in connection with your audits of the Chuuk Public Utility Corporation (CPUC) for the years ended September 30, 2010, and 2009, 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 CPUC in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

- a. The fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplementary information including, Management's Discussion and Analysis, accompanying the basic financial statements that is 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.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. 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.

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, except for the matters specified in your Independent Auditors' Report. 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.

2. CPUC has made available to you all:

- a. Financial records and related data.
- b. Minutes of the meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes have been prepared.

9/29/09	9/18/09	9/30/09	12/5/09
5/11/10	5/25/10	5/26/10	6/1/10
6/10/10	6/18/10	7/28/10	9/10/10
10/5/10	10/14/10	10/20/10	

- 3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- 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 A.
- 5. We believe the effect of the uncorrected financial statement misstatement 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 the year ended September 30, 2009 taken as a whole. The uncorrected misstatement has been attached as Appendix B.
- 6. CPUC has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in CPUC and does not believe that the financial statements are materially misstated as a result of fraud.
- 7. We have no knowledge of any fraud or suspected fraud affecting CPUC involving:
 - a. management
 - b. employees who have significant roles in internal control over financial reporting
 - c. others if the fraud could have a material effect on the financial statements.
- 8. We have no knowledge of any allegations of fraud or suspected fraud affecting CPUC received in communications from employees, former employees, regulators, or others, other than the matter involving a collector with potential losses less than \$1,000.
- 9. CPUC is involved in various legal actions in the normal course of business, including a variety of legal actions and claims that seek monetary damages or punitive damages. Based on current information, including legal consultation, management believes any ultimate liability that may arise from these actions would not materially affect PUC's financial position, results of operations or cash flows. 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 accompanying financial statements due to management's ability to predict the ultimate outcome. Any changes in this estimate will be resolved prospectively. However, management's evaluation of likely impact of these actions could change in the future and an unfavorable outcome, depending upon the amount and timing, could have a material effect on CPUC's results of operations or cash flows in the future period. This condition has been disclosed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) Topic No. 450 *Contingencies*.

10. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect CPUC'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 \$17,840 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. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
13. CPUC 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, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) as described in note 9 to the financial statements.
 - b. Guarantees, whether written or oral, under which CPUC is contingently liable.
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, 2010 that may change and that the effect of the change would be material to the financial statements.

16. Risk concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

Deloitte & Touche
June 11, 2011
Page 4

- a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
17. 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 450, *Contingencies*.
18. 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 note 6 to the financial statements.
19. CPUC has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
20. We have disclosed to you that no change in CPUC's internal control over financial reporting has occurred during CPUC's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, CPUC's internal control over financial reporting.
21. 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.
22. During fiscal year 2010, CPUC implemented the following pronouncements:
- GASB 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.
 - GASB 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.
 - GASB 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.
 - GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States

Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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 has not evaluated the effect that the implementation of this statement will have on the financial statements of the CPUC.

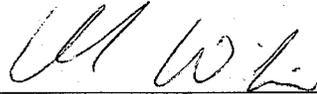
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In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the CPUC.

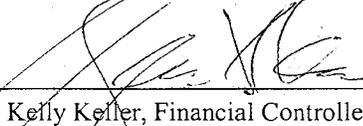
23. CPUC has adopted a policy of self-insuring potential risks relative to its property, plant, and equipment. CPUC has not purchased insurance relative to its property, plant and equipment, and no other risks are insured. CPUC is of the opinion that it has suffered no material losses in the past years to its utility plant-in-service.
24. On August 23, 2010, CPUC entered into Operation and Maintenance Management contract for the management and maintenance of CPUC's operation. The contract is for a period of 2 years. However, the contract is federally funded through Chuuk State. CPUC does not record the transactions on its books. The transactions are performed and recorded by Chuuk State.
25. On December 21, 2010, CPUC and Chuuk State agreed through a memorandum of understanding to offset claims and transfer certain debt between CPUC and Chuuk State. The net impact of the transferred liability totaled \$4,963,171 which has been reflected in the financial statement.
26. Other than those described in note 2 to the financial statements and in item 25 above, no events have occurred after September 30, 2010 but before June 10, 2011, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.

Deloitte & Touche
June 11, 2011
Page 6

27. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of CPUC as a going concern. However, CPUC has sustained substantial operating losses in recent years. In addition, CPUC has used a substantial amount of working capital in its operations. Further, at September 30, 2010, current liabilities exceeded current assets by \$2,270,299, and total liabilities exceed total assets by \$971,927. Management acknowledges that it is currently dependent on the State of Chuuk to pay for actual services rendered in order to maintain CPUC as a going concern. Should the State of Chuuk choose to discontinue payment for services rendered, CPUC management may have to consider alternative measures including, among other possibilities, the State of Chuuk maintaining CPUC as a going concern. In view of these matters, realization of a major portion of the assets in the statement of net deficiency at September 30, 2010, is dependent upon continued operations of CPUC, which in turn is dependent upon CPUC's ability to meet its future debt service requirements, and the success of future operations. Management believes that actions presently being taken to revise CPUC's operating requirements, which include exerting more effort in collecting, provide the opportunity for CPUC to continue as a going concern.

 6/13/11

Mark Waite, Chief Executive Officer

 6/13/11

Kelly Keller, Financial Controller