

June 15, 2012

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 (the "CPUC") as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 15, 2012.

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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards"), have been described in our engagement letter dated September 13, 2011, 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 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, 2011, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; 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, 2011 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.

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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

MANAGEMENT JUDGMENTS AND 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 2011 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, 2011, 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 I, have been recorded in the accounting records and are reflected in the 2011 financial statements.

In addition, attached to Attachment I as Appendices B and C, summaries of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest and prior 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 2011 financial statements. During the year ended September 30, 2011, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by CPUC:

- GASB 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.
- GASB 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.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPUC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPUC.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPUC.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPUC.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective 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 CPUC.

ALTERNATIVE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2011.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to CPUC's 2011 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 2011.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CPUC's 2011 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 2011 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.

MAJOR ISSUES DISCUSSED 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 I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 15, 2012, 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 a certain matter that was considered to be a significant deficiency under standards established by the American Institute of Certified Public Accountants. Although we have included management's written response to our comment contained in the report, such response has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the response or the effectiveness of any corrective actions described therein.

We have also issued a separate report to you, also dated June 15, 2012, involving CPUC's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

We have identified, and included in Attachment II, certain control deficiencies related to CPUC's internal control over financial reporting as of September 30, 2011 that we wish to bring to your attention.

The definition of a control deficiency is also set forth in Attachment II.

* * * * *

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.

Very truly yours,

Deloitte & Touche LLP



June 15, 2012

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net assets of the Chuuk Public Utility Corporation (CPUC), a component unit of the State of Chuuk) as of September 30, 2011, and 2010, and the related statements of revenues, expenses and changes in deficit and cash flows for the years then ended, which collectively comprise CPUC's basic 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. 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 (GAAP).
- 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 basic financial statements.
- c. The design, implementation, and maintenance 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 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.

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

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- 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. Federal award expenditures have been charged in accordance with applicable cost principles.
2. CPUC has provided to you all relevant information and access as agreed in the terms of the engagement letter.
3. CPUC has provided you:
- Financial records and related data.
 - Summaries of actions of the Board of Directors which are dated as follows:

October 5, 2010	May 25, 2011	January 24, 2012
October 14, 2010	June 21, 2011	March 7, 2012
October 20, 2010	July 1, 2011	April 5, 2012
December 20, 2010	August 3, 2011	April 13, 2012
January 18, 2011	August 17, 2011	September 21, 2011
February 9, 2011	September 27, 2011	
February 16, 2011	October 11, 2011	
March 2, 2011	November 7, 2011	
March 16, 2011	December 1, 2011 (parts 1 and 2)	
April 6, 2011	December 29, 2011	
 - Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There have been no:
- 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.
 - Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. We believe the 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, 2010 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C.

7. CPUC has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you 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.
8. 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.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting CPUC received in communications from employees, former employees, regulators, or others.
10. 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 CPUC'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*.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. 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.
13. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. There were no subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.
14. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts

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relating to CPUC'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. CPUC is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

15. We have:

- a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program as identified in Part 3 of the Compliance Supplement dated March 2011.
- b. Complied, in all material respects, with the requirements identified above in connection with federal awards.
- d. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
- e. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- f. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
- g. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
- h. Provided to you our views on the reported findings, conclusions, and recommendations or your report.

16. We have included in the corrective action plan for current-year finding, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date.

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17. 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.
18. No changes in internal control over financial reporting or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by management with regard to significant deficiencies and material weaknesses, have occurred subsequent to September 30, 2011.

Except where otherwise stated below, matters less than \$14,000 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.

19. Except as listed in Appendices B and C, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
20. CPUC has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
21. 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 8 to the financial statements.
 - b. Guarantees, whether written or oral, under which CPUC is contingently liable.
22. 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.
23. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - 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.
24. There are no:

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- 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*.
25. 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.
 26. CPUC has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
 27. 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.
 28. All additions to CPUC's property accounts consist of replacements or additions that are properly capitalizable.
 29. The construction in progress includes the Pole Hardening project which has been 50% completed as of 2008. Management intends to incorporate the project into the capital program in 2012 along with a power distribution improvement project that will be funded by the Asian Development Bank loan proceeds.
 30. During fiscal year 2011, CPUC implemented the following pronouncements:
 - GASB 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.
 - GASB 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.
 - GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this

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statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPUC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPUC.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPUC.

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In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective 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 CPUC.

31. 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.
32. 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.
33. Regarding required supplementary information:

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-
- a. We confirm that we are responsible for the required supplementary information
 - b. The required supplementary information is measured and presented in accordance with GAAP.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period
34. No events have occurred after September 30, 2011 but before June 15, 2012, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.
35. 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, 2011, current liabilities exceeded current assets by \$2,607,184, and a net unrestricted deficiency of \$1,713,174. 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, 2011, 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 the rehabilitation of its power infrastructure, revision of pricing mechanisms and rigorous collection efforts, provide the opportunity for CPUC to continue as a going concern.

Very truly yours,

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Mark Waite, Chief Executive Officer

A handwritten signature in black ink, appearing to read "Kelly Keller", followed by the date "6/20/12".

Kelly Keller, Chief Financial Officer

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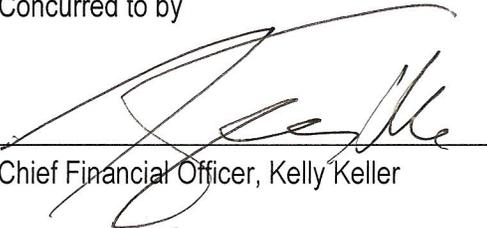


June 20, 2012

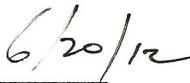
Dear Auditor

This is to acknowledge and to concur the appendix A attached as the adjusting journal entries, post closing journal entries and reclassifications entries for CPUC 2011 audit. The management also represents that these adjusting entries are not result of fraud or illegal activities.

Concurred to by



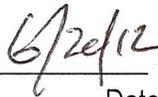
Chief Financial Officer, Kelly Keller



Date



Chief Executive Officer, Mark Waite



Date

Thank you.

Attachment: Appendix A

ATTACHMENT I, CONTINUED

Appendix A

GL No.	Account Name	Debit	Credit
<i>Adjusting Journal Entries including CPUC's Post-Closing Adjustments:</i>			
<1>	20008-000-0 A/P-OUTSTANDING CKS PRIOR YRS	33,998	
	11002-000-0 CASH IN BANK - C/A 0104-030823		33,998
	to adjust balance of BOG checking account based on bank reconciliation		
<2>	12050-000-0 ALLOWANCE FOR BAD DEBTS	34,124	
	12001-ELE-0 A/R ELECTRICITY -COMMERCIAL		34,124
	to adjust Atens account per reconciliation of account balances		
<3>	40001-ELE-0 SALES - ELECTRIC (COMMERCIAL)	35,151	
	40004-ELE-0 SALES - ELECTRIC (GOVERNMENT)	20,775	
	12001-ELE-0 A/R ELECTRICITY -COMMERCIAL		35,151
	12003-ELE-0 A/R ELECTRICITY - CHUUK GOV		20,775
	to adjust AR for mispostings of sales related to Jan 2012.		
<4>	12002-ELE-0 A/R ELECTRICITY -RESIDENCE	13,138	
	12050-000-0 ALLOWANCE FOR BAD DEBTS		13,138
	to adjust AR for footing error		
<5>	12050-000-0 ALLOWANCE FOR BAD DEBTS	248,459	
	Audit7 Recovery on allowance for doubtful accounts		248,459
	to adjust allowance for doubtful accounts for recovery		
<6>	20002-ADM-0 ACCOUNTS PAYABLE- OTHERS	32,000	
	21045-000-0 CLEARING A/C - CSHCP	2,000	
	21007-000-0 LOCAL VENDORS PAYABLE		34,000
	to adjust mispostings in AP local vendors account.		
<7>	21005-000-0 ACCRUED TAXES PAYABLE	18,334	
	31000-000-0 RETAINED EARNINGS - PRIOR		18,334
	to adjust beg RE to tie up with PY audited balance.		
<8>	15103-ELE-D DST SUPPLIES INVENTORY - ELE	37,287	
	15102-ELE-P WATER & SEWER WAREHOUSE	110,936	
	15002-ADM-A GENERAL WAREHOUSE	21,582	
	15202-WTR-G WATER & SEWER WAREHOUSE	24,633	
	16301-ELE-P WIP CRISP CPUC RECOVERY		85,684
	16302-ELE-P WIP REBUILD EXISTING GENERATOR		108,754
	to adjust inventory to align with physical inventory count		
<9>	56051-ADM-A MISC. - GENERAL EXPENSE	3,993	
	20001-000-0 ACCOUNTS PAYABLE - CONTROL A/C		3,993
	to adjust various mispostings in AP - control account		
<10>	54055-ADM-A ACCRUED LOCAL VENDORS EXPENSES	21,040	
	20002-ADM-0 ACCOUNTS PAYABLE- OTHERS		21,040
	Entity Adjustment - To adjust under accrual of land and misc changes from Atens		

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ATTACHMENT I, CONTINUED

Appendix A

GL No.	Account Name	Debit	Credit
<i>Adjusting Journal Entries including CPUC's Post-Closing Adjustments, continued:</i>			
<11>	20002-ADM-0 ACCOUNTS PAYABLE- OTHERS	12,000	
	54055-ADM-A ACCRUED LOCAL VENDORS EXPENSES		12,000
	Entity Adjustment - to adjust overaccrual of land lease		
<12>	20002-ADM-0 ACCOUNTS PAYABLE- OTHERS	154,545	
	12050-000-0 ALLOWANCE FOR BAD DEBTS		154,545
	To adjust AP Others to correctly post payment of Atens lease		
<13>	20002-ADM-0 ACCOUNTS PAYABLE- OTHERS	7,578	
	56051-ADM-A MISC. - GENERAL EXPENSE		7,578
	Entity Adjustment - To adjust FY2010 that cannot be identified		
<14>	20010-ELE-0 CUSTOMER DEPOSITS -ELECTRICITY	2,780	
	20011-WTR-0 CUSTOMER DEPOSITS - WATER		2,780
	Entity Adjustment - to adjust debit balance in customer deposits		
<15>	56056-000-0 MISCELLANEOUS - OTHER EXPENSES	149,392	
	21001-000-0 ACCRUED INTEREST PAYABLE		149,392
	to adjust interest on SS liability.		
<16>	12003-ELE-0 A/R ELECTRICITY - CHUUK GOV	2,137	
	61001-ELE-0 CHUUK STATE SUBSIDY	50,400	
	12003-WTR-0 A/R WATER- CHUUK GOV		11,015
	20010-ELE-0 CUSTOMER DEPOSITS -ELECTRICITY		41,522
	to adjust Chuuk State subsidy as utility payments		
<17>	21008-000-0 OUTSIDE VENDORS PAYABLE	325,660	
	14001-000-0 NOTES RECEIVABLE		325,660
	To adjust notes receivable		
<18>	61002-ELE-0 COMPACT CRISP GRANT	300,000	
	Audit 10 Payable to federal govt		300,000
	to adjust grant revenues related to the \$300k CRISP advances		
<19>	61002-ELE-0 COMPACT CRISP GRANT	48,051	
	12013-000-0 ACCOUNTS RECEIVABLE-OTHERS	11,538	
	Audit 10 Payable to federal govt		59,589
	to adjust funds spent for operations and Egis related expenditures.		
<20>	Audit 8 Long-term deposits	346,262	
	Audit 9 Nonfederal grants revenue		346,262
	to adjust for the Japan fuel grant		
<21>	Audit 11 CIP (ADB loans funded)	458,877	
	Audit 12 ADB Loans (2099 and 2100)		458,877
	to take up ADB loans (#2099 and 2100)		
<22>	21001-000-0 ACCRUED INTEREST PAYABLE	45,356	
	21011-000-0 CLEARING A/C - TAXES	50,130	
	56056-000-0 MISCELLANEOUS - OTHER EXPENSES		95,486
	to adjust taxes liability and related interest and penalties		

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ATTACHMENT I, CONTINUED

Appendix A

GL No.	Account Name	Debit	Credit
<u>Adjusting Journal Entries including CPUC's Post-Closing Adjustments, continued:</u>			
<23>	55001-ADM-A DEPRECIATION EXPENSE	52,072	
Audit 15	Accum. Depreciation - pole hardening project to adjust depreciation expense for the pole hardening project.		52,072
<u>Reclassifying Journal Entries:</u>			
<1>	21045-000-0 CLEARING A/C - CSHCP	15,000	
20002-ADM-0	ACCOUNTS PAYABLE- OTHERS To reclass CSHCP payments posted to AP others		15,000
<2>	20001-000-0 ACCOUNTS PAYABLE - CONTROL A/C	73,291	
20002-ADM-0	ACCOUNTS PAYABLE- OTHERS		73,071
53001-ADM-A	FUEL- GENERATOR to reclass to AP others		220
<3>	20009-000-0 AP-C. STATE HOUSING AUTHORITY	51,929	
20002-ADM-0	ACCOUNTS PAYABLE- OTHERS To reclass misposting to AP State Housing acct that was forgiven in 2010		51,929
<4>	20002-ADM-0 ACCOUNTS PAYABLE- OTHERS	1,000	
21008-000-0	OUTSIDE VENDORS PAYABLE	9,110	
14001-000-0	NOTES RECEIVABLE to post reimbursed amount and reclass payment to appropriate acct		10,110
<5>	22002-000-0 FSM DEVT BANK - CURRENT	9,702	
22001-000-0	NOTES PAYABLE to reclass to proper account on loan adjustment made		9,702
<6>	21003-000-0 ACCRUED ANNUAL LEAVE	48,833	
Audit4	Accrued annual leave, net of current To reclass for noncurrent portion of Annual leave.		48,833
<7>	20002-ADM-0 ACCOUNTS PAYABLE- OTHERS	96,800	
Audit2	Lease settlement liability, current to reclass lease liability included in AP others		96,800
<8>	Audit2 Lease settlement liability, current	12,857	
Audit1	Lease settlement liability, net of current to reclass noncurrent portion of lease liability.		12,857
<9>	Audit 12 ADB Loans (2099 and 2100)	6,188	
21044-000-0	CURRENT PORTION OF LT -ADB to reclass current portion of ADB loans		6,188
<10>	61006-ELE-0 OTHER REIMBURSEMENTS	139,912	
Audit 13	Weno Grant to reclass Weno Grant from other income		139,912
<11>	Audit 14 CIP - Pole hardening project	260,359	
16407-ELE-D	POLE HARDENING PROJECT to reclass the pole hardening project		260,359

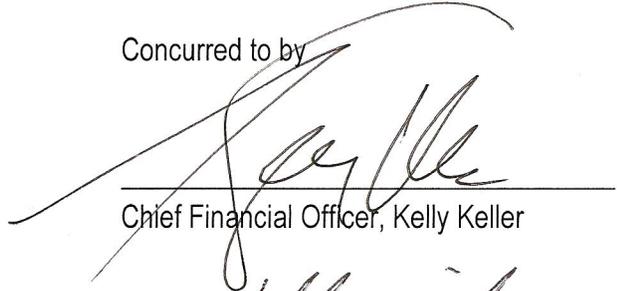


June 20, 2012

Dear Auditor

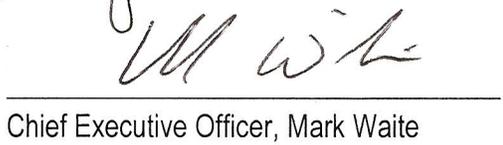
This is to acknowledge and to concur to the appendix B attached as the Passed Adjusting Journal entries for CPUC 2011 audit. The management also represents that these adjusting entries are not result of fraud or illegal activities.

Concurred to by



Chief Financial Officer, Kelly Keller

6/20/12
Date



Chief Executive Officer, Mark Waite

6/20/12
Date

Thank you.

Attachment: Appendix B

ATTACHMENT I, CONTINUED

Appendix B

Entry Description	Statement of Net Assets			Change in
	Assets	Liabilities	Net Assets	Deficiency
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
PAJE #1: To adjust difference in FSMDB notes payable vs. confirmation Notes payable Miscellaneous		4,230	•	(4,230)
PAJE #2: To adjust differences in materials inventory count Inventory expense	24,790			(24,790)
PAJE #3: To adjust differences in materials inventory count - projected error Inventory expense	21,220			(21,220)
PAJE #4: To adjust credit balances in receivables accts receivable customer deposits/payable	37,418	(37,418)		
PAJE #5: To adjust allowance for doubtful accts Bad debts Allowance for bad debts	(60,000)			60,000
PAJE #6: To adjust unsupported AP others due to missing invoices AP Others Other income		5,564		(5,564)
PAJE #7: to adjust underaccrual of lease liability - land lease lease expense lease liability		(28,755)		28,755
PAJE #8: to adjust overaccrual of Atens lease AP others Expenses		21,040		(21,040)
PAJE #9: to adjust overstatement in revenues (analytics) revenues receivables	(38,222)			38,222
PAJE #10: to adjust unrecorded attorney fees (Ramp & Mida) expense accts payable		(8,273)		8,273
	(14,794)	(43,612)	0	58,406



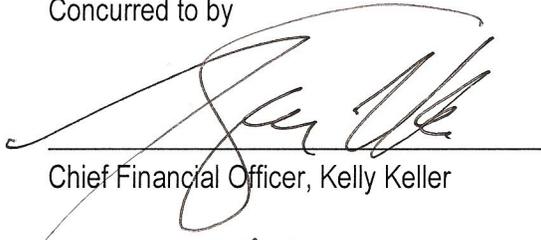



June 20, 2012

Dear Auditor

This is to acknowledge and to concur to the appendix C attached as the Adjusting Journal entries for Aten's MOU offset during fiscal year 2011. The management also represents that these adjusting entries are not result of fraud or illegal activities.

Concurred to by



Chief Financial Officer, Kelly Keller



Date



Chief Executive Officer, Mark Waite



Date

Thank you.

Attachment: Appendix C

Appendix C

Entry Description	Statement of Net Assets			Change in Deficiency
	Assets	Liabilities	Net Assets	Dr (Cr)
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
To adjust Atens MOU offset: Accounts payable Expense		(32,672)		32,672
	0	(32,672)	0	32,672

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SECTION I – CONTROL DEFICIENCIES

We identified the following control deficiencies involving CPUC’s internal control over financial reporting as of September 30, 2011:

(1) Cash Collections

Comment: Of thirty four cash summaries and deposit slips examined, six overages or shortages were noted as follows:

No.	Cash Collection Per Deposit Slip	Cash Summary	Difference
1	27,396.47	27,391.46	5.01
2	9,314.57	9,313.31	1.26
3	5,641.88	5,596.89	44.99
4	18,886.99	18,886.95	0.04
5	7,867.77	7,867.70	0.07
6	31,362.15	31,352.15	10.00
			<u>\$ 61.43</u>

Overages and shortages were recorded two to fourteen times and three to eight times, respectively, per month. Total overages and shortages recorded during the year were \$2,041 and \$2,642, respectively, compared to prior year overages and shortages of \$14,190 and \$8,421, respectively.

Recommendation: Overages and shortages have been significantly reduced compared to prior year. We recommend that CPUC continue to strengthen its controls over this process given the number of the above exceptions.

(2) Meter Change Outs

Comment: Of thirty four traditional meters examined, one (Account no. 89244979) provided negative meter readings since January 2011. It was represented that this condition occurred due to meter malfunction. We were informed that a meter change out has been requested but has not been acted upon and as such, the customer has not been billed.

Recommendation: CPUC should investigate this matter and should consider billing the customer for estimated usage. Additionally, CPUC should monitor open requests to minimize errors in meter readings, billings and adjustments.

(3) Inactive Bank Accounts

Comment: Three bank accounts totaling \$1,314 have been inactive for more than a year. Also, monthly bank statements have not been received. It appears that the accounts are no longer active.

Prior Year Status: This matter is reiterative of a condition identified in our prior year audit of CPUC.

Recommendation: Management should investigate these accounts and make appropriate adjustments.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

(4) Payroll

Comment: Of thirteen payroll transactions tested, evidence supporting annual leave taken for one employee (Check no. 028154) and evidence supporting overtime hours incurred for one employee (Check no. 028060) could not be located.

Recommendation: Documents supporting payroll charges should be properly filed.

(5) Fuel Production Costs

Comment: Our examination of the fuel production costs indicated an overstatement of \$25,112 which could have resulted from an understatement of recorded fuel purchases due to timing differences.

Recommendation: Management should consider implementing monthly procedures to reconcile fuel purchases.

(6) Federal Grants

Comment: In 2011, CPUC used a portion of restricted funds for working capital purposes. As of September 30, 2011, \$359,589 had been so advanced. The grantor advised CPUC to set aside funds monthly for repayment at the end of the grant term (September 2012). As of September 30, 2011, funds have not been set aside by CPUC.

Recommendation: CPUC should consider establishing a separate account and formulate a plan to allow for repayment of the advance.

(7) Bank Reconciliation

Comment: The September 30, 2011 bank reconciliation indicated \$2,106 of unidentified reconciling items dated in August 2011.

Recommendation: Bank reconciling items should be promptly addressed and adjusted.

(8) Construction in Progress

Comment: Construction in progress as of September 30, 2011 includes the Pole Hardening Project (the Project) which has been outstanding for several years. The project has passed its extended completion deadline of October 11, 2006 and no additional extension was subsequently obtained.

Prior Year Status: This matter is reiterative of a condition identified in our prior year audit of CPUC.

Recommendation: Management should evaluate the feasibility of the Project's completion. Furthermore, it should determine whether an asset impairment charge may be necessary as required by Government Accounting Standards Board Statement No. 42.

(9) Accounts Payable Others

Comment: Invoices supporting \$12,337 in the Accounts Payable Others account could not be located.

Recommendation: Procedures over document safekeeping should be strengthened.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

(10) Billing Adjustment Approval

Comment: Billing adjustments are not consistently reviewed and approved by management prior to recording.

Prior Year Status: This matter is reiterative of a condition identified in our prior year audit of CPUC.

Recommendation: CPUC should strengthen controls over the review and approval of billing adjustments.

(11) Closing Process

Comment: Analyses of significant general ledger balances are not performed on a regular basis resulting in numerous post-closing adjustments.

Recommendation: CPUC may want to consider the following in its closing process:

- Develop and utilize a monthly closing procedures checklist by general ledger account with all necessary responsibilities assigned to appropriate personnel levels.
- Develop standard closing entries.
- Perform timely reconciliations and analyses of all significant accounts. Such reconciliations and analyses should be documented and reviewed by management with significant variances analyzed and resolved.
- Consider developing an accounting policies and procedures manual. In the event of employee turnover, the manual will provide management with increased assurance that transactions are properly recorded and accounting policies and procedures are consistently followed.

SECTION II – DEFINITION

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