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May 27, 2012

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, 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 May 27, 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 PUC is responsible.

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

Our responsibility under generally accepted auditing standards and 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 13, 2011. 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, 2011 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, 2011 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 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 2011 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 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, 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 that we believe either individually or in the aggregate with others have had a significant effect on PUC's financial reporting process. Such adjustments, listed in Appendix A to Attachment III, have been recorded in the accounting records and are reflected in the 2011 financial statements. Additionally, we identified account reclassifications that we believe either individually or in the aggregate with others have had a significant effect on PUC's financial statements presentation. Such reclassifications, also listed in Appendix A to Attachment III, have been reflected in the 2011 financial statements.

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

SIGNIFICANT ACCOUNTING POLICIES

PUC's significant accounting policies are set forth in Note 1 to PUC's 2011 financial statements. During the year ended September 30, 2011, there were no significant changes in previously adopted accounting policies or their application. New accounting policies adopted during the year ended September 30, 2011 are also set forth in Note 1 to PUC's 2011 financial statements.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information, such as Annual Reports, 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. In the event that PUC issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in PUC'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.

DISAGREEMENTS WITH MANAGEMENT

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

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 Attachment III, a copy of the representation letter we obtained from management.

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 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, dated May 27, 2012, 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, 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 material weakness 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 identified, and included in the attached Attachment I, certain control deficiencies related to PUC's internal control over financial reporting and also other matters 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 I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment II and should be read in conjunction with this report.

* * * * * * * *

This report is intended solely for the information and use of the Board of Directors, management, others within PUC and the Office of the Public Auditor 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

ATTACHMENT 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, 2011 that we wish to bring to your attention:

1. Unearned Cash Power

   Condition: The cash power sales by account summary report for the year ended September 30, 2011, which was the basis for the estimation of unearned cash power revenue at year-end, reflected total cash power KWh sales of approximately 16.8 million while total recorded sales based on the Peak and Loss Report approximated 16.5 million. The difference of approximately 300,000 KWh may be due to timing errors, adjustments, or theft of service.

   Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of PUC.

   Recommendation: PUC should review the cash power sales report and consider selecting a sample of customers on a regular basis and compare the consumption reported therein with activities recorded in the Suprema system.

2. Disputed Invoices

   Condition: During the prior year audit, a vendor confirmed additional amounts due from PUC of approximately $131,000 which were not recorded by PUC. The amount mainly comprises various invoices in fiscal years 2006 to 2008, incurred for a capital project completed in 2007. PUC did not adjust its records to reflect these disputed invoices pending further reconciliation with the vendor. The reconciliation has not been performed and the vendor statement continues to include the disputed amount.

   Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of PUC.

   Recommendation: PUC should perform detail reconciliation with the vendor to establish the actual liability.

3. Analysis of Allowance for Doubtful Accounts

   Condition: PUC does not perform a comprehensive analysis of the allowance for doubtful accounts. During the audit, we proposed to increase the allowance for doubtful accounts for water accounts by $362,000 and decrease the allowance for doubtful accounts for electric accounts by $315,000. The adjustment of $315,000 was recorded while the net increase of $47,000 was not recorded in PUC's financial statements as of September 30, 2011 as such were not deemed to be material to the financial statements. Additionally, PUC does not enforce a disconnection policy for water accounts as evidenced by the growing amount of aged water receivables.

   Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of PUC.

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

4. Reconciliation of Receivables

   Condition: The preliminary balances in accounts receivables as of September 30, 2011 were not properly reconciled. A lengthy reconciliation process resulted in the identification of the erroneous exclusion of certain unbilled balances of $190,000. Additionally, the final reconciliation reflected a total unreconciled difference of approximately $64,000, which was adjusted in the 2011 financial statements.

   Recommendation: PUC should perform monthly or quarterly reconciliations of accounts receivables.

5. Condition: One of fifteen employees tested for payroll costs received hazardous pay on the same day sick leave and annual leave were utilized in several pay periods during the year.

   Recommendation: PUC should strengthen its policies and procedures and properly review detail of payroll records before disbursements are approved.

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. Bank Reconciling Items

   Condition: The September 2011 savings account reconciliation contains two credit card sales ($2,199 and $3,600) outstanding since September 2009 or prior. Management indicated that oral discussions had been held with bank personnel at various times; however, the informal follow-ups have not been documented. Additionally, the September 2011 checking account reconciliation contains some $3,000 of carried over items identified as "bank errors" which may no longer be recoverable.

   Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of PUC.

   Recommendation: An appropriate level of PUC management should perform follow-up with the bank in writing. PUC may consider charging off these aged disputed items.

2. Production Line Losses

   Condition: For the year ended September 30, 2011, production and line losses remained significantly above industry standards at 2.02 million kWh and 5.1 million kWh, (or 6.6% and 16.7% 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, 2010 approximated 5.1% and 15.0%, respectively.

   Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of PUC.

   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.

SECTION II – OTHER MATTERS, CONTINUED

3. Condition: At September 30, 2011, $92,343 of $99,951 of accounts receivable – others are deemed 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.

   Prior Year Status: This condition is reiterative of conditions identified in our prior year audit of PUC.

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

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 and correct 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 would not be 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 competence to perform the control effectively.

ATTACHMENT II

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

PUC's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ATTACHMENT III

POHNPEI UTILITIES CORPORATION

"Dedicated to improving the Quality of Life on Pohnpei"

May 27, 2012

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 ("PUC" or the "Corporation") as of September 30, 2011 and 2010 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 PUC 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 PUC'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 PUC'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.

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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.

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

2. PUC has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. PUC has provided you:

    a. Financial records and related data for all financial transactions of the Corporation. The records, books, and accounts, as provided to you, record the financial and fiscal operations of PUC 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.

4. There has been no:

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

    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.

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. PUC 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 PUC 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 PUC 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 PUC received in communications from employees, former employees, analysts, regulators, or others.

9. PUC 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. 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 PUC'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. We are responsible for compliance with local and state laws, rules and regulations, including compliance with the provisions of grants and contracts relating to PUC'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. PUC is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

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

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

13. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, matters less than $56,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

14. Except for those listed in Appendix B, there are no transactions that have been improperly recorded in the accounting records underlying the financial statements.

15. PUC has no plans or intentions that may affect the carrying value or classification of

assets and liabilities.

16. 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).

17. 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.

18. 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.

19. PUC 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.

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

21. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information.

    b. The required supplementary information is measured and presented in accordance with GAAP.

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

22. PUC has determined whether a capital asset has been impaired in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section

1400.161-1400.175, *Impairment of Capital Assets*. In making this determination, PUC considered the following factors:

a. The magnitude of the decline in service utility is significant.

b. The decline in service utility is unexpected.

The NanPil Hydropower Station is not operational. At September 30, 2011, cumulative costs of $7.5 million are included in electric production plant with corresponding $3.8 million in accumulated depreciation. In April 2012, the Secretariat of the Pacific Community (SPC) has issued a Request for Proposal for the rehabilitation of this asset. The project is to be funded via a direct grant from SPC. As a result, related impairment losses on the nonoperational assets have not been recorded as of September 30, 2011.

23. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.

24. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.

25. PUC 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, 2011.

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

27. PUC has established a self-insurance fund in accordance with Pohnpei State Law to defray costs of any unforeseen accidents or disasters. PUC 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.

28. 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.

29. PUC 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.

30. During fiscal year 2011, PUC 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 PUC's 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 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 PUC.

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 PUC.

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 PUC.

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 PUC.

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 PUC.

31. .PUC has obligated, expended, received, and used public funds of PUC 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.

32. Money or similar assets handled by PUC 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.

33. No evidence of fraud or dishonesty in fiscal operations of programs administered by PUC has been discovered.

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

35. 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.

36. 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.

37. Except for those described in note 6, no events have occurred subsequent to September 30, 2011 but before May 27, 2012, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.

Feliciano M. Perman
General Manager

Johnny Adolph
Acting Comptroller

POHNPEI UTILITIES CORPORATION
APPENDIX A - POSTED ADJUSTMENTS AND FS RECLASSIFICATION ENTRIES
SEPTEMBER 30, 2011

#	Name	Debit	Credit
	1 AJE To reconcile beginning net asset		
215-00-00	APPROPRIATED RETAINED EARNINGS	798.00	-
Blank (4687)	Miscellaneous - GL off	-	798.00
		798.00	798.00
	2 AJE To adjust AR - PUC internal accts		
142-01-01	A/R - RESIDENTIAL /WATER	-	43,723.67
142-02-00	A/R - COMMERCIAL & INDUSTRIAL	-	212,411.91
442-00-00	COMMERCIAL & INDUSTRIAL SALES	212,411.91	-
442-00-01	COMERCIAL SALES/WATER	43,723.67	-
		256,135.58	256,135.58
	3 AJE To reverse entity's year end reconciling entry		
142-01-00	A/R - RESIDENTIAL	190,287.00	-
142-01-01	A/R - RESIDENTIAL /WATER	919.00	-
440-00-00	RESIDENTIAL SALES	-	190,287.00
440-00-01	RESIDENTIAL SALES/WATER	-	919.00
		191,206.00	191,206.00
	4 AJE To adjust for reserve balance for Palm Terrace		
142-02-00	A/R - COMMERCIAL & INDUSTRIAL	-	99,088.73
144-00-00	ACCUM PROV-UNCOLLECTIBLE ACCTS	99,088.73	-
		99,088.73	99,088.73
	5 AJE To write off non operational vehicles		
101-04-00	GENERAL PLANT	-	309,429.89
110-00-00	ACCUM DEPRE-POWER UTIL PLANT	309,429.89	-
		309,429.89	309,429.89
	6 AJE To adjust Allowance on water and power		
144-00-00	ACCUM PROV-UNCOLLECTIBLE ACCTS	314,971.00	-
144-00-01	ACCUM PROV-UNCOLLECT-WATER	-	314,971.00
		314,971.00	314,971.00
	7 AJE To write off engine #10		
101-01-00	PRODUCTION PLANT	-	2,855,187.00
110-00-00	ACCUM DEPRE-POWER UTIL PLANT	2,489,137.00	-
154-02-00	PARTS INVENTORY - GENERATION	366,050.00	-
		2,855,187.00	2,855,187.00
	8 AJE To correct AP		
232-00-00	ACCOUNTS PAYABLE	16,764.00	-
547-01-03	POL - FUEL	-	16,764.00
		16,764.00	16,764.00

POHNPEI UTILITIES CORPORATION
APPENDIX A - POSTED ADJUSTMENTS AND FS RECLASSIFICATION ENTRIES
SEPTEMBER 30, 2011

#	Name	Debit	Credit
	9 AJE To true up GL and AR SL		
142-01-00	A/R - RESIDENTIAL	64,329.00	-
142-02-00	A/R - COMMERCIAL & INDUSTRIAL	-	95,483.00
440-00-00	RESIDENTIAL SALES	31,154.00	-
		95,483.00	95,483.00
	10 AJE To adjust for SDR allocation		
101-03-01	WATER DISTRIBUTION PLANT	294,719.64	-
108-00-01	ACCUM. DEPRECIATION - WAT/SEW	-	51,575.94
403-01-01	DEPRE - WATER PRODUCTION	51,575.94	-
224-01-01	ASIAN DEV. BANK LOAN	-	294,719.64
		346,295.58	346,295.58
	11 AJE To adjust for two loans (CIP)		
107-08-00	W I P WATER/SEWER	4,519,382.20	-
224-01-01	ASIAN DEV. BANK LOAN	-	4,519,382.20
		4,519,382.20	4,519,382.20
	12 AJE To recognize allocated fuel grant		
Audit 11-1	Other long-term deposit (held by FSMPC)	383,572.96	-
Audit 11-2	Other operating grant income (fuel)	-	383,572.96
		383,572.96	383,572.96
	1 RJE To reclassify due to affiliates		
232-00-00	ACCOUNTS PAYABLE	212,028.00	-
Blank (4719)	ACCOUNTS PAYABLE - AFFILIATES	-	212,028.00
		212,028.00	212,028.00
	2 RJE To reclassify LTD		
224-01-01	ASIAN DEV. BANK LOAN	65,779.00	-
231-01-00	Notes Payable - current portion	-	217,015.00
224-01-00	RUS LOAN	7,387.00	-
224-00-00	OTHER LONG-TERM DEBT	143,849.00	-
		217,015.00	217,015.00

POHNPEI UTILITIES CORPORATION
APPENDIX B - UNRECORDED ADJUSTMENTS
SEPTEMBER 30, 2011

	Assets	Liabilities	Retained Earnings Beg of Year	Income Statement
	Dr (Cr)	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**
Current Year Factual Misstatements				
(Dr) Cash	7,283			
(Cr) Liability		(7,283)		
To reclassify stale checks to a liability account.				
Total Factual Misstatements	**7,283**	**(7,283)**	**0**	**0**
Current Year Judgmental Misstatements				
(Dr) Bad debt expense				47,000
(Cr) AR Allowance	(47,000)			
To increase AR allowance				
(Dr) Expenses				131,487
(Cr) AP - Adams		(131,487)		
To adjust for unrecorded invoices				
Total Judgmental Misstatements	**(47,000)**	**(131,487)**	**0**	**178,487**
TOTAL	**(39,717)**	**(138,770)**	**0**	**178,487**