Deloitte.

Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

June 5, 2013

The Board of Directors
Pohnpei Utilities Corporation

Dear Members of the Board:

We have performed an audit of the financial statements of the Pohnpei Utilities Corporation (PUC) as of and for the year ended September 30, 2012, 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 5, 2013.

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

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

Our responsibility under auditing standards generally accepted in the United States of America 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 December 6, 2012. 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 PUC's basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2012 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, 2012 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

We considered 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 2012 financial statements include management's estimate of the allowance for loan losses, which is determined by management based upon periodic review 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, 2012, 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, would have a significant effect on PUC's financial reporting process. Such proposed adjustments, listed as Appendix A to Attachment III, have been recorded in the accounting records and are reflected in the 2012 financial statements. Additionally, we identified account reclassifications that had significant effect on PUC's financial statements presentation. Such reclassification entries, also listed in Appendix A to Attachment III, have been reflected in the 2012 financial statements.

In addition, Appendix B to Attachment III summarizes 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 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application. New accounting policies adopted during the year ended September 30, 2012 are also set forth in Note 1 to PUC's 2012 financial statements. The implementation of these statements did not have a material effect on the 2012 financial statements.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

Critical accounting policies are those that are both most important to the portrayal of PUC's financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We had no oral discussions with management regarding critical accounting policies and practices related to the year ended September 30, 2012.

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, 2012.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as PUC's 2012 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. In the event that PUC issues an Annual Report or other documentation that includes the audited financial statements, we will read the other information in PUC's 2012 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 2012 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 2012.

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.

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.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 5, 2013, 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 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 identified, and included in the attached Attachment I, certain deficiencies related to PUC's internal control over financial reporting and also other matters as of September 30, 2012 that we wish to bring to your attention.

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

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in 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 – DEFICIENCIES

We identified, and have included below, deficiencies involving PUC's internal control over financial reporting as of September 30, 2012:

1. Disputed Invoices

   Condition: During the September 30, 2010 audit, a vendor confirmed approximately $130,000 of additional receivables from PUC which were not recorded. The amount comprises various invoices in fiscal years 2006 to 2008, mainly incurred for a capital project completed in 2007. PUC has not been able to reconcile and resolve the differences with the vendor and as such, the vendor continues to reflect the amount as due from PUC in its September 30, 2011 and 2012 statements.

   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.

2. 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 $629,942 and $102,571 of increases in the allowances for water and electric accounts, respectively. PUC does not enforce a disconnection policy for water accounts as evidenced by the growing 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.

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 2012 checking account reconciliation contains some $3,000 of various 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: PUC may consider charging off these aged disputed items as they remain unresolved for several years.

2. Production Line Losses

   Condition: For the year ended September 30, 2012, production and line losses remained significantly above industry standards at 2.04 million kWh and 5.65 million kWh, (or 5.6% and 15.7% 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, 2011 approximated 6.6% and 16.7%, respectively.

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

   Recommendation: PUC should determine the causes of the production and line losses and take steps to reduce losses to a more acceptable level.

3. Long Outstanding Receivables from Employees

   Condition: At September 30, 2012, $89,737 of $98,212 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.

   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.

4 Error in Meter Reading

   Condition: The meter reading of account no. 604100000 for a billing dated October 12, 2011 was not updated in the system. This resulted in a $5 understatement of billing.

   Recommendation: PUC should update meter readings with read reports to reflect total usage.

SECTION III – DEFINITION

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.

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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"

June 5, 2013

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, 2012 and 2011 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.

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

P.O. BOX C, Kolonia, Federated States of Micronesia 96941
Tel: (691) 320-2374 Fax: (691) 320-2422 Email: puc@mail.fm

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

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

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

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

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

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

    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. 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.

10. 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.

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

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

Except where otherwise stated below, matters less than $52,000 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.

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

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

15. Regarding related parties:

    a. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

    b. To the extent applicable, related parties and all the related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

16. 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.

17. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to you.

18. 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.

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

20. 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.

21. 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, 2012 and 2011, cumulative costs of $7.5 million are included in electric production plant with corresponding $4.0 million and $3.8 million in accumulated depreciation, respectively. In April 2012, the Secretariat of the Pacific Community (SPC) has issued a Request for Proposal (RFP) for the rehabilitation of this asset. The RFP was re-opened in January 2013 and PUC is currently evaluating the proposals. The project is to be funded via a direct grant from SPC and as a result, related impairment losses have not been recorded as of September 30, 2012.

22. 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.

23. 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.

24. 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, 2012 and 2011.

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

26. In accordance with section 2(5) of State Law 3L-41-93, an amendment to the enabling legislation for PUC, a self-insurance fund was established to defray costs of any unforeseen accidents or disasters. Funds were accumulated in a restricted investment fund, held by a trustee, in the name of PUC. As of September 30,

2011, the fund balance approximated $145,112 and was presented as a restricted investment in the accompanying statements of net assets. During the year ended September 30, 2012, the trustee notified PUC that it can no longer service the account and as such, the balance was transferred into a bank deposit account that is held as collateral for a new bank loan. The related balance continues to be shown as restricted in the accompanying statements of net asset since restrictions have not been removed by the enabling body.

Additionally, PUC is self-insured for all losses such as torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. We are of the opinion that no material losses have been sustained as a result of this practice during the past three years.

27. 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.

28. 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.

29. During fiscal year 2012, PUC implemented the following pronouncements

   - 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.

   - GASB 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 implementation of these pronouncements did not have a material effect on PUC's 2012 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 that state and local governments are increasingly entering into. 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 has not yet determined the effect of implementation of this statement on the financial statements of PUC.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PUC.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PUC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of PUC.

30. .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.

31. 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.

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

33. 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.

34. 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.

35. 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.

36. Except for those matters described in note 6, no events have occurred subsequent to September 30, 2012

but before June 5, 2013, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Marcelino K. Actouka
General Manager

Johnny Adolph
Comptroller

POHNPEI UTILITIES CORPORATION
APPENDIX A - POSTED ADJUSTMENTS AND FS RECLASSIFICATION ENTRIES
SEPTEMBER 30, 2012

#	Name	Debit	Credit
	1 AJE To adjust beginning net asset		
215-00-00	APPROPRIATED RETAINED EARNINGS	794.00	-
Blank (4687)	Miscellaneous - GL off	-	794.00
		794.00	794.00
	18 AJE Record the allowance of bad debt - Power		
144-00-00	ACCUM PROV-UNCOLLECTIBLE ACCTS	-	102,571.00
904-00-06	UNCOLLECTIBLE ACCOUNTS	102,571.00	-
		102,571.00	102,571.00
	To record the allowance of bad debt - Power		
	19 AJE Record the allowance of bad debt - Water		
903-00-06	CUST RECORDS & COLLECTION EXP.	629,942.00	-
904-00-06	UNCOLLECTIBLE ACCOUNTS	-	629,942.00
		629,942.00	629,942.00
	To record the allowance of bad debt - water		
	1 RJE Reclassify unreleased check		
130-02-00	CASH AT BANK - BANK OF FSM	151,613.00	-
232-00-00	ACCOUNTS PAYABLE	-	151,613.00
		151,613.00	151,613.00
	To relassify the unrelease checks from cash to A/P.		
	2 RJE Reclassify current portion loans		
224-01-01	ASIAN DEV. BANK LOAN	178,196.00	-
231-01-00	Notes Payable - current portion	-	850,835.00
224-01-00	RUS LOAN	7,795.00	-
224-00-00	OTHER LONG-TERM DEBT	630,607.00	-
222-01-00	BANK OF GUAM LOAN-secured loan	34,237.00	-
		850,835.00	850,835.00
	To reclassify loan payable to current portion		

POHNPEI UTILITIES CORPORATION
APPENDIX B - UNRECORDED ADJUSTMENTS
SEPTEMBER 30, 2012

	Assets	Liabilities	Retained Earnings Beg of Year	Income Statement
	Dr (Cr)	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**
(Dr) Cash	18,493			
(Cr) Liability		(18,493)		
To reclassify stale checks in BFSM general acct to liabilities.				
(Dr) Cash	7,283			
(Cr) Liability		(7,283)		
To reclassify stale checks in BOG payroll acct to liabilities.				
(Dr) AP		19,278		
(Cr) Fuel Costs				(19,278)
To adjust AP to FSMPC due to variance in confirmation.				
(Dr) Expenses		(25,241)		25,241
(Cr) AP				
To adjust variances on AP subledger to GL				
(Dr) AR	61,665			
(Cr) Deposits		(61,665)		
To present credit balances in AR				
Total Factual Misstatements	**87,441**	**(93,404)**	**0**	**5,963**
(Dr) Expenses				131,937
(Cr) AP - Adams		(131,937)		
To accrue for disputed vendor invoices				
(Dr) Expenses				75,000
(Cr) Prepaid expense	(75,000)			
To write off deposit paid on a nullified MOU				
Total Judgmental Misstatements	**(75,000)**	**(131,937)**	**0**	**206,937**
TOTAL	**12,441**	**(225,341)**	**0**	**212,900**