

June 15, 2009

The Board of Directors
Chuuk Public Utility Corporation:

We were engaged to perform an audit of the financial statements of the Chuuk Public Utility Corporation (CPUC), as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated June 15, 2009.

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

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

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 30, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of CPUC's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and
- To report on CPUC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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

We considered CPUC's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPUC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CPUC's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in CPUC's 2008 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; management's estimate of the allowance for inventory obsolescence, which is determined based upon expected inventory turnover and inventory aging; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on CPUC's financial reporting process. Such adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2008 financial statements.

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

SIGNIFICANT ACCOUNTING POLICIES

CPUC's significant accounting policies are set forth in Note 1 to CPUC's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the CPUC:

- Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

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

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CPUC's 2008 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 2008 Annual Report and will inquire as to the methods of measurement and presentation of such

information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to CPUC's 2008 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 2008.

MANAGEMENT'S REPRESENTATIONS

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CONTROL-RELATED MATTERS

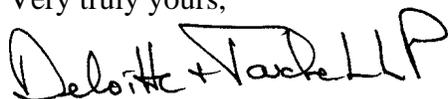
We have issued a separate report to you, dated June 15, 2009, wherein matters involving CPUC's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have communicated to management, in a separate letter also dated June 15, 2009, control deficiencies and other matters that we identified during our audit.

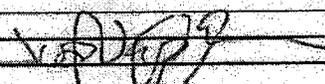
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This report is intended solely for the information and use of the Board of Directors, management, and others within CPUC and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Journal Entries - AJE			
#	Name	Debit	Credit
8 AJE To adjust for additional A/R - 5311 (Posted)			
12001-ELE-0	A/R ELECTRICITY - COMMERCIAL	96,663.00	-
40001-ELE-0	SALES - ELECTRIC (COMMERCIAL)	-	96,663.00
		96,663.00	96,663.00
WP 5113: To record for the underaccrual of expense.			
9 AJE To adjust for the correction of A/R account - 5310 (Posted)			
12003-ELE-0	A/R ELECTRICITY - CHUUK GOV	-	93,697.00
12003-WTR-0	A/R WATER- CHUUK GOV	93,697.00	-
		93,697.00	93,697.00
WP 5310: To adjust for the correction of A/R account.			
10 AJE To adjust for additional allowance - 5311 (Posted)			
12050-000-0	ALLOWANCE FOR BAD DEBTS	-	142,148.00
54002-ADM-A	BAD DEBT EXPENSE	142,148.00	-
		142,148.00	142,148.00
WP 5311: To adjust for additional allowance.			
11 AJE To adjust for disposal of F/A vehicle - 5613 (Posted)			
16015-ADM-A	FIXED ASSETS - ADM VEHICLES	-	5,200.00
16515-ADM-A	ACCUM DEPREC - ADM VEHICLES	3,813.00	-
63002-000-0	LOSS ON PROPERTY DISPOSITION	1,387.00	-
		5,200.00	5,200.00
WP 5613: To adjust for disposal of F/A vehicle.			
We concur with the recording of the adjustments and represent that they do not result from fraud or illegal acts. Rather, such represent misstatements.			
Tos Nakayama, CEO		Date 4/15/09	

Journal Entries - AJE			
#	Name	Debit	Credit
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12001-ELE-0	A/R ELECTRICITY - COMMERCIAL	96,663.00	-
40001-ELE-0	SALES - ELECTRIC (COMMERCIAL)	-	96,663.00
		96,663.00	96,663.00
WP 6113: To record for the underaccrual of expense.			
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12003-ELE-0	A/R ELECTRICITY - CHUUK GOV	-	93,697.00
12003-WTR-0	A/R WATER - CHUUK GOV	93,697.00	-
		93,697.00	93,697.00
WP 5310: To adjust for the correction of A/R account.			
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We concur with the recording of the adjustments and represent that they do not result from fraud or illegal acts. Rather, such represent misstatements.			
Tos Nakayama, CEO 			Date 4/15/09

APPENDIX I, CONTINUED

Journal Entries - AJE			
#	Name	Debit	Credit
	1 AJE To adjust accounts w/o - 5311 (Posted)		
12002-ELE-0	A/R ELECTRICITY -RESIDENCE	-	2,993,028.32
12050-000-0	ALLOWANCE FOR BAD DEBTS	2,993,028.32	-
54002-ADM-A	BAD DEBT EXPENSE	-	2,993,028.32
64001-000-0	EXTRAORDINARY INCOME	2,993,028.32	-
		5,986,056.64	5,986,056.64
	WP 5311: To adjust accounts that have been written in previous year.		
	2 AJE To adjust for fuel cash reserve - 5510 (Posted)		
53001-ELE-P	DIESEL FUEL - POWER GENERATION	188,038.38	-
13005-000-0	DEPOSIT ON FUEL PURCHASE	-	188,038.38
		188,038.38	188,038.38
	WP 5510: To adjust for fuel cash reserve.		
	3 AJE To adjust for overrecording of depreciation - 5612 (Posted)		
55001-ELE-P	DEPR. EXPENSE - POWER GEN	-	80,277.35
16503-ELE-P	ACCUM DEPREC - PROD PLANT	80,277.35	-
		80,277.35	80,277.35
	WP 5612: To adjust for overrecording of depreciation on uncompleted project.		
	4 AJE To adjust for Chuuk Housing liability - 6110 (Posted)		
61001-ELE-0	CHUUK STATE SUBSIDY	110,000.00	-
20009-000-0	AP-C. STATE HOUSING AUTHORITY	-	110,000.00
		110,000.00	110,000.00
	WP 6110: To record for Chuuk Housing Authority's liability.		
	5 AJE To adjust for the overrecording of deferred income - 6210 (Posted)		
21040-000-0	DEFERRED INCOME	163,002.00	-
67001-ADM-A	MISCELLANEOUS INCOME	-	163,002.00
		163,002.00	163,002.00
	WP 6210: To adjust for the overrecording of deferred income.		
	6 AJE To adjust for interest accrual - 6312 (Posted)		
21001-000-0	ACCRUED INTEREST PAYABLE	-	1,052,701.00
54054-ADM-A	INTEREST EXPENSE - ADB LOAN	248,406.00	-
64001-000-0	EXTRAORDINARY INCOME	804,295.00	-
		1,052,701.00	1,052,701.00
	WP 6312: To adjust for the interest accrual.		
	7 AJE To adjust for LT debt ending balance - 6312 (Posted)		
22001-000-0	NOTES PAYABLE	10,035.00	-
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	-	263,760.00
22002-000-0	FSM DEVT BANK - CURRENT	63,897.00	-
64001-000-0	EXTRAORDINARY INCOME	189,828.00	-
		263,760.00	263,760.00
	WP 6312: To adjust for the correction of ending balance of LTD loans.		

APPENDIX I, CONTINUED

Journal Entries - AJE			
#	Name	Debit	Credit
	1 AJE To adjust accounts w/o - 5311 (Posted)		
12002-ELE-0	AVR ELECTRICITY - RESIDENCE	-	2,993,028.32
12050-000-0	ALLOWANCE FOR BAD DEBTS	2,993,028.32	-
54002-ADM-A	BAD DEBT EXPENSE	-	2,993,028.32
64001-000-0	EXTRAORDINARY INCOME	2,993,028.32	-
		5,986,056.64	5,986,056.64
	WP 5311: To adjust accounts that have been written in previous year.		
	2 AJE To adjust for fuel cash reserve - 5510 (Posted)		
53001-ELE-P	DIESEL FUEL - POWER GENERATION	188,038.38	-
13005-000-0	DEPOSIT ON FUEL PURCHASE	-	188,038.38
		188,038.38	188,038.38
	WP 5510: To adjust for fuel cash reserve.		
	3 AJE To adjust for overrecording of depreciation - 5612 (Posted)		
55001-ELE-P	DEPR. EXPENSE - POWER GEN	-	80,277.35
16503-ELE-P	ACCUM DEPREC - PROD PLANT	80,277.35	-
		80,277.35	80,277.35
	WP 5612: To adjust for overrecording of depreciation on uncompleted project.		
	4 AJE To adjust for Chuuk Housing liability - 6110 (Posted)		
61001-ELE-0	CHUUK STATE SUBSIDY	110,000.00	-
20009-000-0	AP-C. STATE HOUSING AUTHORITY	-	110,000.00
		110,000.00	110,000.00
	WP 6110: To record for Chuuk Housing Authority's liability.		
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21040-000-0	DEFERRED INCOME	163,002.00	-
67001-ADM-A	MISCELLANEOUS INCOME	-	163,002.00
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	6 AJE To adjust for interest accrual - 6312 (Posted)		
21001-000-0	ACCRUED INTEREST PAYABLE	-	1,052,701.00
54054-ADM-A	INTEREST EXPENSE - ADB LOAN	248,406.00	-
64001-000-0	EXTRAORDINARY INCOME	804,295.00	-
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	WP 6312: To adjust for the interest accrual.		
	7 AJE To adjust for LT debt ending balance - 6312 (Posted)		
22001-000-0	NOTES PAYABLE	10,035.00	-
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	-	263,760.00
22002-000-0	FSM DEVT BANK - CURRENT	63,897.00	-
64001-000-0	EXTRAORDINARY INCOME	189,828.00	-
		263,760.00	263,760.00
	WP 6312: To adjust for the correction of ending balance of LTD loans.		

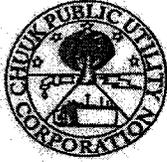
APPENDIX I, CONTINUED

Journal Entries - RJE			
#	Name	Debit	Credit
	1 RJE To reclass current portion of LT debt - ADB - 6311 (Posted)		
23003-000-0	ASIAN DEVELOPMENT BANK LOAN	59,737.00	-
21044-000-0	CURRENT PORTION OF LT - ADB	-	59,737.00
		59,737.00	59,737.00
	WP 6311: To reclass current portion of ADB loan.		
We concur with the recording of the reclassification and represent that it does not result from fraud or illegal acts.			
Tos Nakayama, CEO			Date 6/15/18

Chuhk Public Utilities Corporation
 September 30, 2008
 Current Year Uncorrected Misstatement

		Balance Sheet			
		Assets Dr (Cr)	Liabilities Dr (Cr)	Retained Dr (Cr)	Income Dr (Cr)
PAJE 1 - To adjust for underrecording of A/D	Likely	(43,282)			43,282
PAJE 2 - To adjust for the overrecording of deferred income	Known		67,694		(67,694)
PAJE 3 - To adjust for understatement of liability	Known		(3,245)		3,245
PAJE 4 - To adjust for the collection of other a/r account	Known	(6,451)			6,451
PAJE 5 - To reserve for litigation loss	Likely		(72,288)		72,288
Total Misstatements		(49,733)	(7,839)		0
					57,572


 Tos Nakayama
 CEO
 Date 4/15/09



CHUUK PUBLIC UTILITY CORPORATION
 P.O. Box 910 • Weno, Chuuk State
 Federated States of Micronesia 96942
 Phone: (691) 330-2400 • Fax: (691) 330-3259

June 15, 2009

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

We are providing this letter in connection with your audits of the Chuuk Public Utility Corporation (CPUC) for the years ended September 30, 2008, and 2007, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Corporation in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the following:

- a. The fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the required supplementary information including, Management's Discussion and Analysis, accompanying the basic financial statements that is presented for the purpose of additional analysis of the financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

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

would be changed or influenced by the omission or misstatement.

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

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America, except for the matters specified in your Independent Auditors' Report.
2. The Company has made available to you all:
 - a. Financial records and related data that we are able to prepare or extract from our financial system. However, we were unable to provide supporting schedules and subsidiary ledgers for inventory, utility plant, accounts payable, and accrued expenses for fiscal year 2008. As a result, we understand that your report does not express an opinion on the financial statements of Chuuk Public Utility Corporation as of and for the year ended September 30, 2008.
 - b. Minute of the meetings of stockholders, directors, and committees of directors or summaries of actions of recent meetings for which minutes has been prepared on September 29, 2008.
3. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. The Corporation has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in the Corporation and does not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the Company involving (a) management, (b) employees who have significant roles in the Company's internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, analysts, regulators, short sellers, or others.
8. There are no unasserted claims or assessments that legal counsel has advised us are

probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*, except as described in note 5 to the financial statements.

Except where otherwise stated below, matters less than \$12,480 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.

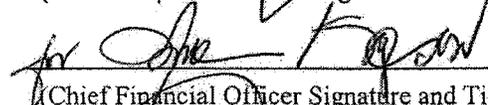
9. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
10. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
11. The following, 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 the Company is contingently liable.
12. 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.
13. 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.

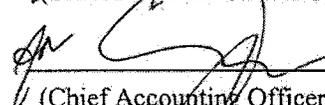
- 14. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.
- 15. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in note 7 to the financial statements.
- 16. The Company has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
- 17. No events have occurred subsequent to balance sheet date that requires consideration as adjustments to or disclosures in the financial statements.
- 18. The Corporation has adopted a policy of self-insuring potential risks relative to its property, plant, and equipment. The Corporation has not purchased insurance relative to its property, plant and equipment, and no other risks are insured. The Corporation is of the opinion that it has suffered no material losses in the past years to its utility plant-in-service.
- 19. Management believes that actions presently being taken to revise CPUC's operating requirements, which include exerting more effort in collecting, provide the opportunity for CPUC to continue as a going concern.

 *acting CEO*

(Chief Executive Officer Signature and Title) Date 6/15/09

 *for CFO*

(Chief Financial Officer Signature and Title) Date 6/15/09

 *-ACCTG ADVISOR*

(Chief Accounting Officer Signature and Title) Date 6/15/09