

January 8, 2009

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, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated January 8, 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 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, 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, a copy of which is attached as Appendix II. 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, 2008 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, 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 auditing standards generally accepted in the United States of America 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 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, 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.

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. We have attached to this letter, as Appendix IV, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, we have attached to this letter, as Appendix V, a summary of uncorrected misstatements detected in the current year that relate to the prior year presented, which when combined with those misstatements aggregated by us during the prior year engagement and pertaining to the prior period presented, were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

The material misstatements included in Appendix III, were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period.

SIGNIFICANT ACCOUNTING POLICIES

PUC's significant accounting policies are set forth in Note 1 to PUC'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 PUC:

- 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.

The implementation of this pronouncement did not have a material effect on the financial statements of PUC.

OTHER INFORMATION IN THE ANNUAL REPORTS

To the date of this letter, the 2008 audited financial statements have not been included in documents containing other information such as an Annual Report.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to PUC'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 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 Appendix VI, 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 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, also dated January 8, 2009, wherein no matters involving PUC's internal control over financial reporting that were considered to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have identified, and included in the attached Appendix I, certain control deficiencies related to PUC's internal control over financial reporting and also other matters as of September 30, 2008 that we wish to bring to your attention.

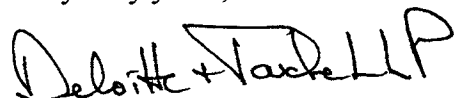
The definition of a control deficiency is also set forth in Appendix I.

* * * * *

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



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving PUC's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

1. Post Closing Entries

Comment: Numerous adjustments were made to the general ledger accounts after year-end. Though the number of post closing adjustments has been reduced compared with the prior year, we believe that the amount of adjustments in the current year indicates that a more thorough review of the general ledger is required.

Recommendation: We recommend that month-end and year-end closing timetables be implemented and review of the general ledger be performed on a timely basis.

2. Stale Dated Checks and Unreleased Checks

Comment: Checks of \$44,525 written as far back as 2004 were unreleased as of September 30, 2008 and stale dated checks totaling \$70,296 were shown as outstanding checks on the bank reconciliation as of September 30, 2008.

Recommendation: Reasons for the non-issuance of checks written and non-encashment of long outstanding checks should be periodically investigated.

3. Receivable Back Charges

Comment: In 2008, PUC recorded receivables of \$211,376 from two (2) customers for back charges relating to errors in the configuration of customer meters since 2004, which were only detected in 2008. This resulted in significant receivables disputed by customers that may be difficult to collect.

Recommendation: We recommend that management revisit meter configurations for large customers to ensure compliance with PUC's policies, to avoid potential losses from accumulated charges back billed to customers that PUC may not be able to collect.

4. Analysis of Allowance for Doubtful Accounts

Comment: At September 30, 2008, there was no change in the allowance for doubtful accounts of \$2,321,143 from prior year. We proposed an additional allowance of \$202,600 based on our audit estimate.

Recommendation: We recommend that PUC perform a periodic review of the collectibility of its receivables to ensure that an appropriate allowance is recorded.

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. Long Outstanding Receivables from Employees

Comment: At September 30, 2008, PUC has long outstanding receivables of \$89,737 from employees which have been on the books for several years. These receivables have been fully provided for.

APPENDIX I, Continued

Recommendation: Though fully provided for, we recommend that management strengthen its collection efforts to ensure that advances to employees are collected in a timely manner.

2. Capitalization Policy

Comment: As of September 30, 2008, a total of \$26,661, representing items individually below PUC's capitalization policy of \$5,000, are erroneously recorded as fixed assets.

Recommendation: We recommend that PUC adhere to its capitalization policy.

3. Work-in-Progress

Comment: During 2008, adjustments were made to the work-in-progress accounts for projects that were completed during the fiscal year ended September 30, 2007. This resulted in operating expenses of \$62,845 not being recorded in the correct accounting period.

Recommendation: We recommend that work-in-progress costs be continuously monitored.

4. Production Losses

Condition: Station and line losses increased from 7,005 MWH (18.1% of production) in 2007 to 7,390 MWH (20.5% of production) in 2008. Losses may be caused by equipment problems, inefficiencies at generation plants or through transmission and distribution, or by theft of service. This may have resulted in the loss of revenue and/or increase in generation costs.

Recommendation: We recommend that PUC determine the cause(s) of the increases in 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 – DEFINITION

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in *design* exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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September 30, 2008

Mr. Feliciano M. Perman
General Manager/CEO
Pohnpei Utilities Corporation
P.O. Box C
Kolonia, Pohnpei 96941

Dear Mr. Perman:

Deloitte & Touche LLP (“D&T” or “we” or “us”) is pleased to serve as independent auditors for the Pohnpei Utilities Corporation (the “Entity”). Mr. Daniel S. Fitzgerald will be responsible for the services that we perform for the Entity hereunder.

In addition to the audit services we are engaged to provide under this engagement letter, we would also be pleased to assist the Entity on issues as they arise throughout the year. Hence, we hope that you will call Mr. Fitzgerald whenever you believe D&T can be of assistance.

The services to be performed by D&T pursuant to this engagement are subject to the terms and conditions set forth herein and in the accompanying appendices. Such terms and conditions shall be effective as of the date of the commencement of such services.

Audit of Financial Statements and Other Reporting

Our engagement is to perform an audit in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (“generally accepted government auditing standards”). The objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on the fairness of the presentation of the Entity’s basic financial statements and to disclaim an opinion on the required supplementary information for the year ending September 30, 2008, in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects
- Express an opinion on whether the supplementary information that accompanies the basic financial statements, including the schedule of expenditures of federal awards, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole
- Report on the Entity’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 ending 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*

- Report on the Entity's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement ("OMB Circular A-133").

Appendix A contains a description of our responsibilities and an audit under generally accepted auditing standards, generally accepted government auditing standards, and OMB Circular A-133.

Our ability to express an opinion and the wording thereof will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if the report to be issued by D&T as a result of this engagement requires modification, the reasons therefore will be discussed with the Board of Directors, the Office of the National Public Auditor ("ONPA") and the Entity's management.

Our report on the Entity's internal control and compliance and other matters will state that they are intended solely for the information and use of the ONPA, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Management's Responsibilities

Appendix B describes management's responsibilities for (1) the basic financial statements and all accompanying information, (2) representation letters, (3) independence matters relating to providing certain services, and (4) independence matters relating to hiring.

Responsibility of the Office of the National Public Auditor

As independent auditors of the Entity, we acknowledge that the ONPA is directly responsible for the appointment, compensation, and oversight of our work and, accordingly, except as otherwise specifically noted, we will report directly to the ONPA. You have advised us that the services to be performed under this engagement letter, including, where applicable, the use by D&T of affiliates or related entities, have been approved by the ONPA in accordance with the ONPA's established preapproved policies and procedures.

Communications with the Board of Directors and the Office of the National Public Auditor

Appendix C describes various matters that we are required by generally accepted auditing standards and generally accepted government auditing standards to communicate with the Board of Directors, the ONPA and management.

Fees

Our fees for these services will be based on the actual time spent at our standard hourly rates. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered as work progresses and are payable on presentation. Our engagement fees for the performance of this engagement have been separately submitted to the Office of the National Public Auditor. This estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

To the extent that certain circumstances, as listed in Appendix D, arise during this engagement, our fee estimate also may be significantly affected, and additional fees may be necessary. We will notify you promptly of any circumstances we encounter that could significantly affect our estimate and discuss with you any additional fees, as necessary. Additional services provided beyond the scope of services described herein will be billed separately.

Access to Working Papers by Regulators

In accordance with the requirements of generally accepted government auditing standards, we are required to make all audit-related documents, including auditor's reports, working papers, and management letters, available to a federal agency or the Comptroller General of the United States upon their request for their regulatory oversight purposes. If such a request is made, we will inform you prior to providing such access. The working papers for this engagement are the property of D&T and constitute D&T's confidential information. We may request confidential treatment of D&T information. If we are requested to make photocopies of audit-related documents, we will maintain control over duplication of all information. The Entity hereby grants us permission to provide access to and to make and permit others to make photocopies of all audit-related documents, including auditor's reports, working papers and management letters, to representatives of the United States Government Accountability Office (GAO) or other appropriate government audit staff. D&T will require its personnel to supervise the photocopying of audit-related documents and may specify the location at which such documents may be photocopied. All professional and administrative services relating to such access (including photocopying) will be charged as an additional expense to the engagement. The working papers relating to this audit will be retained by us for a minimum of three years from the dates of the reports issued, or such longer period as required to satisfy legal and administrative requirements.

Inclusion of D&T Reports or References to D&T in Other Documents or Electronic Sites

If the Entity intends to publish or otherwise reproduce in any document our reports on the Entity's basic financial statements, or otherwise make reference to D&T in a document that contains other information in addition to the audited financial statements (e.g., in a periodic filing with a regulator, in a debt or equity offering circular, or in a private placement memorandum), thereby associating D&T with such document, the Entity agrees that its management will provide D&T with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our reports, or the reference to D&T, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our reports in any such document would constitute the reissuance of our reports. The Entity also agrees that its management will notify us and obtain our approval prior to including our report on an electronic site.

Our engagement to perform the services described herein does not constitute our agreement to be associated with any such documents published or reproduced by or on behalf of the Entity. Any request by the Entity to reissue our reports, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request; fees for such services (and their scope) would be subject to the mutual agreement of the Entity and D&T at such time as D&T is engaged to perform the services and would be described in a separate engagement letter.

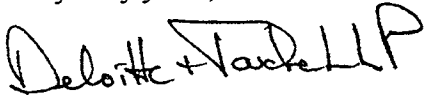
Other Services

D&T will also prepare draft financial statements that are based on management's chart of accounts (the "nonaudit service") as requested by you. The Entity agrees that it will comply with generally accepted government auditing standards, including, but not limited to, the following: (1) the Entity will designate a management level individual to be responsible and accountable for overseeing the nonaudit service, (2) the Entity will establish and monitor the performance of the nonaudit service to ensure that it meets management's objectives, (3) the Entity will make all decisions that involve management functions related to the nonaudit service and accept full responsibility for such decisions, and (4) the Entity will evaluate the adequacy of the nonaudit service performed and any findings that may result.

This engagement letter, including the appendices attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes all other prior and contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

If the above terms are acceptable and the services outlined are in accordance with your understanding, please sign the copy of this engagement letter in the space provided and return it to us.

Very truly yours,



ACCEPTED AND AGREED TO BY:

POHNPEI UTILITIES CORPORATION

By:  _____

Title: General Manager

Date: 10/17/08

DESCRIPTION OF OUR RESPONSIBILITIES AND AN AUDIT UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, AND OMB CIRCULAR A-133

Pohnpei Utilities Corporation
Year Ending September 30, 2008

Our Responsibilities

Our responsibilities under generally accepted auditing standards and generally accepted government auditing standards include:

- Forming and expressing an opinion about whether the basic financial statements that have been prepared by management with the oversight of the Board of Directors and ONPA are presented fairly, in all material respects, in conformity with generally accepted accounting principles
- Reporting on the scope and results of testing of the Entity's internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.

The audit of the basic financial statements does not relieve management, the Board of Directors and ONPA of their responsibilities.

Components of an Audit in Accordance With Generally Accepted Auditing Standards, Generally Accepted Government Auditing Standards, and OMB Circular A-133

An audit includes the following:

- Obtaining an understanding of the Entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the basic financial statements and to design the nature, timing, and extent of further audit procedures
- Consideration of 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 the Entity's internal control over financial reporting
- Consideration of internal control and compliance over major federal programs, as a basis for determining the Entity's internal control over compliance with federal laws and other laws and regulations
- Examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements
- Inquiring directly of the Office of the National Public Auditor and of the Entity management regarding their views about the risk of fraud and whether the Office of the National Public Auditor or the Entity management has knowledge of any fraud or suspected fraud affecting the Entity
- Assessing the accounting principles used and significant estimates made by management
- Evaluating the overall basic financial statement presentation

APPENDIX A, Continued

- Determining which federal programs should be considered major programs and thus be included within the scope of the compliance audit
- Evaluating the overall presentation of the schedule of expenditures of federal awards and other supplementary information in relation to the basic financial statements taken as a whole
- Evaluating the items to be included in the schedule of findings and questioned costs and the reasonableness of the summary schedule of prior year findings
- Obtaining and reporting the views of responsible officials concerning the findings, conclusions, and recommendations, as well as their planned corrective actions
- Preparing a schedule of findings and questioned costs
- Completing the auditor prepared sections of and signing the OMB Data Collection Form that summarizes our audit findings.

We will also perform tests of the Entity's compliance with certain provisions of laws, regulations, and the provisions of contracts and grant agreements. However, it is not our objective to provide an opinion on overall compliance with those provisions and, accordingly, we will not express such an opinion.

As part of our audit of compliance with the requirements of major federal programs, we will obtain an understanding of the Entity's internal control related to administering major federal programs and we will assess risk as required by OMB Circular A-133 for the purpose of establishing the nature, timing, and extent of auditing procedures necessary for expressing an opinion concerning compliance with laws and regulations related to major federal award programs.

Generally accepted accounting principles provide for certain required supplementary information ("RSI"), such as a management's discussion and analysis, to accompany the Entity's basic financial statements. As part of our engagement, we will apply certain limited procedures to the Entity's RSI. Those limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management will affirm to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with our procedures relating to it, we will disclaim an opinion on the RSI.

Supplementary information other than RSI, such as the schedule of expenditures of federal awards also accompanies the Entity's basic financial statements. We will subject all supplementary information that is financially oriented to the audit procedures applied in our audit of the basic financial statements and render our opinion on whether that information is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. We will disclaim an opinion on supplementary information that comprises nonaccounting information or accounting information not directly related to the basic financial statements. We will also make specific inquiries of management about supplementary information, which management will affirm to us in its representation letter.

Reasonable Assurance

We will plan and perform our audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud, and we will perform tests of the Entity's compliance with certain provisions of laws, regulations, contracts, and grants. However, because of the characteristics of fraud, a properly planned and

APPENDIX A, Continued

performed audit may not detect a material misstatement. Therefore, an audit conducted in accordance with generally accepted auditing standards and generally accepted government auditing standards is designed to obtain reasonable, rather than absolute, assurance that the basic financial statements are free of material misstatement. An audit is not designed to detect error or fraud that is immaterial to the basic financial statements, nor is it designed to provide assurance on internal control or to identify deficiencies in internal control or to detect immaterial instances of noncompliance.

We will also plan and perform our audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that are applicable to the Entity's major federal programs could have a direct and material effect on each of its major federal programs. An audit of compliance includes examining, on a test basis, evidence about the Entity's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. Our audit does not provide a legal determination on the Entity's compliance with those requirements.

MANAGEMENT'S RESPONSIBILITIES

Pohnpei Utilities Corporation
Year Ending September 30, 2008

Financial Statements, Internal Control, and Compliance

The overall accuracy of the basic financial statements and all accompanying information and their conformity with generally accepted accounting principles is the responsibility of the Entity's management. In this regard, management has the responsibility for, among other things:

- Selecting and applying the accounting policies.
- Establishing and maintaining effective internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements.
- Designing and implementing programs and controls to prevent and detect fraud.
- Identifying and ensuring that the Entity complies with the laws and regulations applicable to its activities and the provisions of contracts or grant agreements, and informing us of any known material violations of such laws, regulations, or provisions.
- Adjusting the basic financial statements to correct material misstatements.
- Making all financial records and related information available to us.
- Taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that we report.
- Having a process to track the status of audit findings and recommendations.
- Identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of our audit and the corrective actions taken to address significant findings and recommendations.
- Providing its view on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for our reports. The corrective action plan that the Entity develops for its OMB Circular A-133 reporting package may fully or partially satisfy this responsibility.
- Submitting the reporting package and OMB Data Collection Form to the Federal Audit Clearinghouse.

Representation Letters

We will make specific inquiries of the Entity's management about the representations (1) embodied in the basic financial statements and all accompanying information, (2) regarding the effectiveness of internal control, and (3) regarding the Entity's compliance with laws, regulations, and the provisions of contracts and grant agreements. Additionally, we will request that management provide to us the written representations the Entity is required to provide to its independent auditors under generally accepted auditing standards. As part of our audit procedures, we will request that management provide us with a representation letter that includes, among other things:

- Acknowledgment of management's responsibility for the preparation of the basic financial statements, all accompanying information, and for compliance with laws and regulations applicable to federal award programs

APPENDIX B, Continued

- Acknowledgment of management's responsibility for the design and implementation of programs and controls to prevent and detect fraud
- Affirmation of management's knowledge of any fraud or suspected fraud affecting the Entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the basic financial statements
- Affirmation of management's knowledge of any allegations of fraud or suspected fraud affecting the Entity
- Affirmation of management's belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the basic financial statements.

We will also request that management confirm certain representations made to us during our audit. The responses to those inquiries and related written representations of management required by generally accepted auditing standards are part of the evidential matter that D&T will rely on in forming its opinion on the Entity's basic financial statements. Because of the importance of management's representations, the Entity agrees to release and indemnify D&T, its subcontractors, and their respective personnel from all claims, liabilities, and expenses relating to our services under this engagement letter attributable to any misrepresentation by management.

Process for Obtaining Preapproval of Services

Management is responsible for the coordination of obtaining the preapproval of ONPA, in accordance with ONPA's preapproval process, for any services to be provided by D&T to the Entity.

Independence Matters Relating to Providing Certain Services

In connection with our engagement, D&T and management, and the Office of the National Public Auditor will assume certain roles and responsibilities in an effort to assist D&T in maintaining independence. Management of the Entity will ensure that the Entity has policies and procedures in place for the purpose of ensuring that the Entity will not act to engage D&T or accept from D&T any service that under American Institute of Certified Public Accountants (AICPA), generally accepted government auditing standards, or other applicable rules would impair D&T's independence. All potential services are to be discussed with Mr. Daniel S. Fitzgerald.

Independence Matters Relating to Hiring

Management will coordinate with D&T to ensure that D&T's independence is not impaired by hiring former or current D&T partners, principals, or professional employees in a key position, as defined in the AICPA Code of Professional Conduct that would cause a violation of the AICPA Code of Professional Conduct or other applicable independence rules. Any employment opportunities with the Entity for a former or current D&T partner, principal, or professional employee should be discussed with Mr. Daniel S. Fitzgerald before entering into substantive employment conversations with the former or current D&T partner, principal, or professional employee.

For purposes of the preceding three paragraphs, "D&T" shall mean Deloitte & Touche LLP and its subsidiaries; Deloitte Touche Tohmatsu, its member firms, the affiliates of Deloitte & Touche LLP, Deloitte Touche Tohmatsu, and its member firms; and, in all cases, any successor or assignee.

**COMMUNICATIONS WITH THE BOARD OF DIRECTORS
AND OFFICE OF THE NATIONAL PUBLIC AUDITOR**

Pohnpei Utilities Corporation
Year Ending September 30, 2008

Fraud and Illegal Acts

We will report directly to the Board of Directors and the ONPA any fraud (whether caused by senior management or other employees) of which we become aware that causes a material misstatement of the basic financial statements. We will report to senior management any fraud perpetrated by lower level employees of which we become aware that does not cause a material misstatement of the basic financial statements; however, we will not report such matters directly to the Board of Directors and ONPA, unless otherwise directed by the ONPA.

We will inform the appropriate level of management of the Entity and determine that the Board of Directors and ONPA are adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal acts are clearly inconsequential.

Internal Control Matters

In planning the audit, we will follow up on known significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the current audit to determine the effect on our risk assessment and audit procedures.

We will report directly to the Office of the National Public Auditor, the Board of Directors and management all significant deficiencies and material weaknesses identified during the audit as required by AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, and generally accepted government auditing standards. Our written communication will identify those matters considered by D&T to be significant deficiencies and those that are considered by D&T to be material weaknesses.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Entity's basic financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected.

We will also communicate certain matters to the Board of Directors, ONPA and management, including our responsibilities for testing and reporting on internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements, both for our financial statement audit and our compliance audit of major federal programs.

Other Matters

We will communicate to the Board of Directors, ONPA and management the following, if any of the following are identified during our audits: material noncompliance with laws, regulations, and provisions of contracts or grant agreements related to major programs; certain known questioned costs; fraud affecting federal awards; abuse that is material to a federal program; and other federal award audit findings as required by generally accepted government auditing standards and OMB Circular A-133.

Generally accepted auditing standards and generally accepted government auditing standards do not require us to design procedures for the purpose of identifying other matters to communicate with Entity senior management. However, we will communicate to Entity senior management matters required by AU 380, *The Auditor's Communication with those Charged with Governance*. In addition, as required by generally accepted government auditing standards, our report on internal control and on compliance and other matters will include our findings of material violations of provisions of contracts and grant agreements and material abuse.

In planning the audit, we will follow up on known significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the current audit to determine the effect on our risk assessment and audit procedures.

As part of our audit, we will be alert to situations or transactions that could be indicative of abuse as defined by generally accepted government auditing standards, which involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. This determination of abuse is subjective; generally accepted government auditing standards do not require us to provide reasonable assurance of detecting abuse, and we will not design the audit to detect abuse. However, if we become aware of indications of material abuse, we will apply procedures to ascertain whether abuse has occurred. Under generally accepted auditing standards and generally accepted government auditing standards, we may be required to directly report fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse to outside parties.

We may also communicate to the Board of Directors, ONPA and Entity senior management on internal control, compliance, or other matters we have observed and possible ways to improve the Entity's operational efficiency and effectiveness or otherwise improve its internal control or other policies and procedures.

CIRCUMSTANCES AFFECTING TIMING AND FEE ESTIMATE

Pohnpei Utilities Corporation
Year Ending September 30, 2008

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates or our fee estimate. As a result, changes to the fees may be necessary. Such circumstances include but are not limited to the following:

Audit Facilitation

1. Changes to the timing of the engagement at the Entity's request. Changes to the timing of the engagement usually require reassignment of personnel used by D&T in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, D&T may incur significant unanticipated costs.
2. All audit schedules are not (a) provided by the Entity on the date requested, (b) completed in a format acceptable to D&T, (c) mathematically correct, or (d) in agreement with the appropriate Entity records (e.g., general ledger accounts). D&T will provide the Entity with a separate listing of required schedules, information requests, and the dates such items are needed.
3. Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents).
4. Deterioration in the quality of the Entity's accounting records during the current-year engagement in comparison with the prior-year engagement.
5. A completed trial balance, referenced to the supporting analyses and schedules and basic financial statements, is not provided timely by the Entity's personnel.
6. Draft basic financial statements with appropriate supporting documentation are not prepared accurately and timely by the Entity's personnel.
7. Electronic files in an appropriate format and containing the information requested are not provided by the Entity on the date requested for our use in performing file interrogation. D&T will provide the Entity with a separate listing of the required files and the dates the files are needed.
8. The engagement team, while performing work on the Entity's premises, is not provided with access to the Internet via the Entity's existing network for purposes of conducting the engagement.

Significant Issues or Changes

9. Significant deficiencies or material weaknesses in the design or operating effectiveness of the Entity's internal control over financial reporting or internal control over federal programs are identified during our audit that result in the expansion of our audit procedures.
10. A significant level of proposed audit adjustments is identified during our audit.

APPENDIX D, Continued

11. A significant number of drafts of the basic financial statements are submitted for our review, or we identify a significant level of deficiencies in the draft basic financial statements.
12. Significant new issues or changes as follows:
 - a. Significant new accounting issues
 - b. Significant changes in accounting policies or practices from those used in prior years
 - c. Significant events or transactions not contemplated in our budgets
 - d. Significant changes in the Entity's financial reporting process or Information Technology systems
 - e. Significant changes in the Entity's accounting personnel, their responsibilities, or their availability
 - f. Significant changes in auditing standards
 - g. Significant changes in the Entity's use of specialists, or the specialists or their work product does not meet the qualifications required by generally accepted auditing standards for our reliance upon their work.
13. Changes in audit scope caused by events that are beyond our control.

Payment for Services Rendered

14. Without limiting its rights or remedies, D&T may halt or terminate its services entirely if payment is not received within 30 days of the date of the invoice.

RECORDED AUDIT ADJUSTMENTS

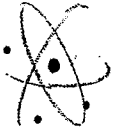
	Assets	Liabilities	Equity	Profit & Loss
DR Bad debt expense CR Allowance for doubtful accounts To adjust allowance for doubtful accounts for AR Others	(89,737)			89,737
DR Bad debt expense CR Allowance for doubtful accounts To adjust allowance for doubtful accounts for AR Trade	(112,863)			112,863
DR LTD – Asian Development Bank CR Payable to Pohnpei State Government To record payable to PSG (ADB loan payment)		33,500 (33,500)		
DR Intercompany sales CR Intercompany expenses To reclassify internal sales				62,649 (62,649)
DR LTD - noncurrent CR LTD – current portion To reclassify debt balances		199,694 (199,694)		

UNRECORDED AUDIT ADJUSTMENTS

	Assets	Liabilities	Equity	Profit & Loss
DR Cash CR Liability To record stale dated checks	63,094	(63,094)		
DR Cash CR Liability To record stale dated checks	7,202	(7,202)		
DR Interest expense CR Accrued interest payable To record accrued interest payable		(9,404)		9,404
DR Expense CR Fixed assets, net To expense fixed assets below capitalization threshold	(14,914)			14,914
DR Fuel expense CR Accounts payable To adjust payable to Mobil		(9,828)		9,828
DR Payroll expense CR Accrued payroll To adjust payroll accrual		(7,236)		7,236
DR TCD interest income CR TCD To adjust TCD interest income	(6,903)			6,903
DR LTD - ADB CR Other income To adjust ADB loan balance per confirmation		15,280		(15,280)
DR AR trade CR Customer deposits To reclassify credit balances in AR trade	58,806	(58,806)		
DR Supply inventory CR Operating expense To record cash power card inventory	5,533			(5,533)
TOTAL KNOWN MISSTATEMENTS	112,818	(140,290)		27,472
DR Bad debt expense CR Allowance for doubtful accounts To provide additional allowance for doubtful accounts	(172,508)			172,508
TOTAL LIKELY MISSTATEMENTS	(172,508)			172,508
TOTAL	(59,691)	(140,290)		199,981

UNRECORDED PRIOR YEAR AUDIT ADJUSTMENTS DISCOVERED IN CURRENT YEAR

	Assets	Liabilities	Equity	Profit & Loss
DR Fixed assets	50,388			
CR Expense				26,816
CR Work-in-progress	(77,204)			
To adjust WIP – RUS at 9/30/07				
DR Expense				36,029
CR Work-in-progress	(36,029)			
To adjust WIP - ADB				
DR Expense				9,864
CR Accrued liability		(9,864)		
To record FY 07 expense				
DR Audit fees				15,000
CR Accrued expense		(15,000)		
To record FY 07 expense				
TOTAL KNOWN MISSTATEMENTS	(62,845)	(24,864)		87,709



POHNPEI UTILITIES CORPORATION

January 8, 2009

BOARD OF DIRECTORS

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

William Kostka
Chairman

Johnny Hebel
Vice Chairman

Lucille Overhoff
Director

Francisco Mendiola
Director

Anna Mendiola
Director

Wilbur Walter
Director

Feliciano M. Perman
General Manager/CEO

We are providing this letter in connection with your audits of the financial statements of Pohnpei Utilities Corporation (the Corporation) as of September 30, 2008 and 2007 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 the Corporation 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 the Corporation's net assets, and the related statements of revenues, expenses and changes in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the information included in supplemental schedules and Management's Discussion and Analysis accompanying the financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud. Establishing and maintaining effective internal control over financial reporting
- 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 the Corporation'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. Maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
- g. 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.

APPENDIX VI, CONTINUED

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 approved
 - b. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net assets within operating and non-operating revenues and expenses
 - c. Capital assets are properly capitalized, reported and depreciated
 - d. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The entity has made available to you all:
 - a. Financial records and related data.
 - 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.
3. There have been no:
 - a. Action taken by the Corporation's management that contravenes the provisions of state laws and regulations or of contracts and grants applicable to the Corporation and for all funds administered by the Corporation.
 - 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.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior audit engagement and pertaining to the prior presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2007 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. We have no knowledge of any fraud or suspected fraud affecting the Corporation involving (a) management, (b) employees who have significant roles in internal control over financial

APPENDIX VI, CONTINUED

- 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 Corporation received in communications from employees, former employees, analysts, regulators, or others.
 8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion in accordance with Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies* other than that disclosed in the financial statements.
 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 the Corporation'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 Corporation 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 the Corporation'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. 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 their understanding about the risks of fraud in the Corporation and do not believe that the financial statements are materially misstated as a result of fraud.

Except where otherwise stated below, matters less than \$43,600 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. There are no transactions that have been improperly recorded in the accounting records underlying the financial statements except for those listed in Appendices A and B.
14. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. 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).
16. 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

APPENDIX VI, CONTINUED

in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
- b. The effect of the change would be material to the financial statements.

We are not aware of any estimates at September 30, 2008 that may change and that 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. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies* other than that disclosed in the financial statements.
18. The Corporation 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. The Corporation has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
20. No events have occurred subsequent to September 30, 2008 to the dates of our signatures below that require consideration as adjustments to or disclosures in the financial statements.
21. We have disclosed to you that no change in the Corporation's internal control over financial reporting has occurred during the Corporation's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.
22. 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.
23. There have been no actions taken by management, which contravene the provisions of local laws or regulations or of contracts applicable to the Corporation.
24. We have no intention of terminating our retirement plan or taking any other action that could result in an effective termination or reportable event for the plan. We are not aware of any occurrences that could result in the termination of our retirement plan to which we contribute. We are of the opinion that the plan does not represent an asset or liability of the Corporation. However, In June 2008, we stopped future employer contributions to the plan until such time as the PUC financial standing improves. We do not believe that this act constitutes a violation of our plan, termination of the plan or a reportable event for the plan since we believe that such contributions are discretionary.
25. We do not plan to make frequent amendments to our pension or other postretirement benefit

plans.

26. Provisions have been made to reduce accounts receivable to their estimated net realizable value.
27. The Corporation is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.
28. 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.
29. Provision has been made, when applicable, for any loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
30. The Corporation has established a self insurance fund in accordance with Pohnpei State Law to defray costs of any unforeseen accidents or disasters. The Corporation 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.
31. The Corporation is a party to several legal proceedings, the ultimate impact of which is not currently predictable. Management is of the opinion that the ultimate impact of these proceedings, though not predictable, will not be material and accordingly, no liability for such proceedings has been recorded in the financial statements.
32. The Corporation has obligated, expended, received, and used public funds of the Corporation 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.
33. Money or similar assets handled by the Corporation 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.
34. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Corporation has been discovered.
35. During fiscal year 2008, PUC implemented 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. The implementation of this statement did not have a material effect on the financial statements of PUC.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the

APPENDIX VI, CONTINUED

implementation of this statement will have a material effect on the financial statements of PUC.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PUC.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures-an Amendment of GASB Statements No. 25 and 27*, which amends applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27 *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements 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*. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of PUC.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PUC.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PUC. In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PUC.

36. 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.
37. The Corporation 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.



Feliciano M. Perman
General Manager

1/15/09

Date



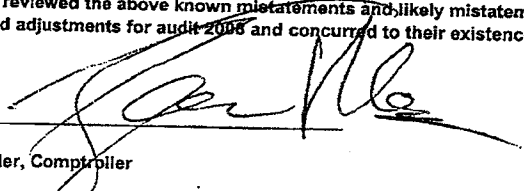
Kelly Keller
Comptroller

1/12/09

Date

	Assets	Liabilities	Retained Earnings	Income Statement
	Dr (Cr)	Dr (Cr)	Beg of Year Dr (Cr)	Dr (Cr)
Current Year Known Misstatements				
To record stale-dated checks (Dr) Cash (Cr) Liability	63,094	(63,094)		
To record stale-dated checks (Dr) Cash (Cr) Liability	7,202	(7,202)		
To record accrued interest payable (DR) Interest expense (CR) Accrued interest payable		(9,404)		9,404
To charge to expense items below \$5,000 in the fixed asset register (Dr) Accumulated Depreciation (Dr) Expense (Cr) Fixed Assets	11,747 (26,661)			14,914
To record fuel cost adjustment (DR) Fuel costs (CR) AP - Mobil		(9,828)		9,828
To accrued for additional payroll (Dr) Payroll Expense (Cr) Liability		(7,236)		7,236
To record adjustment in interest income from TCDs (DR) Interest income (CR) TCD	(6,903)			6,903
To adjust ADB loan balance per confirmation (DR) ADB Loans (CR) Other income		15,280		(15,280)
To adjust credit balances in AR (DR) AR (CR) Customer Deposits	58,806	(58,806)		
To record power cards inventory as of 9/30/08 (DR) Power cards inventory (CR) Customer record and collection expense	5,533			(5,533)
Total Known Misstatements	112,817	(140,290)		27,473
Current Year Likely Misstatements				
To provide additional allowance for doubtful accounts (DR) Doubtful accounts expense (CR) Allowance for doubtful accounts	(172,508)			172,508
Total Likely Misstatements	(172,508)	0	0	172,508
TOTAL	(59,691)	(140,290)	0	199,981

We have reviewed the above known misstatements and likely misstatements which are being treated as passed adjustments for audit 2008 and concurred to their existence and audit findings

Certified 
 Kelly Keller, Comptroller

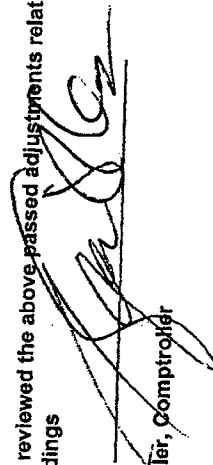
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POHNPEI UTILITIES CORPORATION
 APPENDIX B - PASSED ADJUSTMENTS RELATING TO PRIOR YEAR
 SEPTEMBER 30, 2008

	Assets		Liabilities		Retained Earnings Beg of Year		Income Statement	
	Dr	(Cr)	Dr	(Cr)	Dr	(Cr)	Dr	(Cr)
Prior Year Known Misstatements								
To adjust WIP - RUS in FY 2007								
(DR) Fixed Assets	50,388							
(DR) Expense		(77,204)						26,816
(CR) WIP								
To adjust WIP - ADB								
(DR) Expense								36,029
(CR) WIP		(36,029)						
To record FY'07 communication expense								
(DR) Communication expense								9,864
(CR) AP				(9,864)				
To record PY interim audit fees								
(DR) Audit Fees								15,000
(CR) AP				(15,000)				
TOTAL		(62,845)		(24,864)		0		87,709

We have reviewed the above passed adjustments relating to prior year and concurred to their existence and audit findings

Certified



Kelly Keller, Comptroller

14-Jan-08