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June 21, 2013

The Board of Directors
Chuuk Public Utility Corporation

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of the Chuuk Public Utility Corporation (the "CPUC") as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 21, 2013.

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

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards"), have been described in our engagement letter dated November 26, 2012, a copy of which has been provided to you. As described in that letter, the objectives of an audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on the fairness of the presentation of CPUC's basic financial statements, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2012, in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- Report on CPUC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grants and other matters for the year ended September 30, 2012 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in generally accepted government auditing standards.

- To report on CPUC'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") and on the schedule of expenditures of federal awards.

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

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

We also considered CUPC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our audit does not, however, provide a legal determination of CPUC's compliance with those requirements.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in CPUC's 2012 financial statements include management's estimate of allowance for doubtful accounts, which is determined based on past collection experience and aging of the accounts; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective fixed assets. During the year ended September 30, 2012, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS, RECLASSIFICATIONS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments and account reclassifications that we believe, either individually or in the aggregate, would have a significant effect on CPUC's financial reporting process. Such proposed adjustments and reclassifications, listed in Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2012 financial statements.

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

SIGNIFICANT ACCOUNTING POLICIES

CPUC's significant accounting policies are set forth in note 2 to CPUC's 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by CPUC:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information OPEB plans financial statements.

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

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

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

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

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

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

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

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

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

ALTERNATIVE ACCOUNTING TREATMENTS

We had no discussions with management regarding alternative accounting treatments within generally accepted accounting principles for policies and practices related to material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, related to the year ended September 30, 2012.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to CPUC's 2012 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as CPUC's 2012 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in CPUC's 2012 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR RETENTION

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 21, 2013, on CPUC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. Within that report, we noted a certain matter that was considered to be a significant deficiency under standards established by the American Institute of Certified Public Accountants. Although we have included management's written response to our comment contained in the report, such response has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the response or the effectiveness of any corrective actions described therein.

We have also issued a separate report to you, also dated June 21, 2013, involving CPUC's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

We have identified, and included in Attachment II, certain deficiencies related to CPUC's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention.

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

* * * * * * * *

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

Very truly yours,

Deloitte & Touche LLP

June 21, 2013

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

Gentlemen:

We are providing this letter in connection with your audits of the statements of net assets of the Chuuk Public Utility Corporation ("CPUC", a component unit of the State of Chuuk) as of September 30, 2012, and 2011, and the related statements of revenues, expenses and changes in deficit and of cash flows for the years then ended, which collectively comprise CPUC's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of CPUC in conformity with accounting principles generally accepted in the United States of America.

We confirm that we are responsible for the following:

a. The fair presentation in the financial statements of financial position, results of operations, and cash flows, in conformity with accounting principles generally accepted in the United States of America (GAAP).

b. The fair presentation of the required supplementary information including, Management's Discussion and Analysis, accompanying the basic financial statements that is presented for the purpose of additional analysis of the basic financial statements.

c. The design, implementation, and maintenance of programs and controls to prevent and detect fraud.

d. Establishing and maintaining effective internal control over financial reporting.

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

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

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

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:

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

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

   c. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net assets within operating revenues, non-operating revenues and expenses.

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

   e. Costs of federal award have been charged in accordance with applicable cost principles.

2. We have provided to you all relevant information and access as agreed in the terms of the engagement letter.

3. CPUC has provided you all:

   a. Financial records and related data.

   b. Summaries of actions of the Board of Directors which are dated as follows:

October 11, 2011	July 9, 2012	December 4, 2012
November 7, 2011	July 13, 2012	January 9, 2013
December 1, 2011	July 27, 2012	January 30, 2013
December 29, 2011	August 15, 2012	February 27, 2013
January 24, 2012	September 7, 2012	February 5, 2013
March 7, 2012	September 14, 2012	February 19, 2013
April 5, 2012	September 27, 2012	March 11, 2013
April 13, 2012	October 10, 2012	April 4, 2013
April 30, 2012	October 17, 2012	April 19, 2013
May 14, 2012	November 9, 2012	May 3, 2013
May 24, 2012	November 14, 2012	May 16, 2013
May 31, 2012	November 22, 2012	May 29, 2013
June 14, 2012	November 29, 2012	

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

4. There have been no:

   a. Actions taken by CPUC management that contravene the provisions of federal laws and Chuuk State laws and regulations, or of contracts and grants applicable to CPUC.

b. Communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

6. We believe the effect of the uncorrected financial statement misstatement detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements the year ended September 30, 2011 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C.

7. CPUC has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you its understanding about the risks of fraud in CPUC and does not believe that the financial statements are materially misstated as a result of fraud.

8. We have no knowledge of any fraud or suspected fraud affecting CPUC involving:

   a. Management

   b. Employees who have significant roles in internal control over financial reporting

   c. Others if the fraud could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting CPUC received in communications from employees, former employees, regulators, or others.

10. CPUC is involved in various legal actions in the normal course of business, including a variety of legal actions and claims that seek monetary damages or punitive damages. Based on current information, including legal consultation, management believes any ultimate liability that may arise from these actions would not materially affect CPUC's financial position, results of operations or cash flows. CPUC has provided for an amount that it believes it will actually be responsible for. The ultimate impact of any remaining judgments is not currently predictable. Therefore, no additional liability has been recorded in the accompanying financial statements due to management's ability to predict the ultimate outcome. Any changes in this estimate will be resolved prospectively. However, management's evaluation of likely impact of these actions could change in the future and an unfavorable outcome, depending upon the amount and timing, could have a material effect on CPUC's results of operations or cash flows in the future period. This condition has been disclosed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (ASC) Topic No. 450 *Contingencies*.

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

12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.

13. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.

14. 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.

15. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Circular A-133, and provisions of grants and contracts relating to CPUC's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. CPUC is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

16. The Schedule of Expenditures of Federal Awards was prepared in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have identified in that schedule all awards provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. There were no subrecipient expenditures. In addition, we have accurately completed the appropriate sections of the data collection form.

17. We have:

    a. Identified the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program.

    b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.

    c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.

    d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

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e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit

f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities

g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.

18. No changes in internal control over financial reporting or other factors that might significantly affect internal control over financial reporting, including any corrective actions taken by management with regard to significant deficiencies and material weaknesses, have occurred subsequent to September 30, 2012.

19. 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.

Except where otherwise stated below, matters less than $28,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

20. Except as listed in Appendices B and C, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

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

22. Regarding related parties:

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

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

23. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

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

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b. The effect of the change would be material to the financial statements.

24. 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.

25. There are no:

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

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

26. CPUC has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.

27. CPUC has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

28. CPUC is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

29. All additions to CPUC's property accounts consist of replacements or additions that are properly capitalizable.

30. The construction in progress includes the Pole Hardening project which has been 50% completed as of 2008. Management intends to incorporate the project into the capital program in 2013 along with a power distribution improvement project that will be funded by the Asian Development Bank loan proceeds.

31. During fiscal year 2012, CPUC implemented the following pronouncements:

    - GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information OPEB plans financial statements.

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

Management does not believe that the implementation of these statements had a material effect on the financial statements of CPUC.

Further, the following pronouncements will be effective subsequent to September 30, 2012:

- In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership. The provisions of this statement are effective for periods beginning after December 15, 2011.

- In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, The Financial Reporting Entity, and No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012.

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011.

- In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011.

- In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012.

- In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and

financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012.

- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014.

Management has not completed an analysis; however, we do not believe that the implementation of these statements will have a material effect on the financial statements of CPUC.

32. Regarding required supplementary information:

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

    b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, Comprehensive Annual Financial Report

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

33. On August 23, 2010, CPUC entered into Operation and Maintenance Management contract for the management and maintenance of CPUC's operation. The contract is for a period of 3 years. However, the contract is federally funded through Chuuk State. CPUC does not record the transactions on its books. The transactions are executed ed and recorded by Chuuk State.

34. In 2012, CPUC received a communication from a grantor agency requesting repayment of $680,000 related to grant funds received for the uncompleted Pole Hardening Project. Management believes that the responsibility for resolving the matter rests with the Chuuk State Government and therefore, has not provided any provision for a liability in its financial statements that may ultimately result from the claim.

35. In 2009, CPUC wrote-off $154,195 of deferred income and various other liability accounts. CPUC is uncertain if the amount will result in a liability in the near future but will address the matter prospectively.

36. No events have occurred after September 30, 2012 but before June 21, 2013, the date the financial statements were available to be issued, that require consideration as adjustments to or disclosures in the financial statements.

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37. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates the continuation of CPUC as a going concern. However, CPUC has sustained substantial operating losses in recent years. In addition, CPUC has used a substantial amount of working capital in its operations. Further, at September 30, 2012, current liabilities exceeded current assets by $2,848,718, and a net unrestricted deficiency of $2,137,535 exists. Management acknowledges that it is currently dependent on the State of Chuuk to pay for actual services rendered in order to maintain CPUC as a going concern. Should the State of Chuuk choose to discontinue payment for services rendered, CPUC management may have to consider alternative measures including, among other possibilities, the State of Chuuk maintaining CPUC as a going concern. In view of these matters, realization of a major portion of the assets in the statement of net deficiency at September 30, 2012, is dependent upon continued operations of CPUC, which in turn is dependent upon CPUC's ability to meet its future debt service requirements and the success of future operations. Management believes that actions presently being taken to revise CPUC's operating requirements, which include the rehabilitation of its power infrastructure, revision of pricing mechanisms and rigorous collection efforts, provide the opportunity for CPUC to continue as a going concern.

Very truly yours,

6/26/13

Mark Waite, Chief Executive Officer

6/25/13

Kelly Keller, Financial Controller

Appendix A

Journal Entries - AJE

	#	Name	Debit	Credit
<1>	40006-ELE-0	SALES - ELECTRIC -INTERCOMPANY SALES	268,583	
	54024-ADM-A	UTILITIES - ELECTICITY		268,583
		To adjust internal utilities usage		
<2>	20002-ADM-0	ACCOUNTS PAYABLE- OTHERS	7,000	
	67001-ADM-A	MISCELLANEOUS INCOME		7,000
		Entity Adjustment - to adjust mispostings in AP others account		
<3>	11004-000-0	CASH IN BANK - C/A 0104-042309	2,362	
	16301-ELE-P	WIP CRISP CPUC RECOVERY		2,362
		Entity Adjustment - to adjust void checks listed on 9/30/12 outstanding check list		
<4>	55001-ELE-D	DEPR. EXPENSE - POWER DST	52,557	
	Audit 22	Accumulated Depreciation - Generators		52,557
		to record depreciation for ADB generators beginning February 2012		
<5>	20008-000-0	A/P-OUTSTANDING CKS PRIOR YRS	45,522	
	11002-000-0	CASH IN BANK - C/A 0104-030823		45,522
		Entity Adjustment - to adjust reconciliation of outstanding checks of prior year		
<6>	Audit 16	Accumulated Depreciation - write off	2,046,904	
	Audit 20	Loss on Retirement of Capital Assets	18,900	
	Audit 17	Electric Plant in Service		545,669
	Audit 18	General Plant in Service		185,469
	Audit 19	Water and Sewer Plant in Service		1,334,666
		Entity Adjustment - to write-off non existent fixed assets		
<7>	55001-ELE-D	DEPR. EXPENSE - POWER DST	20,164	
	Audit 21	Accumulated Depreciation - Crisp		20,164
		to adjust depreciation expense		
<8>	21001-000-0	ACCRUED INTEREST PAYABLE	9,522	
	56056-000-0	MISCELLANEOUS - OTHER EXPENSES	87,792	
	21012-000-0	CLEARING A/C - SOCIAL SECURITY		97,314
		to adjust liabilities related to SS per confirmation		
<9>	Audit6	AR - unbilled	36,504	
	40001-ELE-0	SALES - ELECTRIC (COMMERCIAL)		23,593
	40003-ELE-0	SALES - ELECTRIC (RESIDENTIAL)		403
	40004-ELE-0	SALES - ELECTRIC (GOVERNMENT)		12,508
		to record unbilled revenue		
<10>	Audit 17	Electric Plant in Service	218,208	
	23003-000-0	ASIAN DEVELOPMENT BANK LOAN		218,208

Journal Entries - RJE

	#	Name	Debit	Credit
<1>	23003-000-0	ASIAN DEVELOPMENT BANK LOAN	50,059	
	21014-000-0	CURRENT PORTION OF LT -ADB		50,059
		to reclass current portion of LT debt - ADB		
<2>	12001-ELE-0	A/R ELECTRICITY -COMMERCIAL	8,663	
	12003-ELE-0	A/R ELECTRICITY - CHUUK GOV	4,525	
	12002-ELE-0	A/R ELECTRICITY -RESIDENCE		13,188
		to reclass residential receivable to commercial and government receivables		
<3>	21011-000-0	CLEARING A/C - TAXES	16,471	
	71001-000-0	ACCRUED INTEREST PAYABLE		16,471
		Entity Proposed – To reclass tax liability to accrued interest		
<4>	Audit 8	Long-term deposits	536,262	
	12025-ELE-0	OTHER GRANTS RECEIVABLE - ELE		536,262
		to reclass the Japan grant to long-term deposits		
<5>	71003-000-0	ACCRUED ANNUAL LEAVE	25,635	
	Audit4	Accrued annual leave, net of current		25,635
		To reclass for noncurrent portion of Annual Leave		
<6>	Audit 17	Electric Plant in Service	1,970,900	
	16303-ELE-P	WIP - ADB Generators (2- 1MW Generators)L2099&2100		1,970,900
		to reclass completed CIP to Fixed Assets.		
<7>	22002-000-0	FSM DEVT BANK - CURRENT	9,702	
	22001-000-0	NOTES PAYABLE		9,702
		to reclass fsmdb loan payable to notes payable		

Management

2

We have reviewed the adjustments in Appendix A and concurred to their effect. We also believe they were not resulted result from fraud or financial misrepresentation.

6/25/13

Kelly Keller, CFO

6/26/13

Mark Waite, CEO

Appendix B

Entry Description	Statement of Net Assets			Change in Deficiency
	Assets	Liabilities	Net Assets	
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
1. To adjust FSMPC payable				
Production cost				22,757
accts payable		(22,757)		
2. To adjust CHSP payable				
Expense				42,062
Accts payable		(42,062)		
3. To adjust understatement of lease				
Accrued local vendors expense				10,804
AP others		(10,804)		
	0	(75,623)	-	75,623

Management

We have reviewed the adjustments in Appendix B above and concurred to their effect. We also believe they were not a result of fraud or financial misrepresentation.

6/25/13

Kelly Keller, CFO

6/26/13

Mark Waite, CEO

Appendix C

	Statement of Net Assets			
	Assets	Liabilities	Net Assets	Change in Deficiency
Entry Description	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**
1. To adjust lease				
Accrued local vendors expense				25,980
AP others		(25,980)		
2. To adjust interest and penalties on CSHP				
Expenses				50,820
Accrued Expenses		(50,820)		
	0	(76,800)	0	76,800

Management

We have reviewed the adjustments in Appendix C and concurred to their effect. We also believe they were not resulted from fraud or financial misrepresentation.

6/25/13

Kelly Keller, CFO

6/26/13

Mark Waite, CEO

SECTION I – DEFICIENCIES

We identified the following deficiencies involving CPUC's internal control over financial reporting as of September 30, 2012:

(1) Inactive Bank Accounts

Comment: Three bank accounts with December 31, 2012 balances totaling $1,314 have been inactive for more than two years. Also, monthly bank statements have not been received. It appears that the accounts are no longer active.

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

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

(2) Bank Reconciliation

Comment: Our examination of the bank reconciliations for the Bank of Guam Checking and the Bank of Guam CRISP accounts as of September 30, 2012 indicated that reconciling items were not properly adjusted. Corrections to these accounts were made in April 2013.

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

Recommendation: Management should perform monthly bank reconciliations and timely correct reconciling items.

(3) Cash Collections

Comment: Of thirty four cash summaries and deposit slips examined, eleven reflected overages or shortages as follows:

No.	Cash Collection Per Deposit Slip	Cash Summary	Difference
1	19,221.89	19,206.89	15.00
2	11,182.23	11,172.23	10.00
3	5,476.57	5,476.48	0.09
4	8,834.82	8,835.07	(0.25)
5	18,617.60	18,617.26	0.34
6	8,432.43	8,431.43	1.00
7	14,934.37	14,934.27	0.10
8	12,339.38	12,338.37	1.01
9	10,051.00	10,050.80	0.20
10	28,942.03	28,941.83	0.20
11	22,720.39	22,720.34	0.05
			$ 27.74

Overages and shortages were recorded o eight times and four times, respectively, per month. Total overages and shortages recorded during 2012 were $333 and $112, respectively, which indicated an improvement over the 2011 recorded amounts of $2,041 and $2,642, respectively.

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

SECTION I –DEFICIENCIES, CONTINUED

(3) Cash Collections, Continued

Recommendation: Although, overages and shortages have been significantly reduced compared to the prior year, CPUC should continue strengthening controls over this process.

(4) Inventory

Comment: Of eighteen inventory items tested during inventory observation, eight have differences between the inventory valuation report and physical counts as follows:

No.	Item Code/Description	Per Physical Count	Per Inventory Listing	Difference (units)	Difference (amount)
1	CPUC/WA/01-030111 PVC Adaptors SxFIP-2"	410	200	210	$ 1,866.90
2	PO-089-12 256LUG Repair Clamp	9	0	9	998.55
3	PO-107-12 3VX530 Vbelt, 53"	4	8	(4)	(60.82)
4	PO-107-12 3VX7100 Vbelt, 71"	4	7	(3)	(53.22)
5	CPUC/PG/01-021511 Filter Elements as Oil	95	101	(6)	(232.14)
6	CPUC/WA/01-030111 PVC Pipe - 20 x 3/4 dia.	83	93	(10)	(57.50)
7	CPUC/PG/01-021511 V-Belt set	15	10.5	4.5	935.28
8	PO053-11 BLU TOWER 5/8" x 3/4" Multi Jet Meter	180	190	(10)	(433.80)
					$ 2,963.25

We were informed that the inventory valuation report was not timely updated to reflect actual physical counts. An audit adjustment was not proposed as the cumulative error was not considered material.

Recommendation: The inventory valuation report should be updated with the results of physical counts.

(5) Construction in Progress (CIP)

a. Pole Hardening Project

Comment: CIP as of September 30, 2012 includes the Pole Hardening Project (the Project) which has been outstanding for several years. The project has passed its extended completion deadline of October 11, 2006 and no additional extension was subsequently obtained.

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

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

b. Generators

Comment: Two new generators were placed in service in February 2012. However, documentation supporting the installation and completion of the generators were not available.

Recommendation: Procedures over document safekeeping should be strengthened.

SECTION I – DEFICIENCIES, CONTINUED

(5) Construction in Progress, Continued

c. Capital Projects

Comment: During 2012, $42,448 of advances from the CRISP funds and $110,775 of costs incurred related to the Weno grant funded projects were recorded in the general ledger account no. 16301-ELE-P, which is a CIP account used for the CRISP Capital Recovery Project.

Recommendation: Noncapital expenditures should be separately recorded. Additionally, CPUC should consider using separate accounts for projects funded by different grants. This would assist management in monitoring project expenditure levels and in the development of attendant status reports.

(6) Fuel Production Costs

At September 30, 2012, account payable to the FSM Petroleum Corporation was understated by $25,075, which could have been caused by unrecorded purchases and usages during the year or other timing differences.

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

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

(7) Accounts Payable Others

Comment: At September 30, 2012, Accounts Payable Others includes a $25,803.60 balance due to Kosrae Utility Authority, carried over from October 2002. Documents supporting this transaction could not be located.

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

Recommendation: CPUC should determine the validity of this liability.

(8) Payroll

Comment: Of eight payroll transactions tested, evidence supporting annual leave taken for one employee (Check no. 004882) could not be located.

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

Recommendation: Documents supporting payroll charges should be properly filed.

(9) Leases

Comment: CPUC makes monthly payments of $650 for a housing lease, whereas the available lease agreement indicated monthly rent of $500. Additionally, the agreement for the warehouse lease could not be located.

Recommendation: CPUC should clarify the monthly payment with the lessor and make amendments to the lease agreement. Additionally, the terms of the warehouse lease should be formalized in writing.

SECTION II – DEFINITION

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

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