

**YAP STATE PUBLIC SERVICE CORPORATION**

---

**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE AND INTERNAL CONTROL**

---

**YEAR ENDED SEPTEMBER 30, 2000**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE  
AUDIT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Yap State Public Service Corporation:

We have audited the financial statements of the Yap State Public Service Corporation (YSPSC), as of and for the year ended September 30, 2000, and have issued our report thereon dated November 30, 2000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether YSPSC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered YSPSC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of YSPSC in a separate letter dated November 30, 2000.

This report is intended for the information of the Board of Directors and management of YSPSC and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

*Deloitte + Touche LLP*

November 30, 2000



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors  
Yap State Public Service Corporation:

Compliance

We have audited the compliance of the Yap State Public Service Corporation (YSPSC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2000. YSPSC's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (page 5). Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of YSPSC's management. Our responsibility is to express an opinion on YSPSC's compliance based on our audit.

We conducted our audit of compliance in accordance with 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, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about YSPSC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on YSPSC's compliance with those requirements.

In our opinion, YSPSC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2000.

Internal Control Over Compliance

The management of YSPSC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, we considered YSPSC'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 consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of YSPSC as of and for the year ended September 30, 2000, and have issued our report thereon dated November 30, 2000. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of YSPSC. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended for the information of the Board of Directors and management of YSPSC and the cognizant audit and other federal agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in cursive script that reads "Deloitte + Touche LLP".

November 30, 2000

**YAP STATE PUBLIC SERVICE CORPORATION**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2000

<u>Grantor</u>	<u>CFDA #</u>	<u>Amounts Received</u>	<u>Prior Year Expenditures</u>	<u>Year 2000 Expenditures</u>	<u>Remaining Balance</u>
U.S. Department of the Interior, Pass through from the FSM National Government and through the State of Yap: Compact of Free Association Section 211(a) Capital Account	15.875	\$ 467,497	\$ 376,070	\$ 28,323	\$ 63,104
U.S. Department of the Interior, Direct Award-Operations and Maintenance Improvement Programs (OMIP) Yap State Omnibus Maintenance Assistance	15.875	245,230 172,259	176,063 126,842	69,167 57,908	- (12,491)
Trust Territory Capital Improvement Projects: Yap Water Supply Yap Rural Sanitation	15.875	229,000 170,365	90,191 -	- 260,457	138,809 (90,092)
U.S. Federal Emergency Management Agency: Hazard Mitigation: Yap State Water Projects	83.516	<u>211,040</u>	<u>158,665</u>	<u>-</u>	<u>52,375</u>
		\$ <u>1,495,391</u>	\$ <u>927,831</u>	\$ <u>415,855</u>	\$ <u>151,705</u>

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

# YAP STATE PUBLIC SERVICE CORPORATION

## Schedule of Findings and Questioned Costs Year Ended September 30, 2000

### Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were not identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were not identified.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Corporation's major program was:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Yap Rural Sanitation	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Corporation did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

### Part II - Financial Statement Findings Section

No matters are reportable.

### Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.