

**YAP STATE PUBLIC SERVICE CORPORATION,  
A COMPONENT UNIT OF YAP STATE GOVERNMENT**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**SEPTEMBER 30, 2007 AND 2006**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Yap State Public Service Corporation:

We have audited the accompanying statements of net assets of the Yap State Public Service Corporation, a component unit of Yap State Government, as of September 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Yap State Public Service Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Yap State Public Service Corporation as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Yap State Public Service Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2007, on our consideration of the Yap State Public Service Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte & Touche LLP*  
December 5, 2007

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF YAP)**

Management's Discussion and Analysis  
Years Ended September 30, 2007 and 2006

The following Management's Discussion and Analysis of the Yap State Public Service Corporation's (YSPSC) activities and financial performance provides the reader with an introduction and overview to the financial statements for the fiscal year ended September 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

GASB 34 of the U.S. Government Accounting Standards Boards requires that published financial statements must contain a management discussion and analysis. This section of YSPSC's annual report presents our discussion of YSPSC's performance for the years ended September 30, 2007, 2006 and 2005. It should be read in conjunction with financial statements that follow this section.

The following table summarizes the financial condition and operations of YSPSC as of 2007, 2006 and 2005.

ASSETS	<u>2007</u>	<u>2006</u>	<u>2005</u>
Plant in service, net	\$ 8,846,342	\$ 9,213,120	\$ 9,563,555
Work in progress, capital projects	823,692	74,890	133,905
Current and other assets	<u>2,590,027</u>	<u>2,054,301</u>	<u>1,581,330</u>
Total assets	\$ <u>12,260,061</u>	\$ <u>11,342,311</u>	\$ <u>11,278,790</u>
 <b>NET ASSETS AND LIABILITIES</b>			
Invested in capital assets, net of related debt	\$ 6,769,437	\$ 6,294,943	\$ 6,640,825
Restricted	108,127	121,443	121,443
Unrestricted	<u>2,213,619</u>	<u>1,362,169</u>	<u>1,114,334</u>
Total net assets	<u>9,091,183</u>	<u>7,778,555</u>	<u>7,876,602</u>
Notes payable, net of current portion	2,793,156	2,905,255	2,993,067
Current portion of notes payable	107,441	87,812	63,568
Other current liabilities	<u>268,281</u>	<u>570,689</u>	<u>345,553</u>
Total liabilities	<u>3,168,878</u>	<u>3,563,756</u>	<u>3,402,188</u>
Total net assets and liabilities	\$ <u>12,260,061</u>	\$ <u>11,342,311</u>	\$ <u>11,278,790</u>
 <b>REVENUES, EXPENSES, AND NET ASSETS</b>			
Operating revenues	\$ 5,020,612	\$ 4,492,869	\$ 3,549,637
Operating expenses	<u>5,015,866</u>	<u>4,693,241</u>	<u>4,273,002</u>
Income (loss) from operations	4,746	(200,372)	(723,365)
Grants	236,600	9,017	-
FEMA proceeds in excess of typhoon expenses	-	35,296	150,423
Interest expense	(16,599)	(17,143)	(18,638)
Interest income	13,120	3,022	3,475
Gain on disposal of utility plant	296	1,282	79
Other income/expense	<u>(190,253)</u>	<u>37,086</u>	<u>(2,568)</u>

## YAP STATE PUBLIC SERVICE CORPORATION

### Management's Discussion and Analysis Years Ended September 30, 2007 and 2006

Net income (loss) before cumulative effect of a change in accounting principles	47,910	(131,812)	(590,594)
Cumulative effect of a change in accounting principle	<u>-</u>	<u>-</u>	<u>234,182</u>
Net income (loss)	47,910	(131,812)	(356,412)
Capital contributions	<u>1,264,718</u>	<u>33,765</u>	<u>-</u>
Change in net assets	1,312,628	(98,047)	(356,412)
Net assets, beginning	<u>7,778,555</u>	<u>7,876,602</u>	<u>8,233,014</u>
Net assets, ending	\$ <u>9,091,183</u>	\$ <u>7,778,555</u>	\$ <u>7,876,602</u>

### Results of Operations

Despite the increasing cost of diesel fuel from \$2.27 per gallon in the beginning of fiscal year 2007 to \$3.56 in September 2007, YSPSC was breaking even. It was the first time since its inception that YSPSC is in the black after significant operating losses. This was due to a 12% modest growth in revenue to \$5,021,000 although operating expenses went up by 7% to \$5,016,000. The increase in revenue was due to the new electric rate structure and the 1<sup>st</sup> installment increase in water rates which was effective in the beginning of FY 2007. The increase in operating expenses was due mostly to the increase in fuel price compared to FY 2006.

*Electric Revenues.* Electric sales increased by 12 percent or \$363,829 compared to FY 2006. The major contributory factor to this increase was the full year implementation of the new utility rate structure which became effective on March 9, 2006. This new structure has a variable fuel charge component on kWh billed which increases or decreases depending on the price of fuel.

*Variable fuel charge.* The average variable fuel charge rate per kWh for the year ended September 30, 2007 was \$0.193 and \$0.316 for Yap Proper and Outer-island electric customers, respectively, compared to \$0.177 and \$0.291 in FY 2006. With the rise of fuel prices, September variable fuel charge rate per kWh was up to \$0.254 for Yap Proper and \$0.410 for Outer-island electric users.

*KWH billed.* Although there was an increase in electric revenue, the kWh billed contracted by 7 percent compared to 2006. Commercial electric consumption exhibited lackluster performance for the year. Commercial electricity consumption declined by 14 percent from 5.8 million kWh in 2006 to 5.04 million kWh in 2007 while residential electric use dropped by 6% to 3.03 million kWh. However, electricity sales to government establishments rose by 7 percent to 2.9 million kWh.

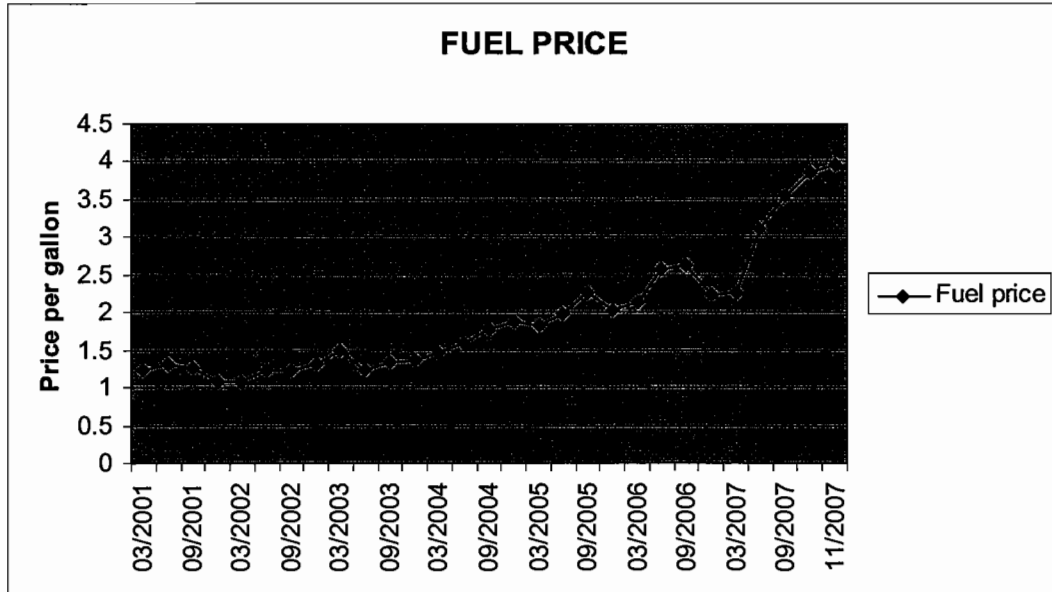
*Water Revenue.* Water sales revenue increased by 54% percent or \$164,000 compared to FY 2006. The increase was brought by the 1<sup>st</sup> installment increase in the water tariff that became effective Oct. 1, 2006. The 2<sup>nd</sup> and final water tariff increase is effective at the beginning of FY 2008. The number of gallons of water delivered to customers declined by 9% to 100 million gallons. Gallons billed in FY2007 to all customers went down compared to FY2006 - the largest decrease in percentage came from the government water customers at 22% or 4.4 million gallons, followed by residential at 8%, or 5.3 million gallons and commercial users, 2% or a half million gallons.

*Operating expenses.* Total operating expenses for FY 2007 increased by 7% to \$5,016,000 compared to \$4,693,000 last year. The major component of the increase was production fuel.

# YAP STATE PUBLIC SERVICE CORPORATION

## Management's Discussion and Analysis Years Ended September 30, 2007 and 2006

*Production fuel*, which represents 56% of the total operating expenses, increased by 11% or \$270,000. The fuel price is primarily controlled by the sole supplier on Yap; for FY 2007, the highest peak was registered in September at \$3.56 per gallon against \$2.63 in the same month in FY 2006. Total diesel fuel used for power generation was 1,040,000 gallons.



*Administrative and general expenses* were up by 20% or \$52,000 due to the hiring and repatriation cost of two management level staff. The increase was also due to payment to various consultants to help with the need of YSPSC specifically on grant search.

*Other production costs* slightly increased by 2% in 2007 compared to 2006 from \$393,000 to \$401,000. A reduction would have occurred without the unexpected breakdown of two generators at the Power Plant that cost the Company over \$60,000.

*Depreciation expense* slightly decreased by 1% to \$757,028 in 2007.

*Salaries and wages* was almost the same level last year with a minute decrease of .2%. Power distribution staff salary devoted to the various grant projects was recorded under Work in Progress.

### Material Changes of the Company's Statement of Net Assets

#### Noncurrent assets

Capital expenditure from internally and government funded projects ranging from various additions to non-current assets to power line and water/sewer line improvements totaled \$390,000 against \$413,000 last year. This excludes the Federal Emergency Management Agency (FEMA) funded Power Distribution Line project budgeted at \$950,000 which was 97% expended at September 30, 2007. This FEMA project is recorded as Work in Progress at September 30, 2007.

In September 2007, YSPSC received a sewer truck amounting to \$208,358 as a donation from Yap State.

## YAP STATE PUBLIC SERVICE CORPORATION

### Management's Discussion and Analysis Years Ended September 30, 2007 and 2006

#### **Current Assets**

*Cash and cash equivalents* improved from \$727,000 to \$948,000 or a 30% increase, and was attributable to cash provided by operating activities and various grants received.

*Accounts receivable* increased by 47% or \$278,000 to \$869,000 due primarily to higher electric bills caused by higher variable fuel charge that caused electric customers to delay payment. The *Allowance for doubtful accounts* decreased by 41% due to accounts written-off amounting to \$106,000. Bad debts were higher in FY2007 at \$14,000.

*Inventories* increased by 6% or \$40,000 due to additional spares to various divisions.

#### **Liabilities**

The *current portion of notes payable* increased by 22% or \$20,000 due to ADB loan's full annual amortization in FY2008. *Accounts payable* declined by 82% or \$179,000 mainly due to payment of all outstanding obligation to Mobil Oil Micronesia, Inc. (MOMI). Relative to the new contract signed in March 2007, all fuel purchases from MOMI are to be made on a cash basis and the credit line extended to YSPSC was removed.

*Employees' annual leave and accrued payroll* increased by 3% to \$78,200.

*Accrued taxes and other withholding* increased by 4% to \$32,000.

*Deferred revenue* decreased by 71% to \$47,000 due to revenue recognized from the government fuel subsidy deferral in FY2006. This amount was earned in FY2007.

*Other payables and customer deposits* decreased by 15% to \$71,000 due to payment of various accounts.

#### **Capital and Financing Activities**

Net cash provided by noncapital financing activities in fiscal 2007 was \$45,000 compared to last year's net cash used in noncapital financing activities of \$17,800. The increase was due to receipts from various grants.

Net cash provided by capital and related financing activities during the year was \$17,000 compared to previous year of net cash used in capital and related financing activities of \$347,000. Capital financing of various projects was funded by federal and local grants.

#### **Federal and Local Grants**

In July 2006, Yap State appropriated \$300,000 for the purpose of defraying the cost of electricity for the electric customers of Yap State. This subsidy was made available to YSPSC to pay 100% of the fuel charge for residential electric customers and 20% of the fuel charge for commercial electric customers. YSPSC had allocated this amount for the four months ending November 2006 while the remaining balance, which was no longer sufficient to pay the fuel charge, was returned to Yap State.

In the aftermath of Typhoon Sudal in April 2004, YSPSC was awarded \$2.18 million by the Federal Emergency Management Agency (FEMA) for twenty-two separate projects for repair and improvement of YSPSC facilities and equipment. Of these projects obligated by FEMA for Typhoon Sudal repairs, total project cost and funding received through September 30, 2007 is as follows:

## YAP STATE PUBLIC SERVICE CORPORATION

### Management's Discussion and Analysis Years Ended September 30, 2007 and 2006

<u>Department</u>	<u>Total</u> <u>Project Cost</u>	Reimbursement:
		<u>Total Through</u> <u>September 30, 2007</u>
Power Distribution	\$ 1,906,938	\$ 1,112,371
Power Generation	237,252	237,252
Water/Sewer	64,093	64,093
Outer Island	43,145	43,145
Administration	<u>37,912</u>	<u>37,912</u>
Total Cost-All Projects	\$ <u>2,289,340</u>	\$ <u>1,494,773</u>

Total cost of the above projects is shared 90% by FEMA and 10% by YSPSC. The Yap State Government is paying 100% of YSPSC's 10% matching share. FEMA funding is made available first to the FSM National Government, which then transfers money to the Yap State Government for payment to YSPSC.

Among the Sudal related projects, the only capital project in progress at September 30, 2007 was the permanent repairs and mitigation under Power Distribution Division with a total cost of just over \$1 million, \$950,000 of which was received from FEMA. This large project on the power distribution system is estimated to be completed before the April 2008 deadline.

### **Renewable Energy**

YSPSC was confirmed a budget of EU719,062 from the Renewable Energy Programme under the 9<sup>th</sup> European Development Fund (EDF) for the electrification of two outer-islands, namely Fadrai and Asor, through mini-grids powered by solar panels. The combined systems will produce 41kWp that will benefit about 50 households. The solar power plants were already tendered and evaluation will follow in January 2008.

While the 9<sup>th</sup> EDF is in full swing, the 10<sup>th</sup> EDF is underway for the electrification of three more outer-islands: Fais, Ifalik and Lamotrek. Rough budget based on the 9<sup>th</sup> EDF was about EU2,605,000. There are 181 combined households to be benefited from this project.

YSPSC is continuing to explore alternative sources of energy and also tap possible grants that will help lower the cost of power generation.

### **2008 Plans**

#### *Yap Power Plant Efficiency Improvement*

As part of Yap State infrastructure project, YSPSC was given priority for its plan to purchase new smaller generators that will be used during lower peak periods. Efficiency of these generators varies from 2.1% to 7.5%, thus we expect to lower the usage of diesel fuel.

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Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in YSPSC's report on the audit of financial statements, which is dated November 30, 2006. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be viewed at the FSM Office of the Public Auditors' website at [www.fsmpublicauditor.fm](http://www.fsmpublicauditor.fm).

**YAP STATE PUBLIC SERVICE CORPORATION**

Statements of Net Assets  
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Non-current assets:		
Utility plant:		
Plant in service	\$ 19,049,424	\$ 18,659,174
Work in progress	823,692	74,890
Less accumulated depreciation	<u>(10,203,082)</u>	<u>(9,446,054)</u>
Utility plant, net	<u>9,670,034</u>	<u>9,288,010</u>
Current assets:		
Cash and cash equivalents	947,504	727,343
Accounts receivable, net of an allowance for doubtful accounts of \$143,670 in 2007 and \$241,510 in 2006	868,650	591,748
U.S. federal grants receivable	-	9,017
Other receivables	7,580	-
Inventory	745,824	705,808
Prepaid expenses	<u>20,469</u>	<u>20,385</u>
Total current assets	<u>2,590,027</u>	<u>2,054,301</u>
	<u>\$ 12,260,061</u>	<u>\$ 11,342,311</u>
 <u>NET ASSETS AND LIABILITIES</u>		
Net assets:		
Invested in capital assets, net of related debt	\$ 6,769,437	\$ 6,294,943
Restricted	108,127	121,443
Unrestricted	<u>2,213,619</u>	<u>1,362,169</u>
Total net assets	<u>9,091,183</u>	<u>7,778,555</u>
Contingency		
Current liabilities:		
Current portion of notes payable	107,441	87,812
Accounts payable	40,125	218,809
Employees' annual leave and accrued payroll	78,291	75,970
Accrued taxes and other withholding	32,441	31,309
Deferred revenue	46,631	161,268
Other payables and customer deposits	<u>70,793</u>	<u>83,333</u>
Total current liabilities	375,722	658,501
Notes payable, net of current portion	<u>2,793,156</u>	<u>2,905,255</u>
Total liabilities	<u>3,168,878</u>	<u>3,563,756</u>
	<u>\$ 12,260,061</u>	<u>\$ 11,342,311</u>

See accompanying notes to financial statements.



**YAP STATE PUBLIC SERVICE CORPORATION**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Electricity sales	\$ 4,550,360	\$ 4,186,531
Water sales	470,252	306,338
	<u>5,020,612</u>	<u>4,492,869</u>
Total operating revenues		
Operating expenses:		
Production fuel	2,794,658	2,524,375
Depreciation	757,028	763,582
Salaries and wages and related	750,195	751,440
Administrative and general	312,516	260,874
Other production costs	401,469	392,970
	<u>5,015,866</u>	<u>4,693,241</u>
Total operating expenses		
Operating income (loss)	4,746	(200,372)
Interest and other nonoperating income, net	28,549	80,441
Foreign exchange loss	(4,941)	(5,037)
Operating grant income	236,600	9,017
Interest expense	(16,599)	(17,143)
Other expense	(200,741)	-
Gain on disposal of utility plant	296	1,282
	<u>47,910</u>	<u>(131,812)</u>
Net earnings (loss) before capital contributions		
Capital contributions	1,264,718	33,765
	<u>1,312,628</u>	<u>(98,047)</u>
Change in net assets		
Net assets at beginning of year	7,778,555	7,876,602
Net assets at end of year	\$ <u>9,091,183</u>	\$ <u>7,778,555</u>

See accompanying notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION**

Statements of Cash Flows  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,621,493	\$ 4,492,797
Cash paid to suppliers	(3,739,967)	(3,149,297)
Cash paid to employees	<u>(746,742)</u>	<u>(753,592)</u>
Net cash provided by operating activities	<u>134,784</u>	<u>589,908</u>
Cash flows from investing activities:		
Interest and other income	<u>23,608</u>	<u>4,212</u>
Net cash provided by investing activities	<u>23,608</u>	<u>4,212</u>
Cash flows from noncapital financing activities:		
Proceeds from operating grants	245,617	35,295
Cost of typhoon repairs	-	(53,126)
Other expense	<u>(200,741)</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>44,876</u>	<u>(17,831)</u>
Cash flows from capital and related financing activities:		
Capital contributions	1,056,360	86,892
Purchase of utility plant	(930,694)	(354,132)
Proceeds from disposal of utility plant	296	1,282
Interest paid	(16,599)	(17,143)
Repayment of notes payable	<u>(92,470)</u>	<u>(63,568)</u>
Net cash provided by (used in) capital and related financing activities	<u>16,893</u>	<u>(346,669)</u>
Net increase in cash	220,161	229,620
Cash at beginning of year	<u>727,343</u>	<u>497,723</u>
Cash at end of year	\$ <u><u>947,504</u></u>	\$ <u><u>727,343</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 4,746	\$ (200,372)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	757,028	763,582
Decrease (increase) in assets:		
Receivables	(276,902)	(161,340)
Inventory	(40,016)	(59,352)
Prepaid expenses and deposits	(84)	27,291
Other receivables	(7,580)	-
Increase (decrease) in liabilities:		
Accounts payable	(178,684)	39,760
Employees' annual leave and accrued payroll	2,321	(2,967)
Accrued taxes and other withholdings	1,132	815
Deferred revenue	(114,637)	161,268
Other payables and customer deposits	<u>(12,540)</u>	<u>21,223</u>
Net cash provided by operating activities	\$ <u><u>134,784</u></u>	\$ <u><u>589,908</u></u>

Supplemental disclosure of non-cash capital and related financing activity:

    During the year ended September 30, 2007, Yap State contributed equipment valued at \$208,358 to YSPSC.

See accompanying notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF YAP)**

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies

Organization

Yap State Public Service Corporation (YSPSC) is a legally separate component unit of the Government of Yap State. YSPSC provides electrical, water and sewer services in the State of Yap. YSPSC commenced operations on April 1, 1996, with the assets and liabilities of the Division of Public Utilities of the Yap State Department of Public Utilities and Contracts transferred as of that date. YSPSC is governed by a seven member Board of Directors who are nominated by the Governor with the advice and consent of the Legislature of the State of Yap.

Basis of Accounting

The accounting policies of YSPSC conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with operations are included in the statements of net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. YSPSC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

YSPSC has adopted GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" (GASB 34) as amended by GASB Statement Nos. 37 and 38. GASB 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- Invested in capital assets, net of related debt:

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

- Nonexpendable – Net assets subject to externally imposed stipulations that require YSPSC to maintain them permanently.
- Expendable – Net assets whose use by YSPSC is subject to externally imposed stipulations that can be fulfilled by actions of YSPSC pursuant to those stipulations or that expire by the passage of time.

**YAP STATE PUBLIC SERVICE CORPORATION  
(A COMPONENT UNIT OF THE STATE OF YAP)**

Notes to Financial Statements  
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

- Unrestricted:

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action by management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

YSPSC has no nonexpendable restricted net assets at September 30, 2007 and 2006.

Utility Plant

Utility plant assets were transferred from Division of Public Utilities to YSPSC as of April 1, 1996 at the estimated net book value in the absence of documents to support cost. The net book value of the utility plant assets transferred was \$6,805,075 as of April 1, 1996. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (3 - 40 years for plant assets). Depreciation expense for each of the years ended September 30, 2007 and 2006 was approximately four percent of the cost of depreciable properties. YSPSC currently capitalizes all plant assets that have a useful life of more than one year.

Cash and Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, cash and cash equivalents are defined as cash on hand, cash in bank and time certificates of deposit with original maturities of three months or less. Time certificates of deposit with original maturities in excess of three months are classified separately.

At September 30, 2007 and 2006, cash and cash equivalents and time certificate of deposit balances of \$100,000 are insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balances consist of uninsured and uncollateralized cash and time certificates of deposit. The Company has not experienced any credit losses in such accounts.

Receivables

All receivables are due from government agencies, businesses and individuals located within the State of Yap and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Inventory

Supply inventories are carried at specific identification cost or at estimated values when contributed by the State of Yap.

Fuel inventories are carried at cost determined using the first in-first out method.

**YAP STATE PUBLIC SERVICE CORPORATION  
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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

Annual and Sick Leave

Earned but unused annual leave is paid to employees upon termination of their employment. Accordingly, YSPSC accrues these benefits in the period earned.

Revenues

Sales of electricity and water are recorded as billed to customers on a monthly billing cycle basis. At September 30, 2007 and 2006, unbilled revenues of \$179,541 and \$93,066, respectively, are estimated and accrued based on the most recent billing cycles.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

YSPSC is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage has been obtained for claims arising from most of these matters.

YSPSC is self-insured for typhoon risks.

Operating and Non-operating Revenues and Expenses

YSPSC considers revenues and expenses directly related to utility operations to be operating revenues and expenses. Revenues and expenses related to investing, financing and capital activities and revenues and expenses related to natural disasters are reflected as non-operating.

Fuel Costs

Effective with the March 2006 meter readings, YSPSC implemented a new rate structure, including a variable fuel charge for electrical customers. With the new rate structure, fuel costs increase or decrease rates used in monthly billings to electrical customers based on price changes in fuel purchased by YSPSC.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. 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 YSPSC.

**YAP STATE PUBLIC SERVICE CORPORATION**  
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Notes to Financial Statements  
September 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 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, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of YSPSC.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of YSPSC.

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 YSPSC.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. 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 YSPSC.

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 YSPSC.

(2) Cash

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

**YAP STATE PUBLIC SERVICE CORPORATION  
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Notes to Financial Statements  
September 30, 2007 and 2006

(2) Cash, Continued

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by YSPSC or its agent in YSPSC's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in YSPSC's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in YSPSC's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, YSPSC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in YSPSC's name. YSPSC does not have a deposit policy for custodial credit risk.

As of September 30, 2007 and 2006, the carrying amount of YSPSC's total cash and time certificates of deposit was \$947,504 and \$727,343, respectively, and the corresponding bank balances were \$913,461 and \$631,889, respectively. All of the bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007 and 2006, bank deposits of \$100,000 each year, were FDIC insured. YSPSC 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. YSPSC has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(3) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2007 and 2006 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2006</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2007</u>
Depreciable plant:				
Production plant	\$ 9,673,056	\$ 112,489	\$ -	\$ 9,785,545
Distribution plant	7,138,769	50,716	-	7,189,485
General plant	<u>1,847,349</u>	<u>227,045</u>	<u>-</u>	<u>2,074,394</u>
	18,659,174	390,250	-	19,049,424
Less accumulated depreciation	(9,446,054)	(757,028)	-	(10,203,082)
Non-depreciable plant:				
Work in progress	<u>74,890</u>	<u>803,523</u>	<u>(54,721)</u>	<u>823,692</u>
	\$ <u>9,288,010</u>	\$ <u>436,745</u>	\$ <u>(54,721)</u>	\$ <u>9,670,034</u>

**YAP STATE PUBLIC SERVICE CORPORATION  
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Notes to Financial Statements  
September 30, 2007 and 2006

**(3) Utility Plant, Continued**

	<u>Beginning Balance October 1, 2005</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2006</u>
Depreciable plant:				
Production plant	\$ 9,673,893	\$ 145,081	\$ (145,918)	\$ 9,673,056
Distribution plant	7,044,355	210,710	(116,296)	7,138,769
General plant	<u>1,831,992</u>	<u>57,357</u>	<u>(42,000)</u>	<u>1,847,349</u>
	18,550,420	413,148	(304,214)	18,659,174
Less accumulated depreciation	(8,986,685)	(763,582)	304,213	(9,446,054)
Non-depreciable plant:				
Work in progress	<u>133,905</u>	<u>-</u>	<u>(59,015)</u>	<u>74,890</u>
	<u>\$ 9,697,460</u>	<u>\$ (350,434)</u>	<u>\$ (59,016)</u>	<u>\$ 9,288,010</u>

Utility plant at cost, is comprised of the following components:

	<u>2007</u>	<u>2006</u>
Electric plant	\$ 12,264,028	\$ 12,137,763
Water plant	<u>6,785,396</u>	<u>6,521,411</u>
	<u>\$ 19,049,424</u>	<u>\$ 18,659,174</u>

**(4) Notes Payable**

Notes payable at September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Loan payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable in Special Drawing Rights commencing August 2007 with the final payment due in February 2032. The loan is collateralized by the guarantee of the FSM National Government.	\$ 2,248,129	\$ 2,270,837
Uncollateralized note payable to Yap State in quarterly interest only payments through March 2003; monthly principal and interest payments of \$5,651 starting June 1, 2003; interest at 2%, maturing in May 2017.	590,919	650,875
Note payable to United States of America, acting through the Rural Housing Service, for the construction of the warehouse facility and main office. The note is payable in monthly installments of \$1,075 including interest at 4.625% starting March 26, 2003 and maturing in September 2013. The note is collateralized by equipment, furniture and fixtures located at YSPSC's office.	<u>61,549</u>	<u>71,355</u>



**YAP STATE PUBLIC SERVICE CORPORATION**  
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Notes to Financial Statements  
September 30, 2007 and 2006

**(4) Notes Payable, Continued**

	<u>2007</u>	<u>2006</u>
Total notes payable	2,900,597	2,993,067
Less current portion	<u>107,441</u>	<u>87,812</u>
	<u>\$ 2,793,156</u>	<u>\$ 2,905,255</u>

The scheduled debt service of these notes payable is as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 107,441	\$ 14,028	\$ 121,469
2009	113,723	12,404	126,127
2010	115,393	10,733	126,126
2011	117,110	9,016	126,126
2012	118,876	7,250	126,126
2013 through 2017	571,940	14,617	586,559
2018 through 2022	605,630	-	605,630
2023 through 2027	605,630	-	605,630
2028 through 2032	<u>544,854</u>	<u>-</u>	<u>544,854</u>
	<u>\$ 2,900,597</u>	<u>\$ 68,048</u>	<u>\$ 2,968,645</u>

Changes in long-term liabilities for the years ended September 30, 2007 and 2006 are as follows:

	<u>Outstanding</u> <u>September</u> <u>30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding</u> <u>September</u> <u>30, 2007</u>	<u>Current</u>	<u>Noncurrent</u>
ADB loan	\$ 2,270,837	\$ -	\$ 22,708	\$ 2,248,129	\$ 45,416	\$ 2,202,713
Yap State loan	650,875	-	59,956	590,919	51,756	539,163
USA loan	<u>71,355</u>	<u>-</u>	<u>9,806</u>	<u>61,549</u>	<u>10,269</u>	<u>51,280</u>
	<u>\$ 2,993,067</u>	<u>\$ -</u>	<u>\$ 92,470</u>	<u>\$ 2,900,597</u>	<u>\$ 107,441</u>	<u>\$ 2,793,156</u>

	<u>Outstanding</u> <u>September</u> <u>30, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding</u> <u>September</u> <u>30, 2006</u>	<u>Current</u>	<u>Noncurrent</u>
ADB loan	\$ 2,270,837	\$ -	\$ -	\$ 2,270,837	\$ 22,708	\$ 2,248,129
Yap State loan	705,078	-	54,203	650,875	55,298	595,577
USA loan	<u>80,720</u>	<u>-</u>	<u>9,365</u>	<u>71,355</u>	<u>9,806</u>	<u>61,549</u>
	<u>\$ 3,056,635</u>	<u>\$ -</u>	<u>\$ 63,568</u>	<u>\$ 2,993,067</u>	<u>\$ 87,812</u>	<u>\$ 2,905,255</u>

**(5) Contingency**

YSPSC does not currently hold title to real property underlying its operating sites. Such property substantially is held in the name of the State of Yap. YSPSC is not charged for use of this property.

**YAP STATE PUBLIC SERVICE CORPORATION  
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Notes to Financial Statements  
September 30, 2007 and 2006

**(6) Significant Revenue Sources**

Power and water billings to Yap State Government agencies accounted for 34% and 28%, respectively, of total operating revenues for the years ended September 30, 2007 and 2006.

**(7) Restricted Net Assets**

Restricted net assets at September 30, 2007 and 2006 consist of unexpended balances of a Yap State capital grant.

**(8) Grants**

YSPSC received the following grants and capital contributions during the years ended September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
U.S. Federal Emergency Management Agency (FEMA) grants (netted with typhoon costs)	\$ 942,053	\$ 108,377
U.S. Department of the Interior grants	236,600	9,017
Yap State grant	114,307	15,000
Donated equipment (Yap State)	<u>208,358</u>	<u>-</u>
	<b>\$ <u>1,501,318</u></b>	<b>\$ <u>132,394</u></b>

**(9) Related Party Transactions**

In the ordinary course of business, YSPSC enters into transactions with the State of Yap and private businesses in which certain of YSPSC's board members hold positions of influence. Several board members hold management positions with the State of Yap, of which YSPSC is a component unit. Several board members hold management positions with private companies with which YSPSC, from time to time, engages in business transactions. YSPSC management is of the opinion that its transactions with related parties are executed under the same laws and conditions as are entered into with unrelated entities.

**(10) Fuel Charge Subsidy**

In July 2006, Yap State appropriated and paid \$300,000 to YSPSC for the purpose of defraying the effects of the fuel charge for certain rate payers (note 1). The funds were be applied to 100% of the fuel charge for residential customers and 20% of the fuel charge for commercial customers. When there are no longer sufficient funds to pay 100% of the residential fuel charges and 20% of the commercial fuel charges for a given month, the remaining funds are to be returned to Yap State.

At September 30, 2006, YSPSC had applied \$153,313 of this fuel charge subsidy to customer billings and the remaining \$146,687 was included in deferred revenue in the accompanying financial statements. The remaining subsidy was applied to customer billings during the year ended September 30, 2007.

**YAP STATE PUBLIC SERVICE CORPORATION  
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Notes to Financial Statements  
September 30, 2007 and 2006

(11) Typhoon Damages

YSPSC is self-insured for typhoon risks. In November 2003 and April 2004, the islands of Yap were struck by typhoons causing significant damage to YSPSC's plant. Remaining repair/replacement costs at September 30, 2007 are estimated at \$100,000. YSPSC has sought assistance from FEMA in funding the cost of repairs. Typhoon damages and the related FEMA recoveries are estimated amounts and actual amounts may vary significantly from these estimates.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT OF FINANCIAL STATEMENTS PERFORMED 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, 2007, and have issued our report thereon dated December 5, 2007. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered YSPSC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of YSPSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of YSPSC's internal control over financial reporting.

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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects YSPSC'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 YSPSC's financial statements that is more than inconsequential will not be prevented or detected by YSPSC's internal control.

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 financial statements will not be prevented or detected by YSPSC's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Yap State Public Service Corporation'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*.

We noted other matters that we reported to management of YSPSC in a separate letter dated December 5, 2007.

This report is intended for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

*Deloitte & Touche LLP*  
December 5, 2007

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE 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 its one major federal program for the year ended September 30, 2007. Yap State Public Service Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of Yap State Public Service Corporation's management. Our responsibility is to express an opinion on Yap State Public Service Corporation'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 its major federal program for the year ended September 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2007-1.

### **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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

According, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects YSPSC's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by YSPSC's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by YSPSC's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

YSPSC's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit YSPSC's response and, accordingly, we express no opinion on it.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Yap State Public Service Corporation, as of and for the year ended September 30, 2007, and have issued our report thereon dated December 5, 2007. Our audit was performed for the purpose of forming an opinion on basic 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 basic financial statements. This schedule is the responsibility of YSPSC's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than those specified parties.

*Deloitte & Touche LLP*

December 5, 2007

**YAP STATE PUBLIC SERVICE CORPORATION  
(A COMPONENT UNIT OF THE STATE OF YAP)**

**Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2007**

<u>Grantor/Program Title</u>	<u>CFDA No.</u>	<u>Total Authorizations</u>	<u>Receivable at Beginning of Year</u>	<u>Expenditures for the Year Ended September 30, 2007</u>	<u>Cash Receipts the Year Ended September 30, 2007</u>	<u>Unearned Revenue at End of Year</u>
<u>U.S. Department of the Interior:</u>						
Office of Territorial and International Affairs:						
<u>Operations and Maintenance</u>						
<u>Improvement Programs (OMIP)</u>						
	15.875					
Pacific Lineman Training		\$ 513,824	\$ -	\$ 200,741	\$ 200,741	\$ -
Hire experienced water/wastewater specialist		<u>49,000</u>	<u>9,017</u>	<u>35,859</u>	<u>44,876</u>	<u>-</u>
		<u>562,824</u>	<u>9,017</u>	<u>236,600</u>	<u>245,617</u>	<u>-</u>
<u>U.S. Department of Homeland Security:</u>						
Federal Emergency Management Agency:						
Disaster assistance	83.516	<u>1,783,250</u>	<u>-</u>	<u>942,053</u>	<u>988,683</u>	<u>(46,630)</u>
		<u>\$ 2,346,074</u>	<u>\$ 9,017</u>	<u>\$ 1,178,653</u>	<u>\$ 1,234,300</u>	<u>\$ (46,630)</u>

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

Note 2: The grant from US DOHS was received in a pass-through capacity through the Yap State Government. The grants from US DOI were received in a direct recipient capacity.



**YAP STATE PUBLIC SERVICE CORPORATION  
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Schedule of Findings  
Year Ended September 30, 2007

**Part I - Summary of Auditors' Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Significant deficiencies and material weaknesses in internal control over financial reporting were not identified.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. No significant deficiencies or material weaknesses in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to the one major federal awards program expressed an unqualified opinion.
6. The audit disclosed a finding required to be reported by OMB Circular A-133.
7. YSPSC's one major federal program is:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Homeland Security – Disaster Assistance	83.516

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 Organization did not 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 Section**

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2007-1	Unsupported Materials	\$ -

**YAP STATE PUBLIC SERVICE CORPORATION  
(A COMPONENT UNIT OF THE STATE OF YAP)**

Schedule of Findings, Continued  
Year Ended September 30, 2007

Finding No.: 2007-1  
CFDA No.: 83.516  
Program Name: Federal Emergency Management Agency – Disaster Assistance  
Area: Allowable Costs/Cost Principles

Criteria:

Federal expenditure amounts should be supported by invoices, supplier statements and/or contracts.

Condition:

One of sixteen material costs tested, amounting to \$6,421, is supported only by a Force Account Materials form, and not by a signed Requisition Form.

Cause:

This condition appears to have resulted from an oversight in filing requisition forms.

Effect:

YSPSC is in noncompliance with applicable allowable costs/cost principles requirements. No questioned cost exists because the projected error amount does not exceed \$10,000.

Recommendation:

We recommend that YSPSC strictly follow its existing procedures to ensure that all federal grant reimbursement requests are adequately supported.

Auditee Response and Corrective Action Plan:

Management concurs to the findings on the material cost unsupported by Requisition Form. This was resulted due to immediate need of the project that the Form requirement was overlooked and during this time, YSPSC was using the periodic inventory system.

Following in June 2007 when management implemented a perpetual inventory system, all inventories that were being issued were supported with Requisition Forms. The current inventory system should prevent undocumented inventory issuances. This procedure will be strictly followed under the supervision of the Controller and the Accounting Manager will also be directly involved to make sure supporting documents are completed and filed.

**YAP STATE PUBLIC SERVICE CORPORATION  
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**Schedule of Prior Year Findings and Questioned Costs  
Year Ended September 30, 2007**

There are no prior audit findings relative to Federal awards.