

December 5, 2007

CONFIDENTIAL

The Board of Directors
Yap State Public Service Corporation:

Dear Board Members:

In planning and performing our audit of the financial statements of Yap State Public Service Corporation (YSPSC) for the year ended September 30, 2007, (on which we have issued our report dated December 5, 2007) we developed the following recommendations concerning certain matters related to YSPSC's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

Grant Revenue

Condition:

YSPSC recognizes grant revenue based on grant proceeds received, and not based on grant expenses.

Recommendation:

YSPSC should record grant revenue based on qualifying expenses incurred. Grant proceeds received before the related expenses are incurred should be recorded as deferred revenue.

Auditee Response:

YSPSC is generally recording grant revenue based on grant expenditure which is true with the FEMA grants. However, this has not happened for some smaller grants which we concur to the auditor's findings. These related grants we received were recorded first as revenue with adjustments supposedly to be recorded at the end of the project or the end of the fiscal year whichever comes first, but we failed to make the update. During the audit, we concur to such adjustments as recommended by our auditors which we can easily book; however, adjustments were waived due to immateriality.

YSPSC will make sure that all grant revenue will be recorded based on qualifying expenses incurred.

Mark-Up on Local Projects

Condition:

YSPSC is charging a mark-up on the cost of materials, labor and equipment against a local grant award.

Recommendation:

A mark-up on actual cost of materials, labor and equipment incurred may only be charged against an award if such is expressly allowed in the grant agreement.

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Mark-Up on Local Projects, Continued

Auditee Response:

YSPSC has been consistent with its policy on electric/water line extension whether these are paid by government or private entities. As a contractor to these projects, YSPSC utilizes its standard equipment rental fee rates, standard labor fee and mark-up on materials used. A certain mark-up on materials was implemented as a contingency to cover the fluctuations (increasing) material cost during the cost-estimation to the approval of the grant project which normally could exceed a year. Lead time for materials will also take time to about six months. All the projects completed during the year didn't expressly specify such restrictions.

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This report is intended solely for the information and use of the Board of Directors and management of Yap State Public Service Corporation.

We wish to express our appreciation for the cooperation of the staff and management of the Corporation during the course of our audit. We would be available to discuss any questions that you may have concerning the above comments at your convenience.

Very truly yours,

Deloitte & Touche LLP