

April 6, 2009

The Board of Directors
Yap State Public Service Corporation

Dear Members of the Board:

We have performed an audit of the financial statements of Yap State Public Service Corporation (YSPSC) as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America and have issued our report thereon dated April 6, 2009.

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

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

Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 30, 2008. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of YSPSC's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements, including the schedule of expenditures of federal awards, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on YSPSC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2008 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.
- To report on YSPSC's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget Circular A-133 Compliance Supplement* (OMB Circular A-133).

Our responsibilities under generally accepted 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 YSPSC'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 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. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also 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 audit does not, however, provide a legal determination of YSPSC's compliance with those requirements.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in YSPSC's 2008 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2008, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on YSPSC's financial reporting process. Such adjustments, listed in Appendix I, have been recorded in the accounting records and are reflected in the 2008 financial statements.

In addition, we have attached to this letter, as Appendix II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

YSPSC's significant accounting policies are set forth in Note 1 to YSPSC's 2008 financial statements. During the year ended September 30, 2008, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by YSPSC:

- Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.

The implementation of these pronouncements did not have a material effect on the financial statements of YSPSC.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as YSPSC's 2008 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 YSPSC's 2008 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.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to YSPSC's 2008 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2008.

MANAGEMENT'S REPRESENTATIONS

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

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

Throughout the year, routine discussions were held or were the subject of correspondence with management regarding the application of accounting principles or auditing 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 YSPSC's management and staff and had unrestricted access to YSPSC's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated April 6, 2009, wherein matters involving YSPSC's internal control over financial reporting that were considered to be significant deficiencies and material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have issued a separate report to you, also dated April 6, 2009, containing certain matters involving the YSPSC's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with OMB Circular A-133.

We have communicated to management, in a separate letter also dated April 6, 2009, control deficiencies and other matters that we identified during our audit.

* * * * *

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

We wish to thank the staff and management of YSPSC for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

RECORDED AUDIT ADJUSTMENTS

| | Debit | Credit |
|--|------------|------------|
| To record YSPSC adjusting entries | | |
| Accounts Receivable - Customer | - | 178.10 |
| U.S. Fed Grants Rec. | 12,812.12 | - |
| Inventory - Power Plant | 323,412.41 | - |
| Inventory - Power Plant | - | 297,089.90 |
| Prepayments - Vendors | 12,800.00 | - |
| Prepayments - Vendors | - | 12,864.54 |
| Accum Deprec - Pwr Gen | 0.01 | - |
| Accum Deprec - Trans/Dist | - | 13,933.01 |
| Accum Deprec -- Water Syst | - | 954.84 |
| Accum Deprec - Sewer | - | 462.52 |
| Accum Deprec - Gen & Admin | - | 1,702.20 |
| Accum Deprec - Ulithi Power | - | 295.62 |
| Accum Deprec - Ulithi Wtr | 0.10 | - |
| Accum Depr - MogMog | - | 0.10 |
| Accum Deprec - Woleai Power | 0.02 | - |
| Accrued Leave | 118.06 | - |
| Power Sales | 178.10 | - |
| Wages & Salaries -Admin | - | 118.06 |
| Generator Fuel - Yap | - | 24,605.18 |
| Gasoline & Diesel - Pwr Plant | 4,279.30 | - |
| Gasoline & Diesel - Pwr Dist | 9,684.48 | - |
| Gasoline & Diesel - Water | 8,657.92 | - |
| Gasoline & Diesel - Admin | 1,983.48 | - |
| Minor Tools & Spares - Pwr Gen | 297,089.90 | - |
| Minor Tools & Spares - Pwr Gen | - | 323,412.41 |
| Minor Tools & Spares - Pwr Dis | - | 16,946.04 |
| Minor Tools & Spares - Pwr Dis | - | 12,120.61 |
| Depreciation - Pwr Gen | - | 0.01 |
| Depreciation - Pwr Dist | 13,933.01 | - |
| Depreciation - Water | 954.84 | - |
| Depreciation - Sewer | 462.52 | - |
| Depreciation - Ulithi | - | 0.10 |
| Depreciation - Ulithi | 295.62 | - |
| Depreciation - Woleai | - | 0.02 |
| Depreciation - MogMog | 0.10 | - |
| Depreciation - Gen & Admin | 1,702.20 | - |
| Inventory - Power Distribution | 12,120.61 | - |
| Inventory - Power Distribution | 16,946.04 | - |
| Training Expense - PLT Program | 12,864.54 | - |
| Training Expense - PLT Program | - | 25,612.12 |
| | 730,295.38 | 730,295.38 |

RECORDED AUDIT ADJUSTMENTS, CONTINUED

| | Debit | Credit |
|---|--------------|--------------|
| To correct entry made to record unbilled revenue | | |
| Power Sales | - | 107,082.65 |
| Water Sales - Distribution Sys | - | 20,508.39 |
| Sewer service Revenue | - | 1,403.39 |
| Unearned power sales | 128,994.43 | - |
| | 128,994.43 | 128,994.43 |
| To record unearned revenue from the EU grant | | |
| European Union Grant | 60,065.00 | - |
| Deferred Revenue - EU grant | - | 60,065.00 |
| | 60,065.00 | 60,065.00 |
| To record unearned revenue from PLT-DOI | | |
| PLT/DOI REVENUE | 74,750.60 | - |
| Deferred Revenue - PLT/DOI | - | 74,750.60 |
| | 74,750.60 | 74,750.60 |
| To correct entry made to record credit adjustments | | |
| Power Sales | - | 1,117,101.00 |
| Accounts payable- customers | 798,681.00 | - |
| Retained earnings-prior period | - | 2,802,877.00 |
| Losses from tariff adjustments | 3,121,297.00 | - |
| | 3,919,978.00 | 3,919,978.00 |

APPENDIX II

Uncorrected Misstatements

| Description | Assets | Liabilities | Equity | Profit and Loss |
|--|---------|-------------|---------|-----------------|
| | Dr (Cr) | Dr (Cr) | Dr (Cr) | Dr (Cr) |
| To record customer deposits (DR) Revenue (CR) Customer Deposits | | (9,001) | | 9,001 |
| To correct recorded/unrecorded expenses re PLT training (DR) AP (CR) Training expenses | | 5,854 | | (5,854) |
| To record training expenses (DR) Training expenses (CR) AP | | (9,859) | | 9,859 |
| | - | (13,006) | - | 13,006 |
| | | | | |



Yap State Public Service Corporation

P.O. Box 667, Colonia, Yap, FSM 96943
Tel.: (691)350-4427; Fax: (691)350-4518

April 6, 2009

Deloitte & Touche LLP
361 South Marine Drive
Tamuning, Guam

We are providing this letter in connection with your audits of the financial statements of Yap State Public Service Corporation (the "Corporation") as of September 30, 2008 and 2007 and for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Corporation in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

- a. The fair presentation in the financial statements of the Corporation's net assets, and the related statements of revenues, expenses and changes in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America.
- b. The fair presentation of the Management's Discussion and Analysis accompanying the financial statements.
- c. The design and implementation of programs and controls to prevent and detect fraud.
- d. Establishing and maintaining effective internal control over financial reporting.
- e. Compliance with local and federal laws, rules and regulations, including compliance with the requirements of OMB circular A-133, and provisions of grants and contracts relating to the Corporation's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations.
- f. Maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
- g. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

APPENDIX III, CONTINUED

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

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

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:
 - i. Net asset components (invested in capital assets net of related debt, restricted and unrestricted) are properly classified and approved
 - ii. 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
 - iii. Capital assets are properly capitalized, reported and depreciated
 - iv. Costs to federal awards have been charged in accordance with applicable cost principles.
2. The Corporation has made available to you all:
 - a. Financial records and related data.
 - b. Minutes of the meetings of directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared through the date of this letter. The following dates of the BOD minutes were provided:
 - i. November 15, 2007
 - ii. January 31, 2008
 - iii. February 4, 2008
 - iv. February 8, 2008
 - v. February 18, 2008
 - vi. February 21, 2008
 - vii. March 6, 2008
 - viii. March 20, 2008
 - ix. March 24, 2008
 - x. March 28, 2008
 - xi. April 10, 2008
 - xii. May 1, 2008
 - xiii. June 2, 2008
 - xiv. July 25, 2008
 - xv. August 18, 2008
 - xvi. August 20, 2008
 - xvii. August 25, 2008

APPENDIX III, CONTINUED

- xviii. September 8, 2008
- xix. September 24, 2008
- xx. September 25, 2008
- xxi. September 30, 2008
- xxii. October 3, 2008
- xxiii. October 20, 2008
- xxiv. October 30, 2008
- xxv. November 4, 2008
- xxvi. November 27, 2008
- xxvii. December 2, 2008

- c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There have been no:
- i. Action taken by the Corporation's management that contravenes the provisions of state laws and regulations or of contracts and grants applicable to the Corporation and for all funds administered by the Corporation.
 - ii. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
4. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
5. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior audit engagement and pertaining to the prior presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2007 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. The Corporation has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Corporation and do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Corporation involving (a) management, (b) employees who have significant roles in the Corporation's internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation received in communications from employees, former employees, analysts, regulators, short sellers, or others except for the theft of fuel by certain generation employees. We are of the opinion that the effect of this fuel theft is not material to the

APPENDIX III, CONTINUED

financial statements.

9. We are responsible for compliance with local, state and federal laws, rules and regulations, including compliance with the requirements of U.S. OMB Circular A-133, and provisions of grants and contracts relating to the Corporation's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Corporation is responsible for maintaining accounting and administrative controls over revenues, obligations, expenditures, assets and liabilities.
10. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Corporation's ability to initiate, record, process, and report financial information.
11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
12. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies*.

Except where otherwise stated below, matters less than \$12,320 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

13. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements except for those listed in Appendices A and B.
14. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - b. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - c. Guarantees, whether written or oral, under which the Corporation is contingently liable.
16. In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management uses estimates. All estimates have been disclosed 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:

APPENDIX III, CONTINUED

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

We are not aware of any estimates at September 30, 2008 that may change and that the effect of the change would be material to the financial statements.

17. 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.
18. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5, *Accounting for Contingencies*.
19. 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. In addition, we have accurately completed the appropriate sections of the data collection form.
20. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in Note 4 to the financial statements.
21. The Corporation has no title to land underlying its operating site and we currently bear no liability for the use of such land and we have no indication that any liability to the State will be required to be paid based on our future use of such real property.
22. The Corporation has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
23. No events have occurred subsequent to September 30, 2008, and through the date of our signatures below, that require consideration as adjustments to or disclosures in the financial statements.

APPENDIX III, CONTINUED

24. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Corporation has been discovered.
25. We have disclosed to you that no change in the Corporation's internal control over financial reporting has occurred during the Corporation's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.
26. We are of the opinion that no tax liability is due for gross receipts tax based on our knowledge that no component entity of the State of Yap, the FSM National Government or other FSM States are assessed such tax. Yap State Public Service Corporation is a component unit of the State of Yap.
27. The Corporation, using its best estimates based on reasonable and supportable assumptions and projections, reviews for impairment of long-lived assets in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The financial statements referred to above reflect all adjustments required by GASB Statement 42.
28. The Corporation does not believe that the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local government, will have a material effect on its financial statements.
29. The Corporation does not believe that the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers, will have a material effect on its financial statements.
30. The Corporation does not believe that the implementation of GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, will have a material effect on its financial statements.
31. The Corporation does not believe that the implementation of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation, will have a material effect on its financial statements.
32. The Corporation does not believe that the implementation of GASB Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits, will have a material effect on its financial statements.
33. The Corporation does not believe that the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes,

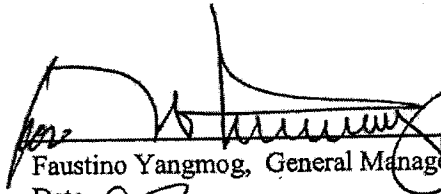
APPENDIX III, CONTINUED

will have a material effect on its financial statements.


34. The Corporation does not believe that the implementation of GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, will have a material effect on its financial statements.
35. The Corporation does not believe that the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses how state and local governments report information about derivative instruments, will have a material effect on its financial statements.
36. In the ordinary course of business, the Corporation enters into transactions with the State of Yap and private businesses in which certain of the Corporation's Board members hold positions. We are of the opinion that the transactions with these related parties are executed under the same terms and conditions as transactions with unrelated parties.
37. The Corporation is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes that the allowance is adequate to absorb currently estimated bad debts in the account balance.
38. Where necessary, provision has been made to reduce excess or obsolete inventories to their estimated net realizable value.
39. 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 the Corporation's federal programs.
40. 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 as identified in Part 3 of the Compliance Supplement dated March 2006
 - b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as identified in your report on compliance with requirements applicable to each major federal program.
 - c. 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 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
 - d. 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.

41. 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.
42. Largely because of Yap State Legislature Law #7-25, enacted in February 2008, the Corporation is completely dependent on operating subsidies from the Yap State Government to meet its obligations and continue as a going concern.

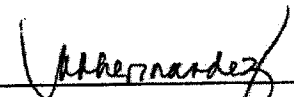


Faustino Yangmog, General Manager
Date



Charles Yalaarow, Secretary/Treasurer, BOD
Date

5-18-09



Virginia Hernandez, Acting Controller
Date

5-18-09

APPENDIX III, CONTINUED

YSPSC
 Appendix A
 September 30, 2008

| Description | Assets | | Liabilities | | Retained Earnings Beg. of Year | | Income from Cont Ops before Income Taxes | |
|---|---------|---------|-------------|--|-----------------------------------|--|--|--|
| | Dr.(Cr) | | Dr.(Cr) | | Dr.(Cr) | | Dr.(Cr) | |
| To correct the balance of AP-Customer (DR) Other expense (CR) AP - Customer | | | (5,202) | | | | 5,202 | |
| To reverse entry made to record audit fees for FY08: (DR) AP (CR) Professional expense | | | 12,500 | | | | (12,500) | |
| To correct recording of purchase of dampers (DR) AP (CR) Maintenance expense | | | 4,961 | | | | (4,961) | |
| To write-off prepayments to a bankrupt vendor (Evans) (DR) Expenses (CR) Prepaid expense | | | (12,751) | | | | 12,751 | |
| To adjust FY09 expenses recorded in CY (DR) Prepayment (CR) Expenses | | 3,956 | | | | | (3,956) | |
| To expense training related expense (DR) Training expense (CR) Prepaid expense | | (9,804) | | | | | 9,804 | |
| To record unrecorded liabilities (DR) Expenses (CR) AP | | | (43,843) | | | | 43,843 | |
| To record actual overstatement noted from inventory price testing (DR) Expense (CR) Inventory | | (4,995) | | | | | 4,995 | |

APPENDIX III, CONTINUED

YSPSC
Appendix A
September 30, 2008

| Description | Assets | Liabilities | Retained Earnings | Income from Cont. |
|--|----------|-------------|-------------------|-------------------|
| | Dr (Cr) | Dr (Cr) | Dr (Cr) | Dr (Cr) |
| To record extrapolated error overstatement computed from inventory price testing | | | | |
| (DR) Expense | (15,182) | | | 15,182 |
| (CR) Inventory | | | | |
| To correct inventory balance | | | | |
| (DR) Expense | (10,306) | | | 10,306 |
| (CR) Inventory | | | | |
| To adjust credit balances | | | | |
| (DR) AR | 24,737 | | | |
| (CR) Customers' Deposits | | (24,737) | | |
| To accrue revenue for reimbursable expenses | | | | |
| (DR) Receivables | 33,000 | | | |
| (CR) OMIP Revenues | | | | (33,000) |