

June 29, 2013

The Board of Directors
Yap State Public Service Corporation

Dear Members of the Board:

We have performed an audit of the financial statements of the Yap State Public Service Corporation (YSPSC) (the Corporation), a component unit of the State of Yap, as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 29, 2013.

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

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

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated December 19, 2012. 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 the Corporation’s basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2012 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects; and
- To report on the Corporation’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, 2012 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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 the Corporation'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 the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

MANAGEMENT JUDGMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Corporation's 2012 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, 2012, 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 the Corporation's financial reporting process. Such proposed adjustments, Appendices B and C to Attachment I, have been recorded in the accounting records and are reflected in the 2012 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

In addition, we have attached to this letter, as Appendix A to Attachment I, 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

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

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND PRACTICES

Critical accounting policies are those that are both most important to the portrayal of the Corporation's financial condition and results and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Corporation has not identified any critical accounting policies or practices.

ALTERNATIVE ACCOUNTING TREATMENTS

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

DISAGREEMENTS WITH MANAGEMENT

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

CONSULTATION WITH OTHER ACCOUNTANTS

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

OTHER INFORMATION IN THE ANNUAL REPORTS

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

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL SELECTION

No discussions 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 were held prior to our engagement as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

MANAGEMENT'S REPRESENTATIONS

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

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 29, 2013, on the Corporation's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*. Within that report, we noted a matter that was considered to be a significant deficiency under standards established by the American Institute of Certified Public Accountants and OMB Circular A-133.

Although we have included management's written response to our comment contained in that report, such response has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the response or the effectiveness of any corrective actions described therein.

* * * * *

This report is intended solely for the information and use of the Board of Directors, management, and others within the Corporation, the Yap State Legislature, and the Office of the FSM National Public Auditor, 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 the Corporation for their cooperation and assistance during the course of this engagement.

Very truly yours,

The signature is written in a cursive, handwritten style. It reads "Deloitte + Touche LLP". The "D" is large and loops around the "eloitte". The "+" is small and placed between "eloitte" and "Touche". "Touche" is written in a similar cursive style, and "LLP" is written in a slightly more upright, but still cursive, style at the end.



Yap State Public Service Corporation

P.O. Box 667, Colonia, Yap, FSM 96943

Phone: 691-350-4427 Fax: 691-350-4518

June 29, 2013

Deloitte & Touche LLP
Certified Public Accountants
361 South Marine Corps Drive
Tamuning, Guam 96913-3911

Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the Yap State Public Service Corporation (YSPSC), a component unit of the State of Yap, as of and for the year ended September 30, 2012 for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, changes in net assets and cash flows of YSPSC 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 basic financial statements of financial position and changes in net assets and cash flows, in conformity with GAAP.

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

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

d. 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. Additionally, we agree with the adjusting entries included in Appendix A.

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

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

Directors:
Ignathio Waitog
Lonnie Fread
John Hasmai
Francis Faney
Paul Zimmer

General Manager
Faustino R. Yangmog

Asst. Gen. Manager
Victor Nabeyan

Comptroller
Virginia B. Hernandez

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1. The basic financial statements referred to above are fairly presented in conformity GAAP. In addition:
 - a. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - b. Deposits are properly classified in the category of custodial credit risk.
 - c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - d. Required supplementary information is measured and presented within prescribed guidelines.
 - e. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
2. YSPSC has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. YSPSC has provided you:
 - a. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - b. Financial records and related data for all financial transactions of YSPSC. The records, books, and accounts, as provided to you, record the financial and fiscal operations of YSPSC and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
 - a. Action taken by YSPSC management that contravenes the provisions of federal laws and Yap State laws and regulations.
 - b. 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.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
6. YSPSC 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 YSPSC and do not believe that the financial statements are materially misstated as a result of fraud.

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7. We have no knowledge of any fraud or suspected fraud affecting YSPSC involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting YSPSC received in communications from employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies* and we have not consulted an attorney regarding claims or assessments from October 1, 2011 through the date of this letter.
10. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, matters less than \$30,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

11. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
12. 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 year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2011 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix C.
13. YSPSC has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
14. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral), as follows:
 - In the ordinary course of business, YSPSC enters into transactions with the State of Yap and private businesses in which certain 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.
 - b. Guarantees, whether written or oral, under which YSPSC is contingently liable.

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15. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events
 - b. The effect of the change would be material to the financial statements.
16. 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.
17. 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 ASC 450, *Contingencies*, except as follows:
 - 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.
 - In February 2008, the Yap State Legislature enacted Law (YSL) No. 7-25 to amend No. 4-4, YSPSC's enabling legislation, mandating that YSPSC credit back certain charges to prior customers. Yap State Law No. 7-25 directed YSPSC to repeal all fuel surcharges and fees in excess of \$0.035 per kWh and to refund to customers all fuel surcharges and fees collected in excess of \$0.035 per kWh from March 2006 to February 2008. At September 30, 2011, the total variable fuel charge refund has been repaid to residential and commercial customers. The repayment of those costs over the legislated \$0.035 was facilitated by a loan from the State of Yap for \$1,600,000 authorized by YSL No. 7-38.
 - YSL No. 39 then authorized the Governor to forgive any refund that may be owed by YSPSC to Yap State Government agencies for these declared excessive surcharges. The refund owed FSM National Government as a prior customer remains outstanding at \$181,368, and is included as a current liability in the Statement of Net Assets. Although FSM National Government has not asserted a claim to this liability, neither has it forgiven this debt.
18. YSPSC has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.

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19. YSPSC has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
20. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with the Governmental Accounting Standards Board.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
21. No events have occurred after September 30, 2012, but before June 29, 2013, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
22. Management is aware of its requirement to disclose whether, subsequent to September 30, 2012, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred. However, we represent to you that no such disclosure has been made as no such changes in internal control or such other factors have occurred.
23. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2012 and have been appropriately reduced to their estimated net realizable value.
24. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
25. 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. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.
26. During the year ended September 30, 2012, YSPSC implemented the following pronouncements:
 - GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the financial statements.

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- 27. YSPSC was not current with principal payments for the two notes payable with Yap State since February 2012. YSPSC is requesting the Yap State Legislature to forgive the two loans. Management cannot determine the ultimate resolution of this matter.
- 28. The financial statements as of and for the year ended September 30, 2011 had been restated to reflect adjustments on notes payable to ADB of \$639,951 and to recognize capital contributions from the EU grant of \$1,168,832. The following accounts have been restated as of and for the year ended September 30, 2011

| | <u>As Originally Stated</u> | <u>As Restated</u> |
|---------------------------------------|---------------------------------|--------------------|
| Notes payable, net of current portion | \$ 3,612,430 | \$ 4,252,381 |
| Net assets at beginning of year | \$ 5,866,495 | \$ 5,226,544 |
| Deferred revenue | \$ 1,318,332 | \$ 149,500 |
| Capital contributions | \$ - | \$ 1,168,832 |

Very truly yours,



Faustino Yangmog
General Manager



Virginia Hernandez
Comptroller

APPENDIX A: AUDIT ADJUSTMENTS

| # | Name | Debit | Credit |
|--|--|-----------|-----------|
| 1 AJE Entity proposed adjustments | | | |
| 11072 | Inventory - Power Plant | 5,148 | |
| 12012 | Other Power Plant Equip | 735 | |
| 12019 | Accumulated Depreciation - Power Generation | 5,047 | |
| 12025 | Distribution Vehicles & Equip | | 735 |
| 12029 | Accumulated Depreciation - Trans/Distribution | 1,076 | |
| 12032 | Water Distribution Systems | | 4,931 |
| 12033 | Wells, Catchments, Reservoirs | | 4,769 |
| 12039 | Accumulated Depreciation - Water System | | 4,793 |
| 12049 | Accumulated Depreciation - Sewer | 6,911 | |
| 12051 | Building & Leasehold | 160 | |
| 12059 | Accumulated Depreciation - Gen & Admin | | 24,076 |
| 12060 | Ulithi Power Plant Equipment | | 9,139 |
| 12061 | Ulithi Power System | 9,139 | |
| 12062 | Accumulated Depreciation - Ulithi Power | 785 | |
| 12065 | Accumulated Depreciation - Ulithi Water | 678 | |
| 12079 | Accumulated Depreciation - Woleai Power | 3,768 | |
| 12089 | Accumulated Depr. - Renewable Energy | | 14,727 |
| 19600 | WIP NORTH REP | | 1,216 |
| 21011 | Accounts Payable -- Vendors | | 160 |
| 42125 | Yap State Grant | 823,367 | |
| 42500 | PLT/DOI REVENUE | 38,202 | |
| 42650 | EU Grant - EF II | 1,107,684 | |
| 52015 | Travel Expense - Ulithi | 1,216 | |
| 54013 | Repairs & Maintenance - Water | 4,931 | |
| 55011 | Minor Tools & Spares - Power Generation | | 5,148 |
| 55013 | Minor Tools & Spares - Water | 4,769 | |
| 57011 | Depreciation - Power Generation | | 5,047 |
| 57011 | Depreciation - Power Generation | 14,727 | |
| 57012 | Depreciation - Power Distribution | | 1,076 |
| 57013 | Depreciation - Water | 4,793 | |
| 57014 | Depreciation - Sewer | | 6,911 |
| 57015 | Depreciation - Ulithi | | 1,608 |
| 57016 | Depreciation - Ulithi Water | 144 | |
| 57017 | Depreciation - Woleai | | 3,768 |
| 57019 | Depreciation - Gen & Admin | 24,076 | |
| 22074 | Deferred Revenue - EF II | | 1,931,051 |
| 22077 | Deferred Revenue - PLT | | 38,201 |
| | To record entry proposed adjustment | | |
| 2 AJE To adjust prepaid expenses | | | |
| 11081 | Prepayments - Vendors | | 116,185 |
| Blank (506) | WIP- SAGE MIP | 30,000 | |
| Blank (507) | WIP - UTP Software | 86,185 | |
| | To adjust prepaid expenses relating to software received but not yet installed | | |
| 3 AJE To adjust notes payable - ADB loan | | | |
| 23012 | ADB Loan Payable | | 639,951 |
| 32011 | Retained Earnings - Cumulative | 639,951 | |
| | To adjust notes payable ADB loan | | |
| 4 AJE To adjust unrecorded liabilities | | | |
| 21011 | Accounts Payable -- Vendors | | 76,673 |
| 54012 | Repairs & Maintenance - Power Distribution | 76,673 | |
| | To adjust unrecorded liabilities | | |
| 5 AJE To adjust additional allowance for doubtful accts | | | |
| 11058 | Allowance for Doubtful A/R | | 83,733 |
| Blank (508) | Bad debt expense | 83,733 | |
| | To record additional allowance for OFFB accounts | | |
| 6 AJE To adjust EU grant | | | |
| 32011 | Retained Earnings - Cumulative | | 1,168,832 |
| 22074 | Deferred Revenue - EF II | 1,168,832 | |
| | To adjust EU grant as restricted net assets (restatement) | | |
| 7 AJE To adjust Yap state matching contributions | | | |
| 42125 | Yap State Grant | 121,003 | |
| 22074 | Deferred Revenue - EF II | 762,218 | |
| Blank (511) | Capital contributions | | 883,221 |
| | To adjust matching share from Yap State on EU grant | | |

ATTACHMENT I, CONTINUED

APPENDIX B

| SUMMARY OF UNCORRECTED MISSTATEMENTS - CURRENT PERIOD | | | | | | | | | |
|--|---------------|------------|--------------------|------------|---------------|------------|---------------|------------|--------------|
| Description of Misstatement | Assets | | Liabilities | | Equity | | Income | | TOTAL |
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | |
| Current-Period Misstatements | | | | | | | | | |
| <PAJE #1> To adjust variances between GL and inventory listing | | | | | | | | | |
| Inventory | 19,957 | | | | | | | | 19,957 |
| Repairs and maintenance | | | | | | | | 19,957 | (19,957) |
| <PAJE #2> To adjust foreign currency difference | | | | | | | | | |
| Foreign currency loss | | | | | | | 24,526 | | 24,526 |
| Cash in Bank - BOH | | 24,526 | | | | | | | (24,526) |
| <PAJE #3> To record allowance for unsupported unit price | | | | | | | | | |
| Inventory obsolescence | | | | | | | 9,221 | | 9,221 |
| Allowance for inventory obsolescence | | 9,221 | | | | | | | (9,221) |
| <PAJE #4> To record accrued interest and interest expense (YSL No. 7-38) | | | | | | | | | |
| Interest Expense | | | | | | | 1,821 | | 1,821 |
| Retained Earnings - Cumulativ | | | | | 5,780 | | | | 5,780 |
| Accrued interest | | | | 7,601 | | | | | (7,601) |
| <PAJE #5> To record accrued interest and interest expense (Capital Projects) | | | | | | | | | |
| Retained Earnings - Cumulativ | | | | | 6,234 | | | | 6,234 |
| Interest Expense | | | | | | | 2,473 | | (2,473) |
| Accrued interest | | | | | | | 3,761 | | (3,761) |
| <PAJE#6> To adjust sales recorded | | | | | | | | | |
| Accounts Receivable - Customer | 32,370 | | | | | | | | 32,370 |
| Power Sales | | | | | | | | 32,370 | (32,370) |
| <PAJE#7> To record allowance on uncollectible accounts | | | | | | | | | |
| Bad Debt Expense | | | | | | | 17,529 | | 17,529 |
| Allowance on doubtful accounts | | 17,529 | | | | | | | (17,529) |
| <PAJE#8> To adjust deferred revenues | | | | | | | | | |
| Grant revenues | | | | | | | 26,237 | | 26,237 |
| Deferred revenues | | | | 26,237 | | | | | (26,237) |
| <PAJE#9> To adjust unsupported fixed asset additions | | | | | | | | | |
| Expenses | | | | | | | 79,947 | | 79,947 |
| Fixed Assets | | 79,947 | | | | | | | (79,947) |
| <PAJE#10> To adjust notes payable based on Yap state records | | | | | | | | | |
| Miscellaneous expense | | | | | | | 14,484 | | 14,484 |
| Notes payable | | | | 14,484 | | | | | (14,484) |
| | | | | | | | | | - |
| TOTAL MISSTATEMENTS | 52,327 | 131,223 | - | 48,322 | 12,014 | - | 173,765 | 58,561 | - |

ATTACHMENT I, CONTINUED

APPENDIX C

| SUMMARY OF UNCORRECTED MISSTATEMENTS -PRIOR PERIOD | | | | | | | | | |
|---|---------------|------------|--------------------|------------|---------------|------------|---------------|------------|--------------|
| Description of Misstatement | Assets | | Liabilities | | Equity | | Income | | TOTAL |
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | |
| Prior-Period Misstatements | | | | | | | | | |
| <PAJE#11> To adjust beginning balance of notes payable based on Yap state records | | | | | | | | | |
| Notes payable | | | 56,160 | | | | | | 56,160 |
| Retained Earnings - Cumulativ | | | | | | 56,160 | | | (56,160) |
| TOTAL MISSTATEMENTS | - | - | 56,160 | - | - | 56,160 | - | - | - |