



Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

February 21, 2019

Hon. Henry Falan
Governor
Yap State Government

Dear Mr. Governor:

We have performed an audit of the statements of project account of the Yap State Government Yap Renewable Energy Development Project (the "Project") Financed by ADB Loan No.'s 3004-FSM and 3005-FSM for the fifteen months ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated February 21, 2019.

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 Project is responsible.

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

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

Cc: To Management of Yap State Government

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 September 12, 2018. 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 Project's statements of project account and the accompanying supplementary information for the fifteen months ended December 31, 2018 in conformity with the basis of cash receipts and disbursements, in all material respects, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("generally accepted accounting principles");
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on the Project'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 fifteen months ended December 31, 2018 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 statement of project account that has been prepared with the oversight of management and the Office of the Governor is presented fairly, in all material respects, in conformity with the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. The audit of the statement of project account does not relieve management or the Office of the Governor of their responsibilities.

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

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statement 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. During the fifteen months ended December 31, 2018, 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

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified no matters that resulted in audit adjustments that we believe either individually or in the aggregate with others have had a significant effect on the Project's financial reporting process.

SIGNIFICANT ACCOUNTING POLICIES

The Project's significant accounting policies are set forth in note 2 to the Project's financial statement. During the fifteen months ended December 31, 2018, there were no significant changes in previously adopted accounting policies or their application.

OTHER INFORMATION IN THE ANNUAL REPORTS

The 2018 audited financial statements were not included in documents containing other information such as the Project's Annual Report.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Project's 2018 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 2018.

MANAGEMENT'S REPRESENTATION

We have made specific inquiries of the Project's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Project 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.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the period, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions 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 the Project's management and staff and had unrestricted access to the Project's senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated February 21, 2019, on the Project'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 on the audit performed in accordance with *Government Auditing Standards*.

* * * * *



Yap State Public Service Corporation

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

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

Chairman:
James Gilmar

Vice Chairman:
Anthony Tareg

Sec/Treasurer:
James Limar

Directors:
Francis Faney
Peter Garamfel
Santus Sarongelfeg
John Hagileluw

General Manager
Faustino R. Yangmog

Assistant Gen. Manager
Victor Nabeyan

Comptroller
Virginia B. Hernandez

February 21, 2019

Deloitte & Touche LLP
361 SOUTH MARINE CORPS DRIVE
TAMUNING GU, 96913

We are providing this letter in connection with your audits of the statements of project account of the Yap State Government Yap Renewable Energy Development Project (the "Project") Financed by ADB Loan Nos. 3004-FSM and 3005 FSM for the fifteen months ended December 31, 2018 and the year ended September 30, 2017, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the cash receipts and disbursements of the Project prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than 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 cash receipts and disbursements of the Project prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than GAAP.
- b. The design and implementation of programs and controls to prevent and detect fraud.
- c. Establishing and maintaining effective internal control over financial reporting.

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 is fairly presented on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than GAAP. In addition, the financial statements present only the Project activities administered by the Yap State Public Service Corporation and are not intended to present fairly the results of operations of the Yap State Public Service Corporation in conformity with GAAP.

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2. The Yap State Public Service Corporation has provided to you all relevant information and access as agreed in the terms of the audit engagement letter, including:
 - a. Financial records and related data for all financial transactions of the Project and for all funds administered by the Yap State Public Service Corporation pertaining to the Project. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Yap State Public Service Corporation pertaining to the Project 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.
 - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
3. There has been no:
 - a. Action taken by Yap State Public Service Corporation management that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the Project.
 - 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.
4. The Yap State Public Service Corporation has not performed a 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 Project and do not believe that the financial statements are materially misstated as a result of fraud.
5. We have no knowledge of any fraud or suspected fraud affecting the Project 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.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Project received in communications from employees, former employees, analysts, regulators, or others.

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7. 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* (formerly FASB Statement No. 5, *Accounting for Contingencies*). During the fifteen months ended December 31, 2018 and the year ended September 30, 2017, the Yap State Public Service Corporation did not utilize the services of legal counsel representing litigation, claims and assessments concerning the Project. As such, there are no matters that exist that require adjustments to or disclosure in, the financial statements at December 31, 2018.
8. 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.

Except where otherwise stated below, matters less than \$5,700 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.

9. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
10. 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).
 - b. Guarantees, whether written or oral, under which the Project is contingently liable.
11. 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* (formerly FASB Statement No. 5, *Accounting for Contingencies*).
12. The Yap State Public Service Corporation has satisfactory title to all owned assets associated with the Project, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
13. The Yap State Public Service Corporation has complied with all aspects of contractual agreements associated with the Project that may have an effect on the financial statements in the event of noncompliance.
14. No department or agency of the Yap State Public Service Corporation has reported a material instance of noncompliance to us.

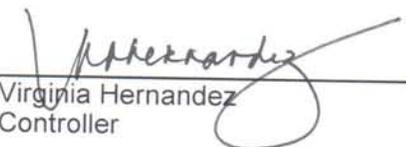
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15. No events have occurred after December 31, 2018 but before February 21, 2019, the date the financial statement was available to be issued that require consideration as adjustments to, or disclosures in, the financial statements
16. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Yap State Public Service Corporation has been discovered.

Very truly yours,

Signed: 

Faustino Yangmog
General Manager

Signed: 

Virginia Hernandez
Controller