

Public Transportation System

Financial Statements and
Independent Auditor's Report

**Fiscal Years Ended
September 30, 2017 and 2016**

Audit Report No. 2018-03



**Office of the Public Auditor
State of Yap**

Federated States of Micronesia



OFFICE OF THE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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June 12, 2018

Alphonsus Ruwema, Chairman of the Board
Jeffrey Adalbai, General Manager
Honorable Tony Ganngiyan, Governor, State of Yap
Honorable Theodore (Ted) Rutun, Speaker, Yap State Legislature

RE: Audit of Public Transportation System

This report presents the results of our audit of the financial statements for the Public Transportation System (PTS) for the years ended September 30, 2017 and 2016. These financial statements are the responsibility of management of PTS.

The purpose of our audit was to express our opinion on the financial statements of PTS for the years indicated, which in the auditors' opinion the financial statements presented on pages 4 through 6 is unqualified (clean opinion). The financial statements present fairly, in all material respect the financial position of PTS as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The audit was performed by the Office of the Yap State Public Auditor pursuant to the provisions of Title 13, Chapter 7, § 703 of the Yap State Code, and 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.

Our report on our consideration of PTS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters required for audits of financial statements performed in accordance with *Government Auditing Standards* on pages 15 to 16 discusses reportable conditions at PTS. These conditions and our recommendations are basically presented for the information of PTS management in the Schedule of Findings. Since neither material weakness nor significant deficiency was noted during our audit, and since the results of our tests did not disclose any instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, no Schedule of Findings was presented.

A copy of the draft report was provided to the Chairman of the Board and the General Manager, the contents of which were discussed with the Board of Directors, management, and key personnel on June 07, 2018.

We would like to take this opportunity to thank the Board of Directors, the management and staff of Public Transportation System for their assistance and cooperation during the course of our audit.

Respectfully submitted,



Achilles Defngin
Public Auditor

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PUBLIC TRANSPORTATION SYSTEM
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Public Transportation System:

We have audited the accompanying balance sheets of Public Transportation System (PTS) as of September 30, 2017 and 2016, 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 PTS 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 and 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

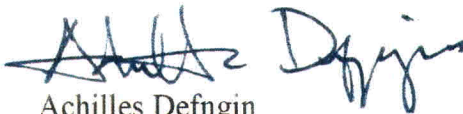
In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of the Public Transportation System as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 15, 2017 on our consideration of the Public Transportation System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, 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 controls over financial reporting or on compliance. That report is an integral part of any audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that Management's discussion and analysis on page 3 be presented to supplement the basic financial statements. Such information, though not part of the basic financial statements, is required by the Governmental Accounting Standard's Board, who consider it to be an essential part of financial

part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management’s response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the results of the limited procedures have raised doubts whether the material modifications should be made to management’s discussion and analysis for it to be presented in accordance with the guidelines established by the GASB.

Our audit was conducted for the purpose of forming opinions on the financial statements of PTS taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Achilles Defngin
Public Auditor

May 15, 2018

PUBLIC TRANSPORTATION SYSTEM

Management Discussion and Analysis
Years Ended September 30, 2017 and 2016

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Public Transportation System

Yap State Government

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Management's Discussion and Analysis September 30, 2017

Yap State Public Transportation System is the only public bus transportation operation that provides transportation to the public and private school students as well as the general public. The system was established in 1984 under Yap State Law No. 1-170 as a component unit, an entity which the government is financially accountable and was tasked to provide reliable and affordable transportation for people living within and outside the Colonia area.

This section of the Public Transportation System annual financial statement report presents our discussion and analysis of the system's financial performance for the year ended September 30, 2017. Financial statement for PTS is attached hereto.

In addition to the financial difficulties that Public Transportation System faces annually, the high cost of fuel still remain a challenge and the ever increasing cost of parts and supplies.

As repeated from our previous year Management's Discussion and Analysis, half of the bus fleet was replace with new buses, the first purchase units are now 11 years in service with 4 units which are fully depreciated and have been in service for more than 16 years in which has been very costly to operate.

There are significant figures noticed in our financial statement. PTS shows decrease of sales in our automotive service department at about 8% compare to FY2016. There's also significant increase in cost for Property and equipment for about 80% compare to FY16. Our bottom line this period indicates 6% decrease of gross profit exclusive of subsidy. Our overall sales, shop and other income sales is about \$239,238.00. The automotive service department has greatly kept PTS going each year.

PTS has been and will continue to work toward becoming self-sustainable. Included in the discussion of the Board and management, developing plan that would entail diversifying of PTS operation. Opening other revenue generating service to subsidize the operation and hopefully having PTS be self sustainable and gradually reduce the depleting government subsidy.

The accompanying financial statements present the financial condition and operation of the Public Transportation System for the fiscal year 2017.

PUBLIC TRANSPORTATION SYSTEM

Statements of Net Assets September 30, 2017 and 2016

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ASSETS :	<u>2017</u>	<u>2016</u>
Current Assets		
Cash	\$ 57,679	\$ 86,428
Trade receivables, net (note 3)	14,751	14,049
Prepaid expenses	23,022	12,045
Purchase Order Advance	35,628	1,676
Inventory	<u>178,495</u>	<u>208,894</u>
Total current assets	309,574	323,091
Property and equipment, net (note 4)	<u>537,176</u>	<u>182,585</u>
TOTAL ASSETS	\$ <u>846,750</u>	\$ <u>505,676</u>
LIABILITIES AND NET ASSETS :		
Current liabilities:		
Accounts payable - trade	\$ 7,112	\$ 16,059
Customer deposits	20,050	22,380
Accrued payroll and others	<u>9,500</u>	<u>9,170</u>
Total current liabilities	36,662	47,609
Net Assets		
Invested in capital assets	537,176	182,585
Unrestricted	<u>272,912</u>	<u>275,482</u>
Total net assets	<u>810,088</u>	<u>458,067</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>846,750</u>	\$ <u>505,676</u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM
Statements of Revenues, Expenses and Changes in Net Assets
September 30, 2017 and 2016
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	<u>2017</u>	<u>2016</u>
Operating revenues		
Charges for transportation services	\$ 148,490	\$ 160,022
Auto shop service income	133,417	144,747
Fuel, parts & accessories sales	83,817	85,416
Other sales	<u>5,266</u>	<u>3,532</u>
	370,989	393,717
Cost of sales	<u>131,752</u>	<u>138,522</u>
Gross margin	<u>239,238</u>	<u>255,195</u>
Selling, general and administrative expenses		
Personnel services	166,400	156,507
Insurance	17,536	17,093
Miscellaneous	1,544	18,725
Parts, supplies & materials	49,840	6,461
Utilities	10,271	10,533
Depreciation	108,106	113,192
Travel	31,492	17,150
Fuel, oil and lubricants	56,875	60,370
Repair and maintenance	<u>20,608</u>	<u>21,957</u>
	<u>462,672</u>	<u>421,987</u>
Loss from operations	(223,434)	(166,792)
Nonoperating revenues/(expenses)		
Yap State operating subsidy	575,454	157,242
Interest	<u>0</u>	<u>0</u>
	<u>575,454</u>	<u>157,242</u>
Changes in net assets	352,020	(9,550)
Net assets at beginning of year	458,068	467,618
Net assets - end of year	<u>\$ 810,088</u>	<u>\$ 458,068</u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

Statements of Cash Flows September 30, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from customers	\$ 334,005	\$ 404,289
Cash payments for goods and services	(309,441)	(375,491)
Cash payments to employees	<u>(166,070)</u>	<u>(171,789)</u>
Net cash used for operating activities	(141,506)	(142,991)
Cash flows from noncapital financing activities		
Operating subsidy from Yap State Government	575,454	157,242
Other Income	<u>0</u>	<u>0</u>
Net cash from non-capital financing activities	575,454	157,242
Cash flows used for investing activities		
Other Income	0	0
Acquisition of fixed assets	<u>(462,697)</u>	<u>(14,308)</u>
Net cash used for investing activities	(462,697)	(14,308)
Net increase/(decrease) in cash	(28,749)	(57)
Cash, beginning of year	<u>86,428</u>	<u>86,485</u>
Cash, end of year	<u>\$ 57,679</u>	<u>\$ 86,428</u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	(223,434)	(166,792)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	108,106	113,192
(Increase)/Decrease in assets		
Trade receivables, net	(702)	(3,197)
Purchase Order Advance, net	(33,952)	(1,676)
Prepaid Expenses	(10,977)	1,032
Inventory	30,399	(92,404)
Increase/(Decrease) in liabilities		
Accounts payable	(8,947)	6,691
Customer deposits	(2,330)	15,445
Accrued expenses	<u>330</u>	<u>(15,283)</u>
Net cash used in operating activities	<u>\$ (141,506)</u>	<u>\$ (142,991)</u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements September 30, 2017 and 2016

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(1) Organization

Public Transportation System (PTS), a component unit of the State of Yap, was created by Yap State Law (YSL) No. 1-170 and is responsible for providing reliable and inexpensive transportation to the general public based on established routes and fares. Other services provided by PTS include charter transportation by way of commercial leasing of PTS equipment and auto repair sales and services to individuals and organizations. PTS is governed by a five-member Board of Directors appointed by the Governor, subject to the advice and consent of the Legislature. The State provides financial support to PTS through legislative appropriations.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of PTS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. 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 Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. PTS has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

PTS adopted the provisions of GASB Statement No. 34 (*Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments*). GASB 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting into four net asset categories:

- (a) *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.
- (b) *Nonexpendable* – Net assets subject to externally imposed stipulations that require PTS to maintain them permanently.
- (c) *Expendable* – Net assets whose use by PTS is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time.

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements September 30, 2017 and 2016

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

New Accounting Standards

During fiscal years ended September 30, 2017, PTS implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements September 30, 2017 and 2016

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In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than pension Plans, which replaces Statement No. 43, Financial Reporting for Postemployment Benefit Plans, as amended, and Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (postemployment benefits or OPEB). The provisions of Statement No. 75 are effective for fiscal years beginning after June 15, 2016. The management does not believe the implementation of this Statement has a material effect on the financial statements of PTS.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognizes assets, liabilities, and deferred inflows of resources at the inception of the agreement. This Statement also requires that a government recognizes revenue when the resources become applicable to the reporting period. The Statement enhances the decision-usefulness of general purpose external financial reports and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. The management does not believe that the implementation of this statement will have a material effect on the financial statement of PTS.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

Cash

For purposes of the Statement of Net Assets and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All the balances at September 30, 2017 and 2016 are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

Inventory

Inventory is stated based on average costs and consists primarily of spare parts for the buses and mechanics auto shop.

Depreciation

Property and equipment is stated at cost less accumulated depreciation and depreciation is recorded in the financial statements under the straight-line method based on the estimated useful lives of the assets as follows:

Buildings	10	-	25	Years
Vehicles	4	-	7	Years
Shop Equipment	2	-	10	Years
Office Furniture and Equipment	3	-	10	Years
Land Improvement	2	-	10	Years

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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.

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements September 30, 2017 and 2016

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(3) Trade Receivables

A summary of trade receivables at September 30, 2017 and 2016 is presented below:

	2017	2016
Current and former employees	\$ 4,328	\$ 1,836
Current and former board members	4,027	4,027
State departments and agencies	8,641	3,553
Other trade customers	18,328	17,447
	<u>\$ 35,324</u>	<u>\$ 26,863</u>
Less: Allowance for doubtful accounts	<u>(20,573)</u>	<u>(12,814)</u>
	<u>\$ 14,751</u>	<u>\$ 14,049</u>

(4) Property, Plant, and Equipment

A summary of property and equipment as of September 30, 2017 and 2016 follows:

	Beginning Balance October 1, 2016	Transfers and Additions	Transfers and Disposals	Ending Balance September 30, 2017
Buildings	\$ 122,999	\$ 5,900	\$ --	\$ 128,899
Vehicles	1,090,906	446,000	--	1,536,906
Shop Equipment	76,044	6,867	--	82,911
Office Equipment	114,906	3,442	--	118,348
Land Improvement	<u>1,230</u>	<u>488</u>	<u>--</u>	<u>1,678</u>
	1,406,137	462,697		1,868,834
Less accumulated depreciation	<u>(1,223,552)</u>	<u>(108,106)</u>	<u>--</u>	<u>(1,331,658)</u>
	<u>\$ 182,585</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 537,176</u>

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements September 30, 2017 and 2016

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	Beginning Balance October 1, 2015	Transfers and Additions	Transfers and Disposals	Ending Balance September 30, 2016
Buildings	\$ 120,849	\$ 2,150	--	\$ 122,999
Vehicles	1,089,906	1,000	--	1,090,906
Shop Equipment	73,059	3,244	(259)	76,044
Office Equipment	108,015	6,891	--	114,906
Land Improvement	--	1,282	--	1,230
	1,391,829	14,567	(259)	1,406,137
Less accumulated depreciation	(1,110,360)	(113,192)		(1,223,552)
	\$ 281,469	\$ --	\$ --	\$ 182,585

(5) Cost of Sales

The detail of cost of sales for the year ended September 30, 2017 is as follows:

Purchases	\$ 118,938
Other Expense	<u>12,814</u>
	\$ 131,752

(6) Yap State Operating Subsidies

PTS received operating subsidies for the years ended September 30, 2017 and 2016 in the amount of \$575,454 and \$157,242 respectively, from the Yap State Government under which eligible expenditures could be reimbursed. The operating subsidies were funded by the General Fund-Local Revenue, Compact Capital Projects and Education Sector grants.

During the years ended September 30, 2017 and 2016, PTS has eligible expenditures of \$575,454 and \$157,242.

(7) Related Parties

In the ordinary course of business, PTS enters into transactions with private businesses and State agencies in which certain Board members and officers hold positions and other positions of influence with the State. Related party transactions for the years ended September 30, 2017 and 2016 were \$8,355 and \$5,863 respectively.

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements
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(8) Risk Management

PTS carries general liability insurance on its bus fleet and its passengers but is self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

PUBLIC TRANSPORTATION SYSTEM
Schedule of Expenditures of Federal Awards
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Grantor/CFDA Grantor's Program Title	Federal CFDA #	Expenditures 2017	2016
Amended Compact - Education Sector Grant	15.875	\$ 46,000	\$ 63,686
Total Federal awards expended		\$ 46,000	\$ 63,686

Note

(1) *The Education Sector Grant is passed through the FSM National Government to the State of Yap.*

(2) *The schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.*



OFFICE OF THE PUBLIC AUDITOR

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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 of
Public Transportation System:

We have audited the financial statements of the Public Transportation System (PTS) as of and for the years then ended September 30, 2017 and 2016 and have issued our report thereon dated May 15, 2018. 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 PTS'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 PTS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PTS's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PTS's financial statements will not be prevented, or detected and corrected on a timely basis. No material weaknesses were noted during our audit.

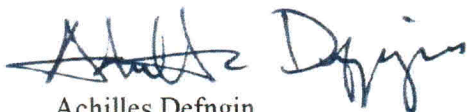
A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. No significant deficiency was noted during our audit.

Our mission is to provide independent and credible assessments that promote accountability, transparency, and excellence in operations and management of the Yap State Government.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PTS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 instance of noncompliance or other matters.

This report is intended for the information of the Board of Directors and management, awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Achilles Defngin
Public Auditor

May 15, 2018

PUBLIC TRANSPORTATION SYSTEM
Yap OPA Contacts and Staff Acknowledgements

Audit Report No. 2018-03

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Irene Laabrug, Auditor-In-Charge

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