

**YAP STATE PUBLIC SERVICE CORPORATION
(A COMPONENT UNIT OF THE STATE OF YAP)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Yap State Public Service Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Yap State Public Service Corporation (YSPSC), a component unit of the State of Yap, which comprise the statements of net position as of September 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 of America and the 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yap State Public Service Corporation as of September 30, 2019 and 2018, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

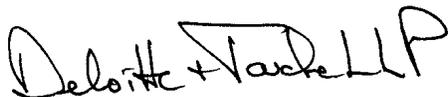
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential 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 the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2020 on our consideration of the YSPSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the YSPSC's internal control over financial reporting and compliance.



January 17, 2020

**YAP STATE PUBLIC SERVICE CORPORATION
(A COMPONENT UNIT OF THE STATE OF YAP)**

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

The following Management's Discussion and Analysis is required by GASB Statement No. 34 issued by the U.S. Governmental Accounting Standards Board. Its objective is to provide the reader with an introduction and overview of the financial statements of the Yap State Public Service Corporation (YSPSC) for the years ended September 30, 2019 and 2018. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto which follow this section.

GASB 34 of the U.S. Governmental Accounting Standards Board requires that published financial statements must contain a management discussion and analysis. This section of the YSPSC's annual report presents our discussion of YSPSC's performance for the years ended September 30, 2019, 2018 and 2017. It should be read in conjunction with financial statements that follow this section.

The following table summarizes the financial condition and operations of YSPSC as of 2019, 2018 and 2017.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Plant in service, net	\$ 17,047,637	\$ 17,968,016	\$ 11,878,113
Work in progress, net of current portion	17,400	57,490	5,002,693
Current and other assets	<u>3,811,413</u>	<u>4,177,959</u>	<u>4,143,994</u>
Total assets	\$ <u>20,876,450</u>	\$ <u>22,203,465</u>	\$ <u>21,024,800</u>
NET POSITION AND LIABILITIES			
Net investment in capital assets	\$ 7,093,196	\$ 8,110,210	\$ 7,452,822
Restricted	-	37,273	27,116
Unrestricted	<u>2,902,049</u>	<u>2,559,191</u>	<u>3,103,828</u>
Total net position	<u>9,995,245</u>	<u>10,706,674</u>	<u>10,583,766</u>
Notes payable, net of current portion	9,568,836	9,520,211	9,246,294
Current portion of notes payable	403,005	395,085	181,690
Other current liabilities	<u>909,364</u>	<u>1,581,495</u>	<u>1,013,050</u>
Total liabilities	<u>10,881,205</u>	<u>11,496,791</u>	<u>10,441,034</u>
Total net position and liabilities	\$ <u>20,876,450</u>	\$ <u>22,203,465</u>	\$ <u>21,024,800</u>

**YAP STATE PUBLIC SERVICE CORPORATION
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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>
REVENUES, EXPENSES, AND NET POSITION			
Operating revenues	\$ 5,791,118	\$ 5,919,246	\$ 5,781,488
Operating expenses	<u>6,377,180</u>	<u>6,121,071</u>	<u>5,779,921</u>
Income (loss) from operations	(586,062)	(201,825)	1,567
Operating grants and subsidies	144,084	229,000	225,000
Interest expense	(216,576)	(160,242)	(64,154)
Interest income	1,863	7,543	2,304
Grant expenses	(209,894)	(191,727)	(270,652)
Loss on fixed asset retirements	-	-	(44,159)
Impairment loss	-	-	(61,532)
Foreign exchange gain	102,796	303	-
Other income (expenses)	<u>(349)</u>	<u>1,400</u>	<u>-</u>
Non-operating loss	<u>(178,076)</u>	<u>(113,723)</u>	<u>(213,193)</u>
Net loss before capital contributions	(764,138)	(315,548)	(211,626)
Capital contributions	<u>52,709</u>	<u>438,456</u>	<u>1,124,382</u>
Change in net position	(711,429)	122,908	912,756
Net position, beginning	<u>10,706,674</u>	<u>10,583,766</u>	<u>9,671,010</u>
Net position, ending	\$ <u>9,995,245</u>	\$ <u>10,706,674</u>	\$ <u>10,583,766</u>

FINANCIAL OPERATIONS OVERVIEW

YSPSC has successfully completed twenty-four years of operations as an independent public corporation. Of its mission to provide reliable water, sewer and electricity services adequate to meet the needs of the people of Yap at the minimum price possible, the Corporation is always mindful of its commitment to provide the State's utility needs. With the continuous focus on venturing into renewable energy related fields for alternative solutions to the rising costs of energy production, certain projects that were initiated as a result of the venture, came to completion in 2018. Currently, all inhabited islands in the outer islands are now experiencing access to modern and sustainable electricity services through solar power. Among the many accomplishments of YSPSC is the completion of the Hybrid Renewable Energy System. This system includes three new generators installed in the power plant, three wind turbines, and solar panel installations across the island. Funding was provided by ADB and World Bank. The challenge continues for management to ascertain the most cost-effective combination of conventional and renewable energy systems that would best suit the energy demands of the people of Yap State.

Results of Operations

Operating Profit/Loss: The fiscal year 2019 financial operations loss was \$586,062, compared to the FY 2018 operating loss of \$201,825. Operating income for fiscal year 2017 was \$1,567. In 2019, operating revenues decreased by 2% while operating expenses increased by 4% as compared to fiscal year 2018.

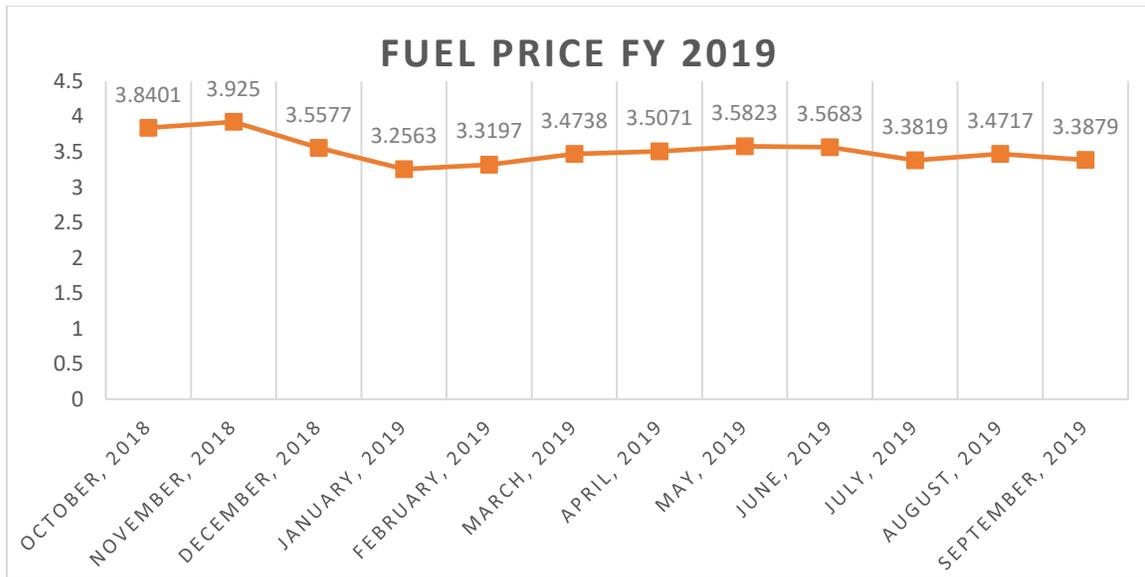
**YAP STATE PUBLIC SERVICE CORPORATION
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Management’s Discussion and Analysis
Years Ended September 30, 2019 and 2018

Electric Revenue/Kilowatt Hours Billed: The fiscal year 2019 revenue of \$5,267,362 indicates a decrease of 3% over fiscal year 2018. Electricity consumption of 8.992MWH for 2019 decreased by 3% as well compared to FY 2018 of 9.3 MWH. In fiscal year 2019, 45% was consumed by commercial customers, 28% of the KWH was billed to government and 27% was for residential.

Water Revenue: Water sales and wastewater services revenue of \$523,756 slightly increased by 3% percent compared to fiscal year 2018 (\$510,314). In fiscal year 2018, commercial water customers used 26%, government customers used 16%, while residential users were billed 58%. Total consumption for all classes was 90.16 million gallons.

Production Fuel: Production fuel, which represents 39% of total operating expenses, decreased by 7.8% or \$213,809 as compared to fiscal year 2018. The average monthly fuel price paid by YSPSC for fiscal year-2019 was \$3.54 per gallon compared to \$3.43 in 2018. The graph below shows the fuel price from FY 2018 to FY 2019.



Other Operating Expenses: Other operating expenses increased by 13.8% in 2019 as compared to 2018. Other production costs increased by 86%, depreciation increased by 8.3%. General and administrative expenses decreased by 8.2% and salaries and wages decreased by 7.9% in 2019.

Significant Changes to Net Position

Cash – Ending cash of \$754,654 at September 30, 2019 is 40% less than the \$1,265,228 at the end of fiscal year 2018, and was attributable to cash provided by operating activities and various grants received.

Receivables – Customer receivables of \$1,081,298 at September 30, 2019 increased by 13% over 2018 receivables of \$954,736.

**YAP STATE PUBLIC SERVICE CORPORATION
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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Capital Assets – YSPSC's investment in capital assets, net of accumulated depreciation as of September 30, 2019 and 2018 was \$17,065,037 and \$18,025,506, respectively. This included investment in production, distribution, water and sewer treatment plant related facilities as well as general items such as office equipment, furniture, vehicles, etc. Capital assets indicate a 5% decrease as of September 30, 2019 as compared to fiscal year 2018. Please refer to note 5 to the financial statements for additional information related to capital assets.

Long-term Debt – At September 30, 2019, the Corporation owed \$9,971,841 in long-term debt for three Asian Development Bank (ADB) loans, \$403,005 of which is current. \$1,601,727 is the principal outstanding on an uncollateralized loan from the ADB for water projects payable semiannually since 2007. Please refer to note 6 to the financial statements for additional debt related information.

Current Liabilities – Current liabilities decreased by 34% or \$664,211 for 2019 as compared to 2018.

U.S. Federal, Local and Other Grants

Pacific Linemen Training Program – Funded by the U.S. Dept. of the Interior Office of Insular Affairs Operations and Maintenance Assistance Program (MAP) funds, with matching share by participating utilities, the continuing program aims to train professional linemen for the Micronesian island utilities; specifically, Guam Power Authority, Palau Public Utility Corporation, Pohnpei Utilities Corporation, American Samoa, Marshall Islands, Chuuk Public Utility Corporation and Yap Public Services Corporation. YSPSC received \$230,000 and \$229,000 in fiscal years 2019 and 2018, respectively, in cost reimbursements for the training program.

Renewable Energy program (SPC North-Rep) – In July 2012 YSPSC entered into a Memorandum of Agreement with the Secretariat of the Pacific Community (SPC) for joint activities aimed at the implementation of the North Pacific ACP Renewable Energy and Energy Efficiency Project (North Rep) for five outer islands; namely, Falalop and Mogmog in Ulithi, Fais, Falalop in Woleai and Satawal. The European Union is funding this program through the SPC North-Rep. Procurement and installation of the solar systems will be the responsibility of North-Rep with assistance provided by YSPSC as needed; however, upon commissioning, operation and maintenance of the systems will transfer to YSPSC. A major portion of the installation work for the systems was completed in 2014, but sustained damages during Typhoon Maysak in April 2015. As of FY 2018, only Satawal, Fais and Woleai were completed and are currently incurring revenue.

PEC Fund – PEC is a Japanese Grant to the FSM for solar systems. This grant is for 5 entities (the four states and the national government). Yap's share of the grant is slated for a ground mount installation and a roof mount installation for approximately 200KWP capacities of solar PVs. The 200KWP panels were received in 2015 and installed at the YSPSC complex and are now tied to the grid.

ADB Loan for Small Generator and Yap Proper Renewable Energy Projects – ADB has approved \$8 million in funding for Yap Proper Renewable Energy Development. This project is funded primarily under an ADF (SDR 2,896,000) and an OCR (USD 4,680,000) and aims to install an integrated power system of diesel, solar, and wind. The Project's design is premised on a strategy of enhancing generation efficiency thru a high level of renewable energy penetration from solar and wind. Supply and installation of Diesel Generator was successfully completed in fiscal year 2017 and other projects were entirely completed in fiscal year 2018.

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Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Sewer and Water Tank and Treatment Facility Assessment and Repair – In December 2013, YSPSC entered into a contract with an Alaskan firm for the evaluation of YSPSC's water tank and sewer treatment facility. The contract calls for the production of a master plan for the sewer and water operations as well as the bidding and selection of contractors for the repair of the water plant and the sewer plant and lift stations. The project budget is \$397,497 and is derived from Compact Infrastructure Maintenance Fund (IMF) through the Yap State Government. The project was completed in FY 2018.

World Bank – World Bank has made available to the FSM a grant of U.S. \$12 million to support development of the energy sector in the FSM. For Yap, World Bank will fund one unit Generator and a substation upgrade. The Generator was currently operational and the containerized switchboard solution/substation was delivered to the power plant on January 28, 2019 and is now in full operation.

International Organization for Migration (IOM) contribution to YSPSC - In the aftermath of Typhoon Maysak that damaged YSPSC's Ulithi Island operations on March 2015, YSPSC was awarded a grant with a total amount of \$717,529 by International Office for Migration (IOM). The fund consists of Phase 1 – \$190,426 as Cost Reimbursement on Repairs of YSPSC shops related to Typhoon Maysak covering the period of April 2015 to October 2016 and Phase 2 - \$527,103 – Construction and Repairs of YSPSC's seven (7) buildings, five (5) buildings in Falalop- the Shop, Power Plant, Main Office, Pump House 1, and Pump House 2, the Mogmog Power Plant and the Asor Power Plant. Both Phases were concluded in FY 2018.

The Management Discussion and Analysis for the years ended September 30, 2018 and 2017 is set forth in the report on the audit of YSPSC's financial statements which is dated February 21, 2019. That Discussion and Analysis explains more in details major factors affecting the 2018 and 2017 financial statements.

The management and staff of YSPSC will be pleased to answer any questions that may arise in relation to matters discussed in this report. Kindly refer your comments or questions to YSPSC at telephone no. (691) 350-4427, P.O. Box 667, Colonia, Yap FM, 96943.

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)

Statements of Net Position
September 30, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Non-current assets:		
Utility plant:		
Depreciable capital assets:		
Plant in service	\$ 35,565,182	\$ 35,464,111
Less accumulated depreciation	<u>(18,517,545)</u>	<u>(17,496,095)</u>
Depreciable utility plant, net	17,047,637	17,968,016
Non-depreciable capital assets:		
Work in progress	<u>17,400</u>	<u>57,490</u>
Utility plant, net	<u>17,065,037</u>	<u>18,025,506</u>
Other noncurrent assets:		
Investments	150,000	-
Long-term deposit	274,545	274,545
Long-term replacement parts	376,436	-
Advances to contractors	<u>197,402</u>	<u>422,740</u>
Total other noncurrent assets	<u>998,383</u>	<u>697,285</u>
Current assets:		
Cash and cash equivalents	754,654	1,265,228
Accounts receivable and unbilled accrued revenue, net of allowance for doubtful accounts	1,081,298	954,736
Other receivables	-	29,361
Inventory	937,734	1,202,386
Prepaid expenses	<u>39,344</u>	<u>28,963</u>
Total current assets	<u>2,813,030</u>	<u>3,480,674</u>
	<u>\$ 20,876,450</u>	<u>\$ 22,203,465</u>
<u>NET POSITION AND LIABILITIES</u>		
Net position:		
Net investment in capital assets	\$ 7,093,196	\$ 8,110,210
Restricted	-	37,273
Unrestricted	<u>2,902,049</u>	<u>2,559,191</u>
Total net position	<u>9,995,245</u>	<u>10,706,674</u>
Commitments and contingencies		
Current liabilities:		
Current portion of notes payable	403,005	395,085
Accounts payable	236,496	202,256
Employees' annual leave and accrued payroll	119,004	133,254
Accrued taxes and other liabilities	-	778,090
Refunds payable to customers	175,318	175,318
Deferred revenue	200,548	114,632
Other payables and customer deposits	<u>177,998</u>	<u>177,945</u>
Total current liabilities	1,312,369	1,976,580
Notes payable, net of current portion	<u>9,568,836</u>	<u>9,520,211</u>
Total liabilities	<u>10,881,205</u>	<u>11,496,791</u>
	<u>\$ 20,876,450</u>	<u>\$ 22,203,465</u>

See accompanying notes to financial statements.

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues:		
Electricity sales	\$ 5,267,362	\$ 5,436,530
Water sales and wastewater services	523,756	510,314
	5,791,118	5,946,844
Provision for doubtful accounts	-	(27,598)
Total net operating revenues	5,791,118	5,919,246
Operating expenses:		
Production fuel	2,507,114	2,720,923
Depreciation	1,257,248	1,161,109
Salaries and wages and related expenses	1,127,039	1,224,257
Other production costs	923,625	495,512
Administrative and general	562,154	519,270
Total operating expenses	6,377,180	6,121,071
Operating loss	(586,062)	(201,825)
Nonoperating income (loss):		
Interest income	1,863	7,543
Foreign exchange gain	102,796	303
Operating grants and subsidies	144,084	229,000
Interest expense	(216,576)	(160,242)
Grant expenses	(209,894)	(191,727)
Other income (loss), net	(349)	1,400
Total nonoperating loss, net	(178,076)	(113,723)
Net loss before capital contributions	(764,138)	(315,548)
Capital contributions	52,709	438,456
Change in net position	(711,429)	122,908
Net position at beginning of year	10,706,674	10,583,766
Net position at end of year	\$ 9,995,245	\$ 10,706,674

See accompanying notes to financial statements.

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 5,693,970	\$ 5,971,060
Cash paid to suppliers	(4,325,194)	(4,014,417)
Cash paid to employees	(1,141,289)	(1,204,758)
Net cash provided by operating activities	227,487	751,885
Cash flows from investing activities:		
Interest and other income	1,863	7,543
Purchase of investments	(150,000)	-
Net cash (used in) provided by operating activities	(148,137)	7,543
Cash flows from noncapital financing activities:		
Proceeds from operating grants and subsidies	230,000	229,000
Other (expense) income	(349)	1,703
Expenses paid from operating grant proceeds	(209,894)	(191,727)
Net cash (used in) provided by noncapital financing activities	19,757	38,976
Cash flows from capital and related financing activities:		
Acquisition of utility plant	(454,057)	(1,402,832)
Advance payment to contractors	(151,098)	(422,740)
Interest paid	(216,576)	(160,242)
Proceeds from loans	571,500	714,737
Capital contributions received	52,709	217,967
Repayment of loans payable	(412,159)	(227,425)
Net cash used in capital and related financing activities	(609,681)	(1,280,535)
Net change in cash and cash equivalents	(510,574)	(482,131)
Cash and cash equivalents at beginning of year	1,265,228	1,747,359
Cash and cash equivalents at end of year	\$ 754,654	\$ 1,265,228
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (586,062)	\$ (201,825)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,257,248	1,161,109
Provision for doubtful accounts	-	27,598
Decrease (increase) in assets:		
Receivables	(126,562)	107,680
Inventory	264,652	(286,428)
Prepaid expenses	(10,381)	85,141
Other receivables	29,361	(27,347)
Increase (decrease) in liabilities:		
Accounts payable	34,240	(77,425)
Accrued taxes and other liabilities	(620,812)	-
Employees' annual leave and accrued payroll	(14,250)	19,499
Deferred revenue	-	334
Other payables and customer deposits	53	(56,451)
Net cash provided by operating activities	\$ 227,487	\$ 751,885

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)

Statements of Cash Flows, Continued
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Noncash capital and financing activity:		
Notes payable	\$ 102,796	\$ -
Foreign exchange gain	(102,796)	
Retirement of capital assets	\$ (235,798)	\$ -
Accumulated depreciation	235,798	-
Addition to utility plant	\$ 40,090	\$ 6,575,097
Work in progress	(40,090)	(6,049,887)
Accrued taxes and other liabilities		(525,210)
Utility plant	\$ (157,278)	\$ -
Accrued taxes and other liabilities	157,278	-
Acquisition of utility plant	\$ -	\$ 220,489
Capital contributions	-	(220,489)

See accompanying notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION
(A COMPONENT UNIT OF THE STATE OF YAP)**

Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies

Organization

Yap State Public Service Corporation (YSPSC) is a legally separate component unit of the Government of Yap State. YSPSC provides electrical, water and sewer services in the State of Yap. YSPSC commenced operations on April 1, 1996, with the assets and liabilities of the Division of Public Utilities of the Yap State Department of Public Utilities and Contracts transferred as of that date. YSPSC is governed by a seven member Board of Directors who are nominated by the Governor of Yap with the advice and consent of the Yap State Legislature.

Basis of Accounting

The accounting policies of YSPSC conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. All proprietary funds are accounted for on a flow of economic resources measurement focus. The accrual basis of accounting is utilized by proprietary funds. Under this method of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Position

Net position represents the residual interest in YSPSC's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consist of the following net position categories:

- Net investment in capital assets:
 - Net investment in capital assets includes restricted and unrestricted capital assets, net of accumulated depreciation and reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable – Net position subject to externally imposed stipulations that require YSPSC to maintain them permanently.
 - Expendable – Net position whose use by YSPSC is subject to externally imposed stipulations that can be fulfilled by actions of YSPSC pursuant to those stipulations or that expire with the passage of time.
- Unrestricted:
 - Net position that is not subject to externally imposed stipulations. Unrestricted net position 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.

YSPSC has no nonexpendable restricted net position at September 30, 2019 and 2018.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies, Continued

Utility Plant

Utility plant assets were transferred from Division of Public Utilities to YSPSC as of April 1, 1996 at the estimated net book value in the absence of documents to support cost. The net book value of the utility plant assets transferred was \$6,805,075 as of April 1, 1996. Plant assets acquired after April 1, 1996 are carried at cost. YSPSC generally capitalizes utility plant with a cost of \$500 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (3-40 years for plant assets).

Cash and Cash Equivalents

For purposes of the statements of net position and the statements of cash flows, cash and cash equivalents are defined as cash on hand, cash in bank and time certificates of deposit with original maturities of three months or less. Time certificates of deposit with original maturities in excess of three months are classified separately.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined. Management intends to hold the investments for more than 5 years and thus, has reported investments as other noncurrent assets in the statements of net position.

Receivables

All receivables are due from government agencies, businesses and individuals located within the State of Yap and are interest free and uncollateralized. The allowance for uncollectible accounts is estimated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance using the specific identification method.

Inventory

Supply inventories are carried at specific identification cost or at estimated values when contributed by the State of Yap. Fuel inventories are carried at cost determined using the first in-first out method.

Annual and Sick Leave

Earned but unused annual leave is paid to employees upon termination of their employment. Accordingly, YSPSC accrues these benefits in the period earned.

**YAP STATE PUBLIC SERVICE CORPORATION
(A COMPONENT UNIT OF THE STATE OF YAP)**

Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies, Continued

Revenues

Sales of electricity and water are recorded as billed to customers on a monthly billing cycle basis. As of September 30, 2019 and 2018, unbilled revenues of \$217,951 are estimated and accrued based on the most recent billing cycles.

Operating and Non-operating Revenues and Expenses

YSPSC considers revenues and expenses directly related to utility operations to be operating revenues and expenses. Revenues and expenses related to investing, financing and capital activities and revenues and expenses related to natural disasters are reflected as non-operating.

Risk Management

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.

Use of Estimates

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

New Accounting Standards

During the year ended September 30, 2019, YSPSC implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on YSPSC's financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION
(A COMPONENT UNIT OF THE STATE OF YAP)**

Notes to Financial Statements
September 30, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 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.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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 May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(2) Cash and Cash Equivalents

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, YSPSC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. YSPSC does not have a deposit policy for custodial credit risk.

As of September 30, 2019 and 2018, the carrying amount of the YSPSC's total cash and cash equivalents was \$754,654 and \$1,265,228, respectively, and the corresponding bank balances were \$699,997 and \$1,228,201, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At each of September 30, 2019 and 2018, bank deposits in the amount of \$500,000 were FDIC insured. Collateralization of deposits is not required; therefore deposits in excess of the FDIC insured amounts are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(3) Accounts Receivable and Accrued Unbilled Revenue

YSPSC's accounts receivable, less allowance for doubtful accounts, and accrued unbilled revenue at September 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Gross accounts receivable	\$ 918,610	\$ 828,696
Less allowance for doubtful accounts	(55,263)	(91,911)
Net accounts receivable	863,347	736,785
Accrued unbilled revenue	<u>217,951</u>	<u>217,951</u>
Net accounts receivable and accrued unbilled revenue	\$ <u>1,081,298</u>	\$ <u>954,736</u>

(4) Investments

Investments recorded at fair value are comprised of the following:

	<u>2019</u>	<u>2018</u>
Common stock	\$ 95,494	\$ -
Fixed income securities	50,750	-
Money market funds	<u>3,756</u>	-
	\$ <u>150,000</u>	\$ <u>-</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, YSPSC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. YSPSC's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(4) Investments, Continued

Based on negotiated trust and custody contracts, all of these investments were held in the YSPSC's name by the YSPSC's custodial financial institutions at September 30, 2019.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the YSPSC. As of September 30, 2019, no investments in any one issuer represented five percent or more of total investments for YSPSC.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. YSPSC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

YSPSC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2019, YSPSC's investments recorded at fair value were as follows:

	Hierarchy As of September 30, 2019			Moody's Credit Rating	No Maturity	Maturity At September 30, 2019			
	Level 1	Level 2	Level 3			Less than 1 year	1 - 5 years	6 -10 years	More than 10 years
Investments by fair value level:									
Fixed income securities	\$ 50,750	\$ -	\$ -	NR	\$ 50,750	\$ -	\$ -	\$ -	\$ -
Common stock	<u>95,494</u>	<u>-</u>	<u>-</u>	NR	<u>95,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	146,244	-	-		146,244	-	-	-	-
Investments measured at amortized cost:									
Money market funds	<u>3,756</u>	<u>-</u>	<u>-</u>		<u>3,756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	\$ <u>150,000</u>	\$ <u>-</u>	\$ <u>-</u>		\$ <u>150,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(5) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2019 and 2018 is as follows:

	Beginning Balance <u>October 1, 2018</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	<u>Other</u>	Ending Balance <u>September 30, 2019</u>
Depreciable plant:					
Production plant	\$ 22,503,067	\$ 266,896	\$ (235,798)	\$ (157,278)	\$ 22,376,887
Distribution plant	8,751,394	172,190	-	-	8,923,584
General plant	<u>4,209,650</u>	<u>55,061</u>	-	-	<u>4,264,711</u>
	35,464,111	494,147	(235,798)	(157,278)	35,565,182
Less accumulated depreciation	<u>(17,496,095)</u>	<u>(1,257,248)</u>	<u>235,798</u>	-	<u>(18,517,545)</u>
Net depreciable plant	17,968,016	(763,101)	-	(157,278)	17,047,637
Non-depreciable plant:					
Work in progress	<u>57,490</u>	-	(40,090)	-	<u>17,400</u>
	<u>\$ 18,025,506</u>	<u>\$ (763,101)</u>	<u>\$ (40,090)</u>	<u>\$ (157,278)</u>	<u>\$ 17,065,037</u>
	Beginning Balance <u>October 1, 2017</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	<u>Other</u>	Ending Balance <u>September 30, 2018</u>
Depreciable plant:					
Production plant	\$ 15,451,044	\$ 7,052,023	\$ -	\$ -	\$ 22,503,067
Distribution plant	8,713,088	38,306	-	-	8,751,394
General plant	<u>4,048,967</u>	<u>160,683</u>	-	-	<u>4,209,650</u>
	28,213,099	7,251,012	-	-	35,464,111
Less accumulated depreciation	<u>(16,334,986)</u>	<u>(1,161,109)</u>	-	-	<u>(17,496,095)</u>
Net depreciable plant	11,878,113	6,089,903	-	-	17,968,016
Non-depreciable plant:					
Work in progress	<u>5,002,693</u>	<u>1,787,172</u>	(6,732,375)	-	<u>57,490</u>
	<u>\$ 16,880,806</u>	<u>\$ 7,877,075</u>	<u>\$ (6,732,375)</u>	<u>\$ -</u>	<u>\$ 18,025,506</u>

During the year ended September 30, 2019, management of YSPSC determined that \$235,798 of fully depreciated capital were impaired and were no longer in use. Accordingly, these capital assets were written-off.

In 2018, Federated States of Micronesia National Government (FSMNG) obtained a loan from the Asia Development Bank (ADB) to finance a Yap Renewable Energy Development Project. During the year ended September 30, 2019, YSPSC management determined that \$157,278 of estimated capital assets and accrued liabilities would not be recorded based on advice from the FSM National Government.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(6) Notes Payable

Notes payable at September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Uncollateralized loan of original principal of \$2,270,837 payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable semiannually in Special Drawing Rights (SDR) commencing August 2007. An SDR adjustment and additional consulting fees increased the loan balance by \$639,957 in fiscal year 2009. In fiscal year 2015, an SDR adjustment of \$348,385 decreased the loan balance.	\$ 1,722,853	\$ 1,865,720
Loan guaranteed by the Federated States of Micronesia with a maximum amount of \$4,680,000 payable to ADB borrowed through the FSM and Yap State for the Yap Renewable Energy Development Project. YSPSC is liable to Yap State for interest at 0.80% which includes a 0.20% maturity premium, net of a 0.20% rebate. The loan is repayable semiannually for a period of 20 years commencing December 1, 2018.	4,590,973	4,283,993
Loan guaranteed by the Federated States of Micronesia with a maximum amount of \$4,360,000 for renewable energy, YSPSC is liable to ADB for interest at 2%. The loan is repayable semiannually for a period of 20 years commencing December 1, 2018.	<u>3,658,015</u>	<u>3,765,583</u>
Total notes payable	9,971,841	9,915,296
Less current portion	<u>403,005</u>	<u>395,085</u>
	\$ <u>9,568,836</u>	\$ <u>9,520,211</u>

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(6) Notes Payable, Continued

The scheduled debt service of the notes payable is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 403,005	\$ 103,131	\$ 506,136
2021	403,005	98,652	501,657
2022	496,605	93,639	590,244
2023	496,605	88,447	585,052
2024	496,605	83,255	579,860
2025 through 2029	2,857,428	331,978	3,189,406
2030 through 2034	2,856,987	184,531	3,041,518
2035 through 2038	<u>1,961,601</u>	<u>41,335</u>	<u>2,002,936</u>
	<u>\$ 9,971,841</u>	<u>\$ 1,024,968</u>	<u>\$ 10,996,809</u>

Changes in long-term liabilities for the years ended September 30, 2019 and 2018 are as follows:

	<u>Outstanding September 30, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding September 30, 2019</u>	<u>Current</u>
ADB loan (1459)	\$ 1,865,720	\$ -	\$ 142,867	\$ 1,722,853	\$ 121,126
ADB loan (3004)	4,283,993	396,007	89,027	4,590,973	93,600
ADB loan (3005)	<u>3,765,583</u>	<u>175,493</u>	<u>283,061</u>	<u>3,658,015</u>	<u>188,279</u>
	<u>\$ 9,915,296</u>	<u>\$ 571,500</u>	<u>\$ 514,955</u>	<u>\$ 9,971,841</u>	<u>\$ 403,005</u>
	<u>Outstanding September 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Outstanding September 30, 2018</u>	<u>Current</u>
ADB loan (1459)	\$ 2,093,145	\$ -	\$ 227,425	\$ 1,865,720	\$ 121,126
ADB loan (3004)	3,808,646	475,347	-	4,283,993	85,680
ADB loan (3005)	<u>3,526,193</u>	<u>239,390</u>	<u>-</u>	<u>3,765,583</u>	<u>188,279</u>
	<u>\$ 9,427,984</u>	<u>\$ 714,737</u>	<u>\$ 227,425</u>	<u>\$ 9,915,296</u>	<u>\$ 395,085</u>

(7) Commitments and Contingencies

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.

YSPSC is the ultimate beneficiary of two diesel generators and a substation upgrade from World Bank and a 200 KWP panel solar system from PEC Fund that are operational as of September 30, 2019. These projects were granted to the FSM National Government and turn-over of ownership and related documents to YSPSC is on-going as of September 30, 2019. YSPSC does not currently hold title to this property and such is not recorded in the accompanying financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(7) Commitments and Contingencies, Continued

Federal Grants

YSPSC participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative unresolved prior years' questioned costs as of September 30, 2019 amounted to \$247,296. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Payable to Federated States of Micronesia

In February 2008, the Yap State Legislature enacted YSL No. 7-25 to amend No. 4-4, YSPSC's enabling legislation, mandating that YSPSC credit back certain charges to prior customers. YSL 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 \$175,318 at September 30, 2019 and 2018, and is included as a current liability in the Statements of Net Position. Although the FSM National Government has not asserted a claim to this liability, it has not forgiven this debt.

Lease Commitments

YSPSC's future annual rental commitments under a long-term operating lease for the Yap Renewable Energy Development Project site assuming YSPSC exercises its option to extend the terms are as follows:

<u>Year ending</u> <u>September 30,</u>	
2020	\$ 25,000
2021	25,000
2022	25,000
2023	25,000
2024	25,000
2025 through 2029	125,000
2030 through 2034	125,000
2035 through 2039	125,000
2040 and subsequent	<u>343,750</u>
Total	\$ <u>843,750</u>

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2019 and 2018

(7) Commitments and Contingencies, Continued

Contract Commitments

Contract commitments in connection with projects currently in construction approximate \$0 and \$752,553 as at September 30, 2019 and 2018, respectively.

(8) Grants

YSPSC received the following grants and capital contributions during the years ended September 30, 2019 and 2018:

	<u>2019</u>		<u>2018</u>
U.S. Department of the Interior grants	\$ 144,084	\$	229,000
International Organization for Migration (IOM)	52,709		313,099
World Bank grant	<u>-</u>		<u>125,357</u>
	\$ <u>196,793</u>	\$	\$ <u>667,456</u>

(9) Restricted Net Position

Restricted net position consists of the following at September 30, 2019 and 2018:

	<u>2019</u>		<u>2018</u>
Unexpended portion of			
U.S. Department of the Interior grants	\$ <u>-</u>	\$	\$ <u>37,273</u>

(10) Related Party Transactions

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.