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June 22, 2021

The Board of Directors  
Yap State Public Service Corporation

Dear Members of the Board:

We have performed an audit of the financial statements of Yap State Public Service Corporation (YSPSC), a component unit of the State of Yap, as of and for the year ended September 30, 2020, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated June 22, 2021.

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

This report is intended solely for the information and use of the Board of Directors, management, and others within YSPSC, the Yap State Legislature, and the Office of the FSM National Public Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

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

Very truly yours,

cc: To Management of Yap State Public Service Corporation

## **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, has been described in our engagement letter dated January 28, 2021. As described in that letter, the objectives of a financial statement audit conducted in accordance with the aforementioned standards are:

- To express an opinion on the fairness of the presentation of YSPSC's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2020 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and
- To report on YSPSC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2020 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to YSPSC's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of YSPSC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of YSPSC's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to 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 statements prepared with the oversight of management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in YSPSC's 2020 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts; management's estimate of the allowance for inventory obsolescence, which is determined based upon expected inventory turnover and inventory aging; and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2020, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

**MATERIAL CORRECTED MISSTATEMENTS 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. Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Appendix A to Attachment I and are reflected in the 2020 financial statements.

In addition, listed in Appendix B to Attachment I, is a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and the aggregate, to the financial statements taken as a whole.

**SIGNIFICANT ACCOUNTING POLICIES**

During the year ended September 30, 2020, YSPSC implemented the following pronouncements:

GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ended September 30, 2022.

**SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

**SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

**OTHER INFORMATION IN THE ANNUAL REPORTS**

When audited financial statements are included in documents containing other information such as YSPSC's 2020 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. We will read the other information in YSPSC's 2020 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

**DISAGREEMENTS WITH MANAGEMENT**

We have not had any disagreements with management related to matters that are material to YSPSC's 2020 financial statements.

**OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF 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 2020.



**SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION**

Throughout the year, routine discussions were held or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

**SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

**MANAGEMENT'S REPRESENTATIONS**

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

**CONTROL-RELATED MATTERS**

We have issued a separate report to you, dated June 22, 2021, on YSPSC's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*.

\* \* \* \* \*



# Yap State Public Service Corporation

ATTACHMENT I

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

June 22, 2021

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

Gentlemen:

We are providing this letter in connection with your audits of the financial statements of the Yap State Public Service Corporation (YSPSC), a component unit of the State of Yap, as of and for the years ended September 30, 2020 and 2019 for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, changes in net position and cash flows of YSPSC in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position, changes in net position and cash flows, in conformity with GAAP.
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association. Additionally, we agree with the adjusting entries included in Appendix A.

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

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

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

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6. YSPSC has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in YSPSC and do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting YSPSC involving:
  - a. Management.
  - b. Employees who have significant roles in internal control over financial reporting.
  - c. Others if the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting YSPSC received in communications from employees, former employees, analysts, regulators, or others.
9. During the years ended September 30, 2020 and 2019 and to the date of this letter, we are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*, and we have not consulted a lawyer concerning litigation, claims, or assessments, or potential litigation or unasserted claims or assessments during the years ended September 30, 2020 and 2019 and to the date of this letter.
10. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, matters less than \$28,700 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 basic financial statements.

11. Except as listed in Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
12. YSPSC has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
13. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
  - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral), as follows:

- b. 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.
      - c. Guarantees, whether written or oral, under which YSPSC is contingently liable.
14. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
  - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
  - b. The effect of the change would be material to the financial statements.
15. Risk associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
  - a. The concentration exists at the date of the financial statements
  - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact
  - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
16. 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 GASB Codification Section C50, *Claims and Judgments*, except as follows:
    - YSPSC does not currently hold title to real property underlying its operating sites. Such property substantially is held in the name of the State of Yap. YSPSC is not charged for use of this property.
    - In February 2008, the Yap State Legislature enacted 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, and is included as a current liability in the Statement of Net Assets. Although FSM National Government has not asserted a claim to this liability, neither has it forgiven this debt.
- 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 is as follows:

Year ending September 30,	
2021	\$ 25,000
2022	25,000
2023	25,000
2024	25,000
2025	25,000
2026 through 2030	125,000
2026 through 2035	125,000
2036 through 2040	125,000
2041 and over	<u>318,750</u>
Total	<u>\$ 818,750</u>

17. Except as disclosed above, YSPSC has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in the financial statements.
18. YSPSC has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
19. No events have occurred after September 30, 2020, but before June 22, 2021, the date the financial statements were available to be issued that require consideration as adjustments to or disclosure in the financial statements.
20. Regarding required supplementary information:
  - a. We confirm that we are responsible for the required supplementary information.
  - b. The required supplementary information is measured and presented in accordance with the Governmental Accounting Standards Board.
  - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
21. Subsequent to September 30, 2020, there have not been any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses.
22. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2020 and have been appropriately reduced to their estimated net realizable value.

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23. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
24. 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.
25. Provision has been made to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of YSPSC and do not include any items consigned to it or any items billed to customers.
28. YSPSC received the following grants and capital contributions during the years ended September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Yap State Government	\$ 187,075	\$ -
U.S. Department of the Interior grants	148,056	144,084
International Organization for Migration (IOM)	-	<u>52,709</u>
	<u>\$ 335,131</u>	<u>\$ 196,793</u>

29. During the year ended September 30, 2020, YSPSC implemented the following pronouncements:

GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

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In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

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In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

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In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

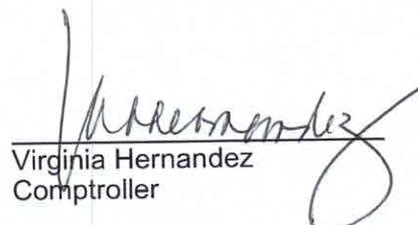
In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

Very truly yours,

  
Faustino Yangmog  
General Manager

  
Virginia Hernandez  
Comptroller

## APPENDIX A

**Yap State Public Service Corporation  
Summary of Posted Adjustments and  
Financial Statements Reclassification Entries  
September 30, 2020**

**Journal Entries - AJE**

#	Name	Debit	Credit
	<b>AJE To reclass provision to correct GL</b>		
41037	Provision for doubtful account	27,932.00	
41011	Power Sales		24,102.00
41016	ELECTRIC SALES - EFII		3,830.00
		<u>27,932.00</u>	<u>27,932.00</u>
	To reclass provision for doubtful to correct GL		
	<b>AJE To adjust beginning net position</b>		
21011	Accounts Payable -- Vendors	20,830.00	
32011	Retained Earnings - Cumulativ		20,830.00
		<u>20,830.00</u>	<u>20,830.00</u>
	To adjust beginning net position		
	<b>AJE To recognize investment income</b>		
11070	Investment with Raymond James	11,010.00	
42051DT	Investment income		11,010.00
		<u>11,010.00</u>	<u>11,010.00</u>
	To recognize investment income		
	<b>AJE To adjust understatement in LTD 1459</b>		
23012	ADB Loan Payable		70,896.00
42015	Foreign Exchange Gain (Loss)	70,896.00	
		<u>70,896.00</u>	<u>70,896.00</u>
	To adjust understatement in LTD 1459		
	<b>AJE To adjust understatement in LTD 3005</b>		
42015	Foreign Exchange Gain (Loss)	109,751.00	
23014	ADB Loans Payable - L- 3005		109,751.00
		<u>109,751.00</u>	<u>109,751.00</u>
	To adjust understatement in LTD 3005 due to SDR		

**Journal Entries - RJE**

	<b>RJE To reclass grant received from IOM</b>		
31030	IOM. Cont. for Maysak Recovery		52,709.00
42700DT	Capital contributions	52,709.00	
		<u>52,709.00</u>	<u>52,709.00</u>
	To reclass capital contribution		
	<b>RJE To reclass other non-current deposits</b>		
11900DT	Other non-current deposits	13,395.00	
11081	Prepayments - Vendors		13,395.00
		<u>13,395.00</u>	<u>13,395.00</u>
	To reclass other non-current deposits (prepaid vehicle)		
	<b>RJE To adjust current and NC portion of LTD</b>		
23014	ADB Loans Payable - L- 3005		1,679.00
23011	Current Portion of LT Debt	1,679.00	
		<u>1,679.00</u>	<u>1,679.00</u>
	To adjust current and nc portion of ADB loan		

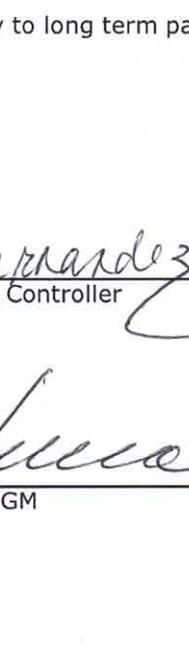
APPENDIX A, CONTUNUED

**RJE To reclass inventory to long term parts**

11910DT	Long term replacement parts	278,008.39	
11072	Inventory - Power Plant		278,008.39
		<u>278,008.39</u>	<u>278,008.39</u>

To reclass inventory to long term parts (Overhaul engine)

Signed:   
Virginia Hernandez, Controller

Signed:   
Faustino Yangmog, GM

## APPENDIX B

Yap State Public Service Corporation  
 Summary of Uncorrected Misstatements  
 Year Ended September 30, 2020

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
To adjust overstatement in accrued unbilled revenue		(19,077)					19,077	
To adjust overstatement in depreciation of CAT engine	8,413							(8,413)
To correct overstatement of inventory		(10,551)					10,551	
To recognize additional allowance		(29,012)					29,012	
To recognize deferred revenue on CP sales				(10,991)			10,991	
	8,413	(58,640)		(10,991)			69,631	(8,413)