

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2021 AND 2020

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

Years Ended September 30, 2021 and 2020
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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, 2021 and 2020, 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 the Yap State Public Service Corporation as of September 30, 2021 and 2020, 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.

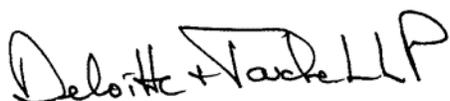
Other Matters

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 October 13, 2022 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.



October 13, 2022

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

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, 2021, and 2020. 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, 2021, 2020 and 2019. 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 2021, 2020 and 2019.

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|----------------------|
| ASSETS | | | |
| Plant in Service, net | \$ 14,689,116 | \$ 16,457,245 | \$ 17,047,637 |
| Work in progress, net of current portion | 40,637 | 40,637 | 17,400 |
| Current and other assets | <u>3,944,796</u> | <u>4,200,648</u> | <u>3,811,413</u> |
| Total assets | <u>\$ 18,674,549</u> | <u>\$ 20,698,530</u> | <u>\$ 20,876,450</u> |
| NET POSITION AND LIABILITIES | | | |
| Net investment in capital assets | \$ 5,371,272 | \$ 6,753,189 | \$ 7,093,196 |
| Unrestricted | <u>2,999,580</u> | <u>3,378,524</u> | <u>2,902,049</u> |
| Total net position | <u>8,370,852</u> | <u>10,131,713</u> | <u>9,995,245</u> |
| Notes payable, net of current portion | 8,861,876 | 9,341,688 | 9,568,836 |
| Current portion of notes payable | 496,605 | 403,005 | 403,005 |
| Other current liabilities | <u>945,216</u> | <u>822,124</u> | <u>909,364</u> |
| Total liabilities | <u>10,303,697</u> | <u>10,566,817</u> | <u>10,881,205</u> |
| Total net position and liabilities | <u>\$ 18,674,549</u> | <u>\$ 20,698,530</u> | <u>\$ 20,876,450</u> |
| REVENUES, EXPENSES, AND NET POSITION | | | |
| Operating revenues | \$ 5,548,914 | \$ 5,738,732 | \$ 5,791,118 |
| Operating expenses | <u>5,589,941</u> | <u>5,424,219</u> | <u>6,377,180</u> |
| (Loss) income from operations | <u>(41,027)</u> | <u>314,513</u> | <u>(586,062)</u> |

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|---------------------|----------------------|---------------------|
| Donation to Municipalities | (1,659,168) | - | - |
| Operating grants and subsidies | 102,328 | 148,056 | 144,084 |
| Interest expense | (133,272) | (201,443) | (216,576) |
| Interest income | 33,617 | 960 | 1,863 |
| Grant expenses | (81,174) | (148,056) | (209,894) |
| Foreign exchange gain (loss) | (17,415) | (180,649) | 102,796 |
| Other income/(expenses) | <u>-</u> | <u>16,012</u> | <u>(349)</u> |
| Total non operating income(loss) net | <u>(1,755,084)</u> | <u>(365,120)</u> | <u>(178,076)</u> |
| Net (loss) before capital contributions | (1,796,111) | (50,607) | (764,138) |
| Capital contributions | <u>35,250</u> | <u>187,075</u> | <u>52,709</u> |
| Change in net position | (1,760,861) | 136,468 | (711,429) |
| Net position, beginning | <u>10,131,713</u> | <u>9,995,245</u> | <u>10,706,674</u> |
| Net position, ending | \$ <u>8,370,852</u> | \$ <u>10,131,713</u> | \$ <u>9,995,245</u> |

FINANCIAL OPERATIONS OVERVIEW

YSPSC has successfully completed twenty-six years of operations. Continuing with 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 2016. Currently, all inhabited islands in the outer islands are now experiencing access to modern and sustainable electricity services through solar power. 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: Financial operations for 2021 recognized an operating loss of \$41,027. Operating income for FY 2020 was \$314,513 while operating loss for fiscal year 2019 was \$586,062. In 2021, Operating revenues declined by 3.3% while operating expenses increased by 3.1%.

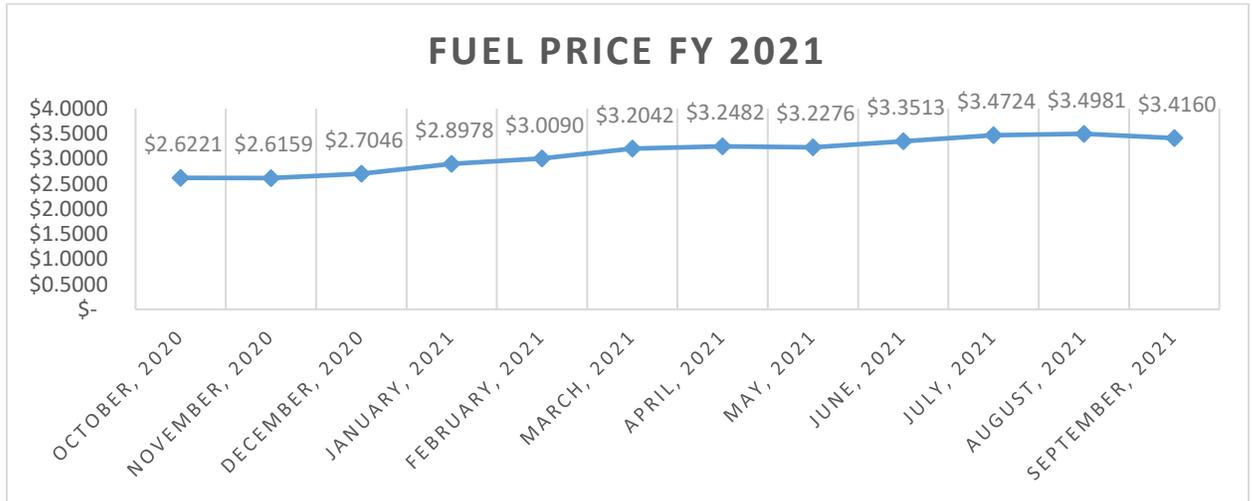
Electric Revenue/Kilowatt Hours Billed: The fiscal year 2021 electricity revenue of \$5,151,811 represents a decrease of 1.8% over fiscal year 2020. In 2020, a slight decrease in electric revenue was .04% (\$22,646) against FY 2019, and both reflected a drop in kilowatt hours billed to customers. In FY 2021, 44% was consumed by commercial customers, 27% was billed to government and 29% for residential.

Water Revenue: Water sales revenue was reduced by 11% percent or \$58,614 compared to FY 2020. In FY 2021, commercial customers used 22%, government customers utilized 14% and residential users were billed 64%. Water consumption for all classes was 83.91 million gallons.

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Production Fuel: Production fuel, which represents 30% of total operating expenses, slightly increased by 2% or \$45,137 as compared to FY 2020. The average monthly fuel price paid by YSPSC for FY 2021 was \$3.1056 compared to \$2.9942 in 2020. The graph below shows fuel prices for FY 2021.



Other Operating Expenses – Other operating expenses increased by 53% in 2021 when compared to 2020. Other production costs increased as well by 41%, depreciation decreased by 11%. General and administrative expenses increased by 11% and salaries and wages decreased by 2% in 2021.

Nonoperating Expenses – In 2021, certain solar power assets were transferred to the custody of various Yap State municipalities.

Significant Changes in Net Position

Cash – Ending cash of \$933,613 at September 30, 2021, is 43% less than the \$1.65 million at the end of FY 2020 and was attributable to cash provided by operating activities and various grants received.

Receivables – Customer receivables of \$838,341 on September 30, 2021, represent a decrease of 12% over 2020. While FY 2020 also indicated a 12% decrease in customer receivables over 2019.

Capital Assets – YSPSC’s investment in capital assets, net of accumulated depreciation as of September 30, 2021, and 2020 was \$14,729,753 and \$16,497,882 respectively. This includes investment in power generation, distribution, water and sewer treatment plant related facilities as well as general items such as office furniture and computer equipment, vehicles, etc. Capital assets indicate a 10.7% decrease as of FY 2021 as compared to FY 2020. See Note 5 for additional information regarding YSPSC’s capital asset activity.

Long-term Debt – On September 30, 2021, the Corporation owed \$9,358,481 in long-term debts for three Asian Development Bank (ADB) loans, \$496,605 of which is current. Please refer to Note 6 to the financial statements for additional information related to long-term debts.

Current Liabilities – Current liabilities increased by 18% or \$216,692 for 2021 as compared to 2020.

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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 Improvement Program (OMIP) 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 Power Authority, and Yap State Public Services Corporation. YSPSC received \$120,000 in fiscal year 2020, in cost reimbursements for the training program.

Yap Upcoming projects for the next 5 years:

| | Project Type | Project Description | Location | Approximated Cost (\$M) | Funding Status |
|---|---|---|--|----------------------------|---------------------------------------|
| 1 | 1,973 kWp PV w/ 800 kWh BESS | 1,673 kWp ground-mounted PV w/800 kWh BESS, and 300 kWp roof-top PV | Ground-mounted PV near main Power Plant, additional roof-top PV at Sports Complex in the North | \$USD3,517,171 (bid price) | ADB REDP |
| 2 | Control System Upgrade | To upgrade the existing Control System in Yap Main Island and integrate diesel and all energy systems, including new PV and BESS installations under REDP | Control Room at main Power Plant in Yap | \$USD0.65 | ADB REDP |
| 3 | Additional 800 kWh BESS under REDP | Increasing PV capacity and production in the North, where the load is mainly residential and at night, from 200 kWp to 500 kWp under REDP will require the additional BESS to regulate and limit voltage fluctuation, and to store PV production for nighttime use. | Yap Sports Complex in the North of Yap Main Island | \$USD0.961 | Unfunded - Targeting ADB REDP Savings |
| 4 | Ormazabal Substation HV switchboard extension with 4 new Circuit Breaker Panels | 2 Circuit Breaker Panels will be used for the PV and BESS installations under REDP, and 2 will be kept as spares or used for future underground mesh. | Yap Power Plant Substation | \$AUD0.161 | Unfunded - Targeting ADB REDP Savings |
| 5 | 830 kW diesel generator | Installation of a second peak load genset to create redundancy for the peak diesel generation. | Yap Power Plant | \$USD0.3262 | WB SEDAP |
| 6 | Diesel Integration | Integration of the new 830 kW diesel to be installed under SEDAP | Yap Power Plant | \$USD0.3 | WB SEDAP |
| 7 | Solar PV Micro-grid for Ifalik | 48.7 kWp, 878 kWh BESS solar PV micro-grid | Ifalik | \$USD1.15 | Grant funded by US Federal HECG |

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Yap Upcoming projects for the next 5 years:, Continued

| | | | | | |
|----|--|--|-----------------------------------|------------|---------------------------------|
| 8 | Solar PV Micro-grid for Lamotrek | 28.8 kWp, 518 kWh BESS solar PV micro-grid | Lamotrek | \$USD0.69 | Grant funded by US Federal HECG |
| 9 | Rehabilitation of North Rep Systems | Installation of 60kWp of PV, 64.8kW of inverter capacity, 12,000Ah 48Vdc batteries. | Falalop, Ulithi | \$USD0.252 | EDF11 SEAM |
| 10 | Grid Resiliency | | | | |
| | a). Yap Underground Mesh | Installation of underground mesh to key government, commercial, and public infrastructures | Yap Main Island | \$USD3.752 | Unfunded |
| | b). Replacing all Wooden Primary Poles with Concrete Poles | 443 concrete, 45' Class B guyed poles & accessories | Yap Main Island | \$USD2.766 | Unfunded |
| | c). Outer Islands Underground Mesh | Converting the aerial network for the 4.16 kV mini-grids in Falalop Ulithi and Falalop Woleai to underground mesh | Falalop, Ulithi & Falalop, Woleai | \$USD0.861 | Unfunded |
| 11 | Power Plant Resiliency | Enclose the main diesel fleet in individual concrete rooms, and reinforce the Control Room against Cat 5 cyclonic wind load. | Yap Main Island | \$USD1.208 | Unfunded |
| 12 | Distribution Equipment | 1 Mini-Bucket Truck; 1 Digger Derrick Truck; 2 4X4 Utility Trucks | Yap Main Island | \$USD0.62 | Unfunded |

The Management Discussion and Analysis for the years ended September 30, 2020 and 2019 is set forth in the report on the audit of YSPSC's 2020 financial statements which is dated June 22, 2021. That Discussion and Analysis explains more in details major factors affecting the 2020 and 2019 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
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Statements of Net Position
September 30, 2021 and 2020

| <u>ASSETS</u> | <u>2021</u> | <u>2020</u> |
|---|---------------|---------------|
| Non-current assets: | | |
| Utility plant: | | |
| Depreciable capital assets: | | |
| Plant in service | \$ 35,156,314 | \$ 36,176,777 |
| Less accumulated depreciation | (20,467,198) | (19,719,532) |
| Depreciable utility plant, net | 14,689,116 | 16,457,245 |
| Non-depreciable capital assets: | | |
| Work in progress | 40,637 | 40,637 |
| Utility plant, net | 14,729,753 | 16,497,882 |
| Other noncurrent assets: | | |
| Investments | 393,951 | 161,010 |
| Long-term deposit | 274,545 | 274,545 |
| Long-term replacement parts, net of an obsolescence reserve of \$58,562 in 2021 and 2020 | 664,472 | 446,274 |
| Advances to contractors | 82,284 | 82,284 |
| Deposit for asset acquisition | - | 13,395 |
| Total other noncurrent assets | 1,415,252 | 977,508 |
| Current assets: | | |
| Cash and cash equivalents | 933,613 | 1,646,183 |
| Accounts receivable and unbilled accrued revenue, net of \$83,195 allowance for doubtful accounts in 2021 and 2020 | 838,341 | 953,126 |
| Inventory | 466,713 | 564,923 |
| Prepaid expenses | 290,877 | 58,908 |
| Total current assets | 2,529,544 | 3,223,140 |
| | \$ 18,674,549 | \$ 20,698,530 |
| <u>NET POSITION AND LIABILITIES</u> | | |
| Net position: | | |
| Net investment in capital assets | \$ 5,371,272 | \$ 6,753,189 |
| Unrestricted | 2,999,580 | 3,378,524 |
| Total net position | 8,370,852 | 10,131,713 |
| Commitments and contingencies | | |
| Current liabilities: | | |
| Current portion of notes payable | 496,605 | 403,005 |
| Accounts payable | 361,745 | 163,949 |
| Employees' annual leave and accrued payroll | 129,692 | 129,203 |
| Refunds payable to customers | 175,318 | 175,318 |
| Deferred revenue | 81,174 | 172,492 |
| Other payables and customer deposits | 197,287 | 181,162 |
| Total current liabilities | 1,441,821 | 1,225,129 |
| Notes payable, net of current portion | 8,861,876 | 9,341,688 |
| Total liabilities | 10,303,697 | 10,566,817 |
| | \$ 18,674,549 | \$ 20,698,530 |

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, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|----------------------|
| Operating revenues: | | |
| Electricity sales | \$ 5,151,811 | \$ 5,244,716 |
| Water sales and wastewater services | <u>463,334</u> | <u>521,948</u> |
| | 5,615,145 | 5,766,664 |
| Provision for doubtful accounts | <u>(66,231)</u> | <u>(27,932)</u> |
| Total net operating revenues | <u>5,548,914</u> | <u>5,738,732</u> |
| Operating expenses: | | |
| Production fuel | 2,154,257 | 2,109,120 |
| Salaries and wages and related expenses | 1,128,360 | 1,152,253 |
| Depreciation | 1,065,544 | 1,201,987 |
| Other production costs | 809,445 | 571,564 |
| Administrative and general | <u>432,335</u> | <u>389,295</u> |
| Total operating expenses | <u>5,589,941</u> | <u>5,424,219</u> |
| Operating (loss) income | <u>(41,027)</u> | <u>314,513</u> |
| Nonoperating income (loss): | | |
| Interest income | 33,617 | 960 |
| Foreign exchange (loss), net | (17,415) | (180,649) |
| Operating grants and subsidies | 102,328 | 148,056 |
| Interest expense | (133,272) | (201,443) |
| Donations to Municipal governments | (1,659,168) | - |
| Grant expenses | (81,174) | (148,056) |
| Other income (loss), net | <u>-</u> | <u>16,012</u> |
| Total nonoperating loss, net | <u>(1,755,084)</u> | <u>(365,120)</u> |
| Net loss before capital contributions | (1,796,111) | (50,607) |
| Capital contributions | <u>35,250</u> | <u>187,075</u> |
| Change in net position | (1,760,861) | 136,468 |
| Net position at beginning of year | <u>10,131,713</u> | <u>9,995,245</u> |
| Net position at end of year | <u>\$ 8,370,852</u> | <u>\$ 10,131,713</u> |

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, 2021 and 2020

| | 2021 | 2020 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 5,626,835 | \$ 5,870,068 |
| Cash paid to suppliers | (3,968,570) | (2,789,279) |
| Cash paid to employees | (1,127,871) | (1,142,054) |
| Net cash provided by operating activities | 530,394 | 1,938,735 |
| Cash flows from investing activities: | | |
| Interest and other income | 33,617 | 960 |
| Purchase of investments | (232,941) | (11,010) |
| Net cash used in investing activities | (199,324) | (10,050) |
| Cash flows from noncapital financing activities: | | |
| Proceeds from operating grants and subsidies | 11,009 | 120,000 |
| Other income | - | 16,012 |
| Expenses paid from operating grant proceeds | (81,174) | (148,056) |
| Net cash used in noncapital financing activities | (70,165) | (12,044) |
| Cash flows from capital and related financing activities: | | |
| Acquisition of utility plant | (485,221) | (566,315) |
| Increase in work in progress | - | (23,237) |
| Deposit for asset acquisition | 13,395 | (13,395) |
| Interest paid | (133,272) | (201,443) |
| Capital contributions received | 35,250 | 187,075 |
| Repayment of loans payable | (403,627) | (407,797) |
| Net cash used in capital and related financing activities | (973,475) | (1,025,112) |
| Net change in cash and cash equivalents | (712,570) | 891,529 |
| Cash and cash equivalents at beginning of year | 1,646,183 | 754,654 |
| Cash and cash equivalents at end of year | \$ 933,613 | \$ 1,646,183 |
| Reconciliation of operating (loss) income to net cash provided by operating activities: | | |
| Operating (loss) income | \$ (41,027) | \$ 314,513 |
| Adjustments to reconcile operating (loss) income to net cash provided by operating activities: | | |
| Depreciation | 1,065,544 | 1,201,987 |
| Provision for doubtful accounts | 66,231 | 27,932 |
| Decrease (increase) in assets: | | |
| Receivables | 114,785 | 100,240 |
| Inventory | (566,262) | 372,811 |
| Prepaid expenses | (231,969) | (19,564) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 197,796 | (72,547) |
| Employees' annual leave and accrued payroll | 489 | 10,199 |
| Other liabilities and customer deposits | (75,193) | 3,164 |
| Net cash provided by operating activities | \$ 530,394 | \$ 1,938,735 |

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
Years Ended September 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------|--------------|
| Noncash capital and financing activity: | | |
| Notes payable | \$ - | \$ (180,649) |
| Foreign exchange loss | - | 180,649 |
| | | |
| Addition to utility plant | \$ 446,274 | \$ 45,280 |
| Production plant | (446,274) | (115,118) |
| Long term replacement parts | - | 69,838 |
| | | |
| Donations to Municipal governments | \$ (1,659,168) | \$ - |
| Capital assets, net | 1,659,168 | - |

See accompanying notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2021 and 2020

(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 restricted net position at September 30, 2021 and 2020.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
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(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 except for certain money market accounts, which are recorded at amortized cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., 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, 2021 and 2020

(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, 2021 and 2020, unbilled revenues of \$192,681 and \$204,373, respectively, 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

In 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, which postponed the effective dates of GASB Statement No. 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, except for the early adoption of GASB Statement No. 89, management has elected to postpone implementation of these statements.

During the year ended September 30, 2021, the Corporation implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.

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

Notes to Financial Statements
September 30, 2021 and 2020

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

New Accounting Standards, Continued

- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

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

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 believes 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 ending September 30, 2022.

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. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

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

Notes to Financial Statements
September 30, 2021 and 2020

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

New Accounting Standards, Continued

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. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 98 will be effective for fiscal year ending September 30, 2022.

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

Notes to Financial Statements
September 30, 2021 and 2020

(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, 2021 and 2020, the carrying amount of the YSPSC's total cash and cash equivalents was \$933,613 and \$1,646,183, respectively, and the corresponding bank balances were \$900,750 and \$1,574,546, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At each of September 30, 2021 and 2020, 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, 2021 and 2020 were as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Gross accounts receivable | \$ 728,855 | \$ 831,948 |
| Less allowance for doubtful accounts | <u>(83,195)</u> | <u>(83,195)</u> |
| Net accounts receivable | 645,660 | 748,753 |
| Accrued unbilled revenue | <u>192,681</u> | <u>204,373</u> |
| Net accounts receivable and accrued unbilled revenue | \$ <u>838,341</u> | \$ <u>953,126</u> |

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

Notes to Financial Statements
September 30, 2021 and 2020

(4) Investments

Investments recorded at fair value or amortized cost are comprised of the following:

| | <u>2021</u> | <u>2020</u> |
|-------------------------|-------------------|-------------------|
| Common stock | \$ 264,129 | \$ 103,602 |
| Fixed income securities | 108,230 | 48,180 |
| Money market funds | <u>21,592</u> | <u>9,228</u> |
| | <u>\$ 393,951</u> | <u>\$ 161,010</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.

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, 2021.

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, 2021, 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.

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

Notes to Financial Statements
September 30, 2021 and 2020

(4) Investments, Continued

As of September 30, 2021 and 2020, YSPSC's investments recorded at fair value were as follows:

| | Hierarchy As of September 30, 2021 | | | Moody's Credit Rating | No Maturity | Maturity At September 30, 2021 | | | |
|--|---------------------------------------|-------------|-------------|--------------------------|-------------------|-----------------------------------|----------------|-----------------|-----------------------|
| | 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 | \$ 108,230 | \$ - | \$ - | NR | \$ 108,230 | \$ - | \$ - | \$ - | \$ - |
| Common stock | <u>264,129</u> | <u>-</u> | <u>-</u> | NR | <u>264,129</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | 372,359 | - | - | | 372,359 | - | - | - | - |
| Investments measured at amortized cost: | | | | | | | | | |
| Money market funds | <u>21,592</u> | <u>-</u> | <u>-</u> | | <u>21,592</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total investments | \$ <u>393,951</u> | \$ <u>-</u> | \$ <u>-</u> | | \$ <u>393,951</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |

| | Hierarchy As of September 30, 2020 | | | Moody's Credit Rating | No Maturity | Maturity At September 30, 2020 | | | |
|--|---------------------------------------|-------------|-------------|--------------------------|-------------------|-----------------------------------|----------------|-----------------|-----------------------|
| | 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 | \$ 48,180 | \$ - | \$ - | NR | \$ 48,180 | \$ - | \$ - | \$ - | \$ - |
| Common stock | <u>103,602</u> | <u>-</u> | <u>-</u> | NR | <u>103,602</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | 151,782 | - | - | | 151,782 | - | - | - | - |
| Investments measured at amortized cost: | | | | | | | | | |
| Money market funds | <u>9,228</u> | <u>-</u> | <u>-</u> | | <u>9,228</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total investments | \$ <u>161,010</u> | \$ <u>-</u> | \$ <u>-</u> | | \$ <u>161,010</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |

(5) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2021 and 2020 is as follows:

| | Beginning Balance October 1, 2020 | Transfers and Additions | Transfers and Deletions | Other | Ending Balance September 30, 2021 |
|-------------------------------|--------------------------------------|----------------------------|----------------------------|-------------|--------------------------------------|
| Depreciable plant: | | | | | |
| Production plant | \$ 22,921,705 | \$ 592,243 | \$ (1,787,649) | \$ - | \$ 21,726,299 |
| Distribution plant | 8,985,323 | 59,282 | - | - | 9,044,605 |
| General plant | <u>4,269,749</u> | <u>115,661</u> | <u>-</u> | <u>-</u> | <u>4,385,413</u> |
| | 36,176,777 | 767,186 | (1,787,649) | - | 35,156,314 |
| Less accumulated depreciation | <u>(19,719,532)</u> | <u>(1,065,542)</u> | <u>317,876</u> | <u>-</u> | <u>(20,467,198)</u> |
| Net depreciable plant | 16,457,245 | (298,353) | (1,469,773) | - | 14,689,116 |
| Non-depreciable plant: | | | | | |
| Work in progress | <u>40,637</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>40,637</u> |
| | \$ <u>16,497,882</u> | \$ <u>(298,353)</u> | \$ <u>(1,469,773)</u> | \$ <u>-</u> | \$ <u>14,729,753</u> |

| | Beginning Balance October 1, 2019 | Transfers and Additions | Transfers and Deletions | Other | Ending Balance September 30, 2020 |
|-------------------------------|--------------------------------------|----------------------------|----------------------------|-------------|--------------------------------------|
| Depreciable plant: | | | | | |
| Production plant | \$ 22,376,887 | \$ 544,818 | \$ - | \$ - | \$ 22,921,705 |
| Distribution plant | 8,923,584 | 61,739 | - | - | 8,985,323 |
| General plant | <u>4,264,711</u> | <u>5,038</u> | <u>-</u> | <u>-</u> | <u>4,269,749</u> |
| | 35,565,182 | 611,595 | - | - | 36,176,777 |
| Less accumulated depreciation | <u>(18,517,545)</u> | <u>(1,201,987)</u> | <u>-</u> | <u>-</u> | <u>(19,719,532)</u> |
| Net depreciable plant | 17,047,637 | (590,392) | - | - | 16,457,245 |
| Non-depreciable plant: | | | | | |
| Work in progress | <u>17,400</u> | <u>23,237</u> | <u>-</u> | <u>-</u> | <u>40,637</u> |
| | \$ <u>17,065,037</u> | \$ <u>(567,155)</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>16,497,882</u> |

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

Notes to Financial Statements
September 30, 2021 and 2020

(5) Utility Plant, Continued

During the year ended September 30, 2021, YSPSC donated solar assets with a net book value of \$1,659,168 to Yap State municipal governments.

(6) Notes Payable

Notes payable at September 30, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|----------------------------|----------------------------|
| Uncollateralized loan of original principal of \$2,270,837 payable to the Asian 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, maturing in 2034. 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. | \$ 1,575,080 | \$ 1,672,620 |
| 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. | 4,403,586 | 4,497,281 |
| 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. An SDR adjustment decreased the loan balance by \$81,055 in fiscal year 2019. In fiscal year 2020, an SDR adjustment of \$109,751 increased the loan balance. | <u>3,379,815</u> | <u>3,574,792</u> |
| Total notes payable | 9,358,481 | 9,744,693 |
| Less current portion | <u>496,605</u> | <u>403,005</u> |
| | \$ <u>8,861,876</u> | \$ <u>9,341,688</u> |

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

Notes to Financial Statements
September 30, 2021 and 2020

(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> |
|--------------------------------------|---------------------|-------------------|----------------------|
| 2022 | \$ 496,605 | \$ 93,639 | \$ 590,244 |
| 2023 | 496,605 | 88,447 | 585,052 |
| 2024 | 496,605 | 83,255 | 579,860 |
| 2025 | 496,605 | 78,063 | 574,668 |
| 2026 | 590,206 | 72,336 | 662,542 |
| 2027 through 2031 | 2,951,028 | 273,106 | 3,224,134 |
| 2032 through 2036 | 2,713,153 | 125,482 | 2,838,635 |
| 2037 through 2039 | <u>1,117,674</u> | <u>13,336</u> | <u>1,131,010</u> |
| | <u>\$ 9,358,481</u> | <u>\$ 827,664</u> | <u>\$ 10,186,145</u> |

Changes in long-term liabilities for the years ended September 30, 2021 and 2020 are as follows:

| | <u>Outstanding September 30, 2020</u> | <u>Increases</u> | <u>Decreases</u> | <u>Outstanding September 30, 2021</u> | <u>Current</u> |
|-----------------|---|------------------|-------------------|---|-------------------|
| ADB loan (1459) | \$ 1,672,620 | \$ - | \$ 92,540 | \$ 1,575,080 | \$ 121,126 |
| ADB loan (3004) | 4,497,281 | - | 93,695 | 4,403,586 | 187,200 |
| ADB loan (3005) | <u>3,574,792</u> | <u>-</u> | <u>194,977</u> | <u>3,379,815</u> | <u>188,279</u> |
| | <u>\$ 9,744,693</u> | <u>\$ -</u> | <u>\$ 386,212</u> | <u>\$ 9,358,481</u> | <u>\$ 496,605</u> |
| | | | | | |
| | <u>Outstanding September 30, 2019</u> | <u>Increases</u> | <u>Decreases</u> | <u>Outstanding September 30, 2020</u> | <u>Current</u> |
| ADB loan (1459) | \$ 1,722,853 | \$ - | \$ 50,233 | \$ 1,672,620 | \$ 121,126 |
| ADB loan (3004) | 4,590,973 | - | 93,692 | 4,497,281 | 93,600 |
| ADB loan (3005) | <u>3,658,015</u> | <u>-</u> | <u>83,223</u> | <u>3,574,792</u> | <u>188,279</u> |
| | <u>\$ 9,971,841</u> | <u>\$ -</u> | <u>\$ 227,148</u> | <u>\$ 9,744,693</u> | <u>\$ 403,005</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, 2020. These projects were granted to the FSM National Government and turn-over of ownership and related documents to YSPSC is still on-going as of September 30, 2021. YSPSC does not currently hold title to this property and such is not recorded in the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2021 and 2020

(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, 2021 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, 2021 and 2020, 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 September 30,</u> | |
|--------------------------------------|-------------------|
| 2022 | \$ 25,000 |
| 2023 | 25,000 |
| 2024 | 25,000 |
| 2025 | 25,000 |
| 2026 | 25,000 |
| 2027 through 2031 | 125,000 |
| 2032 through 2036 | 125,000 |
| 2037 through 2041 | 125,000 |
| 2042 and subsequent | <u>293,250</u> |
| Total | \$ <u>793,750</u> |

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

Notes to Financial Statements
September 30, 2021 and 2020

(7) Commitments and Contingencies, Continued

Contract Commitments

There are no contract commitments in connection with projects currently in construction as of September 30, 2021 and 2020.

(8) Grants

YSPSC received the following grants and capital contributions during the years ended September 30, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Yap State Government | \$ 35,250 | \$ 187,075 |
| U.S. Department of the Interior grants | <u>102,328</u> | <u>148,056</u> |
| | <u>\$ 137,578</u> | <u>\$ 335,131</u> |

(9) 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.