

**YAP STATE PUBLIC SERVICE CORPORATION**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**SEPTEMBER 30, 2001 AND 2000**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Yap State Public Service Corporation:

We have audited the accompanying balance sheets of the Yap State Public Service Corporation, a component unit of the Yap State Government, as of September 30, 2001 and 2000, and the related statements of operations and capitalization and cash flows for the years then ended. These financial statements are the responsibility of the Yap State Public Service Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Yap State Public Service Corporation as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of expressing our opinion on the financial statements of Yap State Public Service Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 8 is presented for purposes of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of the management of Yap State Public Service Corporation. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2001, on our consideration of the Yap State Public Service Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Deloitte &amp; Touche LLP".

December 14, 2001

**YAP STATE PUBLIC SERVICE CORPORATION**

Balance Sheets  
September 30, 2001 and 2000

	<u>ASSETS</u>	
	2001	2000
Utility plant (note 2):		
Plant in service	\$ 13,442,039	\$ 12,644,448
Work in progress	2,769,776	2,261,192
Less accumulated depreciation	<u>(6,252,463)</u>	<u>(5,969,542)</u>
Utility plant, net	<u>9,959,352</u>	<u>8,936,098</u>
Current assets:		
Cash	1,068,853	1,082,214
Time certificates of deposit	-	848,543
Accounts receivable, net of an allowance for doubtful accounts of \$209,815 in 2001 and 2000	492,509	383,023
Other receivables	68,034	112,486
Inventory	286,788	494,308
Prepaid expense	<u>1,625</u>	<u>29,887</u>
Total current assets	<u>1,917,809</u>	<u>2,950,461</u>
	\$ <u><u>11,877,161</u></u>	\$ <u><u>11,886,559</u></u>
	<u>CAPITALIZATION AND LIABILITIES</u>	
Capitalization:		
Contributed capital (note 4)	\$ 10,389,652	\$ 10,170,178
Deficit	<u>(1,036,946)</u>	<u>(252)</u>
Total capitalization	<u>9,352,706</u>	<u>10,169,926</u>
Current liabilities:		
Accounts payable	1,197	29,578
Accrued taxes and other withholdings	37,954	34,483
Employees' annual leave and accrued payroll	60,420	66,934
Other payables	129,111	283,586
Deferred revenue (note 4)	138,809	138,809
Contract retention payable	<u>-</u>	<u>153,514</u>
Total current liabilities	367,491	706,904
Note payable (note 8)	1,776,338	1,009,729
Construction payables	<u>380,626</u>	<u>-</u>
	<u>2,524,455</u>	<u>1,716,633</u>
Commitments and contingencies (note 5)	\$ <u><u>11,877,161</u></u>	\$ <u><u>11,886,559</u></u>

See accompanying notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION**

Statements of Operations and Capitalization  
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenues (note 7):		
Electricity sales	\$ 2,859,834	\$ 2,593,736
Water sales	429,772	187,400
	<u>3,289,606</u>	<u>2,781,136</u>
Operating expenses:		
Production fuel	1,736,711	1,457,028
Depreciation	701,023	701,057
Salaries and wages and related	695,734	633,802
Other production costs	633,014	557,974
Administrative and general	252,697	242,657
	<u>4,019,179</u>	<u>3,592,518</u>
Loss from operations	(729,573)	(811,382)
Other nonoperating income (note 6)	197,192	144,633
Loss before extraordinary item	(532,381)	(666,749)
Extraordinary item - fire loss (note 9)	(504,313)	-
Net loss	(1,036,694)	(666,749)
(Deficit) retained earnings at beginning of year	(252)	666,497
Deficit at end of year	<u>(1,036,946)</u>	<u>(252)</u>
Contributed capital at beginning of year	10,170,178	9,793,468
Contributions (note 4)	219,474	376,710
Contributed capital at end of year	<u>10,389,652</u>	<u>10,170,178</u>
Total capitalization at end of year	\$ <u><u>9,352,706</u></u>	\$ <u><u>10,169,926</u></u>

See accompanying notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION**

Statements of Cash Flows  
Years Ended September 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Loss from operations	\$ (729,573)	\$ (811,382)
Other income	5,628	-
Adjustments to reconcile loss from operations to net cash (used for) provided by operating activities:		
Depreciation	701,023	701,057
Loss on disposal of fixed assets	-	26,267
(Increase) decrease in assets:		
Receivables	(109,486)	(40,852)
Inventory	(22,165)	22,430
Other receivables	9,290	(37,430)
Prepaid expenses	28,262	(24,884)
Increase (decrease) in liabilities:		
Accounts payable	(28,381)	13,437
Accrued taxes and other liabilities	(3,043)	(3,406)
Other payables	(154,475)	139,086
Net cash used for operating activities	<u>(302,920)</u>	<u>(15,677)</u>
Cash flows from investing activities:		
Proceeds from time certificates of deposit	848,543	300,732
Interest income	53,244	90,270
Net cash provided by investing activities	<u>901,787</u>	<u>391,002</u>
Cash flows from noncapital financing activities:		
Contributed capital and other grants received in cash	<u>392,956</u>	<u>431,073</u>
Cash flows from capital and related financing activities:		
Purchase of utility plant	(1,998,905)	(2,130,785)
Proceeds from loan	766,609	1,009,729
Contract retention	227,112	153,514
Net cash used in capital and related financing activities	<u>(1,005,184)</u>	<u>(967,542)</u>
Net change in cash	(13,361)	(161,144)
Cash at beginning of year	<u>1,082,214</u>	<u>1,243,358</u>
Cash at end of year	\$ <u><u>1,068,853</u></u>	\$ <u><u>1,082,214</u></u>

See accompanying notes to financial statements.

# YAP STATE PUBLIC SERVICE CORPORATION

Notes to Financial Statements  
September 30, 2001 and 2000

## (1) Summary of Significant Accounting Policies

The accounting policies of Yap State Public Service Corporation (YSPSC) conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

Basis of Accounting: All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with operations are included on the balance sheet.

Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases and decreases in net total assets.

The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Budgets: Budgets are not adopted which is consistent with accounting principles generally accepted in the United States of America and, thus, budgetary financial statements are not presented. Budgetary financial statements are not considered to be a disclosure requirement by management.

General: YSPSC is a component unit of the Government 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 with the advice and consent of the Legislature of the State of Yap.

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.

Depreciation: Depreciation is computed using the straight-line method over the estimated useful lives of the assets (3 - 40 years for plant assets). Depreciation expense for the years ended September 30, 2001 and 2000 was approximately 5.2% and 5.5% of the cost of depreciable properties, respectively.

YSPSC does not close depreciation expense on assets acquired through contributed capital to the related contributed capital account, which is an option allowed under accounting principles generally accepted in the United States of America.

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

Revenues: Sales of electricity and water are recorded as billed to customers on a monthly billing cycle basis. At September 30, 2001 and 2000, unbilled revenues are estimated and accrued based on the most recent billing cycles.

# YAP STATE PUBLIC SERVICE CORPORATION

Notes to Financial Statements  
September 30, 2001 and 2000

## (1) Summary of Significant Accounting Policies, Continued

Accounting Standards: Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. YSPSC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Federal Grants and Subsidies: Amounts provided for capital and related purposes are recorded as contributed capital.

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.

Cash: For purposes of the balance sheets and statements of cash flows, cash includes cash on hand, cash in bank checking and savings accounts and time certificates of deposit with initial maturities of three months or less. Time certificates of deposit with initial maturities in excess of three months are separately categorized. At September 30, 2001 and 2000, \$200,000 of cash and certificate of deposit balances are subject to Federal Deposit Insurance Corp. (FDIC) coverage, with the remaining balance exceeding insurable limits. Therefore, the amounts which exceed FDIC limits are characterized as uncollateralized.

Management Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

Receivables: All of YSPSC's accounts receivable are with customers and government agencies based in the State of Yap .

Reclassifications: Certain items in the 2000 financial statements have been reclassified to conform with the 2001 presentation.

## YAP STATE PUBLIC SERVICE CORPORATION

Notes to Financial Statements  
September 30, 2001 and 2000

### (2) Utility Plant

Utility plant consists of the following at September 30, 2001 and 2000:

	<u>Estimated Useful Lives</u>	<u>2001</u>	<u>2000</u>
Production plant	5 - 40 years	\$ 8,869,782	\$ 8,438,030
Distribution plant	5 - 30 years	3,874,139	3,172,558
General plant	3 - 20 years	<u>698,118</u>	<u>1,033,860</u>
Utility plant in service		13,442,039	12,644,448
Work in progress		<u>2,769,776</u>	<u>2,261,192</u>
		16,211,815	14,905,640
Less accumulated depreciation		<u>(6,252,463)</u>	<u>(5,969,542)</u>
		<u>\$ 9,959,352</u>	<u>\$ 8,936,098</u>

Utility plant is comprised of the following components:

Electric plant		\$ 9,647,519	\$ 9,673,357
Water plant		<u>3,794,520</u>	<u>2,971,091</u>
		<u>\$ 13,442,039</u>	<u>\$ 12,644,448</u>

### (3) Related Party Transactions

In the ordinary course of business, YSPSC enters into transactions with the State of Yap and private businesses in which certain of 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.

### (4) Contributions

Contributions for the years ended September 30, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Yap State	\$ 86,000	\$ 48,700
U.S. federal program grants received	<u>133,474</u>	<u>328,010</u>
	<u>\$ 219,474</u>	<u>\$ 376,710</u>

Deferred revenue consists of Federal program grant funds received but not fully expended at September 30, 2001 and 2000.



# YAP STATE PUBLIC SERVICE CORPORATION

Notes to Financial Statements  
September 30, 2001 and 2000

## (5) Commitments and Contingencies

### 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. YSPSC is self insured for all risks. Any loss or liability that may result upon the occurrence of a natural disaster, accident or litigation will be borne entirely by YSPSC.

### Real Property Title

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.

## (6) Other Income

In 2001 and 2000, YSPSC included the following operating grants within other income:

	<u>2001</u>	<u>2000</u>
U.S. Department of the Interior OMIP grants	\$ 98,320	\$ 59,522
Australian Disaster Relief Grant	<u>40,000</u>	<u>-</u>
	\$ <u>138,320</u>	\$ <u>59,522</u>

## (7) Significant Revenue Sources

Power and water billings to Yap State Government agencies accounted for 23% and 28% of total operating revenues in 2001 and 2000, respectively.

## (8) Loan Agreement

As of September 30, 2001 and 2000, YSPSC has borrowed \$1,776,338 and \$1,009,729, respectively, from the Asia Development Bank 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 in Special Drawing Rights commencing August 2007 with the final payment due in August 2036. The loan is collateralized by the guarantee of the FSM National Government.

## (9) Extraordinary Item

In March 2001, YSPSC's administrative office and a warehouse were destroyed by fire resulting in an extraordinary loss of \$504,313.

**YAP STATE PUBLIC SERVICE CORPORATION**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2001

<u>Grantor</u>	<u>CFDA #</u>	<u>Amounts Received</u>	<u>Prior Year Expenditures</u>	<u>Year 2000 Expenditures</u>	<u>Remaining Balance</u>
U.S. Department of the Interior, Pass through from the FSM National Government and through the State of Yap: 15.875 Compact of Free Association Section 211(a) Capital Account		\$ 467,497	\$ 404,393	\$ 63,104	\$ -
U.S. Department of the Interior, Direct Award-Operations and Maintenance Improvement Programs (OMIP)	15.875				
Yap State Omnibus		250,931	245,230	5,701	-
Maintenance Assistance		187,543	184,750	2,793	-
Emergency Funding		25,000	-	25,000	-
Maintenance and Training Projects		-	-	67,421	(67,421)
Trust Territory Capital Improvement Projects:	15.875				
Yap Water Supply		229,000	90,191	-	138,809
Yap Rural Sanitation		356,336	260,457	95,879	-
U.S. Federal Emergency Management Agency, Direct Award	83.516				
Hazard Mitigation: Yap State Water Projects		<u>211,040</u>	<u>158,665</u>	<u>-</u>	<u>52,375</u>
		\$ <u>1,727,347</u>	\$ <u>1,343,686</u>	\$ <u>259,898</u>	\$ <u>123,763</u>

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.