

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2015 AND 2014

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, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yap State Public Service Corporation as of September 30, 2015 and 2014, 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.

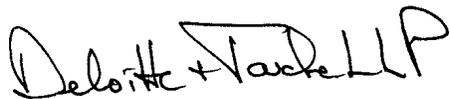
Other Matters

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 8 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 June 7, 2016 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 7, 2016

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

Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

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, 2015 and 2014. 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, 2015, 2014 and 2013. 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 2015, 2014 and 2013.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Plant in Service, net	\$ 6,514,875	\$ 7,299,700	\$ 7,830,122
Work in progress, net of current portion	2,941,757	2,100,431	1,048,391
Current and other assets	3,739,999	3,346,238	3,456,011
Total assets	<u>\$ 13,196,631</u>	<u>\$ 12,746,369</u>	<u>\$ 12,334,524</u>
NET ASSETS AND LIABILITIES			
Net investment in capital assets	\$ 6,925,062	\$ 6,644,571	\$ 6,277,955
Restricted	1,007,141	1,747,297	1,698,928
Unrestricted	1,746,251	556,546	608,062
Total net assets	<u>9,678,454</u>	<u>8,948,414</u>	<u>8,584,945</u>
Notes payable, net of current portion	2,486,153	2,710,143	2,555,141
Current portion of notes payable	45,417	45,417	45,417
Other current liabilities	986,607	1,042,395	1,149,021
Total liabilities	<u>3,518,177</u>	<u>3,797,955</u>	<u>3,749,579</u>
Total net asset and liabilities	<u>\$ 13,196,631</u>	<u>\$ 12,746,369</u>	<u>\$ 12,334,524</u>
REVENUES, EXPENSES, AND NET ASSETS			
Operating revenues	\$ 5,819,405	\$ 6,003,204	\$ 6,291,565
Operating expenses	5,735,260	6,676,568	6,539,253
Income (loss) from operations	84,145	(673,364)	(247,688)

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	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating grants and subsidies	306,027	446,184	2,113,081
Interest expense	(16,271)	(5,421)	(1,693)
Interest income	1,270	2,096	2,224
Grant expenses	(337,771)	(352,157)	(406,216)
Loss on fixed asset retirements	(45,521)	-	(28,014)
Foreign exchange gain (loss)	347,759	307	(14,630)
Other income/(expenses)	<u>(7,094)</u>	<u>6,592</u>	<u>10,490</u>
Net income (loss)	332,544	(575,763)	1,427,554
Capital contributions	<u>397,496</u>	<u>939,232</u>	<u>618,431</u>
Change in net assets	730,040	363,469	2,045,985
Net assets, beginning	8,948,414	8,584,945	6,538,960
Net assets, ending	\$ <u><u>9,678,454</u></u>	\$ <u><u>8,948,414</u></u>	\$ <u><u>8,584,945</u></u>

FINANCIAL OPERATIONS OVERVIEW

The year 2015 marks the successful completion of the second decade of operation of the Yap State Public Services Corporation as it celebrates its 20th year anniversary. Continuing with its mission to provide reliable and affordable energy to the population of Yap State, the Corporation is ever more mindful of its challenge to provide the State's energy needs at reasonable costs to its customers. After being at the mercy of the volatility of international fuel prices, the last ten years saw the Corporation venturing into the arena of renewable energy for alternative solutions to the rising costs of energy production. Many of the projects that were initiated as a result of the foray into the renewable energy market came to completion in 2015. As if on cue, fossil fuel prices, which had rendered conventional energy production unaffordable for most of the past ten years, also began to subside in 2015 to its lowest level since 2007. The challenge continues for management to determine the most cost-effective mix 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 2015 netted a profit of \$84,145 primarily because of the slump in world fuel prices. In contrast, the operating loss for fiscal year 2014 was \$673,364 and \$247,688 for 2013. Operating revenues fell by 3% in 2015 and operating expenses by 14%.

Electric Revenue: Electric revenue continues to decline. The fiscal year 2015 revenue of \$5,339,362 represents a decline of 3% over fiscal year 2014. In 2014 the decline in electric revenue was 6% and mirrored the drop in kilowatt hours billed to customers.

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Kilowatt Hours Billed: Electricity consumption fell less than 1% in 2015. From 2012 when the current tariff was adopted until 2013, consumption remained flat - the 9.8 million kilowatt hours billed in 2013 was only slightly higher than the 9.7 million kilowatt hours billed for 2012. But in 2014, total kilowatt hours billed dropped 6% to 9.194 million with residences showing the largest decline of 11%, followed by a 4% decline for businesses and a 2% decrease for the government. In 2015, residences showed a slight rebound of 2.5%, while businesses and the government continued to decline 1% and 3%, respectively.

Water Revenue: After two consecutive years of decline, water consumption finally rebounded in 2015 with an increase of 8.33%. Similarly, water revenue increased 5% to \$474,315 compared to \$453,366 for the year ended September 30, 2014. Gallons billed for 2015 is 87.4 million in contrast to the 80.7 million for 2014. The commercial class showed the largest increase of approximately 19%, followed by the government with an increase of 7.38% and the residential class with 3.54%.

Production Fuel: The YSPSC expended \$988,055 less (or -24%) for fuel in 2015 as compared to 2014 and \$353,435 less (or -8%) in 2014 than in 2013. The price per gallon of fuel reached \$5.036 in April 2012 but began to subside in the subsequent months. The average monthly fuel price paid by the YSPSC for FY-2015 was \$3.50 compared to \$4.58 in 2014, \$4.73 in 2013, and \$4.77 in 2012. Production fuel expense of \$3,200,589 and \$4,188,644 for 2015 and 2014 comprised roughly 56% and 63% of total operating expenses, respectively.

Other Operating Expenses – Other operating expenses increased 2% overall in 2015 when compared to 2014. Other production costs decreased 38%, while depreciation increased 6%. General and administrative expenses and salaries and wages increased 10% in 2015. In 2014, “Other Production Costs” showed a 1050% increase (\$310,012) over 2013 mostly because contrary to 2013, other production costs incurred in FY14 did not qualify for capitalization. Depreciation and administrative and general expenses also showed increases of 18% and 31% respectively in 2014 as compared to 2013. The change in other operating expenses in 2013 over 2012 was a decrease of 12%.

Significant Changes in Net Position

Cash – Ending cash at of \$1.15 million at September 30, 2015 is 12% more than the \$1.02 million at the end of FY 2014. Over one million dollars of 2015 and 2014 income was still tied up in accounts receivable at the end of the fiscal years. Therefore, cash available at year-end consisted primarily of restricted grant proceeds, primarily the EFII grant and Prepayment Meter grant.

Receivables – Customer receivables of \$1,036,142 at September 30, 2015 represents a decrease of 22% over 2014. The government was able to clear their arrears before the end of the year, hence the decrease. In contrast, 2014 saw a 16% increase in customer receivables as a result of the large number of service disconnections due to nonpayment. In 2013, efforts to step up collection of past due accounts resulted in a 6% decrease in customer receivables as compared to 2012.

Capital Assets – Prompted by the devastation of its plant in Ulithi in the aftermath of Typhoon Maysak in April 2015, YSPSC conducted a physical inventory of its capital assets in Ulithi and Yap Proper during the year ended September 30, 2015. A total of \$907,996 worth of assets was identified for retirement, \$155,813 of which was related to the Ulithi plant. The loss on the disposal of these assets was \$45,521 for 2015. Additions to capital assets during 2015 totaled \$325,950, \$175,605 of which was for the Ulithi power system. Please refer to Note 4 to the financial statements for additional information related to capital assets.

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Long-term Debt – At September 30, 2015, the Corporation owed \$2,531,570 in long-term debts for two Asian Development Bank (ADB) loans, \$45,417 of which is current. \$2,161,270 is the principal outstanding on an uncollateralized loan from the ADB for water projects payable semiannually since 2007. The second is a guaranteed loan with a maximum amount of \$4,680,000 (LN-3004) payable to ADB through the FSM and Yap State. At September 30, 2015, \$370,300 has been disbursed from this second loan from ADB, this one for renewable energy projects in Yap State. The first payment on the renewable energy project loan will be due in December 2018. Please refer to Note 5 to the financial statements for additional information related to long-term debt.

Current Liabilities – Consistent with the prior years, the improved cash position brought about by lower fuel prices, helped reduce current liabilities at year end. Compared to 2014, total current liabilities at September 30, 2015 decreased 5%. From 2013 to 2014, current liabilities had decreased 9%. Specifically, accounts payable declined 20% and liabilities to customers decreased 3% in 2015, while accrued payroll and taxes increased 30% over 2014.

Capital Projects – Ongoing capital projects in 2015 and 2014 were the renewable energy projects for the neighboring islands funded by the European Union and South Pacific Commission North Rep. and a sewer and water facilities assessment and improvement project funded from the Compact Infrastructure Maintenance Fund. In 2015, \$397,496 was recorded as contributed capital for the sewer and water project and \$939,232 was recorded in 2014 as capital contributions from the European Union Energy Facility Grant for solar projects in the neighboring islands.

U.S. Federal, Local and Other Grants

Pacific Linemen Training Program – Funded by the U.S. Dept. of 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, Commonwealth Utilities Corporation, and Yap Public Services Corporation. YSPSC received \$186,300 and \$150,403 in fiscal years 2015 and 2014, respectively, in cost reimbursements for the training program.

CRISP Monitoring and Evaluation – Due to its good track record in administering the various training programs funded by the U.S. Department of Interior (DOI), DOI awarded YSPSC \$199,942 in 2011 to monitor and evaluate the Chuck Public Utilities Corporation's (CPUC) Capitalization, Recovery and Institutional Strengthening Project (CRISP). YSPSC received \$75,222 and \$108,119 in 2015 and 2014, respectively, in cost reimbursements for this program.

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Management's Discussion and Analysis
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Renewable Energy program (European Union EFlI) – As part of its ongoing renewable energy program, in 2011, YSPSC received \$33,562 from the French Embassy for solar systems training and \$1,168,832 from the European Union for the installation of solar systems in the neighboring islands. The European Union Energy Facility II grant project is worth approximately \$3.3 million and is designed to provide solar electricity to ten islands and atolls in the State of Yap, namely Ngulu, and Falalus, Siliap, Tagailap and Wottegai in Woleai atoll, Eauripik, the two islands in the atoll of Faraulep (Falalop and Pigue) and finally Elato and Lamotrek. Yap State's required 25% matching share of \$843,750 was appropriated under YSL 8-3 and 8-9. The procurement process for the photovoltaic systems was begun in fiscal year 2012 with installations scheduled for fiscal year 2013 and 2014. By the end of 2015, 274 of 336 planned solar home systems and 10 of 20 planned solar community systems had been installed.

Renewable Energy program (SPC North-Rep) – In July 2012 YSPSC entered into a Memorandum of Agreement with the Secretariat of the Pacific Community (SPC) for joint activities aimed at the implementation of the North Pacific ACP Renewable Energy and Energy Efficiency Project (North Rep) for five outer islands; namely, Falalop and Mogmog in Ulithi, Fais, Falalop in Woleai and Satawal. The European Union is funding this program through the SPC North-Rep. Procurement and installation of the solar systems will be the responsibility of North-Rep with assistance provided by YSPSC as needed; however, upon commissioning, operation and maintenance of the systems will transfer to YSPSC. A major portion of the installation work for the systems was completed in 2014, but sustained damages during Typhoon Maysak in April 2015. The damaged components will be replaced by SPC North-Rep. and the project officially turned over to YSPSC in 2016. Project funds of \$12,000 were received in 2014.

ADB Loan for Small Generator and Yap Proper Renewable Energy Projects – ADB has approved \$9 million in funding for Yap Proper Renewable Energy Development Projects consisting of a wind farm which is expected to generate power equivalent to about 18% of the current delivered energy supply, grid-connected solar panels which will be installed on approximately 21 government buildings to produce energy equivalent to 4% of current energy production and a new fuel-efficient diesel generator that will replace the existing equipment and is expected to reduce fuel consumption by 25%. A road to the wind mast site is in place and the wind mast has been installed. In 2014, the contract for the purchase of the solar components was awarded; in 2015, the supplier for the generator was selected. The wind components of the project have yet to be tendered.

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

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SPC Fais Sahagow Well Project – In January 2015, The Secretariat of the Pacific Community (SPC) awarded \$30,143 from the European Union Funds for Global Climate Change Alliance to YSPSC through Yap State to promote the Fais Community's ability to mitigate the effects of climate change by improving their rainwater harvesting infrastructure and retrofitting the Sahagow Well with a solar pumping system. YSPSC was tasked to install a pump house, parameter fence, solar panels to operate the pump, and run a waterline from the pump house to the school. The project was completed in 2015 and the pump is now pumping water to the school every day and the communities of Fais are getting their water from the school tanks.

Sewer and Water Tank and Treatment Facility Assessment and Repair – In December 2013, YSPSC entered into a contract with an Alaskan firm for the evaluation of YSPSC's water tank and sewer treatment facility. The contract calls for the production of a master plan for the sewer and water operations as well as the bidding and selection of contractors for the repair of the water plant and the sewer plant and lift stations. The project budget is \$397,496 and is derived from Compact Infrastructure Maintenance Fund (IMF) through the Yap State Government.

CRISP Value Engineering Analysis – In July 2015, the U.S. Dept. of the Interior awarded \$57,500 to YSPSC through the OIA/TAP for a value engineering analysis of the Chuuk Public Utilities Corporation power plant project and \$23,825 was expended from the grant in fiscal year 2015.

HIGHLIGHTS FOR FISCAL YEAR 2016

In addition to the ongoing projects discussed above, in the short-term the following projects will also be the primary focus of activities for the Yap State Public Services Corporation:

French Embassy Grants: A total of \$93,191 was received in 2014 through the French Embassy for water improvement and optimization (\$76,121) and wind monitoring (\$17,070) projects. The water project funds the cost of travel for two missions of experts to evaluate the three existing water systems on Yap Proper with the goal of improving and optimizing their management. The wind project aims to fund the cost of one expert mission to assess the development of wind energy in Yap State.

World Bank – World Bank has made available to the FSM a grant of U.S \$12 million to support the development of the energy sector in the FSM. The FSM national government is still in the discussion stages with the FSM states regarding priorities of their state energy plans. YSPSC at this time is in communication with the FSM national government on what projects are to be funded under the grant and consulting with experts on the technical issues.

Prepayment Meters – In June 2014, Yap State Legislature appropriated under YSL 8-69, \$586,839 from Special Revenue Funds for the purchase and installation of prepayment meters for Yap Proper residential and commercial customers who had been disconnected due to delinquency. The aim for the cash power meters is to allow those customers who are off the grid due to delinquency to get back on the grid and begin contributing a small percentage of their monthly cash power payments towards their past due accounts with the Corporation. Cash power meters installations for residential customers are set to begin in October 2015.

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, Colonia, Yap FM 96943.

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

Statements of Net Position
September 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Non-current assets:		
Utility plant:		
Depreciable capital assets:		
Plant in service	\$ 21,170,852	\$ 21,752,898
Less accumulated depreciation	<u>(14,655,977)</u>	<u>(14,453,198)</u>
Depreciable utility plant, net	6,514,875	7,299,700
Non-depreciable capital assets:		
Work in progress	<u>2,941,757</u>	<u>2,100,431</u>
Utility plant, net	<u>9,456,632</u>	<u>9,400,131</u>
Other noncurrent assets:		
Long term deposit	274,545	274,545
Advances to contractors	<u>41,800</u>	<u>-</u>
Total other noncurrent assets	<u>316,345</u>	<u>274,545</u>
Current assets:		
Cash and cash equivalents	1,148,794	1,023,778
Accounts receivable and unbilled accrued revenue, net of allowance for doubtful accounts	1,036,142	1,320,903
Other receivables	79,763	19,093
Inventory	1,074,503	694,139
Prepaid expenses	<u>84,452</u>	<u>13,780</u>
Total current assets	<u>3,423,654</u>	<u>3,071,693</u>
	<u>\$ 13,196,631</u>	<u>\$ 12,746,369</u>
 <u>NET POSITION AND LIABILITIES</u> 		
Net position:		
Net investment in capital assets	\$ 6,925,062	\$ 6,644,571
Restricted	1,007,141	1,747,297
Unrestricted	<u>1,746,251</u>	<u>556,546</u>
Total net position	<u>9,678,454</u>	<u>8,948,414</u>
Commitments and contingencies		
Current liabilities:		
Current portion of notes payable	45,417	45,417
Accounts payable	340,241	440,557
Employees' annual leave and accrued payroll	103,691	73,818
Accrued taxes and other liabilities	1,260	1,260
Refunds payable to customers	175,318	181,318
Deferred revenue	176,595	148,578
Other payables and customer deposits	<u>189,502</u>	<u>196,864</u>
Total current liabilities	1,032,024	1,087,812
Notes payable, net of current portion	<u>2,486,153</u>	<u>2,710,143</u>
Total liabilities	<u>3,518,177</u>	<u>3,797,955</u>
	<u>\$ 13,196,631</u>	<u>\$ 12,746,369</u>

See accompanying notes to financial statements.

YAP STATE PUBLIC SERVICE CORPORATION
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Electricity sales	\$ 5,339,362	\$ 5,549,838
Water sales and wastewater services	480,043	453,366
Total operating revenues	5,819,405	6,003,204
Operating expenses:		
Production fuel	3,200,589	4,188,644
Depreciation	1,065,254	1,000,834
Salaries and wages and related expenses	912,590	831,423
Other production costs	210,029	339,550
Administrative and general	346,798	316,117
Total operating expenses	5,735,260	6,676,568
Operating income (loss)	84,145	(673,364)
Nonoperating income (loss):		
Interest income	1,270	2,096
Foreign exchange gain	347,759	307
Operating grants and subsidies	306,027	446,184
Interest expense	(16,271)	(5,421)
Grant expenses	(337,771)	(352,157)
Loss on fixed asset retirement	(45,521)	-
Other (loss) income, net	(7,094)	6,592
Total nonoperating income, net	248,399	97,601
Net income (loss) before capital contributions	332,544	(575,763)
Capital contributions	397,496	939,232
Change in net position	730,040	363,469
Net position at beginning of year	8,948,414	8,584,945
Net position at end of year	\$ 9,678,454	\$ 8,948,414

See accompanying notes to financial statements.

YAP STATE PUBLIC SERVICE CORPORATION
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Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 6,036,134	\$ 5,826,733
Cash refunds paid to customers	-	(50)
Cash paid to suppliers	(4,308,768)	(4,828,842)
Cash paid to employees	(882,717)	(840,469)
Net cash provided by operating activities	844,649	157,372
Cash flows from investing activities:		
Interest and other income	1,270	2,403
Cash flows from noncapital financing activities:		
Proceeds from operating grants and subsidies	334,044	414,331
Other (loss) income	(13,719)	6,592
Expenses paid from operating grant proceeds	(337,772)	(352,157)
Net cash (used) provided by noncapital financing activities	(17,447)	68,766
Cash flows from capital and related financing activities:		
Capital contributions	-	939,232
Acquisition of utility plant	(769,780)	(1,522,452)
Advance payment to contractors	(41,800)	-
Interest paid	(16,271)	(5,421)
Proceeds from loans	169,811	200,488
Repayment of loans payable	(45,416)	(45,486)
Net cash used in capital and related financing activities	(703,456)	(433,639)
Net change in cash and cash equivalents	125,016	(205,098)
Cash and cash equivalents at beginning of year	1,023,778	1,228,876
Cash and cash equivalents at end of year	\$ 1,148,794	\$ 1,023,778
Reconciliation of operating earnings (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 84,145	\$ (673,364)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,065,254	1,000,834
Decrease (increase) in assets:		
Receivables	284,761	(190,772)
Inventory	(380,364)	96,946
Prepaid expenses	(70,672)	7,995
Other receivables	(60,670)	(9,494)
Increase (decrease) in liabilities:		
Accounts payable	(100,316)	(89,472)
Employees' annual leave and accrued payroll	29,873	(9,046)
Refunds payable to customers	-	(50)
Other payables and customer deposits	(7,362)	23,795
Net cash provided by operating activities	\$ 844,649	\$ 157,372

See accompanying notes to financial statements.

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Statements of Cash Flows, Continued
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Noncash capital and financing activity:		
Capital contributions	\$ (397,496)	\$ -
Acquisition of utility plant	397,496	-
Foreign exchange gain	(348,385)	-
Reduction of loans payable	348,385	-
Retirement of fixed assets	(907,996)	-
Accumulated depreciation	862,475	-
Loss on fixed asset retirement	45,521	-

See accompanying notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2015 and 2014

(1) Organization and Summary of Significant Accounting Policies

Organization

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

Basis of Accounting

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

Net Position

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

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

YSPSC has no nonexpendable restricted net position at September 30, 2015 and 2014.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2015 and 2014

(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.

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.

Revenues

Sales of electricity and water are recorded as billed to customers on a monthly billing basis. At September 30, 2015 and 2014, unbilled revenues of \$227,828 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.

**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

Risk Management

YSPSC is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters.

Commercial insurance coverage has been obtained for claims arising from most of these matters. YSPSC is self-insured for typhoon risks. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

During the year ended September 30, 2015, YSPSC implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements
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(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements
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(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Reclassifications

Certain 2014 balances in the accompanying financial statements have been reclassified to conform to the 2015 presentation.

(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, 2015 and 2014, the carrying amount of the YSPSC's total cash and cash equivalents was \$1,148,794 and \$1,023,778, respectively, and the corresponding bank balances were \$1,193,679 and \$1,006,116, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. At September 30, 2015 and 2014, bank deposits in the amount of \$458,662 and \$468,302, respectively, 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.

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2015 and 2014

(3) Accounts Receivable and Accrued Unbilled Revenue

YSPSC's accounts receivable, less allowance for doubtful accounts, and accrued unbilled revenue at September 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Gross accounts receivable	\$ 884,667	\$ 1,169,428
Less allowance for doubtful accounts	<u>(76,353)</u>	<u>(76,353)</u>
Net accounts receivable	808,314	1,093,075
Accrued unbilled revenue	<u>227,828</u>	<u>227,828</u>
Net accounts receivable and accrued unbilled revenue	\$ <u>1,036,142</u>	\$ <u>1,320,903</u>

(4) Utility Plant

A summary of changes in capital assets for the years ended September 30, 2015 and 2014 is as follows:

	<u>Beginning Balance October 1, 2014</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2015</u>
Depreciable plant:				
Production plant	\$ 11,168,506	\$ 228,510	\$ (468,518)	\$ 10,928,498
Distribution plant	8,753,578	28,111	(204,131)	8,577,558
General plant	<u>1,830,814</u>	<u>69,329</u>	<u>(235,347)</u>	<u>1,664,796</u>
	21,752,898	325,950	(907,996)	21,170,852
Less accumulated depreciation	<u>(14,453,198)</u>	<u>(1,065,254)</u>	<u>862,475</u>	<u>(14,655,977)</u>
Net depreciable plant	7,299,700	(739,304)	(45,521)	6,514,875
Non-depreciable plant:				
Work in progress	<u>2,100,431</u>	<u>841,326</u>	-	<u>2,941,757</u>
	\$ <u>9,400,131</u>	\$ <u>102,022</u>	\$ <u>(45,521)</u>	\$ <u>9,456,632</u>
	<u>Beginning Balance October 1, 2013</u>	<u>Transfers and Additions</u>	<u>Transfers and Deletions</u>	<u>Ending Balance September 30, 2014</u>
Depreciable plant:				
Production plant	\$ 11,050,693	\$ 119,338	\$ (1,525)	\$ 11,168,506
Distribution plant	8,685,594	175,331	(107,347)	8,753,578
General plant	<u>1,684,349</u>	<u>175,743</u>	<u>(29,278)</u>	<u>1,830,814</u>
	21,420,636	470,412	(138,150)	21,752,898
Less accumulated depreciation	<u>(13,590,514)</u>	<u>(1,000,834)</u>	<u>138,150</u>	<u>(14,453,198)</u>
Net depreciable plant	7,830,122	(530,422)	-	7,299,700
Non-depreciable plant:				
Work in progress	<u>1,048,391</u>	<u>1,068,677</u>	<u>(16,637)</u>	<u>2,100,431</u>
	\$ <u>8,878,513</u>	\$ <u>538,255</u>	\$ <u>(16,637)</u>	\$ <u>9,400,131</u>

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2015 and 2014

(5) Notes Payable

Notes payable at September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Uncollateralized loan of original principal of \$2,270,837 payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable semiannually in Special Drawing Rights (SDR) commencing August 2007. An SDR adjustment and additional consulting fees increased the loan balance by \$639,957 in fiscal year 2009. In fiscal year 2015, an SDR adjustment of \$348,385 decreased the loan balance.	\$ 2,161,270	\$ 2,555,072
Guaranteed loan 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.	<u>370,300</u>	<u>200,488</u>
Total notes payable	2,531,570	2,755,560
Less current portion	<u>45,417</u>	<u>45,417</u>
	<u>\$ 2,486,153</u>	<u>\$ 2,710,143</u>

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>
2016	\$ 45,417	\$ -	\$ 45,417
2017	83,272	-	83,272
2018	121,126	-	121,126
2019	128,532	2,779	131,311
2020	128,532	2,723	131,255
2021 through 2025	672,286	12,259	684,545
2026 through 2030	716,722	8,675	725,397
2031 through 2035	569,027	4,443	573,470
2036 through 2040	<u>66,656</u>	<u>635</u>	<u>67,291</u>
	<u>\$ 2,531,570</u>	<u>\$ 31,514</u>	<u>\$ 2,563,084</u>

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
September 30, 2015 and 2014

(5) Notes Payable, Continued

Changes in long-term liabilities for the years ended September 30, 2015 and 2014 are as follows:

	Outstanding September 30, 2014	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, 2015	<u>Current</u>
ADB loan (1459)	\$ 2,555,072	\$ -	\$ 393,802	\$ 2,161,270	\$ 45,417
ADB loan (3004)	<u>200,488</u>	<u>169,812</u>	<u>-</u>	<u>370,300</u>	<u>-</u>
	<u>\$ 2,755,560</u>	<u>\$ 169,812</u>	<u>\$ 393,802</u>	<u>\$ 2,531,570</u>	<u>\$ 45,417</u>
	Outstanding September 30, 2013	<u>Increases</u>	<u>Decreases</u>	Outstanding September 30, 2014	<u>Current</u>
ADB loan (1459)	\$ 2,600,558	\$ -	\$ 45,486	\$ 2,555,072	\$ 45,417
ADB loan (3004)	<u>-</u>	<u>200,488</u>	<u>-</u>	<u>200,488</u>	<u>-</u>
	<u>\$ 2,600,558</u>	<u>\$ 200,488</u>	<u>\$ 45,486</u>	<u>\$ 2,755,560</u>	<u>\$ 45,417</u>

(6) 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.

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 questioned costs as of September 30, 2015 amounted to \$257,296. 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, 2015, and is included as a current liability in the Statement of Net Position. Although FSM National Government has not asserted a claim to this liability, it has not forgiven this debt.

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Notes to Financial Statements
September 30, 2015 and 2014

(6) Commitments and Contingencies, Continued

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>	
2016	\$ 25,000
2017	25,000
2018	25,000
2019	25,000
2020	25,000
2021 through 2025	125,000
2026 through 2030	125,000
2031 through 2035	125,000
2036 and subsequent	<u>443,750</u>
Total	\$ <u>943,750</u>

Contract Commitments

Contract commitments in connection with project currently in construction approximate \$956,467 at September 30, 2015, all of which will be funded by loan proceeds from ADB.

(7) Grants

YSPSC received the following grants and capital contributions during the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
U.S. Department of the Interior grants	\$ 538,501	\$ 258,522
Yap State matching and operating grants	150,000	586,839
French Embassy operating grant	-	57,183
European Union (EU) capital grant	-	391,373
SPC-North REP	15,022	12,000
ADB	-	79,499
	\$ <u>703,523</u>	\$ <u>1,385,416</u>

(8) Restricted Net Position

Restricted net position consists of the following at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unexpended portion of EU capital grant	\$ 638,661	\$ 724,013
Unexpended portion of Yap State matching grant	160,530	320,920
Unexpended portion of Yap State grant	103,945	586,839
Unexpended portion of French Embassy operating grant	93,193	57,183
Unexpended portion of SPC-North REP	<u>10,812</u>	<u>58,342</u>
	\$ <u>1,007,141</u>	\$ <u>1,747,297</u>

**YAP STATE PUBLIC SERVICE CORPORATION
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Notes to Financial Statements
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(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.