

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

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

---

**YEAR ENDED SEPTEMBER 30, 2022**

1930 Picarro Lane  
I Liyang Village  
P.O. Box 504053  
Saipan, MP 96950

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

**Financial Statements  
and Independent Auditor's Report**

Year Ended September 30, 2022

Table of Contents

Independent Auditor's Report .....	1-3
Management's Discussion and Analysis .....	4-11
Financial Statements:	
Statement of Net Position .....	12
Statement of Revenues, Expenses and Changes in Net Position.....	13
Statement of Cash Flows .....	14-15
Notes to the Financial Statements.....	16-36
Independent Auditor's Report on Internal Control over Financial Reporting on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	37-38
Summary Schedule of Prior Audit Findings.....	39



**BURGER · COMER & ASSOCIATES**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors of  
Yap State Public Service Corporation

**Opinion**

We have audited the accompanying financial statements of the Yap State Public Service Corporation (the Company), a component unit of Yap State Government, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Yap State Public Service Corporation's basic financial statements as listed in the table of contents.

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, 2022, and the changes in net position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Yap State Public Service Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Yap State Public Service Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Saipan Office**

1930 Picarro Lane, I Liyang Village  
P.O. Box 504053, Saipan, MP 96950  
Tel Nos. (670) 235-8722 (670) 233-1837  
Fax Nos. (670) 235-6905 (670) 233-8214

**Guam Office**

333 South Marine Corps Drive  
Tamuning, Guam 96913  
Tel Nos. (671) 646-5044 (671) 472-2680  
Fax Nos. (671) 646-5045 (671) 472-2686

**Palau Office**

PO Box 1266  
Koror, PW 96940  
Tel Nos. (680) 488-8615  
Fax Nos. (680) 488-8616

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Yap State Public Service Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Yap State Public Service Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 11 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2024, on our consideration of the Yap State Public Service Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Yap State Public Service Corporation's internal control over financial reporting on compliance.

*Buys Comer & Associates*

March 15, 2024  
Saipan, MP

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Management's Discussion and Analysis  
Years ended September 30, 2022, 2021 and 2020

The following Management's Discussion and Analysis is required by GASB Statement No. 34 (GASB 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, 2022, 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 issued by the U.S. Governmental Accounting Standards Board requires that published financial statements must contain a management's discussion and analysis. This section of the YSPSC's annual report presents our discussion of YSPSC's performance for the years ended September 30, 2022, 2021, and 2020. 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 2022, 2021, and 2020.

**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, 2022, 2021 and 2020

	2022	2021	2020
Operating revenues:			
Electricity sales	\$ 5,129,864	5,151,811	5,244,716
Water and wastewater sales	488,918	463,334	521,948
	<u>5,618,782</u>	<u>5,615,145</u>	<u>5,766,664</u>
Provision for doubtful accounts	-	(66,231)	(27,932)
Total net operating revenues	<u>5,618,782</u>	<u>5,548,914</u>	<u>5,738,732</u>
Operating expenses:			
Production fuel	3,254,294	2,154,257	2,109,120
Depreciation	1,193,864	1,065,544	1,201,987
Salaries, wages, and related expenses	1,111,215	1,128,360	1,152,253
Administrative and general	478,155	432,335	389,295
Other production cost	549,827	809,445	571,564
Total net operating expenses	<u>6,587,355</u>	<u>5,589,941</u>	<u>5,424,219</u>
Operating income (loss)	(968,573)	(41,027)	314,513

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Management's Discussion and Analysis  
Years ended September 30, 2022, 2021 and 2020

Investments	328,402	393,951	161,010
Property and equipment	16,249,717	14,729,753	16,497,882
Long-term deposits	274,545	274,545	274,545
Long-term replacement parts	-	664,472	446,274
Right-of-use asset	289,970	-	-
Deposit for asset acquisition	-	-	13,395
Advances to contractors	82,284	82,284	82,284
<b>Total assets</b>	<b>\$ 19,664,589</b>	<b>18,674,549</b>	<b>20,698,530</b>

**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable	\$ 365,712	361,745	163,949
Annual leave and accrued payroll	102,496	129,692	129,203
Deferred revenue	91,892	81,174	172,492
Refund payable to customer	175,318	175,318	175,318
Loan payable, current	488,570	496,605	403,005
Lease liability, current	-	-	-
Other current liabilities	192,980	197,287	181,162
<b>Total current assets</b>	<b>1,416,968</b>	<b>1,441,821</b>	<b>1,225,129</b>
Loan payable, non-current	7,935,241	8,861,876	9,341,688
Lease liability, non-current	386,434	-	-
<b>Total liabilities</b>	<b>9,738,643</b>	<b>10,303,697</b>	<b>10,566,817</b>
Net position:			
Net investment in capital assets	7,825,906	5,371,272	6,753,189
Unrestricted	2,100,040	2,999,580	3,378,524
<b>Total net position</b>	<b>9,925,946</b>	<b>8,370,852</b>	<b>10,131,713</b>
<b>Total liabilities and net position</b>	<b>\$ 19,664,589</b>	<b>18,674,549</b>	<b>20,698,530</b>

**FINANCIAL OPERATIONS OVERVIEW**

YSPSC has again successfully completed twenty-seven years of operation. 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 continued 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

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
 Management's Discussion and Analysis  
 Years ended September 30, 2022, 2021 and 2020

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.

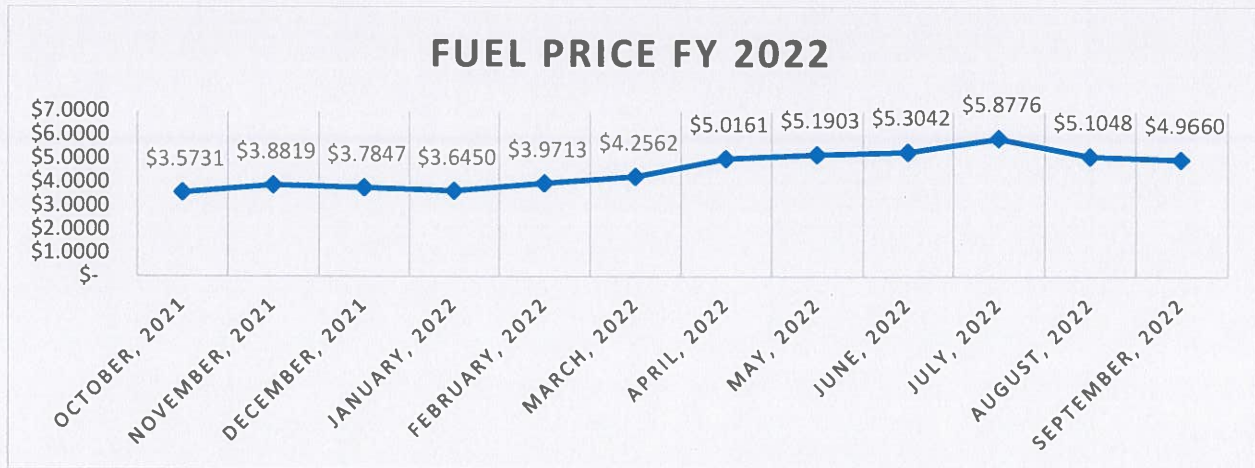
**Results of Operations**

Operating Profit/Loss – Financial operations for 2022 recognized an operating loss of \$968,573. Primarily because of fuel price increase. Operating loss for FY 2021 was \$41,027 while operating income for fiscal year 2020 was \$314,513. In 2022, Operating revenues increased by 1.3% while operating expenses raised by 18.24% or \$ 1,019,234 due to fuel price increase that kicked off in April and until September 2022.

Electric Revenue/Kilowatt Hours Billed: The fiscal year 2022 revenue of \$5,129,864 slightly decreased by .43% over fiscal year 2021. While In 2021, the decrease in electric revenue was 1.77% or \$92,905 against FY 2020, and both reflected a drop in kilowatt hours billed to customers. In FY 2022, 46% was consumed by Commercial customers, 24% was billed to government and 30% for residential.

Water Revenue: Water sales revenue increased by 5.5% percent or \$25,584 compared to FY 2021. In FY 2022, commercial customers used 23%, government customers utilized 13% and residential users were billed 64%. Water consumption for all classes was 87 million gallons.

Production Fuel: Production fuel, which represents 49% of the total operating expenses, drastically increased by 51% or \$1,100,037 as compared to FY 2021. The average monthly fuel price paid by YSPSC for FY-2021 was \$4.5476 compared to \$3.1056 in 2021. The graph below shows the fuel price for FY 2022.





**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Management's Discussion and Analysis  
Years ended September 30, 2022, 2021 and 2020

Other Operating Expenses – Other operating expenses dropped by 2.4% in 2022 as compared to 2021. Other production costs decreased by 28.2%, depreciation increased by 11%. General and administrative expenses increased by 11% and salaries and wages decreased by 1.5% in 2022.

**Significant Changes to Net Assets**

Cash – Ending cash at \$305,640 on September 30, 2022, is 67% less than the \$933,613 at the end of FY 2021 and was attributable to cash provided by operating activities and various grants received.

Receivables – Customer receivables of \$829,255 on September 30, 2022, signifies a slight decrease of 1% over 2021. While FY 2021 also indicated a 12% decrease in customer receivables over 2020.

Capital Assets – YSPSC's investment in capital assets, net of accumulated depreciation as of September 30, 2022 and 2021 was \$16,249,717 and \$14,729,753, respectively. This included 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 10.3% increase as of FY 2022 as compared to FY 2021.

Long-term Debt – On September 30, 2022, the Corporation owed \$8,423,811 in long-term loan for three Asian Development Bank (ADB) loans, \$488,570 of which is current. Moreover, an additional long-term Debt for Lease Liability of \$386,434 was booked as of September 30, 2022. Please refer to Note 5 to the financial statements for additional information related to long-term debts.

Current Liabilities – Current Liabilities slightly decreased by 1.7% or \$24,853 for 2022 as compared to 2021.

Capital Projects – Ongoing capital projects in 2022 include the sewer and water facilities assessment and improvement project funded by the Compact Infrastructure Maintenance Fund.

**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, American Samoa, and Yap Public Services Corporation. YSPSC received \$ 145,332 in fiscal year 2022 in cost reimbursements for the training program.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Management's Discussion and Analysis  
Years ended September 30, 2022, 2021 and 2020

**Yap Upcoming projects for the next 5 years:**

	<b>Project Type</b>	<b>Project Description</b>	<b>Location</b>	<b>Approximated Cost (\$M)</b>	<b>Funding Status</b>
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

	<b>Project Type</b>	<b>Project Description</b>	<b>Location</b>	<b>Approximated Cost (\$M)</b>	<b>Funding Status</b>
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	ADB Funded

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Management's Discussion and Analysis  
Years ended September 30, 2022, 2021 and 2020

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
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

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Management's Discussion and Analysis  
Years ended September 30, 2022, 2021 and 2020

	<b>Project Type</b>	<b>Project Description</b>	<b>Location</b>	<b>Approximated Cost (\$M)</b>	<b>Funding Status</b>
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 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)**  
Statement of Net Position  
September 30, 2022

ASSETS

Current assets:	
Cash and cash equivalents	\$ 305,640
Accounts receivable	829,255
Inventory	1,176,940
Prepayments	<u>127,836</u>
Total current assets	2,439,671
Investments	328,402
Property and equipment	16,249,717
Long-term deposits	274,545
Right-to-use asset	289,970
Advances to contractors	<u>82,284</u>
Total assets	<u><u>\$ 19,664,589</u></u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	365,712
Annual leave and accrued payroll	102,496
Deferred revenue	91,892
Refund payable to customer	175,318
Loan payable, current	488,570
Lease liability, current	-
Other current liabilities	<u>192,980</u>
	1,416,968
Loan payable, non-current	7,935,241
Lease liability, non-current	<u>386,434</u>
Total liabilities	9,738,643
Net position:	
Net investment in capital assets	7,825,906
Unrestricted	<u>2,100,040</u>
Total net position	<u>9,925,946</u>
Total liabilities and net position	<u><u>\$ 19,664,589</u></u>

See accompanying independent auditor's report and notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Statement of Revenues, Expenses and Changes in Net Position  
Year Ended September 30, 2022

Operating revenues:	
Electricity sales	\$ 5,129,864
Water and wastewater sales	<u>488,918</u>
Total net operating revenues	5,618,782
Operating expenses:	
Production fuel	3,254,294
Depreciation	1,193,864
Salaries, wages, and related expenses	1,111,215
Administrative and general	478,155
Other production cost	<u>549,827</u>
Total operating expenses	<u>6,587,355</u>
Operating loss	(968,573)
Non-operating income (loss):	
Interest income	582
Foreign exchange loss, net	(82,827)
Operating grants and subsidies	158,716
Interest expense	(125,633)
Grant expenses	<u>(155,476)</u>
Total non-operating loss	<u>(204,638)</u>
Net loss before capital contribution	(1,173,211)
Capital contribution	<u>2,313,375</u>
Change in net position	1,140,164
Net position at the beginning of the year, as previously reported	8,370,852
Adjustment due to implementation of GASB 87 (Note 9)	(85,735)
Adjustments to correct loan carrying amount (Note 5)	<u>500,665</u>
Net position at the beginning of the year, as adjusted	<u>8,785,782</u>
Net position at the end of the year	<u><u>\$ 9,925,946</u></u>

See accompanying independent auditor's report and notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Statement of Cash Flows  
Year Ended September 30, 2022

Cash flows from operating activities	
Cash received from customers	\$ 5,639,168
Cash paid to suppliers for goods and services	(4,219,005)
Cash paid to employees	<u>(1,084,019)</u>
Net cash provided by operating activities	336,144
Cash flows from investing activities:	
Interest and other income	582
Sale of investments	<u>65,549</u>
Net cash provided by investing activities	66,131
Cash flows from non-capital financing activities:	
Proceeds from operating grants and subsidies	158,716
Expenses paid from operating grant proceeds	<u>(155,476)</u>
Net cash provided by non-capital investing activities	3,240
Cash flows from capital and related financing activities:	
Acquisition of property and equipment	(2,599,233)
Increase in work-in-progress	(105,165)
Interest paid	(125,633)
Capital contributions received	2,313,375
Repayment of loans payable	<u>(516,832)</u>
Net cash used in capital and related financing activities	<u>(1,033,488)</u>
Net change in cash and cash equivalents	(627,973)
Cash and cash equivalents at beginning of year	<u>933,613</u>
Cash and cash equivalents at end of year	<u><u>\$ 305,640</u></u>

See accompanying independent auditor's report and notes to financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Statement of Cash Flows  
Year Ended September 30, 2022

Reconciliation of operating loss to net cash provided by operating activities:	
Operating income (loss)	\$ (968,573)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,184,434
Amortization	9,430
Interest expense	1,299
Decrease (increase) in operating assets:	
Accounts receivable	9,086
Inventory	(45,755)
Prepayments	163,041
Right-to-use asset	
Increase (decrease) in operating liabilities:	
Accounts payable	3,967
Annual leave and accrued payroll	(27,196)
Deferred revenue	10,718
Other current liabilities	(4,307)
Net cash provided by operating activities	<u>\$ 336,144</u>
 <b>Disclosure of non-cash investing and financing activities</b>	
Right-of-use asset recognized at the beginning of the year	<u>\$ 301,757</u>
Lease liability recognized at the beginning of the year	<u>\$ (384,824)</u>

See accompanying independent auditor's report and notes to financial statements.



**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

(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. Proprietary funds utilize the accrual basis of accounting. Under this method of accounting, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. The Governmental 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 is reduced by outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted:
  - Non-Expendable – 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.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

Net Position, continued

- Unrestricted:
  - Net position that is not subject to externally imposed stipulations. An unrestricted net position may be designated for specific purposes by the 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 on September 30, 2022.

Property and Equipment

Property and equipment were transferred from the Division of Public Utilities to YSPSC as of April 1, 1996, at the estimated net book value without documents supporting cost. The net book value of the property and equipment transferred was \$6,805,075 as of April 1, 1996. Property and equipment acquired after April 1, 1996, is carried at cost. YSPSC generally capitalizes property and equipment with a cost of \$500 or more. Depreciation is computed using the straight-line method over the asset's estimated useful lives (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 of more than 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 on 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.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

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 that 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 costs or estimated values when the State of Yap contributes. 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

Electricity and water sales are recorded as billed to customers on a monthly billing cycle. As of September 30, 2022, unbilled revenues of \$199,836 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 as 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.

Use of Estimates

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

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

(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 because of this practice during the past three years.

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 initially issued. In accordance with GASB Statement No. 95, except for the early adoption of GASB Statement No. 89, management has elected to postpone the implementation of these statements.

During the year ended September 30, 2022, 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.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, establishes accounting and reporting requirements related to replacing 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.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

New Accounting Standards, continued

In June 2017, GASB issued Statement No. 87, Leases. This Statement aims 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 contract's payment provisions. Management believes this statement, upon implementation, had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 was adopted for the fiscal year ended September 30, 2022. See Note 9 for disclosure regarding leases.

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 this statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 was adopted for the fiscal year ended 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 the fiscal year ending September 30, 2023.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

New Accounting Standards, continued

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 the 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 post-employment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance 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 were adopted for the fiscal year ending September 30, 2022.

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

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 an SBITA; (2) establishes that an 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 an SBITA; and (4) requires note disclosures regarding an 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 the September 30, 2023 fiscal year.

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.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

New Accounting Standards, continued

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 post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that the adoption of GASB Statement No. 97 had a material effect on the financial statements. GASB Statement No. 97 was adopted for the fiscal year ended 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 replaces instances of comprehensive annual financial reports and its acronym in generally accepted accounting principles for state and local governments. Management does not believe this statement had a material effect on the financial statements. GASB Statement No. 98 was adopted for the fiscal year ended September 30, 2022.

In June 2022, GASB issued Statement No. 100, Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

New Accounting Standards, continued

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature.

In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management is evaluating whether implementation of this statement will have a material impact on the financial statements.

In June 2022, GASB issued Statement No. 101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.



**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

New Accounting Standards, continued

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

New Accounting Standards, continued

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

In December 2023, GASB issued Statement No. 102, Certain Risk Disclosures. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

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

New Accounting Standards, continued

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

(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 and 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 YSPSC's deposits may not be returned to it in the event of a bank failure. Such deposits are not covered by depository insurance. They 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, 2022, the carrying amount of the YSPSC's total cash and cash equivalents was \$305,640, and the corresponding bank balances were \$304,370, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. On September 30, 2022 bank deposits in the amount of \$16,932 were in excess of the \$250,000 FDIC insurance limit. Collateralization of deposits is not required; therefore, deposits more than the FDIC-insured amounts are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**YAP STATE PUBLIC SERVICE CORPORATION**

**(A Component Unit of the State of Yap)**

Notes to Financial Statements

September 30, 2022

**(3) Accounts Receivable and Accrued Unbilled Revenue**

YSPSC's accounts receivable, less allowance for doubtful accounts, and accrued unbilled revenue on September 30, 2022 were as follows:

Gross accounts receivable	\$ 712,614
Allowance for doubtful accounts	<u>(83,195)</u>
Net accounts receivable	629,419
Accrued unbilled revenue	<u>199,836</u>
Net accounts receivable and accrued unbilled revenue	<u>\$ 829,255</u>

**(4) Investments**

Investments recorded at fair value or amortized cost comprise the following:

Common stock	\$ 210,879
Exchange-traded funds	100,146
Money market funds (imbedded in investment product)	9,215
Money market funds (liquid)	<u>8,162</u>
	<u>\$ 328,402</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 investments were held in YSPSC's name by YSPSC's custodial financial institutions on September 30, 2022.

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 number of investments in any one issuer that represents five percent (5%) or more of total investments for YSPSC. As of September 30, 2022, no investments in any one issuer represented five percent or more of total investments for YSPSC.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

**(4) Investments, continued**

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, 2022

(4) Investments, continued

Investments recorded at fair value or amortized cost comprise the following:

	Hierarchy as of September 30, 2022			Credit Rating	No Maturity	Maturity at September 30, 2022				
	Level 1	Level 2	Level 3			Less than 1 year	1-5 years	6-10 year	More than 10 years	
Investments by fair value level:										
Exchange-traded funds	\$ 100,146	\$ -	\$ -	NR	\$ 100,146	\$ -	\$ -	\$ -	\$ -	\$ -
Common stock	210,879	-	-	NR	210,879	-	-	-	-	-
	311,025	-	-		311,025	-	-	-	-	-
Investments measured at amortized cost:										
Money market funds	17,377	-	-		17,377	-	-	-	-	-
Total investments	<u>\$ 328,402</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 328,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

(4) Property and Equipment

A summary of changes in capital assets for the year ended September 30, 2022 is as follows:

	Beginning Balance October 01, 2021	Transfers and Additions	Transfers and Deletions	Others	Ending Balance September 30, 2022
<b>Depreciable plant:</b>					
Power	\$ 24,798,131	\$ 2,584,631	\$ -	\$ -	\$ 27,382,762
Water and wastewater	7,157,481	-	-	-	7,157,481
General	3,200,702	14,602	-	-	3,215,304
Accumulated depreciation	35,156,314 (20,467,198)	2,599,233 (1,171,707)	-	(12,727)	37,755,547 (21,651,632)
Net depreciable plant	14,689,116	1,427,526	-	(12,727)	16,103,915
<b>Non-depreciable plant:</b>					
Work-in-progress	40,637	122,565	(17,400)	-	145,802
	<u>\$ 14,729,753</u>	<u>\$ 1,550,091</u>	<u>\$ (17,400)</u>	<u>\$ (12,727)</u>	<u>\$ 16,249,717</u>

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

(5) Notes Payable

Notes payable on September 30, 2022 were as follows:

<p>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.</p>	<p>\$ 1,326,718</p>
<p>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.</p>	<p>4,216,199</p>
<p>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.</p>	<p style="border-top: 1px solid black;">2,880,894</p>
<p>Total notes payable</p>	<p>8,423,811</p>
<p>Less: current portion</p>	<p style="border-top: 1px solid black;">488,570</p>
<p>Notes payable, net of current portion</p>	<p style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 7,935,241</p>



**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

(5) Notes Payable, continued

Changes in long-term liabilities for the year ended September 30, 2022 are as follows:

	Beginning Balance October 01, 2021	Increases	Decreases	Ending Balance September 30, 2022	Current
ADB Loan:					
LN# 1459	\$ 1,575,080	\$ 82,827	\$ 331,189	\$ 1,326,718	\$ 121,126
LN# 3004	4,403,586	-	187,387	4,216,199	187,387
LN# 3005	3,379,815	-	498,921	2,880,894	180,057
	<u>\$ 9,358,481</u>	<u>\$ 82,827</u>	<u>\$ 1,017,497</u>	<u>\$ 8,423,811</u>	<u>\$ 488,570</u>

The breakdown of the total decreases are as follows:

Cash payments	\$ 516,832
Adjustment to correct loan carrying amount	<u>500,665</u>
	<u>\$ 1,017,497</u>

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

(5) Notes Payable, continued

Future maturities of notes are as follows:

Years ending September 30:	Payments	Principal	Interest
2023	\$ 600,654	\$ 488,570	\$ 112,084
2024	594,775	488,570	106,205
2025	588,896	488,570	100,326
2026	676,335	582,264	94,071
2027	668,957	582,264	86,693
2028-2032	3,349,567	3,026,773	322,794
2033-2037	2,444,026	2,305,687	138,339
2038-2042	466,646	461,113	5,533
	<u>\$ 9,389,856</u>	<u>\$ 8,423,811</u>	<u>\$ 966,045</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 does not charge for use of this property.

YSPSC is the ultimate beneficiary of two diesel generators and a substation upgrade from the 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 turnover of ownership and related documents to YSPSC is still ongoing as of September 30, 2022. YSPSC does not currently hold title to this property, and such is not recorded in the accompanying financial statements.

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, 2022 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.

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

(6) Commitments and Contingencies, continued

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 more than \$0.035 per kWh and to refund to customers all fuel surcharges and fees collected more than \$0.035 per kWh from March 2006 to February 2008. On 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 on September 30, 2022 and is included as a current liability in the statement of net position. Although the FSM National Government has not asserted a claim to this liability, it has not forgiven this debt.

Contract Commitments

There are no contract commitments in connection with projects currently in progress as of September 30, 2022

(7) Grants

YSPSC received the following grants and capital contributions during the year ended September 30, 2022:

Yap State Government	\$ 2,160,301
U. S. Department of Interior grants	<u>153,074</u>
	<u>\$ 2,313,375</u>

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

**(8) 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, terms and conditions as are entered into with unrelated entities.

**(9) Leases**

YSPSC entered into a lease agreement for its Wind Farm on July 1, 2013. The lease is for 20 years with an option to renew for another 20 years. The lease payments are \$25,000 annually, payable at the beginning of every quarter for the initial term, and \$37,500 annually, payable at the beginning of every quarter for the renewed term if no price is negotiated after the end of the initial term. The discount rate used is 6.82%, which is the rate for the ADB loan in Note 5 above.

The future lease obligations are as follows:

Years ending September 30:	Payments	Principal	Interest
2023	\$ 25,000	\$ (1,390)	\$ 26,390
2024	25,000	(1,487)	26,487
2025	25,000	(1,591)	26,591
2026	25,000	(1,702)	26,702
2027	25,000	(1,822)	26,822
2028-2032	125,000	(11,207)	1,261,207
2033-2037	178,125	45,311	132,814
2038-2042	187,500	76,252	111,248
2043-2047	187,500	106,929	80,571
2048-2052	187,500	149,948	37,552
2053-2057	28,125	27,193	932
	<u>\$ 1,018,750</u>	<u>\$ 386,434</u>	<u>\$ 1,757,316</u>

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
Notes to Financial Statements  
September 30, 2022

(9) Leases, continued

Information related to the right to use the leased assets and lease liabilities follows:

Right to use the leased asset	\$	377,196
Accumulated amortization		<u>(87,226)</u>
Right to use the leased asset, net	\$	<u>289,970</u>
Lease liability, current	\$	-
Lease liability, non-current		<u>386,434</u>
Total lease liability	\$	<u>386,434</u>

Supplemental information related to YSPSC's leases follows:

Cash paid for amounts included in the measurement of lease liabilities:

Interest payments made	\$	25,000
Weighted average remaining lease term		30.75 years
Weighted average discount rate		6.82%

(10) Coronavirus Pandemic

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the 2019-nCoV (Coronavirus) outbreak a "Public Health Emergency of International Concern". On May 5, 2023 the World Health Organization declared that the public health emergency had ended. There are lingering aspects of the pandemic that are affecting businesses in the State of Yap, primarily related to the tourism industry. It is anticipated that these impacts will continue for some time. As a result of the spread of the coronavirus pandemic, economic uncertainties have arisen, which are likely to impact the day-to-day administration of YVB. While this matter is expected to negatively impact the Corporation's results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

(11) Date of Management's Review

Management has evaluated subsequent events and transactions occurring after the statement of net position date through the date of availability of the financial statements to be issued, March 15, 2024. Management has determined that none of the events occurring after the date of the statement of net position substantially affects the amounts, presentation, and disclosure of the accompanying financial statements.



**BURGER · COMER & ASSOCIATES**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER**  
**FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED**  
**ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE**  
**WITH GOVERNMENT AUDITING STANDARDS**

The Board of Directors of  
Yap State Public Service Corporation

We have audited, in accordance with the 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, the financial statements of Yap State Public Service Corporation (the "Corporation"), which comprise the statement of net position as September 30, 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 15, 2024.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses/ However, material weaknesses may exist that have not been identified.

**Saipan Office**

1930 Picarro Lane, I Liyang Village  
P.O. Box 504053, Saipan, MP 96950  
Tel Nos. (670) 235-8722 (670) 233-1837  
Fax Nos. (670) 235-6905 (670) 233-8214

**Guam Office**

333 South Marine Corps Drive  
Tamuning, Guam 96913  
Tel Nos. (671) 646-5044 (671) 472-2680  
Fax Nos. (671) 646-5045 (671) 472-2686

**Palau Office**

PO Box 1266  
Koror, PW 96940  
Tel Nos. (680) 488-8615  
Fax Nos. (680) 488-8616

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bung Coon & Associates*

March 15, 2024

Saipan, MP

**YAP STATE PUBLIC SERVICE CORPORATION**  
**(A Component Unit of the State of Yap)**  
**Summary Schedule of Prior Audit Findings**  
**September 30, 2022**

Finding Number	Assistance Listing Number	Questioned Costs Reported in FY 2021	Questioned Costs Resolved in FY 2022	Remaining Questioned Costs in FY 2022	Status
2015-002	15.875	\$ 247,296	\$ -	\$ 247,296	Unresolved

See accompanying independent auditor's report and notes to financial statements.