

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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**REPORT ON THE AUDIT OF THE  
FINANCIAL STATEMENTS IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

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**YEAR ENDED SEPTEMBER 30, 2022**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2022

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**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2022

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**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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**INDEPENDENT AUDITOR'S REPORT,  
FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2022**



# BURGER · COMER & ASSOCIATES

## CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITOR'S REPORT

Honorable Charles Chieng  
Governor, State of Yap  
Federated States of Micronesia

#### Report on the Audit of the Financial Statements

##### *Opinions*

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units (except as described below), each major fund, and the aggregate remaining fund information of the State of Yap (the State) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

##### *Summary of Opinions*

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
Foreign Assistance Grants Fund	Unmodified
Yap State Investment Trust Fund	Unmodified
Compact Trust Fund	Unmodified

##### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the Matter Giving Rise to Adverse Opinion on Aggregate Discretely Presented Component Units section of our report, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2022, or the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Unmodified Opinion**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Yap, as of September 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Basis for Adverse and Unmodified Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the State of Yap, 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 adverse and unmodified audit opinions.

## **Matter Giving Rise to Adverse Opinion on Aggregate Discretely Presented Component Units**

The State's component units' column does not include the financial statements of the Yap Fishing Authority. Accounting principles generally accepted in the United States of America require financial information about the Yap Fishing Authority to be part of the State's aggregate discretely presented component units. Because of the departure from accounting principles generally accepted in the United States of America, the amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units could not be determined.

## **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 State'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.

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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Transportation System, which represents 100% of the assets, net position, and operating revenues of the State's business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. We conducted our audit 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.

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 opinions.

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 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, 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 State'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 State'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.

### **Emphasis-of-Matters**

#### *Receivables from the FSM National Government*

As discussed in Note 3 to the financial statements, the State is in discussion with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with the grantor agency arising from Compact sector grant transactions.

#### *COVID-19*

As discussed in the Note 11 to the financial statements, the State has determined that the COVID-19 pandemic may negatively impact its results of operations and net position.

Our opinion is not modified with respect to these matters.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information from page 5 to page 13 and page 68 to page 70 respectively, 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.

## Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. Financial statements for the year ended September 30, 2021 were audited by other auditors whose report dated December 31, 2022 expressed unmodified opinions on the governmental activities, general fund, Foreign Assistance Grants Fund, and the compact trust fund (the related financial statements are not presented herein), and adverse opinion on the aggregate discretely presented component units. The (a) combining schedule of expenditures by account-Governmental Funds, (b) statement of revenues, expenditures by function and changes in fund balance, (c) combining balance sheet – Foreign Assistance Grants Fund, (d) combining statement of revenues, expenditures by function, and changes in fund balances – Foreign Assistance Grants Fund, and (e) combining statement of revenues, expenditures by account, and changes in fund balance – Foreign Assistance Grants Fund are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for that pertaining to year ended September 30, 2021 audited by predecessor auditors, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the (a) combining schedule of expenditures by account-Governmental Funds, (b) statement of revenues, expenditures by function and changes in deficit - General Fund, (c) combining balance sheet – Foreign Assistance Grants Fund, (d) combining statement of revenues, expenditures by function, and changes in fund balances – Foreign Assistance Grants Fund, and (e) combining statement of revenues, expenditures by account, and changes in fund balance – Foreign Assistance Grants Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2024, on our consideration of the State'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 solely 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 the effectiveness of the State's 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 State's internal control over financial reporting and compliance.

*Bruce Comer & Associates*

Saipan, MP

October 12, 2024



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year Ending September 30, 2022**

This analysis, prepared by the Office of Administrative Services, offers readers of the Yap State Government's (Yap State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2022. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2021 comparative information has been included, where appropriate. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

**FINANCIAL HIGHLIGHTS**

- For the fiscal year ended September 30, 2022, Yap State's total net position dropped by \$21.8 million from \$136 million in fiscal year 2021 to \$114.8 million at the end of fiscal year 2022. The 16% rate of decrease is slightly lower than the rate of increase from fiscal year 2020 to 2021 of 17.5%. The dramatic changes between the two fiscal years are primarily attributable to the rise and fall in the fair value of the State's investments.
- Total revenue for the State's governmental funds was a mere \$3.6 million in 2022, a 92% drop from the incredible \$42.4 million revenues reported in 2021. The drastic changes in recorded revenues between the two years were indicative of the volatility of the stock markets between 2021 and 2022 and were reflected primarily in the Permanent Funds.
- But General Fund revenue did also drop to \$3.7 million from the previous year's \$8.8 million. The 2021 General Fund revenue may seem somewhat inflated because of unrealized investment gains, but in fact, from 2018 thru 2020, General Fund revenue averaged around \$6 million. Therefore, the \$3.7 million revenue for 2022 was quite low; fortunately, the decline was mostly due to paper losses.
- Fiscal year 2022 actual revenue for the General Fund was only \$3.7 million, but the year's appropriations amounted to \$6.8 million indicating that the revenue projections for the year 2022 were based on the normal levels for the prior years. Actual expenditures totaled \$6.3 million resulting in an operating deficit of \$3.4 million for fiscal year 2022.
- The Yap State Trust Fund reported a balance of \$62.6 million at the end of fiscal year 2022, which was a 20% drop of \$16.1 million in the fair value of the investment from the prior fiscal year.
- The "Unassigned" General Fund balance generally considered to be the balance available for appropriation was \$7.1 million at the end of FY22 down from \$10.6 million for the previous year.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending September 30, 2022**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to Yap State's basic financial statements. Yap State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds component units.

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

Yap Visitor's Bureau (YVB): YVB was created by YSL No. 4-25 and is responsible for the promotion of Yap as a tourist destination. YVB is governed by a seven-member Board of Directors, of which five members are appointed by the Governor subject to the advice and consent of the Legislature, one member is appointed by the Speaker of the Legislature, and one member is elected by the six appointed members. The State provides financial support to YVB through legislative appropriations.

Yap State Public Service Corporation (YSPSC): YSPSC was created by YSL No. 4-4 and is responsible for the delivery of electricity, water and sewer in the State. YSPSC is governed by a seven-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to YSPSC through legislative appropriations.

The Diving Seagull, Inc. (DSI): DSI was incorporated in the State on March 17, 1997 and was organized primarily to pursue fishing and other fishing related activities by operating fishing vessels, marketing and selling fish, and developing cold storage and/or transshipment facilities. DSI is governed by a five-member Board of Directors. The State has the ability to impose its will on DSI.

The State's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by contacting the various entities or obtaining them directly from the Office of the Public Auditor at the following address:

P.O. Box 927  
Colonia, Yap, FSM 96943

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ending September 30, 2022

**Omitted Component Units:**

The following component units have been omitted from the financial statements due to the lack of available financial information:

Gagil-Tomil Water Authority (GTWA): GTWA was created by YSL No. 1-183 and is responsible for the provision of services in the operation and maintenance of the Gagil-Tomil Water System. GTWA is governed by a nine-member Board of Directors, four of which are appointed by the Gagil member of the Council of Pilung, four appointed by the Tomil member of the Council of Pilung, and one appointed by the Governor. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

Southern Yap Water Authority (SYWA): SYWA was created by YSL No. 1-221 and is responsible for the operation and maintenance of the Southern Yap Water System. SYWA is governed by a six-member Board of Directors, of which one is appointed by the Governor, two members who are appointed by the Municipal Chief of Rull on the Council of Pilung, one of whom shall be from either Lamer or Luwech Villages, and three members who are appointed by the municipal chiefs of Gilman, Kanifay, and Dalipebinaw on the Council of Pilung. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

Yap Fishing Authority (YFA): YFA was created by Yap District Law (YDL) No. 6-13 and is responsible for the promotion, development, and supporting of commercial utilization of living marine resources within the State. YFA is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The financial activities of this omitted component unit are considered material to the component units' column reporting unit.

Yap Sports Council (YSC): YSC was created by YSL No. 4-65 and is responsible for promoting and encouraging sports participation at all levels of society. YSC is governed by an eleven-member Board of Directors, of which three members are appointed by the Governor subject to the advice and consent of the Legislature, two members are appointed by the Speaker of the Legislature, two members are appointed by the Council of Pilung, two members are appointed by the Council of Tamol, and two members are appointed by the Congress of the FSM National Government. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

**Government-Wide Financial Statements**

The government-wide statements report information about Yap State as a whole, using accounting methods similar to those used by private-sector companies. It provides both long-term and short-term information about the State's financial status.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending September 30, 2022**

The statement of net position includes all the government's assets and liabilities. The difference in the two is called net position. Over time, increases or decreases in the State's net position serve as indicator to measure the State's financial position.

The statement of activities on the other hand, accounts for the State's current year revenues and expenses regardless of when cash is received or paid.

The government-wide financial statements of Yap State are divided into three categories:

- Governmental activities -- Most of Yap State's basic services are included here, such as education, health, special appropriations, finance, judiciary, and general administration. Federal grants finance most of these activities.
- Business-type activities -- Yap State reports the operations of its Public Transportation System, which charges tariffs to help cover the costs of the transportation services it provides.
- Component Units -- Yap State includes the operating results of the Yap Visitor's Bureau, the Yap State Public Service Corporation, and The Diving Seagull, Inc. in its report. Although legally separate, these "component units" are important because Yap State is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about Yap State's significant funds. Funds are accounting devices that Yap State uses to keep track of specific sources of funding and spending for particular services. The State uses fund accounting to comply with financial and related legal requirements.

Yap State has two types of funds:

- Governmental funds. Most of Yap State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Yap State programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains and reconciles the relationship (or differences) between them.
- Proprietary funds. Services for which Yap State charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ending September 30, 2022

**FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE**

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2022, Yap State's assets exceeded liabilities by \$114.5 million. Of its total net position of \$114.5 million, \$19.07 million is restricted for specific uses. Also included in net position are \$18.9 million invested in capital assets (buildings, roads, etc.). Yap State uses these capital assets to provide services to its citizens; consequently, these assets are reported net of related debt. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following schedule summarizes Yap State's net position as of September 30, 2022, with comparative figures for the prior year:

	Governmental Activities		Business Type Activities		Total		Change	%
	2022	2021	2022	2021	2022	2021		
<b>Assets</b>								
Current assets	\$ 83,280,927	\$ 102,456,335	\$ 220,672	\$ 224,982	\$ 83,501,599	\$ 102,681,317	\$ (19,179,718)	-19%
Other assets	23,066,025	24,962,423	-	-	23,066,025	24,962,423	(1,896,398)	-8%
Capital assets, net	18,895,659	20,767,608	141,584	201,631	19,037,243	20,969,239	(1,931,996)	-9%
<b>Total assets</b>	<b>125,242,611</b>	<b>148,186,366</b>	<b>362,256</b>	<b>426,613</b>	<b>125,604,867</b>	<b>148,612,979</b>	<b>(23,008,112)</b>	<b>-15%</b>
<b>Liabilities</b>								
Current Liabilities	6,491,142	7,124,292	47,459	72,406	6,538,601	7,196,698	- 658,097	-9%
Noncurrent liabilities	4,224,611	4,812,578	-	-	4,224,611	4,812,578	(587,967)	-12%
<b>Total liabilities</b>	<b>10,715,753</b>	<b>11,936,870</b>	<b>47,459</b>	<b>72,406</b>	<b>10,763,212</b>	<b>12,009,276</b>	<b>- 1,246,064</b>	<b>-10%</b>
<b>Net assets</b>								
Invested in capital assets, net	18,895,659	20,767,608	141,584	201,631	19,037,243	20,969,239	- 1,931,996	-9%
Restricted	19,070,116	20,115,298	-	-	19,070,116	20,115,298	- 1,045,182	-5%
Unrestricted	76,561,083	95,366,590	173,213	152,576	76,734,296	95,519,166	- 18,784,870	-20%
<b>Total net assets</b>	<b>\$ 114,526,858</b>	<b>\$ 136,249,496</b>	<b>\$ 314,797</b>	<b>\$ 354,207</b>	<b>\$ 114,841,655</b>	<b>\$ 136,603,703</b>	<b>\$ (21,762,048)</b>	<b>-16%</b>

Yap State's unrestricted net position at the end of fiscal year 2022 shows a surplus of \$76.6 million (66% of total net assets). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$62.6 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2021, Yap State's assets dropped by 16% or \$21.8 million. Key elements of the decline and the differences from the prior year are shown in the following schedule:

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending September 30, 2022**

<b>Revenues:</b>	<b>Government Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>		<b>Change</b>	<b>%</b>
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Program Revenues								
Charges for services	\$ 994,645	\$ 1,314,270	579,478	440,295	\$ 1,574,123	\$ 1,754,565	\$ (180,442)	(0.10)
Operating grants & contributions	18,060,531	17,989,768	30,000	30,000	18,090,531	18,019,768	70,763	0.00
Capital grants & contributions	-	-	-	-	-	-	-	-
General Revenue								
Taxes	5,631,872	5,603,971			5,631,872	5,603,971	27,901	0.00
Unrestricted investment (losses) earnings	(2,803,291)	2,184,450			(2,803,291)	2,184,450	(4,987,741)	(2.28)
Other	69,471	171,196			69,471	171,196.00	(101,725)	(0.59)
Total revenue	21,953,228	27,263,655.00	609,478	470,295	22,562,706.00	27,733,950.00	(5,171,244.00)	(0.19)
<b>Expenses</b>								
General Government	4,577,897	4,021,219	648,888	642,910	5,226,785	4,664,129	562,656	0.12
Health Services	7,533,647	6,803,260			7,533,647	6,803,260	730,387	0.11
Education	6,979,287	6,721,351			6,979,287	6,721,351	257,936	0.04
Economic Development	560,995	965,739			560,995	965,739	(404,744)	(0.42)
Public Safety	592,796	654,515			592,796	654,515	(61,719)	(0.09)
Public Works and Transportation	3,282,448	3,408,752			3,282,448	3,408,752	(126,304)	(0.04)
Community affairs	223,836	259,819			223,836	259,819	(35,983)	(0.14)
Boards and commissions	333,504	361,665			333,504	361,665	(28,161)	(0.08)
Payments to component units	111,342	103,619			111,342	103,619	7,723	0.07
Judiciary	180,223	182,243			180,223	182,243	(2,020)	(0.01)
Others	1,311,581	1,223,982			1,311,581	1,223,982	87,599	0.07
Total expenses	25,687,556	24,706,164	648,888	642,910	26,336,444	25,349,074	987,370	0.04
Contributions to permanent funds	(18,312,980)	15,166,644			(18,312,980)	15,166,644	(33,479,624)	(2.21)
Gain from foreign exchange rate	422,269	-			422,269	-	422,269	-
Loss of impairment of an asset	(148,958)	(44,645)			(148,958)	(44,645)	(104,313)	
Change in net position	- 21,773,997	17,679,490	(39,410)	(172,615)	- 21,813,407	17,506,875	(39,320,282)	(2.25)
Net position at the beginning of the year	136,249,496	118,570,006	354,207	526,822	136,603,703	119,096,828	17,506,875	0.15
Adj to beginning bal - lease	51,359				51,359			
Net position at the end of the year	\$ 114,526,858	\$ 136,249,496	314,797	354,207	\$ 114,841,655	\$ 136,603,703	\$ (21,762,048)	(0.16)

To lessen the impacts of the pandemic on the FSM States, Congress took action to increase the States' share of national taxes to make up for decreased local revenue in fiscal year 2021. The additional funds from Congress, combined with US Federal Covid-19 related funds and the ending high market value of Yap State's investments contributed to a 15% increase in net position for fiscal year 2021. Although program revenue and revenue from taxes remained stable between 2021 and 2022, the unrealized investment losses in 2022 were higher than the unrealized gains in 2021, thus bringing down the net position of the State by 16% to \$114.5 million from the \$136.2 million in 2021. The investment losses caused revenues to drop by 19% in fiscal year 2022 as compared to the prior year. Expenditures, on the other hand, rose slightly by 4% as pandemic-related restrictions were slowly eased.

There were no material changes in the Business-Type Activities assets or liabilities.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending September 30, 2022**

**FINANCIAL ANALYSIS OF YAP STATE GOVERNMENTAL FUNDS**

	General Fund		Foreign Asst Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<b>Assets</b>												
Unrestricted assets	20,793,282	22,821,507	9,605,295	7,733,942	-	-			1,924,686	1,842,092	32,323,263	32,397,541
Restricted assets	3,880,690	4,796,172	-	-	62,559,768	78,692,000	15,220,142	17,400,890	-	-	81,660,600	100,889,062
<b>Total Assets:</b>	<b>24,673,972</b>	<b>27,617,679</b>	<b>9,605,295</b>	<b>7,733,942</b>	<b>62,559,768</b>	<b>78,692,000</b>	<b>15,220,142</b>	<b>17,400,890</b>	<b>1,924,686</b>	<b>1,842,092</b>	<b>113,983,863</b>	<b>133,286,603</b>
<b>Liabilities</b>	<b>6,814,292</b>	<b>6,223,545</b>	<b>6,070,332</b>	<b>5,586,953</b>	<b>-</b>	<b>-</b>	<b>51,221</b>	<b>51,221</b>	<b>788,576</b>	<b>577,774</b>	<b>13,724,421</b>	<b>12,439,493</b>
<b>Fund Balances</b>	<b>17,859,680</b>	<b>21,394,134</b>	<b>3,534,963</b>	<b>2,146,989</b>	<b>62,559,768</b>	<b>78,692,000</b>	<b>15,168,921</b>	<b>17,349,669</b>	<b>1,136,110</b>	<b>1,264,318</b>	<b>100,259,442</b>	<b>120,847,110</b>
<b>Total Liab &amp; Fund Bal</b>	<b>24,673,972</b>	<b>27,617,679</b>	<b>9,605,295</b>	<b>7,733,942</b>	<b>62,559,768</b>	<b>78,692,000</b>	<b>15,220,142</b>	<b>17,400,890</b>	<b>1,924,686</b>	<b>1,842,092</b>	<b>113,983,863</b>	<b>133,286,603</b>

As noted earlier, Yap State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2022, Yap State's governmental funds reported a combined fund balance of \$100.3 million, which represents a decline of \$20.6 million in comparison with fiscal year 2021. Of the total fund balance, \$93.1 million is non-spendable, restricted, committed, or assigned. These classifications indicate that the funds are not available for new spending because it is: 1) non-spendable because it is already committed to assets or is restricted by law or other stipulation (\$84.7 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$4.3 million); 3) restricted because the funds are already committed (\$1.3 million); and, 4) restricted and intended for a specific purpose (\$2.9 million). The unassigned combined fund balance is \$7.1 million.

The State's governmental fund changes in fund balances for the years ended September 30, 2022 and 2021 are shown below:

	General Fund		Grant Fund		Investment Trust		Compact Trust		Other Funds		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2020
<b>Revenues:</b>												
Taxes	\$ 5,538,628	\$ 5,495,026	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93,244	\$ 108,945	\$ 5,631,872	\$ 5,603,971
Compact			11,878,224	13,027,816							11,878,224	13,027,816
Others/Transfers In	(1,846,396)	3,302,968	3,548,967	2,906,135	(16,132,232)	11,908,219	(2,180,748)	3,258,425	2,740,561	2,422,765	(13,869,848)	23,798,512
<b>Total Revenue</b>	<b>3,692,232</b>	<b>8,797,994</b>	<b>15,427,191</b>	<b>15,933,951</b>	<b>(16,132,232)</b>	<b>11,908,219</b>	<b>(2,180,748)</b>	<b>3,258,425</b>	<b>2,833,805</b>	<b>2,531,710</b>	<b>3,640,248</b>	<b>42,430,299</b>
<b>Expenditures/Transfers Out</b>	<b>7,129,086</b>	<b>5,768,792</b>	<b>14,039,217</b>	<b>16,295,966</b>					<b>2,962,013</b>	<b>2,498,590</b>	<b>24,130,316</b>	<b>24,563,348</b>
Special items	(148,958)	(44,645)	-	-							(148,958)	(44,645)
<b>Net Change in Fund Balance</b>	<b>\$ (3,585,812)</b>	<b>\$ 2,984,557</b>	<b>\$ 1,387,974</b>	<b>\$ (362,015)</b>	<b>\$ (16,132,232)</b>	<b>\$ 11,908,219</b>	<b>\$ (2,180,748)</b>	<b>\$ 3,258,425</b>	<b>\$ (128,208)</b>	<b>\$ 33,120</b>	<b>(20,639,026)</b>	<b>17,822,306</b>

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Yap State budgetary report is impacted by the financial market's performance. The market's performance during the fiscal year resulted in a \$2,706,861 loss which exacerbated the state's economic downturn caused by the Pandemic. In fact, due to the downturn in the stock market, the General Fund ended fiscal year 2022 with a negative change in fund balance of \$3.6 million.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending September 30, 2022**

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2022. Activities in this fund were relatively stable during the year.

Yap State Investment Trust and Compact Trust Fund

Revenues for these funds are determined by the results of the State's investments. Those results are primarily based on ups and downs in the U.S. Stock market, which is what transpired during fiscal year 2021 and 2022.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2022, amounted to \$121.8 million, net of accumulated depreciation of \$107 million, leaving a net book value of depreciable assets of \$14.8 million. Combine that with \$4.05 million in non-depreciable assets such as land and construction work in progress equal total net assets of \$18.9 million at September 30, 2022. This represents a net decrease of \$1,871,950 from fiscal year 2021. The table below summarizes Yap State's capital assets:

	2022	2021	Change	%
Land	\$ 3,539,402	\$ 3,539,402	\$ -	0%
Buildings	6,870,504	7,410,501	(539,997)	-7%
Equipment	841,015	939,803	(98,788)	-11%
Heavy Equipment	276,071	347,517	(71,446)	-21%
Vehicles	322,484	380,433	(57,949)	-15%
Vessels	1,027,611	1,112,678	(85,067)	-8%
Infrastructures	5,506,709	5,800,069	(293,360)	-5%
Construction work in progress	511,861	1,237,204	(725,343)	-59%
	<u>\$ 18,895,657</u>	<u>\$ 20,767,607</u>	<u>\$ (1,871,950)</u>	<u>-9%</u>

Additional information on Yap State's capital assets can be found in Note 5 to the financial statements.

Long-Term Debt

Long-term debt obligations of the Yap State primary government totaled \$4.62 million as of September 30, 2022. This debt is comprised of the current and non-current portions of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, Basic Social Services Loan and Omnibus Infrastructure Development Loan with all four adding to \$3.82 million, liability for compensated absences of \$550,959, and long-term payments due under land purchase agreements of \$246,174. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by \$366,232 deposited in a restricted investment account jointly held with the FSM National Government.

Additional information on Yap State's long-term debt obligations can be found in note 7 to the financial statements.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ending September 30, 2022**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

As with the rest of the FSM, Yap State had to address the financial constraints from the Amended Compact annual decrements, increased costs of providing basic public services, and lack of new revenue source. As other economic factors in the local economy remain relatively stagnant, Yap State's recourse was to identify budget items that could be reduced or eliminated through a long-term fiscal framework process.

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 48% of Yap State's revenues. The delayed implementation of the Compact III and the uncertainties concerning release of Compact sector funds for fiscal year 2024 continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2023 and beyond.

Yap State Government continued its commitment to sound financial discipline by establishing a trust fund in the years prior. However, the consistent rise in inflationary costs combined with no expected new growth in the local economy mandates the State to begin considering revisions in financial policy and procedures so that its efforts to provide efficient and effective essential public services are not compromised in the near future.

**COVID-19 ECONOMIC IMPACT**

The travel restrictions into the country that the FSM put in place in 2020 to protect its citizens from the Covid-19 pandemic began to be slowly lifted in fiscal year 2022. Such restrictions had ravaged the local economy as restaurants, hotels, and other tourism-oriented business operations were forced to close and their employees were laid off from work. As limited flights were allowed back into the country, the tourism industry began to reemerge after more than two years in limbo. But, because revenues from the local economy represented only a minor percentage of annual income for the State, the FSM lockdowns did not materially impact the net position of the State. Instead, the worldwide lockdowns had the biggest impact on the State's financial statements as deficit spending and high inflation caused the stock market to plummet, resulting in investment losses for the Permanent Funds. Fortunately, much of the market losses in fiscal year 2022 looks like it would be recouped in 2023.

**CONTACTING YAP STATE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors, a general overview of Yap State's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Office of Administrative Services, P.O Box 610, Yap, FM 96943.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Statement of Net Position  
September 30, 2022

	Primary Government			Component
	Governmental	Business-Type		Units
	Activities	Activities	Total	
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 1,229,710	\$ 28,374	\$ 1,258,084	\$ 1,058,478
Investments	72,077,624	-	72,077,624	1,745,741
Receivables, net of allowance for uncollectibles	6,362,097	11,535	6,373,632	868,582
Advances	97,038	-	97,038	-
Inventories	-	179,339	179,339	1,498,128
Other current assets	-	1,424	1,424	390,070
Restricted assets:				
Cash and cash equivalents	3,514,458	-	3,514,458	-
Total current assets	83,280,927	220,672	83,501,599	5,560,999
Noncurrent assets:				
Restricted assets:				
Investments	15,586,374	-	15,586,374	-
Investments	3,514,458	-	3,514,458	-
Capital assets:				
Construction work-in-progress	511,863	-	511,863	-
Nondepreciable capital assets	3,539,402	-	3,539,402	145,801
Capital assets, net of accumulated depreciation	14,844,394	141,584	14,985,978	18,092,619
Right of use assets	-	-	-	289,970
Other assets	3,965,193	-	3,965,193	1,825,882
Total noncurrent assets	41,961,684	141,584	42,103,268	20,354,272
Total assets	\$ 125,242,611	\$ 362,256	\$ 125,604,867	\$ 25,915,271
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term obligations	\$ 271,059	\$ -	\$ 271,059	\$ 612,997
Accounts payable	2,283,714	10,497	2,294,211	725,331
Current portion of compensated absences	296,663	-	296,663	-
Other liabilities and accruals	600,315	36,962	637,277	2,356,263
Unearned revenues	3,039,391	-	3,039,391	91,892
Total current liabilities	6,491,142	47,459	6,538,601	3,786,483
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	3,520,242	-	3,520,242	12,919,562
Noncurrent portion of compensated absences	254,296	-	254,296	-
Deferred inflow of resources	200,465	-	200,465	386,434
Land acquisition claims payable	249,608	-	249,608	-
Total noncurrent liabilities	4,224,611	-	4,224,611	13,305,996
Total liabilities	10,715,753	47,459	10,763,212	17,092,479
<b>NET POSITION</b>				
Net investment in capital assets	18,895,659	141,584	19,037,243	9,814,609
Restricted for:				
Nonexpendable:				
Future operations	15,168,921	-	15,168,921	-
Expendable:				
Compact related	3,534,963	-	3,534,963	-
Debt service	366,232	-	366,232	-
Unrestricted	76,561,083	173,213	76,734,296	(991,817)
Total net position	114,526,858	314,797	114,841,655	8,822,792
Total liabilities and net position	\$ 125,242,611	\$ 362,256	\$ 125,604,867	\$ 25,915,271

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Activities  
Year Ended September 30, 2022

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component units
					Governmental Activities	Business-Type Activities	Total	
Functions/Programs								
Primary Government:								
Governmental activities:								
Judiciary	\$ 180,223	\$ -	\$ -	\$ -	\$ (180,223)	\$ -	\$ (180,223)	\$ -
General government	4,577,897	584,599	3,631,756	-	(361,542)	-	(361,542)	-
Economic development	560,995	-	24,826	-	(536,169)	-	(536,169)	-
Public safety	592,796	-	-	-	(592,796)	-	(592,796)	-
Community affairs	223,836	-	-	-	(223,836)	-	(223,836)	-
Education	6,979,287	-	6,394,120	-	(585,167)	-	(585,167)	-
Public works and transportation	3,282,448	410,046	864,235	-	(2,008,167)	-	(2,008,167)	-
Health services	7,533,647	-	7,083,194	-	(450,453)	-	(450,453)	-
Boards and commissions	333,504	-	-	-	(333,504)	-	(333,504)	-
Payments to components	111,342	-	-	-	(111,342)	-	(111,342)	-
Other appropriations	1,259,188	-	62,400	-	(1,196,788)	-	(1,196,788)	-
Interest expense	52,393	-	-	-	(52,393)	-	(52,393)	-
Total governmental activities	25,687,556	994,645	18,060,531	-	(6,632,380)	-	(6,632,380)	-
Business-type activities:								
Public Transportation System	648,888	579,478	-	-	-	(69,410)	(69,410)	-
Total primary government	\$ 26,336,444	\$ 1,574,123	\$ 18,060,531	\$ -	(6,632,380)	(69,410)	(6,701,790)	-
Component Units:								
Yap Visitor's Bureau	297,332	-	279,911	-	-	-	-	(17,421)
Yap State Public Service Corporation	6,587,355	5,618,782	-	2,313,375	-	-	-	1,344,802
The Diving Seagull, Inc.	6,041,775	3,346,946	-	-	-	-	-	(2,694,829)
Total component Units	\$ 12,926,462	\$ 8,965,728	\$ 279,911	\$ 2,313,375	-	-	-	(1,367,448)
General revenues:								
Taxes:								
FSM revenue sharing:								
Gross revenue taxes					1,075,790	-	1,075,790	-
Import taxes					1,201,200	-	1,201,200	-
Income taxes					955,473	-	955,473	-
Other taxes					64,890	-	64,890	-
State taxes					2,334,519	-	2,334,519	-
Unrestricted investment earning (loss)					(2,803,291)	-	(2,803,291)	(584,554)
Operating subsidy from primary government					-	30,000	30,000	-
Grant funds expended					-	-	-	158,716
Other					69,471	-	69,471	(233,248)
					2,898,052	30,000	2,928,052	(659,086)
Special items:								
Loss on impairment of investment in other assets					(148,958)	-	(148,958)	-
SDR adjustment of loan					422,269	-	422,269	-
Contributions to permanent funds					(18,312,980)	-	(18,312,980)	-
Total general revenues, special items and contributions					(15,141,617)	30,000	(15,111,617)	(659,086)
Change in net position					(21,773,997)	(39,410)	(21,813,407)	(2,026,534)
Net position at the beginning of the year					136,249,496	354,207	136,603,703	10,849,326
Adjustment of beginning balance - lease accounting					51,359	-	51,359	-
Net position at the end of the year					\$ 114,526,858	\$ 314,797	\$ 114,841,655	\$ 8,822,792

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Balance Sheet  
Governmental funds  
September 30, 2022

	<u>General</u>	<u>Special Revenue Foreign Assistance Grants</u>	<u>Permanent Yap State Investment trust</u>	<u>Compact trust</u>	<u>Other Governmental funds</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,208,457	\$ -	\$ -	\$ -	\$ 21,253	\$ 1,229,710
Investments	12,636,359	-	62,559,768	-	395,955	75,592,082
Receivables, net						
Federal agencies	-	364,075	-	-	-	364,075
FSM National Government	722,428	4,497,980	-	-	421,653	5,642,061
Other	355,817	144	-	-	-	355,961
Due from other funds	1,825,029	4,726,057	-	-	1,085,825	7,636,911
Advances	79,999	17,039	-	-	-	97,038
Other assets	3,965,193	-	-	-	-	3,965,193
Restricted assets:						
Cash and cash equivalents	3,514,458	-	-	-	-	3,514,458
Investments	366,232	-	-	15,220,142	-	15,586,374
<b>Total assets</b>	<b>\$ 24,673,972</b>	<b>\$ 9,605,295</b>	<b>\$ 62,559,768</b>	<b>\$ 15,220,142</b>	<b>\$ 1,924,686</b>	<b>\$ 113,983,863</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 621,600	\$ 1,134,238	\$ -	\$ -	\$ 527,876	\$ 2,283,714
Other liabilities and accruals	178,413	385,527	-	-	-	563,940
Deferred inflow of resources	200,465	-	-	-	-	200,465
Unearned revenues	1,931	2,776,760	-	-	260,700	3,039,391
Due to other funds	5,811,883	1,773,807	-	51,221	-	7,636,911
<b>Total liabilities</b>	<b>6,814,292</b>	<b>6,070,332</b>	<b>-</b>	<b>51,221</b>	<b>788,576</b>	<b>13,724,421</b>
<b>Fund balances:</b>						
Non-spendable	6,942,893	-	62,559,768	15,168,921	-	84,671,582
Restricted	366,232	3,534,963	-	-	349,934	4,251,129
Committed	562,459	-	-	-	786,176	1,348,635
Assigned	2,875,815	-	-	-	-	2,875,815
Unassigned:						
General fund	7,112,281	-	-	-	-	7,112,281
<b>Total fund balances</b>	<b>17,859,680</b>	<b>3,534,963</b>	<b>62,559,768</b>	<b>15,168,921</b>	<b>1,136,110</b>	<b>100,259,442</b>
<b>Total liabilities and fund balances</b>	<b>\$ 24,673,972</b>	<b>\$ 9,605,295</b>	<b>\$ 62,559,768</b>	<b>\$ 15,220,142</b>	<b>\$ 1,924,686</b>	<b>\$ 113,983,863</b>

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

18,895,659

Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:

Long-term debt payable (3,827,676)  
Compensated absences payable (550,959)  
Land acquisition claims payable (249,608)

(4,628,243)

Net position of governmental activities

\$ 114,526,858

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental funds  
Year Ended September 30, 2022

	<u>General</u>	<u>Special Revenue Foreign Assistance Grants</u>	<u>Yap State Investment trust</u>	<u>Permanent Compact trust</u>	<u>Other Governmental funds</u>	<u>Total</u>
Revenues:						
Compact funding	\$ -	\$ 11,878,224	\$ -	\$ -	\$ -	\$ 11,878,224
Net change in the fair value of investments	(2,706,861)	-	(16,132,232)	(2,180,748)	(96,430)	(21,116,271)
Federal contributions and other grants	-	3,477,839	-	-	-	3,477,839
FSM revenue sharing	3,297,353	-	-	-	-	3,297,353
State taxes	2,241,275	-	-	-	93,244	2,334,519
CFSM grants	-	71,128	-	-	2,633,340	2,704,468
Fees and charges	380,948	-	-	-	203,651	584,599
Department charges	410,046	-	-	-	-	410,046
Other	69,471	-	-	-	-	69,471
Total revenues	3,692,232	15,427,191	(16,132,232)	(2,180,748)	2,833,805	3,640,248
Expenditures:						
Current:						
Judiciary	180,223	-	-	-	-	180,223
Councils of traditional leaders	218,317	-	-	-	-	218,317
General government	1,360,188	325,051	-	-	2,868,769	4,554,008
Resources and development	524,384	24,826	-	-	-	549,210
Public safety	518,196	71,128	-	-	-	589,324
Community affairs	211,219	-	-	-	-	211,219
Education	314,637	6,394,120	-	-	-	6,708,757
Public works and transportation	1,205,670	864,235	-	-	-	2,069,905
Health services	297,330	7,083,194	-	-	-	7,380,524
Boards and commissions	260,873	58,826	-	-	-	319,699
Payments to component units	111,342	-	-	-	-	111,342
Other appropriations	720,577	62,400	-	-	93,244	876,221
Debt service	361,566	-	-	-	-	361,566
Total expenditures	6,284,523	14,883,780	-	-	2,962,013	24,130,316
Excess (deficiency) of revenues over (under ) expenditures	(2,592,291)	543,411	(16,132,232)	(2,180,748)	(128,208)	(20,490,068)
Other financing uses:						
Operating transfer in	-	844,563	-	-	-	844,563
Operating transfer out (IMF local match)	(844,563)	-	-	-	-	(844,563)
Total other financing uses	(844,563)	844,563	-	-	-	-
Special item:						
Write-off of receivables	(148,958)	-	-	-	-	(148,958)
Net change in fund balances	(3,585,812)	1,387,974	(16,132,232)	(2,180,748)	(128,208)	(20,639,026)
Fund balances at the beginning of the year	21,394,134	2,146,989	78,692,000	17,349,669	1,264,318	120,847,110
Adjustment of beginning balance - lease accounting	51,358	-	-	-	-	51,358
Fund balances at the end of the year	\$ 17,859,680	\$ 3,534,963	\$ 62,559,768	\$ 15,168,921	\$ 1,136,110	\$ 100,259,442

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended September 30, 2022

Amounts reported for governmental activities in the statement of activities are different from changes in fund balances because:

Net change in fund balances - total governmental funds	\$ (20,639,026)
--	-----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$2,341,789) exceeded net capital outlays of \$469,840 in the current period.

(1,871,949)

Financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:

Repayment of ADB loans and SDR adjustment:	731,442
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Net change in compensated absences payable	<u>5,536</u>
--	--------------

Change in net position of governmental activities.	<u>\$ (21,773,997)</u>
--	------------------------

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Statement of Net Position  
Proprietary Fund  
September 30, 2022

	<u>Public Transportation System</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 28,374
Receivables, net of allowance for uncollectibles	11,535
Inventories	179,339
Other current assets	<u>1,424</u>
Total current assets	220,672
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>141,584</u>
Total assets	<u><u>\$ 362,256</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 10,497
Other liabilities and accruals	<u>36,962</u>
Total liabilities	<u>47,459</u>
<b>NET POSITION</b>	
Net investments in capital assets	141,584
Unrestricted	<u>173,213</u>
Total net position	<u>314,797</u>
Total liabilities and net position	<u><u>\$ 362,256</u></u>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Fund  
Year Ended September 30, 2022

	Public Transportation System
Operating revenues:	
Charges for services	\$ 140,576
Sales	427,243
Other	11,659
	<hr/>
Total operating revenues	579,478
	<hr/>
Operating expenses:	
Cost of services	227,182
Administration costs	339,874
Depreciation and amortization	81,832
	<hr/>
Total operating expenses	648,888
	<hr/>
Loss from operations	(69,410)
Nonoperating revenues:	
Operating subsidy from primary government	30,000
	<hr/>
Total nonoperating revenues	30,000
	<hr/>
Change in net position	(39,410)
Net position at the beginning of the year	354,207
	<hr/>
Net position at the end of the year	\$ 314,797
	<hr/> <hr/>

See accompanying notes to financial statements.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Statement of Cash Flows  
Proprietary Fund  
Year Ended September 30, 2022

	Public Transportation System
Cash flows from operating activities:	
Cash received from customers	\$ 555,226
Cash payments to employees	(200,909)
Cash payments to suppliers	(359,529)
	<u>(5,212)</u>
Net cash used in operating activities	<u>(5,212)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>30,000</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(21,785)</u>
Net cash used in capital and related financing activities	<u>(21,785)</u>
Net change in cash and cash equivalents	3,003
Cash and cash equivalents at the beginning of the year	<u>25,371</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 28,374</u></u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (69,410)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	81,832
Changes in assets and liabilities:	
Other current assets	7,441
Receivables	(1,059)
Inventories	931
Accounts payable	(766)
Other liabilities and accruals	<u>(24,181)</u>
Net cash used in operating activities	<u><u>\$ (5,212)</u></u>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Combining Statement of Net Position  
Component Units  
September 30, 2022

	Yap Visitor's <u>Bureau</u>	Yap State Public Service <u>Corporation</u>	The Diving Seagull, Inc. <u></u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Current assets:				
Cash and cash equivalents	\$ 176,066	\$ 305,640	\$ 576,772	\$ 1,058,478
Investments	-	328,402	1,417,339	1,745,741
Receivables, net:				
General	-	829,255	39,327	868,582
Inventories	-	1,176,940	321,188	1,498,128
Other current assets	-	127,836	262,234	390,070
Total current assets	<u>176,066</u>	<u>2,768,073</u>	<u>2,616,860</u>	<u>5,560,999</u>
Noncurrent assets:				
Capital assets:				
Nondepreciable capital assets	-	145,801	-	145,801
Capital assets, net of accumulated depreciation	4,830	16,103,916	1,983,873	18,092,619
Right of use asset	-	289,970	-	289,970
Other assets	-	356,829	1,469,053	1,825,882
Total noncurrent assets	<u>4,830</u>	<u>16,896,516</u>	<u>3,452,926</u>	<u>20,354,272</u>
Total assets	<u>\$ 180,896</u>	<u>\$ 19,664,589</u>	<u>\$ 6,069,786</u>	<u>\$ 25,915,271</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 488,570	\$ 124,427	\$ 612,997
Accounts payable	-	365,712	359,619	725,331
Unearned revenues	-	91,892	-	91,892
Other liabilities and accruals	7,683	470,794	1,877,786	2,356,263
Total current liabilities	<u>7,683</u>	<u>1,416,968</u>	<u>2,361,832</u>	<u>3,786,483</u>
Noncurrent liabilities:				
Lease liability, noncurrent	-	386,434	-	386,434
Noncurrent portion of long-term debt	-	7,935,241	4,984,321	12,919,562
Total noncurrent liabilities	<u>-</u>	<u>8,321,675</u>	<u>4,984,321</u>	<u>13,305,996</u>
Total liabilities	<u>7,683</u>	<u>9,738,643</u>	<u>7,346,153</u>	<u>17,092,479</u>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	4,830	7,825,906	1,983,873	9,814,609
Unrestricted	168,383	2,100,040	(3,260,240)	(991,817)
Total net position	<u>173,213</u>	<u>9,925,946</u>	<u>(1,276,367)</u>	<u>8,822,792</u>
Total liabilities and net position	<u>\$ 180,896</u>	<u>\$ 19,664,589</u>	<u>\$ 6,069,786</u>	<u>\$ 25,915,271</u>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Combining Statement of Revenues, Expenses, and Changes in Net Position  
Component Units  
Year Ended September 30, 2022

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,618,782	\$ -	\$ 5,618,782
Sales	-	-	3,346,946	3,346,946
Total operating revenues	-	5,618,782	3,346,946	8,965,728
Operating expenses:				
Cost of service	-	3,804,121	5,765,305	9,569,426
Administration costs	285,152	1,589,370	265,630	2,140,152
Depreciation and amortization	12,180	1,193,864	10,840	1,216,884
Total operating expenses	297,332	6,587,355	6,041,775	12,926,462
Operating income (loss)	(297,332)	(968,573)	(2,694,829)	(3,960,734)
Nonoperating revenues (expenses):				
Contributions from the primary government	111,342	-	-	111,342
Contributions from FSM National Government	168,569	-	-	168,569
Interest income	-	582	-	582
Interest expense	-	(125,633)	(140,834)	(266,467)
Grant and subsidies	-	158,716	-	158,716
Grant expense	-	(155,476)	-	(155,476)
Loss on investment	-	-	(318,669)	(318,669)
Foreign exchange loss, net	-	(82,827)	-	(82,827)
Other	2,945	-	2,110	5,055
Total nonoperating revenues (expenses), net	282,856	(204,638)	(457,393)	(379,175)
Capital contributions	-	2,313,375	-	2,313,375
Change in net position	(14,476)	1,140,164	(3,152,222)	(2,026,534)
Net position at the beginning of the year	187,689	8,785,782	1,875,855	10,849,326
Net position at the end of the year	\$ 173,213	\$ 9,925,946	\$ (1,276,367)	\$ 8,822,792

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies

The State of Yap (the State) was constituted on December 24, 1982, under the provisions of the Yap State Constitution (the Constitution) as approved by the people of Yap. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

The accompanying financial statements of the State have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

A. Reporting Entity

The State is one of the four states that make up the Federated States of Micronesia (FSM), along with the states of Chuuk, Kosrae and Pohnpei. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of 10 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and two Associate Justices, and other courts that may be created by law. The State also has traditional leaders that serve in the Council of Pilung and the Council of Tamol that advise the State on matters concerning customary law and traditional practice.

For financial reporting purposes, the State has included all funds, organizations, agencies, boards, commissions and institutions. The State has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the State, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the State. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Each blended and discretely presented component unit of the State has a September 30 year end.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the State, are deemed to be related organizations. The nature and relationship of the State's component units and related organizations are disclosed in the following section.

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The net position and results of operations of the following legally separate entities are presented as part of the State's operations:

**Proprietary Fund:**

**Public Transportation System (PTS):** PTS was created by Yap State Law (YSL) No. 1-170 and is responsible for the provision of reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to PTS through legislative appropriations.

**Discretely Presented Component Units:**

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

**Yap Visitor's Bureau (YVB):** YVB was created by YSL No. 4-25 and is responsible for the promotion of Yap as a tourist destination. YVB is governed by a seven-member Board of Directors, of which five members are appointed by the Governor subject to the advice and consent of the Legislature, one member is appointed by the Speaker of the Legislature, and one member is elected by the six appointed members. The State provides financial support to YVB through legislative appropriations.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Yap State Public Service Corporation (YSPSC): YSPSC was created by YSL No. 4-4 and is responsible for the delivery of electricity, water and sewer in the State. YSPSC is governed by a seven-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to YSPSC through legislative appropriations.

The Diving Seagull, Inc. (DSI): DSI was incorporated in the State on March 17, 1997 and was organized primarily to pursue fishing and other fishing related activities by operating fishing vessels, marketing and selling fish, and developing cold storage and/or transshipment facilities. DSI is governed by a five-member Board of Directors. The State has the ability to impose its will on DSI.

The State's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by contacting the various entities or obtaining them directly from the Office of the Public Auditor at the following address:

P.O. Box 927  
Colonia, Yap, FSM 96943

**Omitted Component Units:**

The following component units have been omitted from the financial statements due to the lack of available financial information:

Gagil-Tomil Water Authority (GTWA): GTWA was created by YSL No. 1-183 and is responsible for the provision of services in the operation and maintenance of the Gagil-Tomil Water System. GTWA is governed by a nine-member Board of Directors, four of which are appointed by the Gagil member of the Council of Pilung, four appointed by the Tomil member of the Council of Pilung, and one appointed by the Governor. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

Southern Yap Water Authority (SYWA): SYWA was created by YSL No. 1-221 and is responsible for the operation and maintenance of the Southern Yap Water System. SYWA is governed by a six-member Board of Directors, of which one is appointed by the Governor, two members who are appointed by the Municipal Chief of Rull on the Council of Pilung, one of whom shall be from either Lamer or Luwech Villages, and three members who are appointed by the municipal chiefs of Gilman, Kanifay, and Dalipebinaw on the Council of Pilung. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

Yap Fishing Authority (YFA): YFA was created by Yap District Law (YDL) No. 6-13 and is responsible for the promotion, development, and supporting of commercial utilization of living marine resources within the State. YFA is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The financial activities of this omitted component unit are considered material to the component units' column reporting unit.

Yap Sports Council (YSC): YSC was created by YSL No. 4-65 and is responsible for promoting and encouraging sports participation at all levels of society. YSC is governed by an eleven-member Board of Directors, of which three members are appointed by the Governor subject to the advice and consent of the Legislature, two members are appointed by the Speaker of the Legislature, two members are appointed by the Council of Pilung, two members are appointed by the Council of Tamol, and two members are appointed by the Congress of the FSM National Government. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

B. Government-Wide Financial Statements, continued

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net position - nonexpendable* consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- *Restricted net position - expendable* consists of resources in which the State is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- *Unrestricted net position* consists of net position which does not meet the definition of the three preceding categories. Unrestricted net position often is designated (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$19,070,116 of restricted net position.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

B. Government-Wide Financial Statements, continued

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The State reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

D. Measurement Focus and Basis of Accounting, continued

Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

**Governmental Fund Financial Statements:**

Governmental fund financial statements account for the general governmental activities of the State and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally, when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**Component Unit Financial Statements:**

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a discretely presented component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

D. Measurement Focus and Basis of Accounting, continued

Fund Accounting:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The State reports the following major funds:

General Fund - this fund is the primary operating fund of the State. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Foreign Assistance Fund - a Special Revenue Fund that accounts for funds received under sector grants pursuant to the amended Compact of Free Association; all financial transactions of federally assisted funds, which are subgranted to the State, as well as other direct federal grants that the State received from the United States government, and foreign assistance grants.

Yap State Investment Trust Fund - a Permanent Fund that accounts for certain invested funds established by YSL 7-17 to provide for future State needs. All earnings of the Fund accrue to the fund.

Compact Trust Fund - a Permanent Fund that accounts for the State's contributions to the Trust Fund established in accordance with Section 215 of the Compact of Free Association, as amended, to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

E. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents of the primary government and the discretely presented component units include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the State. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net position/balance sheet.

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The State also participates in two external investment pools – the Trust Fund for the People of the Federated States of Micronesia and the Federated States of Micronesia Early Retirement Program. Investments in external investment pools are recorded at fair value. The State cannot directly access individual investments in external investment pools.

The State categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the 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. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

**G. Receivables**

In general, tax revenue is recognized on the government-wide statements when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts.

Federal receivables include those funds which are earned, primarily from FSM National Government administered federal grants, which have yet to be reimbursed by the applicable grantor.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the State. The State establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

**H. Prepaid Items**

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

**I. Interfund Receivables/Payables**

During the course of its operations, the State records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet.

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

**J. Inventories**

Inventories of the discretely presented component units are determined by physical count and are valued at the lower of cost (first-in first-out (FIFO) method) or net realizable value.

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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Yap State Early Retirement Scheme with investments recorded in the General Fund of \$366,232. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$62,559,768 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$15,220,142 are restricted in that they are not available to be used for current operations.

As of September 30, 2022, cash and cash equivalents of the primary government and component units were restricted for the following uses:

Savings accounts established in accordance with section 211(d)(2) of the Compact of Free Association, as amended for the purpose of funding the State's infrastructure maintenance plan	\$ 2,589,581
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	524,877
	<u>\$ 3,114,458</u>

L. Other Assets

The State holds approximately 14.4% of the outstanding shares of Pacific Islands Development Bank (PIDB) with a carrying amount of \$3,965,193. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying financial statements. Additionally, PIDB holds \$3,000,000 for the Yap State's loan program.

M. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, docks, water and sewer lines, water catchments, and other similar items), are reported in the governmental activity column of the government-wide financial statements. Capital assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

M. Capital Assets, continued

Machinery and equipment, other than vehicles and boats, are capitalized when the cost of individual items exceed \$50,000. Vehicles and boats, along with significant repair and maintenance qualifying as a betterment of such, are capitalized regardless of cost and are depreciated. Buildings and infrastructure projects, along with significant improvements or reconstruction qualifying as a betterment of such, are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

Capital assets of the primary government and the component units are depreciated using the straight-line method over their estimated useful lives, with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

Building	40-50 years
Infrastructure	25-50 years
Facilities	3-40 years
Machinery and Equipment	3-25 years
Furniture and Fixtures	3-10 years

N. Right-to-Use Assets

Right-to-use (RTU) assets are recognized at the lease commencement date and represent the State's right to use an underlying asset for the lease term. RTU assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement and initial direct costs. Options to renew or terminate the lease are recognized as part of RTU assets and lease liabilities when it is reasonably certain the options will be exercised.

O. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The State has no items that qualify for reporting in this category.

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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

P. Unearned Revenues

In the government-wide financial statements, unearned revenues are recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unearned revenues represent monies received or revenues accrued which have not been earned or do not meet the “available” criterion for revenue recognition under the modified accrual basis of accounting. There is unearned revenue in the governmental fund types, since federal funds are usually received in advance of eligible expenditures.

Q. Compensated Absences

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of one working day per bi-weekly pay period.

R. Deferred Inflows of Resources

As part of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, Yap State Government, as the lessor, recognizes a deferred inflow of resources related to lease agreements. The standard requires the recognition of deferred inflows of resources when leases are entered into, which reflects the future benefits that the government will receive from the use of its resources by lessees over the lease terms. The significant lease agreements for which deferred inflow of resources have been recognized include, MLSC Lease, PMA Lease, WTC Lease, Other leases.

As of the end of the fiscal year, the total amount of deferred inflow of resources related to these lease agreements is \$200,465. This deferred inflow represents the present value of lease payments to be received by Yap State Government over the remaining terms of these lease agreements. In subsequent periods, the deferred inflow of resources will be recognized as revenue in a systematic and rational manner over the term of the respective leases.



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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

S. Fund Balance

Fund balance classifications are based on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority which is the Yap State Legislature and Governor of Yap. Formal action required to establish a committed fund balance typically includes the passage of a resolution or ordinance by the Legislature and approved by the Governor. Once committed, these funds cannot be used for any other purpose unless the same formal action is taken to modify or rescind the commitment.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. The authority to assign amounts to specific purposes lies with a designated body or official, such as the Governor or a designated finance officer, under policies established by the Legislature. This policy grants the authority to assign funds for intended purposes and provides guidance on how amounts are to be assigned.
- Unassigned - includes amounts that are available for any purpose in the General Fund. This classification is only used for the General Fund or for negative fund balances in other governmental funds when expenditures incurred for specific purposes exceed the amounts that are available within those funds.

The State has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the State is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction. A formal minimum fund balance policy has not been adopted.

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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

T. Risk Financing

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, State management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the State reports all its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have been incurred as a result of these risks in any of the past three fiscal years.

U. New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of most of these statements.

During the year ended September 30, 2022, Yap State Government implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which 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 recognized as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Limited exceptions to the single approach guidance are provided for short-term leases, financed purchases, leases of assets that are classified as investment, and certain regulated leases.

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Notes to Financial Statements  
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(1) Summary of Significant Accounting Policies, continued

U. New Accounting Standards, continued

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans, and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which 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. 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) Summary of Significant Accounting Policies, continued

U. New Accounting Standards, continued

- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
  - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

U. New Accounting Standards, continued

- 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and terminology used in GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 6) GASB Statement No. 93, Replacement of Interbank Offered Rates, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

**Accounting standards that will be effective in future fiscal years are as follows:**

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.

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.

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Notes to Financial Statements  
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(1) Summary of Significant Accounting Policies, continued

U. New Accounting Standards, continued

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 fiscal year ending September 30, 2023.

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

In April 2022, GASB issued Statement No. 99, Omnibus 2022. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for the fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for the fiscal year ending September 30, 2023.

**STATE OF YAP  
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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

U. New Accounting Standards, continued

- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. This will be effective for the fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. This will be effective for the fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedges. This Guidance will be effective for the fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and 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. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts 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. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. This Statement will be effective for the fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

U. New Accounting Standards, continued

This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. 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. 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. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. 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.



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Notes to Financial Statements  
September 30, 2022

(1) Summary of Significant Accounting Policies, continued

U. New Accounting Standards, continued

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

V. Estimates

The preparation of financial statements in accordance with Generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

W. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2022, from which summarized information was derived.

(2) Deposits and Investments

The deposit and investment policies of the State are governed by Title 13 of the Yap State Code. The Treasurer is responsible for ensuring that deposits of the General Fund are maintained in commercial checking or savings accounts of any financial institution whose assets are at least \$1 billion and whose deposits are subject to Federal Deposit Insurance Corporation (FDIC) coverage. The Governor is responsible for the investment of any monies of the State that are deemed not necessary for immediate use.

The Federated Development Authority, an entity comprised of the FSM National Government and its four component states, has selected investment managers who are given authority to buy and sell securities. These investment managers may invest in stocks, bonds and cash equivalents, for which minimum standards of quality of such investments at the time of purchase shall be as follows:

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Notes to Financial Statements  
September 30, 2022

(2) Deposits and Investments, continued

- i. Cash equivalents - The investment manager may engage in all normally accepted short-term investment practices including, but not limited to U.S. Treasury and government agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply: (1) Commercial paper must be rated A-1/P-1 or higher by Standard & Poor's and Moody's Investor Services; and (2) Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of \$2 billion. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury obligations at 102%.
- ii. Stocks - A "B" rating by a national rating service is required. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
- iii. Bonds – Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or government agency obligations which are not rated.

The equity portfolio shall be diversified among issuers and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poor's 500 Index, unless prior approval is received from the Secretary of Finance.

No investment may be made in a single corporate entity which exceeds 5% of the total assets of total pooled investments at the time of purchase without prior approval of the Secretary of Finance.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State'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. The State does not have a deposit policy for custodial credit risk.

As of September 30, 2022, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$4,744,168 and the corresponding bank balance was \$4,965,447 which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits in the amount of \$278,540 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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Notes to Financial Statements  
September 30, 2022

(2) Deposits and Investments, continued

A. Deposits, continued

As of September 30, 2022, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$28,374. There were no significant differences between cash balances and bank balances. As of September 30, 2022, all cash is maintained in one financial institution subject to FDIC coverage and is fully FDIC insured.

As of September 30, 2022, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$1,058,478 and the corresponding bank balances were \$1,008,800, which were maintained in financial institutions subject to FDIC coverage. As of September 30, 2022, bank deposits in the amount of \$875,511 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

The State has invested its excess Compact Funds in a pooled investment fund which is managed under the control of the Federated Development Authority. The State has also invested its excess Compact Funds in the Yap State Investment Trust Fund, which was established to more appropriately account for its investments. The Legislature believes that the State may become more financially independent by placing its invested funds in a Trust account. Investment income originating from the pool accrues to the General Fund.

Primary Government

As of September 30, 2022, the State's investments are as follows:

<u>General fund</u>	
Fixed income	\$ 10,136,756
Domestic equity	2,499,603
Private equity	366,232
	<u>\$ 13,002,591</u>

The State's General Fund includes an investment in an external investment pool; Federated States of Micronesia – Early Retirement Program Trust Fund.

**STATE OF YAP**  
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Notes to Financial Statements  
September 30, 2022

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

The purpose of the Early Retirement Program Trust Fund is to have monies in an investment account whereby withdrawals can be made to repay amounts owed to the Asian Development Bank.

The credit quality rating for the aforementioned external investment pool is unrated.

Yap State Investment Fund:

Fixed income	\$ 24,121,693
Common equities	26,663,253
International equities	10,277,344
Real estate	645,354
Cash management account	852,124
	<u>\$ 62,559,768</u>

Compact Trust Fund:

Common trust fund:

Domestic equities	\$ 3,257,122
International equities	3,013,598
Global equities	1,385,033
Private equities	1,978,618
Fixed income	2,709,185
Hedge fund	882,768
Real estate	1,978,618
Money market funds	15,200
	<u>\$ 15,220,142</u>

The State's Compact Trust Fund includes an investment in an external investment pool; Trust Fund for the People of the Federated States of Micronesia. The purpose of the Fund is to contribute to the economic advancement and long-term self-reliance of the FSM by providing an annual source of revenue after fiscal year 2023.

The credit quality rating for the aforementioned external investment pool is unrated.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

The fair value of the position in external investment pools are the same as the value of the pool shares as provided by the pool sponsors.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the State's investment policy.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at 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 amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2022, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The State 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.

The State owns 100,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. This equity investment is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equity reported by the investee.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

The State has the following recurring fair value measurements as of September 30, 2022:

General Fund:	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investments in an external investment pool by fair value level	\$ 10,841,196	-	10,841,196	-
Private securities	366,232	-	-	366,232
Total investment at fair value	\$ 11,207,428	\$ -	\$ 10,841,196	\$ 366,232
Investments measured at NAV:				
Equity investment in the Bank of the FSM (14.7% ownership)	2,977,700			
Investments measured at amortized cost:				
Cash management account	-			
	<u>\$ 14,185,128</u>			

Yap State Government Trust Fund:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investment by fair value level:				
Fixed income	\$ 24,121,693	\$ 24,121,692	\$ -	\$ -
Common equities	26,663,253	26,663,253	-	-
International equities	10,277,344	10,277,344	-	-
Total investment at fair value	61,062,290	\$ 61,062,289	\$ -	\$ -
Investments measured at NAV:				
Real estate	645,354			
Investment measured amortized cost:				
Cash management account	852,124			
	<u>\$ 62,559,768</u>			

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

Compact Trust Fund:		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Investment by fair value level:				
Domestic equity	\$ 3,257,122	\$ 3,257,122	\$ -	\$ -
International equity	3,013,598	3,013,598	-	-
Global equity	1,385,033	1,385,033	-	-
Private equity	1,978,618	-		1,978,618
Fixed income	2,709,185	2,709,185	-	-
Total investment at fair value	12,343,556	\$ 10,364,938	\$ -	\$ 1,978,618
Investments measured at NAV:				
Hedge fund	882,768			
Real estate	1,978,618			
Investments measured amortized cost:				
Money market funds	15,200			
	<u>\$ 15,220,142</u>			
Other Governmental Funds:		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Investment by fair value level:				
Mutual funds	<u>\$ 395,955</u>	<u>\$ 395,955</u>	<u>\$ -</u>	<u>\$ -</u>

As of September 30, 2022, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

Yap State Government Trust Fund:

Investment Type	Credit Ratings	Fair Value	Investment Maturities (in Years)			
			Less Than 1	1 to 5	6 to 10	Over 10
U.S. Treasury Notes and Bonds	Aaa	\$ 14,797,962	\$ 1,949,224	\$ 2,566,342	\$ 7,970,337	\$ 2,312,059
Corporate Bonds	Aaa	110,405	-	-	110,405	-
Corporate Bonds	A1	1,466,597	98,027	387,264	981,306	-
Corporate Bonds	A2	2,084,003	-	837,660	1,246,343	-
Corporate Bonds	A3	1,959,606	119,202	355,048	1,485,356	-
Corporate Bonds	Aa2	78,530	-	78,530	-	-
Corporate Bonds	Aa3	96,998	-	96,998	-	-
Corporate Bonds	Baa1	503,251	-	439,557	63,694	-
Corporate Bonds	Baa2	1,445,614	114,936	454,040	759,756	116,882
Corporate Bonds	Baa3	159,814	-	120,491	39,323	-
Asset-Backed	No rating	1,418,913	-	-	133,334	1,285,579
		<u>\$ 24,121,693</u>	<u>\$ 2,281,389</u>	<u>\$ 5,335,930</u>	<u>\$ 12,789,854</u>	<u>\$ 3,714,520</u>

Discretely Presented Component Units

The Diving Seagull, Inc. (DSI):

As of September 30, 2022, DSI's investments are as follows:

Fixed income	\$ 403,023
Common equities	973,643
Money market funds	40,673
	<u>\$ 1,417,339</u>



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

2) Deposits and Investments, continued

B. Investments, continued

Discretely Presented Component Units, continued

As of September 30, 2022, DSI's fixed income securities, including their S&P credit ratings, have the following maturities:

	<u>Credit ratings</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>
U.S. Treasury obligations	AAA	\$ 200,019	\$ -	\$ 145,477	\$ 54,542
Corporate Notes	AAA	10,454	-	-	10,454
Corporate Notes	A1	24,316	-	12,689	11,627
Corporate Notes	A2	24,676	-	13,009	11,667
Corporate Notes	A3	35,196	-	13,271	21,925
Corporate Notes	BAA1	23,717	-	-	23,717
Corporate Notes	BAA2	73,089	-	12,869	60,220
Corporate Notes	BAA3	11,556	-	-	11,556
		<u>\$ 403,023</u>	<u>\$ -</u>	<u>\$ 197,315</u>	<u>\$ 205,708</u>

The Diving Seagull has the following recurring fair value measurements as of September 30, 2022:

	<u>Total</u>	<u>Fair Value Measurements Suing</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 200,019	\$ -	\$ 200,019	\$ -
Corporate Notes	<u>203,004</u>	<u>-</u>	<u>203,004</u>	<u>-</u>
Total fixed income securities	403,023	-	403,023	-
Common equities	<u>973,643</u>	<u>973,643</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,376,666	<u>\$ 973,643</u>	<u>\$ 403,023</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>40,673</u>			
	<u>\$ 1,417,339</u>			

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

**3) Receivables**

**Primary Government**

Receivables as of September 30, 2022, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Foreign Assistance Grants	Yap State Investment Trust	Compact Trust	Other Governmental Funds	Total
Receivables:						
Federal agencies	\$ -	\$ 364,075	\$ -	\$ -	\$ -	\$ 364,075
Due from FSM National Government	722,428	6,460,335	-	-	1,432,263	8,615,026
Other	923,969	144	-	-	-	924,113
	1,646,397	6,824,554	-	-	1,432,263	9,903,214
Allowance for uncollectible amounts	(568,152)	(1,962,355)	-	-	(1,010,610)	(3,541,117)
	<u>\$ 1,078,245</u>	<u>\$ 4,862,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 421,653</u>	<u>\$ 6,362,097</u>

The final settlement of receivables due from the FSM National Government arising from Compact sector grant transactions can be determined only by final action of the FSM National Government in consultation with the grantor agency. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

**Discretely Presented Component Units**

Receivables as of September 30, 2022 for the State's discretely presented component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc	Total
Receivables - general	\$ -	\$ 912,450	\$ 689,754	\$ 1,602,204
Less: allowance for uncollectible accounts	-	(83,195)	(650,427)	(733,622)
	<u>\$ -</u>	<u>\$ 829,255</u>	<u>\$ 39,327</u>	<u>\$ 868,582</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

**4) Interfund Receivables and Payables**

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2022, are summarized as follows:

General	Foreign Assistance Grants	\$ 1,825,029
Nonmajor governmental funds	General	1,085,825
General	Compact Trust	4,726,057
		<u>\$ 7,636,911</u>

**5) Capital Assets**

Capital asset activities of the primary government for the year ended September 30, 2022, are as follows:

	Balance October 1, 2021	Additions	Retirements	Balance September 30, 2022
<b><u>Governmental Activities:</u></b>				
Buildings	\$ 21,652,797	\$ 198,998	\$ (624,718)	\$ 21,227,077
Infrastructure	88,368,438	781,630	-	89,150,068
Equipment	1,924,017	-	-	1,924,017
Vehicles	3,262,152	110,839	-	3,372,991
Vessels	3,968,462	103,714	-	4,072,176
Heavy Equipment	2,093,683	-	-	2,093,683
	<u>121,269,549</u>	<u>1,195,181</u>	<u>(624,718)</u>	<u>121,840,012</u>
<b><u>Less Accumulated Depreciation for:</u></b>				
Buildings	(14,242,296)	(738,995)	624,718	(14,356,573)
Infrastructure	(82,568,369)	(1,074,990)	-	(83,643,359)
Equipment	(984,214)	(98,788)	-	(1,083,002)
Vehicles	(2,881,720)	(168,787)	-	(3,050,507)
Vessels	(2,855,784)	(188,781)	-	(3,044,565)
Heavy Equipment	(1,746,166)	(71,446)	-	(1,817,612)
	<u>(105,278,549)</u>	<u>(2,341,787)</u>	<u>624,718</u>	<u>(106,995,618)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>15,991,000</u>	<u>(1,146,606)</u>	<u>-</u>	<u>14,844,394</u>
<b><u>Non-Depreciable Assets:</u></b>				
Construction Work in Progress	1,237,204	(725,341)	-	511,863
Land	3,539,402	-	-	3,539,402
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 20,767,606</u>	<u>\$ (1,871,947)</u>	<u>\$ -</u>	<u>\$ 18,895,659</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

5) Capital Assets, continued

Depreciation expense was charged to functions/programs of the primary government's governmental activities as follows:

Traditional Councils	\$ 4,000
General Government	44,356
Resources & Development	18,862
Community Affairs	21,174
Education	369,343
PW&T	1,322,539
Health Services	148,730
Boards & Commissions	13,805
Other appropriations	398,978
	<u>\$ 2,341,787</u>

	Balance October <u>1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2022</u>
Business-type activities:				
Depreciable assets:				
Buildings	\$ 134,749	\$ -	\$ -	\$ 134,749
Vehicles	1,572,798	-	-	1,572,798
Shop equipment	90,857	13,018	-	103,875
Office equipment	130,984	8,767	-	139,751
Land improvement	3,445	-	-	3,445
	<u>1,932,833</u>	<u>21,785</u>	<u>-</u>	<u>1,954,618</u>
Less accumulated depreciation	<u>(1,731,202)</u>	<u>(81,832)</u>	<u>-</u>	<u>(1,813,034)</u>
Total net capital assets	<u>\$ 201,631</u>	<u>\$ (60,047)</u>	<u>\$ -</u>	<u>\$ 141,584</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

5) Capital Assets, continued

Discretely Presented Component Units:

	Balance October 1, 2021	Additions	Retirements	Balance September 30, 2022
Depreciable assets:				
Utility plants	\$ 35,156,314	\$ 2,599,233	\$ -	\$ 37,755,547
Machinery, equipment and others	11,774,687	85,187	(24,719)	11,835,155
Total capital assets, being depreciated	46,931,001	2,684,420	(24,719)	49,590,702
Less accumulated depreciation	(30,045,445)	(1,448,151)	(4,487)	(31,498,083)
	16,885,556	1,236,269	(29,206)	18,092,619
Non-depreciable assets:				
Construction work in progress	40,636	122,565	(17,400)	145,801
	<u>\$ 16,926,192</u>	<u>\$ 1,358,834</u>	<u>\$ (46,606)</u>	<u>\$ 18,238,420</u>

6) Long-Term Obligations

Primary Government

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$3,500,000 loan from the ADB (Loan Number 1520(SF)) through the FSM National Government. The activities of the ERS Program are recorded in the General Fund.

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2038. However, pursuant to the terms of the Financing Agreement between the State and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of the State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2002.

Funds for the repayment of the Asian Development Bank (ADB) loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriated funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2022.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

6) Long-Term Obligations, continued

Primary Government

As of September 30, 2022, the amount outstanding against this loan was \$1,919,140. Of the required \$3,500,000 identified for future debt service payments, \$366,232 is deposited in an investment account jointly held with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with the ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)), for the purpose of promoting private sector development in Yap, with interest at 1% to 1.5% per annum. Principal payments shall be made in equal semi-annual payments with the first payment due on May 15, 2010, and the last payment on November 15, 2025. As of September 30, 2022, the related principal balances payable on these loans amounted to \$75,427 and \$289,412, respectively.

The State entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loan with the ADB (Loan Number 2099 FSM (SF)) for the purpose of funding the Omnibus Infrastructure Development Project, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing 2013, with a maturity date of 2037. The loan was initially transferred to, and administered by, Gagil-Tomil Water Authority (GTWA), but such was transferred to the Primary Government effective October 1, 2016, on which date the State determined that GTWA could not generate sufficient cash flows to fund the related debt service. As of September 30, 2022, the balance of this loan was \$1,505,734.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 271,058	\$ 36,376	\$ 307,434
2024	264,353	43,081	307,434
2025	267,843	39,591	307,434
2026	259,717	36,174	295,891
2027	252,272	32,961	285,233
2028-2032	1,309,679	116,482	1,426,161
2033-2037	1,202,754	34,480	1,237,234
	<u>\$ 3,827,676</u>	<u>\$ 339,145</u>	<u>\$ 4,166,821</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

6) Long-Term Obligations, continued

Discretely Presented Component Units

Yap State Public Service Corporation (YSPC):

Uncollateralized loan of original principal of \$2,270,837 payable to the ADB borrowed through the FSM National Government and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% per annum 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.

\$ 1,326,718

Loan guaranteed by the FSM National Government with a maximum amount of \$4,680,000 payable to the ADB borrowed through the FSM National Government and Yap State for the Yap Renewable Energy Development Project. YSPSC is liable to Yap State for interest at 0.80% per annum, which includes a 0.20% maturity premium, net of a 0.20% rebate. The loan is repayable semiannually for a period of 20 years commencing December 1, 2018.

4,216,199

Loan 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.

2,880,894

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\$ 8,423,811

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**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

6) Long-Term Obligations, continued

Discretely Presented Component Units, continued

Yap State Public Service Corporation (YSPSC):

Annual debt service requirements to maturity for principal and interest are as follows:

Year Ending September 30,	Principal	Interest	Total
2023	\$ 488,570	\$ 112,084	\$ 600,654
2024	488,570	106,205	594,775
2025	488,570	100,326	588,896
2026	582,264	94,071	676,335
2027	582,264	86,693	668,957
2028-2032	3,026,773	322,794	3,349,567
2033-2037	2,305,687	138,339	2,444,026
2038-2039	461,113	5,533	466,646
	<u>\$ 8,423,811</u>	<u>\$ 966,045</u>	<u>\$ 9,389,856</u>

The Diving Seagull, Inc. (DSI):

Bank loan in the amount of \$2,608,523, with a maturity date of March 25, 2025, granted by the FSM Development Bank, with interest at 4% per annum, to fund the dry dock of the fishing vessel Yap Seagull. Interest and principal are payable in monthly installments of \$19,294, commencing November 25, 2020. The loan balance of \$2,384,580 was refinanced and paid in full on July 11, 2022. On July 4, 2022 DSI obtained a loan of \$5,984,580 from FSM Development Bank. The loan matures July 4, 2027 and was obtained to consolidate the existing loan and to fund the dry dock of the fishing vessel Yap Seagull. The loan is collateralized by the vessel. Principal and interest payments of \$34,985.26 are payable monthly beginning in August 2022. Interest is at 5% per annum.

\$ 5,108,748



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

6) Long-Term Obligations, continued

Discretely Presented Component Units, continued

The Diving Seagull, Inc. (DSI):

Annual debt service requirements to maturity for principal and interest are as follows:

Year Ending September 30,	Principal	Interest	Total
2023	\$ 124,427	\$ 295,396	\$ 419,823
2024	130,793	289,030	419,823
2025	137,484	282,339	419,823
2026	144,518	275,305	419,823
2027	4,571,526	3,319,098	7,890,624
	<u>\$ 5,108,748</u>	<u>\$ 4,461,168</u>	<u>\$ 9,569,916</u>

Yap State Government is not obligated in any manner for special assessment debt.

7) Changes in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2022, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due within One year
Loans Payable:					
ADB loans:					
Loan 1520	\$ 2,263,384	\$ -	\$ (344,244)	\$ 1,919,140	\$ 122,371
Loan 1873	107,489	-	(32,062)	75,427	21,580
Loan 1874	377,492	-	(88,080)	289,412	24,892
Loan 2099	1,810,754	-	(267,057)	1,543,697	102,216
	<u>4,559,119</u>	<u>-</u>	<u>(731,443)</u>	<u>3,827,676</u>	<u>271,059</u>
Other:					
Compensated absences	556,495	296,909	302,445	550,959	296,663
Land acquisitions claims	249,608	-	-	249,608	-
	<u>\$ 5,365,222</u>	<u>\$ 296,909</u>	<u>\$ (428,998)</u>	<u>\$ 4,628,243</u>	<u>\$ 567,722</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

7) Changes in Long-Term Obligations

Primary Government, continued

The reduction of each loan is from the principal payment of each loan. When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2022, the State recognized a foreign exchange gain of \$422,269 associated with the valuation of the SDR, which is presented as a special item, net, in the accompanying financial statements, and which results in a reduction in ADB loans payable.

As of September 30, 2022, \$249,608 in land acquisition claims payable due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

Discretely Presented Component Units

During the year ended September 30, 2022, the following changes occurred in liabilities reported as part of the component unit's long-term liabilities in the statement of net position:

	Balance October 1, 2021	Additions	Reductions	Balance September 30, 2022	Due Within One year
Loans Payable:					
YSPSC	\$ 9,358,481	\$ 82,827	\$ (1,017,497)	\$ 8,423,811	\$ 488,570
DSI	-	5,984,580	(875,832)	5,108,748	124,427
	<u>\$ 9,358,481</u>	<u>\$ 6,067,407</u>	<u>\$ (1,893,329)</u>	<u>\$ 13,532,559</u>	<u>\$ 612,997</u>

8) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

8) Fund Balances, continued

	General Fund	Grants Assistance Funds	Yap State Investment Funds	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-Spendable:						
Permanent fund principal	\$ -	\$ -	\$ 62,559,768	\$ 15,168,921	\$ -	\$ 77,728,689
Pacific Islands						
Development Bank	3,965,193	-	-	-	-	3,965,193
Bank of the FSM	2,977,700	-	-	-	-	2,977,700
Restricted:						
Debt Service	366,232	-	-	-	-	366,232
Infrastructure	-	3,534,963	-	-	-	3,534,963
Public works and transportation	-	-	-	-	349,934	349,934
Committed:						
General Government	13,558	-	-	-	786,176	799,734
Infrastructure	548,901	-	-	-	-	548,901
Assigned:						
Public works and transportation	132,507	-	-	-	-	132,507
Health Services	2,272,240	-	-	-	-	2,272,240
Education	459,035	-	-	-	-	459,035
Community affairs	12,033	-	-	-	-	12,033
Unassigned	7,112,281	-	-	-	-	7,112,281
	<u>\$ 17,859,680</u>	<u>\$ 3,534,963</u>	<u>\$ 62,559,768</u>	<u>\$ 15,168,921</u>	<u>\$ 1,136,110</u>	<u>\$ 100,259,442</u>

9) Commitments and Contingencies

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. As of September 30, 2022, the State's significant encumbrances are summarized as follows:

	General Fund	Foreign Assistance Grants	Other Governmental Funds	Total
Encumbrances	<u>\$ 548,901</u>	<u>\$ 3,342,719</u>	<u>\$ 1,870,971</u>	<u>\$ 5,762,591</u>

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

9) Commitments and Contingencies, continued

Insurance Coverage

The State does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the State is self-insured to a material extent. The State has not recognized material losses in its financial statements as a result of being self-insured.

Federal Grants

The State 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 have been set forth in the State's Single Audit Report for the year ended September 30, 2022. In addition, the State is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of the Uniform Guidance. 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.

Litigation

The State was not a party to any pending or threatened litigation at September 30, 2022. If claims are filed, they are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State's Attorney General is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths.

The government of Yap State records estimated liabilities for claims and other contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These estimates are based on historical experience, current trends, and other relevant factors. Liabilities that cannot be reasonably estimated are disclosed as a contingency.

As of September 10, 2024, the Attorney General's office has confirmed that there are no outstanding unpaid claims against the government. No liabilities for claims have been accrued, as there are no pending or potential claims requiring estimation or payment.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

9) Commitments and Contingencies, continued

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI), for which obligation on these lands ceased in May, 1984. Subsequent to May 1984, responsibility to rent or purchase the sites was transferred to the State.

The State's Division of Land and Surveys has estimated that the State may be responsible for funding the indefinite land use sites for back rent with interest. The State is actively attempting to negotiate purchase prices for these properties.

Continuing Appropriations

As of September 30, 2022, the State has a continuing appropriation under YSL No. 5-47 for Autopsies of \$13,558. There were no other significant continuing appropriations.

10) Budgetary Compliance

For the year ended September 30, 2022, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ <u>361,566</u>
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These over-expenditures of the General Fund have not been funded by legislative authorization.

11) Leases

As part of the Statement of Net Position, the Yap State Government includes lease agreements from its component units, such as the Yap State Public Service Corporation (YSPSC). YSPSC's lease agreements are significant and contribute to the overall lease activity reported by the Yap State Government. Below is the detailed disclosure related to YSPSC's Wind Farm lease, which is included as a component unit of the Yap State Government.

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.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

11) Leases, continued

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.

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>

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>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2022

**11) Leases, continued**

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%

**12) COVID-19**

On March 11, 2020, the World Health Organization (WHO) declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide.

The State has determined that the pandemic may negatively impact the State's results of operations and financial position and the State may become dependent upon the financial support of the FSM National Government. However, the effect of the pandemic on FSM National Government is also uncertain and future available funding may be limited. Therefore, while the State expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time. On May 5, 2023 the WHO declared that the public health emergency had ended.

**13) Prior Period Financial Statements**

The financial statements for the year ended September 30, 2022 have not been restated, as no adjustments or corrections to prior period figures were necessary. The financial statements for the year ended September 30, 2021, were audited by a different auditor, and we assume no responsibility for their work. Our procedures with respect to the 2021 financial statements were limited to performing certain audit procedures to ensure consistency with the current period financial statements, and no restatements or modifications were made.

**14) Date of Management's Review**

Management has considered subsequent events through October 12, 2024, the date upon which the financial statements were available to be issued. YSPSC has advised that commencing in December 2022, it will not be able to pay its obligations under an ADB loan for which the State is a guarantor.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**REQUIRED SUPPLEMENTARY INFORMATION –  
OTHER THAN MANAGEMENT’S DISCUSSION and ANALYSIS**

**YEAR ENDED SEPTEMBER 30, 2022**



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual- General Fund  
September 30, 2022

	Budgeted Amounts		Actual- Budgetary	Variance with
	Original	Final	Basis (see Note 1)	Final Budget
Revenues	\$ 6,759,895	\$ 6,830,510	\$ 3,692,232	3,138,278
Total revenues	6,759,895	6,830,510	3,692,232	3,138,278
Expenditures:				
Current:				
Judiciary	218,309	223,595	185,859	37,736
Council of traditional leaders	232,379	270,887	229,918	40,969
General government	1,408,930	1,549,453	1,442,679	106,774
Economic development	584,694	622,279	557,208	65,071
Public safety	590,979	634,226	547,959	86,267
Community affairs	224,302	245,980	233,616	12,364
Education	393,226	395,761	335,497	60,264
Public works and transportation	1,437,337	1,748,693	1,342,266	406,427
Health services	300,000	349,330	349,330	-
Boards and commissions	312,880	340,620	283,108	57,512
Payments to component units	118,410	137,997	124,296	13,701
Other appropriations	729,101	974,492	840,122	134,370
Debt service	-	-	361,566	(361,566)
Total expenditures	6,550,547	7,493,313	6,833,424	659,889
Excess (deficiency) of revenues over (under) expenditures	209,348	(662,803)	(3,141,192)	2,478,389
Other financing uses:				
Operating transfer out (IMF local match)	(844,563)	(844,563)	(844,563)	-
Total other financing uses	(844,563)	(844,563)	(844,563)	-
Special item:				
Write-off of receivables	-	-	(254,720)	254,720
Total special item	-	-	(254,720)	254,720
Net change in fund balance	(635,215)	(1,507,366)	(4,240,475)	2,733,109
Encumbrances	872,151	872,151	548,901	323,250
Fund balance at the beginning of the year	18,621,845	18,621,825	20,969,920	(2,348,095)
Fund balance at the end of the year	\$ 18,858,781	\$ 17,986,610	\$ 17,278,346	\$ 708,264

See accompanying Independent Auditors' Report and notes to required supplementary information - budgetary reporting.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information- Budgetary Reporting  
September 30, 2022

**(1) Budgetary Information**

An annual appropriated budget is adopted by the State's Legislature for the General Fund and Compact Programs through an Appropriations Act. However, additional appropriations and budget modifications occur throughout the year. The majority of unencumbered appropriations lapse as of year end unless specifically extended by the State's Legislature. Budgets for special revenue funds, except the Compact Program Fund, are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for special revenue funds, except the Compact Program Fund, is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain as reservations of fund balance until becoming expended or canceled. If an encumbrance is subsequently canceled, the funds revert to the applicable unreserved fund balance unless otherwise required by law.

Budgetary expenditures, which are on a basis other than GAAP, represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are therefore determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year. When reviewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship. Amounts included on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Combined Balance Sheet within the other charges in unreserved fund balance section of that statement.

**(2) Reconciliation to Expenditures on the GAAP basis**

Budgetary expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund are presented on a non-GAAP budgetary basis recognized on a GAAP basis:

Expenditures on a non-GAAP budgetary basis	\$ 6,833,424
Change in encumbrances	(548,901)
Expenditures on a GAAP basis	<u>\$ 6,284,523</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
OTHER SUPPLEMENTARY INFORMATION  
YEAR ENDED SEPTEMBER 30, 2022**

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Combining Schedule of Expenditures by Account  
Governmental funds  
Year Ended September 30, 2022

		Special Revenue	Permanent		Other	
		Foreign Assistance Grants	Yap State Investment trust	Compact trust	Governmental funds	Total
Expenditures:	General					
Salaries and wages	\$ 3,037,595	\$ 6,557,986	\$ -	\$ -	\$ -	\$ 9,595,581
Contractual services	203,050	1,333,227	-	-	1,389,251	2,925,528
Medical	224,578	1,880,154	-	-	77,588	2,901,952
Utilities	820,309	717,096	-	-	-	1,586,338
Capital outlay	172,201	751,775	-	-	196,886	1,120,862
Supplies and materials	221,027	1,605,280	-	-	113,721	1,940,028
POL	404,104	248,685	-	-	380,331	1,033,120
Scholarship and training	149,315	241,220	-	-	59,060	449,595
Repairs and maintenance	94,694	360,355	-	-	92,615	547,664
Travel	23,171	448,688	-	-	-	471,859
Grants and subsidies	41,238	-	-	-	517,457	558,695
Food stuffs	60,658	195,496	-	-	30,017	286,171
Communications	103,070	169,705	-	-	3,000	275,775
Principal repayment	290,829	-	-	-	-	290,829
Professional services	10,000	48,800	-	-	-	58,800
Allowances	155,075	6,780	-	-	-	161,855
Interest payments	70,739	-	-	-	-	70,739
Freight	6,041	38,695	-	-	548	45,284
Rentals	9,981	81,616	-	-	2,376	93,973
Printing and reproduction	3,010	33,698	-	-	8,250	44,958
Leased housing and land	21,386	-	-	-	-	21,386
Construction maintenance	34,930	-	-	-	-	34,930
Other	127,522	164,524	-	-	90,913	382,959
	<u>\$ 6,284,523</u>	<u>\$ 14,883,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,962,013</u>	<u>\$ 24,130,316</u>

See Accompanying Independent Auditor's Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balance- General Fund  
Year Ended September 30, 2022  
(with comparative totals for the year ended September 30, 2021)

	<u>2022</u>	<u>2021</u>
Revenues:		
Revenue sharing:		
Import tax	\$ 1,201,200	\$ 1,173,767
Fuel tax	64,890	387,829
Income tax	955,473	901,092
Business gross receipts tax	1,075,790	945,095
	<u>3,297,353</u>	<u>3,407,783</u>
Excise taxes:		
Alcoholic beverages	543,518	561,737
Gasoline and diesel	65,814	102,911
Tobacco	977,349	900,941
Other excise taxes	654,594	521,654
	<u>2,241,275</u>	<u>2,087,243</u>
Fees and charges:		
Licenses and permits	97,480	95,019
Fines/sale of confiscated property	44,773	60,161
Leases and other rentals	238,695	259,523
	<u>380,948</u>	<u>414,703</u>
Departmental charges:		
Sea transportation	152,562	199,243
Air transportation	39,186	30,697
Hospital services	217,170	436,793
Other	1,128	9,638
	<u>410,046</u>	<u>676,371</u>
Net change in the fair value of investments	<u>(2,706,861)</u>	<u>2,086,360</u>
Other revenues	<u>69,471</u>	<u>125,534</u>
Total revenues	<u>3,692,232</u>	<u>8,797,994</u>
Expenditures:		
Current:		
Judiciary	<u>180,223</u>	<u>182,243</u>
Councils of Traditional Leaders:		
Council of Pilung	88,877	79,294
Council of Tamol	129,440	109,857
	<u>218,317</u>	<u>189,151</u>
General government:		
Office of the Governor	167,848	161,599
State Legislature	417,620	417,363
Office of Administrative Services	502,371	434,834
Office of Public Auditor	133,085	129,739
Office of Planning, Budget and Statistics	139,264	136,866
	<u>1,360,188</u>	<u>1,280,401</u>
Resources and Development:		
Department of Resources and Development	<u>524,384</u>	<u>443,181</u>

See Independent Auditor's Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balance- General Fund, Continued  
Year Ended September 30, 2022  
(with comparative totals for the year ended September 30, 2021)

Expenditures, continued:

Current, continued:

Public Safety:

Department of Public Safety/Attorney General	518,196	553,060
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Community Affairs:

Department of Public Affairs	211,219	239,212
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Public Works and Transportation:

Department of Public Works and Transportation	1,205,670	1,305,569
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Education Services:

Department of Education	314,637	270,425
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Health Services:

Department of Health Services	297,330	136,103
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Boards and Commissions:

Historic Preservation Office	61,546	57,460
EPA Administration Board	72,352	72,624
Election Commissioner	41,860	28,652
Small Business Development Center	70,162	76,077
Yap Investment Trust	14,953	13,511
	260,873	248,324

Payments to component units:

Yap Visitor's Bureau	111,342	103,619
	111,342	103,619

Other appropriations:

Micronesian Legal Services Corporation	41,238	24,991
Japan Overseas Cooperation Volunteers	-	-
Yap Public Library	-	-
Yap Community Action Program	109,279	94,858
Scholarship	149,647	171,362
Medical Referral Program	228,578	21,764
Airport Operations and Maintenance	149,036	115,505
Yap Sport Awards Program	-	43,600
Other	42,800	1,066
	720,577	473,146

Debt service:

Principal repayments	290,829	268,111
Interest payments	70,737	76,247

	361,566	344,358
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Total expenditures	6,284,523	5,768,792
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Excess (deficiency) of revenues over (under) expenditures	(2,592,291)	3,029,202
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See Independent Auditor's Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balance- General Fund, Continued  
Year Ended September 30, 2022  
(with comparative totals for the year ended September 30, 2021)

Expenditures, continued:

Current, continued:

Other financing uses:

Operating transfer out (IMF local match)

(844,563) -

Total other financing uses

(844,563) -

Special item:

Write-off of receivables

(148,958) (44,645)

Total special item

(148,958) (44,645)

Net change in fund balance

(3,585,812) 2,984,557

Fund balance at the beginning of the year

21,394,134 18,409,577

Adjustment of beginning balance - lease accounting

51,358 -

Fund balance at the end of the year

\$ 17,859,680 \$ 21,394,134

See Accompanying Independent Auditors' Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual- General Fund  
September 30, 2022

	Budgeted Amounts		Actual- Amounts	
	Original	Final	Budgetary Basis	Variance
Revenues	\$ 6,759,895	6,830,510	3,692,232	3,138,278
Total revenues	6,759,895	6,830,510	3,692,232	3,138,278
Expenditures:				
Current:				
Judiciary	218,309	223,595	185,859	37,736
Councils of Traditional Leaders:				
Council of Pilung	105,850	110,300	91,333	18,967
Council of Tamol	126,529	160,587	138,585	22,002
	232,379	270,887	229,918	40,969
General government:				
Office of the Governor	185,484	197,454	178,667	18,787
State Legislature	445,072	451,193	422,285	28,908
Office of Administrative Services	494,940	571,468	548,222	23,246
Office of Public Auditor	152,548	156,308	138,347	17,961
Office of Planning, Budget and Statistics	130,886	173,030	155,158	17,872
	1,408,930	1,549,453	1,442,679	106,774
Economic Development:				
Department of Resources and Development	584,694	622,279	557,208	65,071
Public Safety:				
Department of Public Safety/Attorney General	590,979	634,226	547,959	86,267
Community Affairs:				
Department of Public Affairs	224,302	245,980	233,616	12,364
Education:				
Department of Education	393,226	395,761	335,497	60,264
Public Works and Transportation:				
Department of Public Works and Transportation	1,437,337	1,748,693	1,342,266	406,427
Health services:				
Department of Health Services	300,000	349,330	349,330	-
Boards and Commissions:				
Historic Preservation Office	77,000	100,718	78,372	22,346
Environment Protection Agency	95,000	95,514	72,559	22,955
Yap State Election Commission	48,007	49,587	47,025	2,562
Small Business Development Center	77,500	78,682	70,199	8,483
Yap Investment Trust	15,373	16,119	14,953	1,166
	312,880	340,620	283,108	57,512

See Independent Auditors' Report.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual- General Fund, Continued  
September 30, 2022

	Budgeted Amounts		Actual- Amounts	
	Original	Final	Budgetary Basis	Variance
Expenditures, continued:				
Payments to component units:				
Yap Visitor's Bureau	118,410	133,005	124,296	8,709
Public Transportation System	-	4,992	-	4,992
	<u>118,410</u>	<u>137,997</u>	<u>124,296</u>	<u>13,701</u>
Other appropriations:				
Micronesian Legal Services Corporation	41,280	41,280	41,238	42
Japan Overseas Cooperation Volunteers	-	1,800	1,800	-
Yap CAP	110,821	113,514	111,647	1,867
Micro Games/Yap Sports Awards Program	-	26,181	-	26,181
Scholarship	176,000	176,000	149,647	26,353
Medical Referral Program	250,000	279,591	259,164	20,427
Airport Operations and Maintenance	151,000	272,834	232,226	40,608
Sports Complex	-	1,600	1,600	-
Yap Catholic High School	-	18,892	-	18,892
Others	-	42,800	42,800	-
	<u>729,101</u>	<u>974,492</u>	<u>840,122</u>	<u>134,370</u>
Debt service:				
Principal repayments	-	-	290,829	(290,829)
Interest payments	-	-	70,737	(70,737)
	<u>-</u>	<u>-</u>	<u>361,566</u>	<u>(361,566)</u>
Total expenditures	<u>6,550,547</u>	<u>7,493,313</u>	<u>6,833,424</u>	<u>659,889</u>
Excess (deficiency) of revenues over (under) expenditures	<u>209,348</u>	<u>(662,803)</u>	<u>(3,141,192)</u>	<u>2,478,389</u>
Other financing uses:				
Operating transfer out (IMF local match)	<u>(844,563)</u>	<u>(844,563)</u>	<u>(844,563)</u>	<u>-</u>
Total other financing uses				
Special item:				
less: Write-off of receivables	<u>-</u>	<u>-</u>	<u>(254,720)</u>	<u>254,720</u>
Total special item	<u>-</u>	<u>-</u>	<u>(254,720)</u>	<u>254,720</u>
Net change in fund balance	(635,215)	(1,507,366)	(4,240,475)	2,733,109
Encumbrances	872,151	872,151	548,901	323,250
Fund balance at the beginning of the year	<u>18,621,845</u>	<u>18,621,825</u>	<u>20,969,920</u>	<u>(2,348,095)</u>
Fund balance at the end of the year	<u>\$ 18,858,781</u>	<u>\$ 17,986,610</u>	<u>\$ 17,278,346</u>	<u>\$ 708,264</u>

See Independent Auditor's Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet  
Nonmajor Governmental funds  
September 30, 2022

	Other Special Revenue	Other Capital Projects	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 21,253	\$ -	\$ 21,253
Investments	395,955	-	395,955
Receivables, net	-	421,653	421,653
Due from other funds	405,452	680,373	1,085,825
Total assets	<u>\$ 822,660</u>	<u>\$ 1,102,026</u>	<u>\$ 1,924,686</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 36,484	\$ 491,392	\$ 527,876
Deferred revenues	-	260,700	260,700
Total liabilities	<u>36,484</u>	<u>752,092</u>	<u>788,576</u>
<b>Fund balances:</b>			
Restricted	-	349,934	349,934
Committed	786,176	-	786,176
Total fund balances	<u>786,176</u>	<u>349,934</u>	<u>1,136,110</u>
Total liabilities and fund balances	<u>\$ 822,660</u>	<u>\$ 1,102,026</u>	<u>\$ 1,924,686</u>

See Independent Auditor's Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Combined Statement Revenues, Expenditures by Function,  
and Changes in Fund Balances  
Nonmajor Governmental funds  
Year Ended September 30, 2022

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,633,340	\$ 2,633,340
Excise taxes	93,244	-	93,244
Fees and charges	203,651	-	203,651
Net change in the fair value of investments	(96,430)	-	(96,430)
Total revenues	<u>200,465</u>	<u>2,633,340</u>	<u>2,833,805</u>
Expenditures by function:			
Current:			
General government	235,429	2,633,340	2,868,769
Other appropriations	<u>93,244</u>	<u>-</u>	<u>93,244</u>
Total expenditures	<u>328,673</u>	<u>2,633,340</u>	<u>2,962,013</u>
Net change in fund balances	(128,208)	-	(128,208)
Fund balances at the beginning of the year	914,384	349,934	1,264,318
Fund balances at the end of the year	<u>\$ 786,176</u>	<u>\$ 349,934</u>	<u>\$ 1,136,110</u>

See Independent Auditor's Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Combined Statement Revenues, Expenditures by Account,  
and Changes in Fund Balances  
Nonmajor Governmental funds  
Year Ended September 30, 2022

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,633,340	\$ 2,633,340
Excise taxes	93,244	-	93,244
Fees and charges	203,651	-	203,651
Net change in the fair value of investments	(96,430)	-	(96,430)
Total revenues	<u>200,465</u>	<u>2,633,340</u>	<u>2,833,805</u>
Expenditures by Account:			
Contractual services	-	1,389,251	1,389,251
Grants and subsidies	317,457	200,000	517,457
Scholarships	-	59,060	59,060
Communication		3,000	3,000
Capital outlay	7,506	189,380	196,886
POL	-	380,331	380,331
Supplies and materials	-	113,721	113,721
Food stuffs	-	30,017	30,017
Freight		548	548
Rentals		2,376	2,376
Printing and reproduction		8,250	8,250
Travel	-		-
Medical	-	77,588	77,588
Repairs and maintenance		92,615	92,615
Other	3,710	87,203	90,913
Total expenditures	<u>328,673</u>	<u>2,633,340</u>	<u>2,962,013</u>
Net change in fund balances	(128,208)	-	(128,208)
Fund balances at the beginning of the year	<u>914,384</u>	<u>349,934</u>	<u>1,264,318</u>
Fund balances at the end of the year	<u>\$ 786,176</u>	<u>\$ 349,934</u>	<u>\$ 1,136,110</u>

See Independent Auditor's Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
Combining Balance Sheet  
September 30, 2022

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	21,253	\$ 21,253
Investments	-	-	-	395,955	395,955
Due from other funds	31,716	30,119	334,132	9,485	405,452
Total assets	<u>\$ 31,716</u>	<u>\$ 30,119</u>	<u>\$ 334,132</u>	<u>\$ 426,693</u>	<u>\$ 822,660</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 31,716	\$ -	\$ 4,768	\$ -	\$ 36,484
Total liabilities	<u>31,716</u>	<u>-</u>	<u>4,768</u>	<u>-</u>	<u>36,484</u>
Fund balances:					
Committed	-	30,119	329,364	426,693	786,176
Total fund balances	-	30,119	329,364	426,693	786,176
Total liabilities and fund balances	<u>\$ 31,716</u>	<u>\$ 30,119</u>	<u>\$ 334,132</u>	<u>\$ 426,693</u>	<u>\$ 822,660</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
Combining Statement of Revenues, Expenditures by Function  
and Changes in Fund Balances  
Year Ended September 30, 2022

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 93,244	\$ -	\$ -	\$ -	\$ 93,244
Fees and charges	-	13,497	190,154	-	203,651
Net change in the fair value of investments	-	-	-	(96,430)	(96,430)
Total revenues	<u>93,244</u>	<u>13,497</u>	<u>190,154</u>	<u>(96,430)</u>	<u>200,465</u>
Expenditures by function:					
Current:					
General government	-	3,291	232,138	-	235,429
Other appropriations	93,244	-	-	-	93,244
Total expenditures	<u>93,244</u>	<u>3,291</u>	<u>232,138</u>	<u>-</u>	<u>328,673</u>
Net change in fund balances	-	10,206	(41,984)	(96,430)	(128,208)
Fund balances at the beginning of the year	-	19,913	371,348	523,123	914,384
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 30,119</u>	<u>\$ 329,364</u>	<u>\$ 426,693</u>	<u>\$ 786,176</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
Combining Statement of Revenues, Expenditures by Account  
and Changes in Fund Balances, continued  
Year Ended September 30, 2022

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 93,244	\$ -	\$ -	\$ -	\$ 93,244
Fees and charges	-	13,497	190,154	-	203,651
Net change in the fair value of investments	-	-	-	(96,430)	(96,430)
Total revenues	<u>93,244</u>	<u>13,497</u>	<u>190,154</u>	<u>(96,430)</u>	<u>200,465</u>
Expenditures by account:					
Grants and subsidies	93,244	-	224,213	-	317,457
Capital outlay	-	1,216	6,290	-	7,506
Other	-	2,075	1,635	-	3,710
Total expenditures	<u>93,244</u>	<u>3,291</u>	<u>232,138</u>	<u>-</u>	<u>328,673</u>
Excess (deficiency) of revenues over (under) expenditures	-	10,206	(41,984)	(96,430)	(128,208)
Fund balances at the beginning of the year	-	19,913	371,348	523,123	914,384
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 30,119</u>	<u>\$ 329,364</u>	<u>\$ 426,693</u>	<u>\$ 786,176</u>

See Independent Auditor's Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**NONMAJOR GOVERNMENTAL FUNDS- SPECIAL REVENUE FUNDS**  
**September 30, 2022**

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of the State's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2022, follows:

Sports Development Fund

This fund accounts for certain funds dedicated to sports development in the State.

Housing Maintenance Fund

This fund accounts for funds dedicated to the housing expenses of specific employees of the State.

Enterprise Fund

This fund accounts for the recycling collection program, Yap community development program, scholarship program, and other special purposes.

Expendable Trust Fund

This fund accounts for dividend and interest income from the State's scholarship deposit fund held by a bank.

See Independent Auditor's Report.



**STATEMENT OF YAP  
FEDERATED STATES OF MICRONESIA**  
Foreign Assistance Grants Fund  
Combining Balance Sheet  
September 30, 2022

	<b>F10</b>	<b>F11</b>	<b>F12</b>	<b>F13</b>	<b>F14</b>	<b>F15</b>	<b>F16</b>	<b>F18</b>	<b>F19</b>	<b>F20</b>	<b>F21</b>	<b>F23</b>	<b>F25</b>	
				Private	Capacity									
	Education	Health	Environment	Sector	Building	Supplemental	ERA	Infrastructure		U.S. Grants	Direct U.S.	Non U.S.	CFSM	
	Sector	Sector	Sector	Development	Sector	Education	Sector	Maintenance	Infrastructure	through FSM	Grants	Grants	Grants	Total
<b>ASSETS</b>														
<b>Receivables:</b>														
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 364,075	\$ -	\$ -	\$ 364,075
FSM National Government	1,292,125	850,170	63,055	31,208	69,348	382,665	194,848	-	1,180,221	416,711	-	-	17,629	4,497,980
Other	-	-	144	-	-	-	-	-	-	-	-	-	-	144
Due from other funds	-	331,028	-	-	24,094	-	-	3,613,549	-	-	314,977	354,728	87,681	4,726,057
Advances	6,000	11,039	-	-	-	-	-	-	-	-	-	-	-	17,039
	<u>1,298,125</u>	<u>1,192,237</u>	<u>63,199</u>	<u>31,208</u>	<u>93,442</u>	<u>382,665</u>	<u>194,848</u>	<u>3,613,549</u>	<u>1,180,221</u>	<u>416,711</u>	<u>679,052</u>	<u>354,728</u>	<u>105,310</u>	<u>9,605,295</u>
<b>LIABILITIES AND FUND BALANCES:</b>														
<b>Liabilities:</b>														
Accounts payable	115,699	385,662		1,999	18,420	31,887	6,268	78,586	37,271	50,261	388,884	-	19,301	1,134,238
Other liabilities and accruals	117,401	105,194	-	-	3,556	44,488	8,308	-	11,169	51,232	42,438	423	1,318	385,527
Unearned revenues	134,677	701,381	48,373	29,022	71,466	38,191	6,594	-	1,060,330	-	247,730	354,305	84,691	2,776,760
Due to other funds	930,348	-	14,826	187	-	268,099	173,678	-	71,451	315,218	-	-	-	1,773,807
Total liabilities	<u>1,298,125</u>	<u>1,192,237</u>	<u>63,199</u>	<u>31,208</u>	<u>93,442</u>	<u>382,665</u>	<u>194,848</u>	<u>78,586</u>	<u>1,180,221</u>	<u>416,711</u>	<u>679,052</u>	<u>354,728</u>	<u>105,310</u>	<u>6,070,332</u>
<b>Fund balances:</b>														
Restricted	-	-	-	-	-	-	-	3,534,963	-	-	-	-	-	3,534,963
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,534,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,534,963</u>
Total liabilities and fund balances	<u>\$ 1,298,125</u>	<u>\$ 1,192,237</u>	<u>\$ 63,199</u>	<u>\$ 31,208</u>	<u>\$ 93,442</u>	<u>\$ 382,665</u>	<u>\$ 194,848</u>	<u>\$ 3,613,549</u>	<u>\$ 1,180,221</u>	<u>\$ 416,711</u>	<u>\$ 679,052</u>	<u>\$ 354,728</u>	<u>\$ 105,310</u>	<u>\$ 9,605,295</u>

**STATEMENT OF YAP  
FEDERATED STATES OF MICRONESIA**  
Foreign Assistance Grants Fund  
Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances - by function  
September 30, 2022

	<b>F10</b>	<b>F11</b>	<b>F12</b>	<b>F13</b>	<b>F14</b>	<b>F15</b>	<b>F16</b>	<b>F18</b>	<b>F19</b>	<b>F20</b>	<b>F21</b>	<b>F23</b>	<b>F25</b>	
	<b>Education</b>	<b>Health</b>	<b>Environment</b>	<b>Private Sector</b>	<b>Capacity Building</b>	<b>Supplemental Education</b>	<b>ERA Sector</b>	<b>Infrastructure Maintenance</b>	<b>Infrastructure</b>	<b>U.S. Grants through FSM</b>	<b>Direct U.S. Grants</b>	<b>Non U.S. Grants</b>	<b>CFSM Grants</b>	<b>Total</b>
	<b>Sector</b>	<b>Sector</b>	<b>Sector</b>	<b>Development</b>	<b>Sector</b>	<b>Education</b>	<b>Sector</b>	<b>Maintenance</b>	<b>Infrastructure</b>	<b>through FSM</b>	<b>Grants</b>	<b>Grants</b>	<b>Grants</b>	
Revenues:														
Compact funding	\$ 4,282,976	\$ 4,371,979	\$ -	\$ -	\$ 95,540	\$ 1,490,572	\$ 229,511	\$ 844,563	\$ 563,083	\$ -	\$ -	\$ -	\$ -	\$ 11,878,224
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	1,418,495	1,931,069	128,275	-	3,477,839
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	71,128	71,128
	<u>4,282,976</u>	<u>4,371,979</u>	<u>-</u>	<u>-</u>	<u>95,540</u>	<u>1,490,572</u>	<u>229,511</u>	<u>844,563</u>	<u>563,083</u>	<u>1,418,495</u>	<u>1,931,069</u>	<u>128,275</u>	<u>71,128</u>	<u>15,427,191</u>
Expenditures by function: Current:														
General government	-	-	-	-	95,540	-	229,511	-	-	-	-	-	-	325,051
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	71,128	71,128
Resources and development	-	-	-	-	-	-	-	-	-	-	24,826	-	-	24,826
Education	4,282,976	-	-	-	-	1,490,572	-	-	-	523,132	-	97,440	-	6,394,120
Public works and transportation	-	-	-	-	-	-	-	301,152	563,083	-	-	-	-	864,235
Health services	-	4,371,979	-	-	-	-	-	-	-	836,537	1,843,843	30,835	-	7,083,194
Boards and commissions	-	-	-	-	-	-	-	-	-	58,826	-	-	-	58,826
Other appropriations	-	-	-	-	-	-	-	-	-	-	62,400	-	-	62,400
Total expenditures	<u>4,282,976</u>	<u>4,371,979</u>	<u>-</u>	<u>-</u>	<u>95,540</u>	<u>1,490,572</u>	<u>229,511</u>	<u>301,152</u>	<u>563,083</u>	<u>1,418,495</u>	<u>1,931,069</u>	<u>128,275</u>	<u>71,128</u>	<u>14,883,780</u>
Other financing sources:														
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>844,563</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>844,563</u>
Net change in fund balances	-	-	-	-	-	-	-	1,387,974	-	-	-	-	-	1,387,974
Fund balances at the beginning of the year	-	-	-	-	-	-	-	2,146,989	-	-	-	-	-	2,146,989
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,534,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,534,963</u>

**STATEMENT OF YAP  
FEDERATED STATES OF MICRONESIA**  
Foreign Assistance Grants Fund  
Combining Statement of Revenues, Expenditures by Accounts, and Changes in Fund Balances - by account  
September 30, 2022

	<b>F10</b>	<b>F11</b>	<b>F12</b>	<b>F13</b>	<b>F14</b>	<b>F15</b>	<b>F16</b>	<b>F18</b>	<b>F19</b>	<b>F20</b>	<b>F21</b>	<b>F23</b>	<b>F25</b>	
	<b>Education</b>	<b>Health</b>	<b>Environment</b>	<b>Private Sector</b>	<b>Capacity Building</b>	<b>Supplemental Education</b>	<b>ERA Sector</b>	<b>Infrastructure Maintenance</b>	<b>Infrastructure</b>	<b>U.S. Grants through FSM</b>	<b>Direct U.S. Grants</b>	<b>Non U.S. Grants</b>	<b>CFSM Grants</b>	<b>Total</b>
	<b>Sector</b>	<b>Sector</b>	<b>Sector</b>	<b>Development</b>	<b>Sector</b>	<b>Education</b>	<b>Sector</b>	<b>Maintenance</b>	<b>Infrastructure</b>	<b>through FSM</b>	<b>Grants</b>	<b>Grants</b>	<b>Grants</b>	
Revenues:														
Compact funding	\$ 4,282,976	\$ 4,371,979	\$ - -	\$ -	\$ 95,540	\$ 1,490,572	\$ 229,511	\$ 844,563	\$ 563,083	\$ -	\$ -	\$ -	\$ -	\$ 11,878,224
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	1,418,495	1,931,069	128,275	-	3,477,839
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	71,128	71,128
	<u>4,282,976</u>	<u>- 4,371,979</u>	<u>- -</u>	<u>-</u>	<u>- 95,540</u>	<u>- 1,490,572</u>	<u>- 229,511</u>	<u>- 844,563</u>	<u>- 563,083</u>	<u>- 1,418,495</u>	<u>- 1,931,069</u>	<u>- 128,275</u>	<u>71,128</u>	<u>15,427,191</u>
Expenditures by account:														
Salaries and wages	2,129,982	1,697,890	-	-	85,099	767,788	151,253	-	199,828	826,257	684,456	6,862	8,571	6,557,986
Medical	-	1,365,202	-	-	-	-	-	-	-	26,737	488,215	-	-	1,880,154
Contractual services	225,175	291,052	-	-	7,200	50,037	32,087	301,152	294,032	7,700	5,334	113,896	5,562	1,333,227
Capital outlay	139,504	265,208	-	-	3,241	78,047	-	-	17,113	115,162	127,028	-	6,472	751,775
Supplies and materials	611,032	185,152	-	-	-	179,995	29,539	-	3,983	134,320	438,896	-	22,363	1,605,280
Utilities	351,131	240,023	-	-	-	28,540	-	-	5,212	19,883	54,307	-	18,000	717,096
Repairs and maintenance	187,141	55,166	-	-	-	39,723	642	-	1,438	6,077	65,361	-	4,807	360,355
Travel	102,316	85,949	-	-	-	166,447	-	-	-	89,685	1,614	2,677	-	448,688
Professional services	-	-	-	-	-	36,800	12,000	-	-	-	-	-	-	48,800
Scholarship and training	241,220	-	-	-	-	-	-	-	-	-	-	-	-	241,220
Food stuffs	36,029	53,124	-	-	-	102,339	-	-	-	4,004	-	-	-	195,496
POL	94,699	40,814	-	-	-	30,801	-	-	2,295	51,231	24,802	-	4,043	248,685
Communications	70,224	18,806	-	-	-	9,065	3,890	-	13,457	33,143	19,810	-	1,310	169,705
Freight	11,076	27,415	-	-	-	-	-	-	-	204	-	-	-	38,695
Printing and reproduction	42	4,675	-	-	-	-	-	-	-	28,754	227	-	-	33,698
Rentals	3,771	4,009	-	-	-	-	-	-	25,400	32,264	16,172	-	-	81,616
Allowances	600	-	-	-	-	990	-	-	-	350	-	4,840	-	6,780
Other	79,034	37,494	-	-	-	-	100	-	325	42,724	4,847	-	-	164,524
Total expenditures	<u>4,282,976</u>	<u>4,371,979</u>	<u>-</u>	<u>-</u>	<u>95,540</u>	<u>1,490,572</u>	<u>229,511</u>	<u>301,152</u>	<u>563,083</u>	<u>1,418,495</u>	<u>1,931,069</u>	<u>128,275</u>	<u>71,128</u>	<u>14,883,780</u>
Other financing sources:														
Operating transfers in	-	-	-	-	-	-	-	844,563	-	-	-	-	-	844,563
Net change in fund balances (deficit)	-	-	-	-	-	-	-	1,387,974	-	-	-	-	-	1,387,974
Fund balances at the beginning of year	-	-	-	-	-	-	-	2,146,989	-	-	-	-	-	2,146,989
Fund balances at the end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,534,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,534,963</u>



# 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*

Honorable Charles Chieng  
Governor, State of Yap  
Federated States of Micronesia

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated October 12, 2024. Our report includes an adverse opinion for the omission of a certain component unit and includes explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our report includes a reference to other auditors who audited the financial statements of the Public Transportation System, as described in our report on the State's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters did not include the Yap Visitor's Bureau, the Yap State Public Service Corporation, and The Diving Seagull, Inc., which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors issued a separate report on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Public Transportation System. The findings, if any, included in those reports are not included herein.

#### **Report on Internal Control over Financial Reporting**

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

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Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding number 2022-001 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether State'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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2022-001.

### **State's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the State's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. State's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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 on 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.

*Bryan Comer & Associates*

Saipan, MP  
October 12, 2024



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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Honorable Charles Chieng  
Governor, State of Yap  
Federated States of Micronesia

**Report on Compliance for Each Major Federal Program**

***Unmodified and Disclaimer of Opinions***

We have audited State of Yap's (the State's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of State's Major Federal Programs CFDA 15.875 Compact of Free Association Grant Program, and we were engaged to audit State of Yap's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on CFDA 93.224 Health Center Program for the year ended September 30, 2022. State of Yap's major federal programs are identified in the Summary of Opinions section of our report.

As discussed in Notes to the Schedule of Expenditures of Federal Awards (Notes), the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2022. Our audit, described below, did not include the operations of the entities identified in Notes as these entities conducted separate audits in accordance with Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, if required.

***Summary of Opinions***

<b><i>Major Federal Program</i></b>	<b><i>Type of Opinion</i></b>
CFDA 15.875 Compact of Free Association Grant Program	Unmodified
CFDA 93.224 Health Center Program	Disclaimer

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### *Disclaimer of Opinion on CFDA 93.224 Health Center Program*

We do not express an opinion on State's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on CFDA 93.224 Health Center Program.

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on CFDA 93.224 Health Center Program section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on CFDA 93.224 Health Center Program.

### *Unmodified Opinion on CFDA 15.875 Compact of Free Association Grant Program*

In our opinion, State of Yap complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on *CFDA 15.875 Compact of Free Association grant* for the year ended September 30, 2022.

### *Basis for Disclaimer of CFDA 93.224 Health Center Program*

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain audit evidence supporting the State's compliance with the special testing sliding fee discount requirement applicable to the CFDA 93.224 Health Center Program as described in finding number 2022-002. As a result of these matters, we were unable to determine whether the Entity complied with the requirements applicable to CFDA 93.224 Health Center Program.

### *Basis for Unmodified Opinion*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the State of Yap and to meet our other ethical responsibilities, in accordance with 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 unmodified opinions on compliance for CFDA 15.875 Compact of Free Association Grant Program. Our audit does not provide a legal determination of the State's compliance with the compliance requirements referred to above.

### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the State's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

#### ***Auditor 's Responsibilities for the Audit of Compliance for CFDA 93.224 Health Center Program***

Our responsibility is to conduct an audit of compliance in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion on CFDA 93.224 Health Center Program section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance.

We are required to be independent of the State and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

#### ***Auditor's Responsibilities for the Audit of Compliance for CFDA 15.875 Compact of Free Association Grant Program***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the State's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the State's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 State's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the State's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



### ***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2022-003 and 2022-004. Our opinion on CFDA 15.875 Compact of Free Association Grant Program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the State's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-003 and 2022-004 to be significant deficiencies.

Our audit of CFDA 15.875 Compact of Free Association Grant Program was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated October 12, 2024 which contained an adverse opinion for the omission of a certain component unit and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. We did not audit the financial statements of the Public Transportation System, which represent 100% of the assets, net position, and operating revenues of the State's business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Government Auditing Standards* requires the auditor to perform limited procedures on the State's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Bruce Comer & Associates*

Saipan, MP  
October 12, 2024

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2022

<u>Agency/Program</u>	<u>Expenditures</u>
U.S. Department of Agriculture	\$ 62,400
U.S. Department of the Interior	11,393,640
U.S. Small Business Administration	24,826
U.S. Department of Education	523,132
U.S. Department of Health and Human Services	<u>2,680,379</u>
 GRAND TOTAL	 \$ <u><u>14,684,377</u></u>
 Reconciliation to the basic financial statements:	
Foreign Assistance Grants Fund expenditures	\$ 14,883,780
Less: Non-U.S. Grants Fund expenditures	(128,275)
Less: CFSM Grants Fund expenditures	<u>(71,128)</u>
	\$ <u><u>14,684,377</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	ALN Number	Identifying Number Assigned by Pass- Through Entity	Federal Expenditures
<u>U.S. Department of Agriculture:</u>			
Direct Program:			
Cooperative Forestry Assistance	10.664		\$ 62,400
Total U.S. Department of Agriculture			<u>62,400</u>
<u>U.S. Department of the Interior:</u>			
Pass-Through Grants from the FSM National Government:		A5	
Economic, Social and Political Development of the Territories:			
Compact of Free Association, As Amended, Sector Grants	15.875	00050-2016-COFA-FSM	
Compact II Education Sector			4,282,976
Compact II Health Sector			4,371,980
Compact II Capacity Building Sector			95,540
Supplemental Education Grant			1,490,571
Compact II ERA			229,511
Compact II Infrastructure Sector			563,083
Compact II Infrastructure Maintenance Sector			301,153
Historic Preservation Fund Grant-In-Aid	15.904		<u>58,826</u>
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>11,393,640</u>
Total U.S. Department of the Interior			<u>11,393,640</u>
<u>U.S. Small Business Administration:</u>			
Direct Programs:			
8(a) Business Development Program	59.006		<u>24,826</u>
Total U.S. Small Business Administration			<u>24,826</u>
<u>U.S. Department of Education:</u>			
Pass-Through Grants from the FSM National Government:		A5	
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B)	84.027		<u>523,132</u>
Special Education Cluster (IDEA) Subtotal			<u>523,132</u>
Total U.S. Department of Education			<u>523,132</u>
<u>U.S. Department of Health and Human Services:</u>			
Direct Programs:			
Health Center Program Cluster:			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		<u>1,843,842</u>
Health Center Cluster Subtotal and Subtotal Direct Programs			<u>1,843,842</u>
Pass-Through Grants from the FSM National Government		A5	
Public Health Emergency Preparedness	93.069		12,882
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		39,004
Maternal and Child Health Federal Consolidated Program	93.110		10,306
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		46,205
Family Planning Services	93.217		36,000

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	ALN Number	Identifying Number Assigned by Pass- Through Entity	Federal Expenditures
<u>U.S. Department of Health and Human Services, Continued:</u>			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		96,186
Immunization Cooperative Agreements	93.268		196,297
Affiliated Pacific Islands, U.S. Virgin Islands, and P. R.	93.377		43,257
OPIOID STR	93.788		48,328
National Bioterrorism Hospital Preparedness Program	93.889		3,851
Cancer Prevention and Control Programs for State, Territorial	93.898		58,266
Block Grants for Community Mental Health Services	93.958		33,945
Block Grants for Prevention and Treatment of Substance Abuse	93.959		126,792
Block Grants for Preventative Health and Health Services	93.991		2,978
Maternal and Child Health Services Block Grant to the States	93.994		82,239
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>836,537</u>
Total U.S. Department of Health and Human Services			<u>2,680,379</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>14,684,377</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2022

1. Scope

The State of Yap is one of the four States of the Federated States of Micronesia. All significant operations of State of Yap are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as State of Yap's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Yap under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of State of Yap, it is not intended to and does not present the financial position or changes in financial position of State of Yap.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Yap maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Yap's reporting entity is defined in Note 1A to its September 30, 2022 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Yap, as defined above, for the year ended September 30, 2022.

C. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2022

4. Summary of Significant Accounting Policies, continued

D. Indirect Cost Allocation

State of Yap did not receive any indirect cost allocation and does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. State of Yap did not charge indirect costs against federal programs.

E. ALN#15.875

ALN #15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact comprises various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under ALN #15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2022

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |   |                        |
|---|------------------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Adverse and Unmodified |
| Internal control over financial reporting:  |                        |
| 2. Material weakness(es) identified?  | Yes                    |
| 3. Significant deficiency(ies) identified?  | No                     |
| 4. Noncompliance material to financial statements noted?  | Yes                    |

*Federal Awards*

Internal control over major federal programs:

- |   |                           |
|---|---------------------------|
| 5. Material weakness(es) identified?  | Yes                       |
| 6. Significant deficiency(ies) identified?  | Yes                       |
| 7. Type of auditors' report issued on compliance for major federal programs:                          | Disclaimer and Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes                       |
| 9. Identification of major federal programs:  |                           |

ALN Numbers

Name of Federal Program or Cluster

- |        |   |
|--------|---|
| 15.875 | Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Compact Sector Grants  |
| 93.224 | Health Center Program Cluster:<br>Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) |

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee?                                   | No        |

**Section II – Financial Statements Findings**

Finding #

Finding

- |          |                              |
|----------|------------------------------|
| 2022-001 | External Financial Reporting |
|----------|------------------------------|



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**Section III - Federal Award Findings and Questioned Costs**

<u>Finding #</u>	<u>Finding</u>
2022-002	Health Center Grant Inability to Verify Compliance with Sliding Fee Discount Requirements
2022-003	Compact grant report late submission
2022-004	Compact Grant Education Special Testing

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2022

Finding No.: 2022-001

Area: External Financial Reporting

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 24*, requires that the general purpose financial statements of the reporting entity include component units for which the primary government is financially accountable, has a financial benefit or burden relationship with, or for which exclusion would cause the reporting entity's general purpose financial statements to be misleading or incomplete.

Condition: The fiscal year 2022 financial audit of a component unit, Yap Fishing Authority, was not completed in a timely manner due to delayed reconciliations and year-end closings.

Cause: The State lacks policies and procedures requiring regular monitoring of component unit financial statements and of the audit progress for the respective entities.

Effect: The State is in noncompliance with GASB Statement No. 14, as amended, and lacks audited financial statements for inclusion in the State's general purpose financial statements. Yap Fishing Authority did not incur federal program expenditures during the year ended September 30, 2022.

Recommendation: The State should establish policies and procedures to facilitate compliance with GASB Statement No. 14, as amended.

Identification as a Repeat Finding: Finding No. 2021-001 and 2020-001

Views of Responsible Officials: The State agrees with the finding and describes corrective actions in its corrective action plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2022

Finding No.: 2022-002

Area: CFDA 93.224 Health Center Grant Inability to Verify Compliance with Sliding Fee Discount Requirements

Criteria: Per the compliance requirements for the Health Center Program (CFDA 93.224), health centers are required to apply a sliding fee discount schedule to ensure that patient charges are adjusted based on income and family size. The sliding fee discount must be applied in accordance with the health center's established schedule to make healthcare services affordable for low-income patients. Additionally, 45 CFR Part 75, Appendix XI Compliance Supplement suggests reviewing the health center's sliding fee discount schedule and a sample of patient financial records to ensure appropriate adjustments based on income and family size.

Condition: During the audit of Yap State Government (YSG) for the Health Center Program (CFDA 93.224), we obtained the health center's sliding fee discount schedules after several months of communication and follow-up. However, we were unable to test a sample of patient financial records to determine whether patient charges were appropriately adjusted in accordance with the sliding fee schedule. The documentation provided by YSG and the health center was limited to cash receipts reports, which do not include detailed patient-level information necessary to verify adjustments made based on income and family size.

Cause: The health center has not provided the required financial records for patients treated during the audit period. Despite repeated attempts by YSG to obtain this information, the health center has been unresponsive as of the date of this report.

Effect: Due to the lack of access to patient financial records, we were unable to verify whether the health center is in compliance with the sliding fee discount requirements of the Health Center Program. This could result in inaccurate application of patient charges, which may affect the affordability of healthcare services for low-income patients and non-compliance with federal requirements.

Recommendation: We recommend that YSG work closely with the health center to establish a process for timely and complete submission of financial records for audit purposes. The health center should ensure that patient financial records are available to verify that sliding fee adjustments are applied correctly in compliance with program requirements. If necessary, YSG should seek guidance from the federal awarding agency to ensure compliance with the Health Center Program. Yap State Government health centers should immediately develop and document a comprehensive Sliding Fee Discount Schedule (SFDS) in accordance with federal regulations.

Identification as a Repeat Finding: No

Views of Responsible Officials: The State does not agree with the finding. See the response in the corrective action plan following the Schedule of Findings and Questioned Costs.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2022

Finding No.: 2022-003

Area: Compact grant report late submission

Criteria: The Compact of Free Association stipulates that the Government of the Federated States of Micronesia must submit financial reports, including a statement of revenues and expenditures for governmental fund types and a comparison of budget and actual expenditures by function for governmental fund types, within 30 days after the end of each fiscal quarter. The objective of this finding is to highlight the late submission of the first quarter financial report by Yap State Government, which is in violation of the requirements outlined in the Compact of Free Association.

Condition: During the audit, it was observed that Yap State Government's first quarter financial report for the quarter ending on December 31, 2021 was certified on April 8, 2022, which constitutes a late submission based on the requirements outlined in the Compact of Free Association.

Cause: The late submission of the first quarter financial report may be attributed to inadequate internal controls, insufficient monitoring of reporting deadlines, or delays in data collection and compilation processes.

Effect: The late submission of the first quarter financial report undermines the transparency and accountability of financial reporting processes and may result in a lack of timely and accurate information for monitoring the general budget and fiscal performance of the Government of the Federated States of Micronesia.

Recommendation:

1. Yap State Government should implement measures to ensure timely and accurate submission of quarterly financial reports in accordance with the requirements outlined in the Compact of Free Association.
2. Management should establish clear procedures and timelines for the preparation, certification, and submission of quarterly financial reports to mitigate the risk of future late submissions.

Identification as a Repeat Finding: No

Views of Responsible Officials: The State agrees with the finding and describes corrective actions in its corrective action plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2022

Finding No.: 2022-004

Area: Compact Grant Education Special Testing

Criteria: In furtherance of the progress made under JEMCO (Joint Economic Management Committee) Resolution 2014-6, all personnel funded by the Education Sector and the Supplemental Education Grant (SEG) are required to undergo an annual performance evaluation. These evaluations must be maintained as part of the personnel files and made available when requested for purposes of grant oversight or audits.

Condition: Based on our testing, we found that the Yap State Government did not adhere to this requirement. Specifically:

1. 6 or 10% out of 60 sampled teachers did not have a Department of Education (DOE) evaluation on file.
2. 1 or 2% out of 60 sampled teachers had their last evaluation conducted in 2017. The salaries of these teachers are funded by federal grants.

Cause: The failure to conduct and maintain annual performance evaluations is likely due to insufficient administrative oversight, lack of adherence to established procedures, or inadequate tracking and documentation practices within the Department of Education.

Effect: The absence of required performance evaluations for personnel funded by federal grants constitutes non-compliance with the grant terms and agreement. This non-compliance could lead to issues with grant oversight, jeopardize future funding, and undermine the effectiveness of the performance evaluation process in ensuring educational quality and accountability.

Recommendation: To address these deficiencies, the Yap State Government should take the following actions:

1. Training: Provide comprehensive training to all relevant administrative staff on the importance of conducting and maintaining annual performance evaluations as stipulated by the grant terms and agreement.
2. Procedures: Establish and enforce clear procedures for conducting annual performance evaluations for all personnel funded by the Education Sector and SEG. Ensure that these procedures are consistently followed and documented.
3. Documentation: Implement a robust documentation system to ensure that all performance evaluations are completed annually, properly recorded, and maintained in the personnel files. This system should also track the dates of evaluations to prevent lapses.
4. Monitoring: Conduct regular internal audits to monitor compliance with the performance evaluation requirements and to ensure that all evaluations are up-to-date and properly documented.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2022

5. Accountability: Assign specific responsibility to individuals within the DOE for overseeing the performance evaluation process and ensuring compliance with grant terms and agreement.

Identification as a Repeat Finding: No

Views of Responsible Officials: The State agrees with the finding and describes corrective actions in its corrective action plan.



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REVENUE: 350-2472

Summary Schedule of Prior Audit Findings and Questioned  
Costs Year Ended September 30, 2022

<u>Finding Number</u>	<u>ALN Number</u>	<u>Costs</u>	<u>Status</u>
2017-001	15.875	\$ 76,540	Resolved. See corrective action taken-Finding 2017-001
2017-002	93.224	18,515	Resolved. See corrective action taken-Finding 2017-002
2018-001	15.875	263,177	Resolved. See corrective action taken-Finding 2018-001
2018-002	15.875	112,703	Resolved. See corrective action taken-Finding 2018-002
2019-001	15.875	164,760	On-going. See corrective action taken – Finding 2019-001
2019-002	93.224	9,998	On-going. See corrective action taken – Finding 2019-002
2019-003	-	-	On-going. See corrective action taken – Finding 2019-003
2020-001	-	-	On-going. See corrective action taken – Finding 2020-001
2021-001	-	-	On-going. See corrective action taken – Finding 2021-001
		<u>\$645,693</u>	



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REVENUE 350-2142  
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**Yap State Government**

Corrective Action Plan  
2 CFR§200.511(c)  
Year Ended September 30, 2022

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Official Capacity
<b>2022-01</b>	We agree with this Finding. We have asked the Acting Attorney General to provide her opinion on how to legally transfer the capital assets of the Yap Fishing Authority to the State Government in the hope of reducing the balance sheet of the component unit so that it will no longer have a material impact to the State's financial statements as a whole. We hope that for the audit of 2023, we can find a way to move away from the adverse opinion to perhaps a qualification with regards to the lack of un-audited financial information for the Yap Fishing Authority.	September 30 <sup>th</sup> , 2024	Ms. Patricia Ruecho' Chief, Division of Procurement & Property Management and also Chief, Division of Finance & Treasury  (691) 350-2142 chiefrppm@gmail.com
<b>2022-02</b>	We do not agree with this Finding. The auditors could have tested the cash receipts from CHC to note the patients' billings and then compared them to the sliding scale later. We've scanned and uploaded the recent selections from BCM to the Share file. It's been almost two weeks now and no communication from auditor.		Ms. Irene Laabrug Chief, Division of Finance & Treasury  (691) 350-2142 ilaabrug123@gmail.com
<b>2022-03</b>	We agree with this finding.  The Chief of Finance and relevant staff from the Division of Finance will ensure that the quarterly reports are file on a timely manner accordingly.	On -Going	Ms. Irene Laabrug Acting Director, OAS  (691) 350-2142 ilaabrug123@gmail.com





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<b>2022-04</b>	<p>We agree with the finding. We admit that seven of the staffs had missing evaluations. As a result, our HR personnel is reviewing all the degreed teacher employment files to ensure that all pertinent files are there and to adhere to all compact funds requirement. Additionally, the Division Administrators, Program Coordinators and the school principals are reminded to be accountable with staff evaluations. We are looking at trying to have the IMS give alert or reminders for the staff anniversary dates. We're confident that this particular finding will not be cited again.</p> <p>The Division of Personnel under the Office of the Administrative Services will work diligently with the Department of Education Human Resources to ensure that all relevant and pertinent files for all degreed teachers are on file accordingly.</p>	On-Going	<p>Ms. Elizabeth M. Phal, Chief of Personnel</p> <p>(691) 350-2412</p>
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