

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2024

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2024**

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**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2024

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Francis Itimai
Governor, State of Yap
Federated States of Micronesia

Report on the Audit of the Financial Statements

Unmodified and Adverse 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, 2024, 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
Aggregate Remaining Fund Information	Unmodified

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the *Omission of Yap State Public Service Corporation* subsection of the Basis for 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, 2024, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Saipan Office

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

Guam Office

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

Palau Office

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

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

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.

Omission of Yap State Public Service Corporation

The State's financial statements do not include the financial position and results of operations of the Yap State Public Service Corporation (YSPSC), a discretely presented component unit of the State of Yap. As of the date of our report, the audit of YSPSC's financial statements for the year ended September 30, 2024, had not been completed. Management elected to issue the State of Yap's financial statements without including the financial information of YSPSC in the aggregate discretely presented component units.

Accounting principles generally accepted in the United States of America require the financial information of YSPSC to be included as part of the State's aggregate discretely presented component units. The omission of YSPSC's financial information constitutes a departure from accounting principles generally accepted in the United States of America. The effects of this omission on the assets, liabilities, net position, revenues, expenses, and changes in net position of the aggregate discretely presented component units have not been determined.

We believe that the audit evidence we have obtained regarding the omissions of YSPSC is sufficient and appropriate to provide a basis for our adverse audit opinion on the aggregate discretely presented component units.

Scope Limitation Related to Yap Fishing Authority

As discussed in Note 1 to the financial statements, the financial information of Yap Fishing Authority (YFA), a discretely presented component unit of the State, is included in the aggregate discretely presented component units. YFA's financial statements as of and for the year ended September 30, 2024, were not audited. We were unable to perform sufficient audit procedures on YFA's financial information to obtain sufficient appropriate audit evidence regarding the amounts and disclosures attributable to YFA that are included in the aggregate discretely presented component units. Consequently, we were unable to determine whether any adjustments to those amounts and disclosures were necessary.

Unmodified Opinions

In our opinion, based on our audit and, with respect to the business-type activities, on 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, 2024, and the respective changes in financial position thereof, and the cash flows of the business-type activities, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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 unmodified opinions on the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2024, and for the year then ended.

Emphasis of Matter

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.

Our opinion is not modified with respect to this matter.

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.

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 on pages 5-13 and 71-72, 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. The schedules identified in Section V of the Table of Contents are presented for purposes of additional analysis and are 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 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 auditing standards generally accepted in the United States of America.

In our opinion, the schedules identified in Section V of the Table of Contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2026, 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 the State's internal control over financial reporting and compliance.

Bruce Comer & Associates

Saipan, MP

September 30, 2026

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2024

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, 2024. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2023 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

- Yap State's total net position increased by \$22.3 million from \$124.9 million in fiscal year 2023 to \$147.2 million at the end of fiscal year 2024. The 18% rate of increase is largely due to unrealized gains in the permanent funds.
- Total revenue for the State's governmental funds (excluding the permanent funds) increased by \$17 million or 61% from \$27.8 million in 2023 to \$44.7 million at the end of fiscal year 2024. The increases came from the sharing of national fishing fees, and Compact Sector Grants funding. Permanent funds earnings increased 74% over fiscal year 2023, from \$10 million to \$17.5 million in 2024.
- General Fund revenue for 2024 of approximately \$15.4 million represented a 59% increase from the \$9.7 million earned in 2023. 2024 was the first full year of fishing rights fees being shared with the FSM states. Thus, national sharing taxes of \$8.8 million, state taxes of \$2.6 million, and net earnings from its investments of \$2.6 million were the primary sources of the \$15.4 million earned in fiscal year 2024.
- Fiscal year 2024 represented the first year of the Third Amended Compact of Free Association with the U.S. And although revenue for the foreign assistance grants fund increased by approximately 72%, or \$11.0 million, compared to 2023, the increase did not come from Compact III funding but from fiscal year 2023 Infrastructure grants for three projects for a component unit which combined contracts were more than \$27 million. \$11.9 million of the \$26 million activities of the Foreign Assistance Grants fund was related to these projects.
- The Yap State Trust Fund reported a balance of \$90.3 million at the end of fiscal year 2024, which was a 27% increase of \$19.1 million in the fair value of the investment from the prior fiscal year.
- The Compact Trust Fund showed a \$1.6 million decrease in value due to an earnings adjustment of \$26 million transferred by the fund administrator from the FSM share to the U.S. portion of the Fund. Yap's share of the \$26 million write-down was \$4.8 million which netted against 2024 earnings lead to the reduction in the value of the Yap's share of the investment.

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2024

- \$7.7 million of the Long-Term Debts Fund of \$12 million is the balance of the ADB Loans for which the State assumed payments on behalf of YSPSC when the latter defaulted on the loans. The component unit indicated in their recent public hearings on the new electric tariff that they needed a grace period of two years before they could resume payments on the loans, but that promise was not made in writing.
- The “Unassigned” General Fund balance generally considered to be the balance available for appropriation was \$11.5 million at the end of fiscal year 2024 an increase of \$2.5 million from the previous year.
- Compared to the actual revenue of \$15.4 million, 2024 appropriations totaled \$12.8 million, a 58% increase over 2023. However, actual expenditures of \$9.9 million were only 22% over the \$8.1 million spent in fiscal year 2023, resulting in a \$5.4 million surplus for 2024. The surplus was high because \$2.9 million in continuing appropriations were deferred to 2025.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis intends 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.

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.

The statement of net assets includes all the government's assets and liabilities. The difference in the two is called net assets. Over time, increases or decreases in the State's net assets 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's revenues and expenses regardless of when cash is received or paid.

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2024

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 Fishing Authority, 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.

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2024

FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE

Net positions may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2024, Yap State's assets exceeded liabilities by \$147 million. Of its total net assets of \$147 million, \$122 million is restricted for specific uses. Also included in net assets are \$17.6 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 assets as of September 30, 2024, with comparative figures for the prior year:

	Governmental Activities		Business Type Activities		Total		Change	%
(\$,000)	2024	2023	2024	2023	2024	2023		
Assets								
Current assets	\$ 123,918	\$ 98,424	\$ 262	\$ 235	\$ 124,180	\$ 98,659	\$ 25,521	26%
Other assets	27,094	28,719	-	-	27,094	28,719	(1,625)	-6%
Capital assets, net	17,589	17,993	48	98	17,637	18,091	(454)	-3%
Total assets	168,601	145,136	310	333	168,911	145,469	23,442	16%
Liabilities								
Current Liabilities	10,569	8,469	52	46	10,621	8,515	2,106	25%
Noncurrent liabilities	10,846	12,038	-	-	10,846	12,038	(1,192)	-10%
Total liabilities	21,415	20,507	52	46	21,467	20,553	914	4%
Deferred inflows of resources	178	-	-	-	178	-	178	100%
Net position								
Invested in capital assets, net	17,589	17,993	48	98	17,637	18,091	- 454	-3%
Restricted/Unspendable	122,226	20,094	-	-	122,226	20,094	102,132	508%
Unrestricted	7,193	86,541	£8	£8	7,403	86,730	- 79,327	-91%
Total net position	\$ 147,008	\$ 124,628	\$ 8	\$ 8	\$ 147,266	\$ 124,915	\$ 22,351	18%

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2024

Yap State's unrestricted net position at the end of fiscal year 2024 was approximately \$7.4 million for the primary government. The Yap State Investment Trust Fund is included in restricted net position and is therefore excluded from this unrestricted balance. Compared with fiscal year 2023, Yap State's total assets increased by approximately 16%, or \$23.4 million. Key changes from the prior year are summarized in the following schedule.

Revenue:	(\$,000)		Government Activities		Business-Type Activities		Total		Change	%
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Program Revenues										
Charges for services	\$ 1,630	\$ 1,230	481	358	\$ 2,111	\$ 1,588	\$ 523	0.33		
Operating grants & contributions	16,354	17,335	51	78	16,405	17,413	(1,008)	(0.06)		
Capital grants & contributions	11,992	-	-	-	11,992	-	11,992	-		
General Revenue										
Taxes	6,340	5,445			6,340	5,445	895	0.16		
Fishing Fees	5,115	1,323			5,115	1,323	3,792	2.87		
Unrestricted investment (losses) earnings	2,701	1,365			2,701	1,365	1,336	0.98		
Other	17,608	10,760			17,608	10,760	6,848	0.64		
Total revenue	61,740	37,458	532	436	62,272	37,894	24,378	0.64		
Expenses										
General Government	2,711	4,150	561	503	3,272	4,653	(1,381)	(0.30)		
Health Services	7,229	6,295			7,229	6,295	934	0.15		
Education	7,043	7,142			7,043	7,142	(99)	(0.01)		
Economic Development	1,377	638			1,377	638	739	1.16		
Public Safety	761	733			761	733	28	0.04		
Public Works and Transportation	3,827	3,105			3,827	3,105	722	0.23		
Community affairs	359	304			359	304	55	0.18		
Boards and commissions	255	345			255	345	(90)	(0.26)		
Payments to component units	12,124	1,566			12,124	1,566	10,558	6.74		
Judiciary	231	189			231	189	42	0.22		
Others	3,042	1,807			3,042	1,807	1,235	0.68		
Total expenses	38,959	26,274	561	503	39,520	26,777	12,743	0.48		
Gain from foreign exchange rate	(222)	(122)			(222)	(122)	(100)	-		
Loss of impairment of an asset	(180)	(812)			(180)	(812)	632			
Change in net position	22,379	10,250	(29)	(67)	22,350	10,183	12,167	1.19		
Net position at the beginning of the year	124,628	114,527	287	354	124,915	114,881	10,034	0.09		
Adj to beg bal - lease/ADB Loans	0	(149)			-	(149)	149	(1.00)		
Net position at the end of the year	\$ 147,007	\$ 124,628	258	287	\$ 147,265	\$ 124,915	\$ 22,350	0.18		

In the last quarter of fiscal year 2023, Yap, along with its sister states, became eligible to share in fishing rights fees collected by the FSM National Government. Yap's share increased from approximately \$1.3 million in 2023 to \$5.1 million in 2024. Total primary-government revenue increased by approximately 64%, while total expenses increased by approximately 48%. Permanent-fund earnings increased from approximately \$10.0 million to \$17.5 million, or 74%. Together, these results contributed to an approximately 18% increase in primary-government net position, from \$124.9 million to \$147.3 million. General Fund expenditures increased by approximately 22%, from \$8.1 million to \$9.9 million. Approximately \$2.9 million in fiscal year 2024 appropriations were encumbered but not disbursed. The salary increases that raised the minimum wage to \$3.24 per hour became effective June 14, 2024, and therefore affected only the last quarter of the fiscal year.

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2024

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

FINANCIAL ANALYSIS OF YAP STATE GOVERNMENTAL FUNDS

	General Fund		Foreign Asst Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds		Total	
(\$,000)	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Assets												
Unrestricted assets	34,924	31,188	11,925	11,911	-	-	-	-	1,812	1,633	48,661	44,732
Restricted assets	4,208	3,746	-	-	90,275	71,164	15,074	16,665	-	-	109,557	91,575
Total Assets:	39,132	34,934	11,925	11,911	90,275	71,164	15,074	16,665	1,812	1,633	158,218	136,307
Liabilities												
Deferred inflows of resources	6,791	8,074	9,232	8,625	-	-	51	51	523	467	16,597	17,217
Fund Balances	179	-	-	-	-	-	-	-	-	-	179	-
	32,162	26,861	2,693	3,287	90,275	71,164	15,022	16,614	1,289	1,165	141,441	119,091
Total Liab, deferred inflows & Fund Bal	39,132	34,935	11,925	11,912	90,275	71,164	15,073	16,665	1,812	1,632	158,217	136,308

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 2024, Yap State's governmental funds reported a combined fund balance of \$141 million, which represents a growth of \$22 million in comparison with fiscal year 2023. Of the total fund balance, \$129.9 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 (\$119.5 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$3.1 million); 3) restricted because the funds are already committed (\$3.9 million); and, 4) restricted and intended for a specific purpose (\$3.4 million). The unassigned combined fund balance is \$11.5 million.

The State's governmental fund changes in fund balances for the years ended September 30, 2024, and 2023 are shown below:

	General Fund		Foreign Asst Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds		Total	
(\$,000)	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Revenues:												
Taxes & fishing fees	\$ 11,340	\$ 6,671	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115	\$ 98	\$ 11,455	\$ 6,769
Compact			22,667	15,273							22,667	15,273
Others	4,051	3,023	3,586	-	19,111	8,604	(1,591)	1,445	2,463	2,344	27,620	15,416
Total Revenue	15,391	9,694	26,253	15,273	19,111	8,604	(1,591)	1,445	2,578	2,442	61,742	37,458
Expenditures												
Transfers In/Out	9,910	8,089	26,845	15,740					2,455	2,413	39,210	26,242
Special items	-	(219)	-	219							-	
	(180)	(812)	-	-							(180)	(812)
Net Change in Fund Balance	\$ 5,301	\$ 574	\$ (592)	\$ (248)	\$ 19,111	\$ 8,604	\$ (1,591)	\$ 1,445	\$ 123	\$ 29	22,352	10,404

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2024

GENERAL FUND BUDGETARY HIGHLIGHTS

Yap State budgetary report is impacted not only by the financial market's performance which gains during the fiscal year resulted in a \$2.6 million net increase in market value, but also the combined fishing fees and taxes of \$11.3 million contributed to a \$4.7 million increase over 2023. Of the fiscal year 2024 appropriations of \$12 million, only \$9.9 million were expended due to delays in implementation of the fishing fees community projects and the establishment of the aggregate fund. Even the government wide salary increases which raised the minimum wage to \$3.24 and went into effect in June 2024, only impacted the last quarter of the year, thus allowing a surplus of \$5.3 million for the year.

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants for this Fund, with fiscal year 2024 representing the first year of the Amended Compact of 2023 under which the FSM stands to receive \$140 million annually for 20 years. But the Compact III funding was not made available until June 2024 due to appropriation delays by the U.S. Congress. Consequently, the first three quarters of fiscal year 2024 for Yap State and the rest of the FSM governments were funded through continuing resolutions of unallocated Compact II funding. Hence, the increase in revenue of approximately \$11.0 million over 2023, was not related to the new Amended Compact but to fiscal year 2023 grants for three YSPSC infrastructure projects which 2024 expenditures were close to \$12 million.

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. Fortunately, for 2024 and 2023, the movements in the markets were favorable resulting in earnings of \$17.5 million in 2024 and \$9.9 million in 2023.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the governmental activities as of September 30, 2024, amounted to \$121.8 million, with accumulated depreciation of \$108.4 million, leaving a net book value of depreciable assets of \$13.4 million. Combine that with \$4.15 million in non-depreciable assets such as land and construction work in progress equal total capital assets of \$17.58 million at September 30, 2024. This represents a net decrease of 2% from fiscal year 2023. The table below summarizes Yap State's capital assets:

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2024

	<u>2024</u>	<u>2023</u>	<u>Change</u>	<u>%</u>
Land	\$ 3,539,402	\$ 3,539,402	\$ -	0%
Buildings	6,739,390	6,656,744	82,646	1%
Equipment	1,020,305	760,052	260,253	34%
Heavy Equipment	162,125	204,625	(42,500)	-21%
Vehicles	795,287	508,504	286,783	56%
Vessels	614,851	821,231	(206,380)	-25%
Infrastructures	4,101,164	4,705,597	(604,433)	-13%
Construction work in progress	616,021	796,515	(180,494)	-23%
	\$ 17,588,545	\$ 17,992,670	\$ (404,125)	-2%

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

Long-Term Debt

In fiscal year 2022, the Yap State Public Services Corporation (YSPSC), a discretely-presented component unit of the State of Yap, failed to remit to Yap State its August 2022 payment on its ADB Water Loan. In addition to the Water Loan, YSPSC also failed to make its scheduled payments on its renewable energy loans from ADB in fiscal year 2023. Pursuant to the terms of the loan agreements, the FSM National Government deducted the YSPSC debt service payments from Yap's share of National taxes for fiscal year 2023. The course of events prompted a review of the accounting for the YSPSC loans with the resultant conclusion that the three YSPSC loans from ADB aggregating \$7.7M should be added to Yap State's Long-Term Debt Fund. This brings total ADB loans for the State of Yap to \$11.1 million and \$11.7 million for the years ended September 30, 2024, and 2023, respectively.

The Yap State primary government's share of the ADB loans totaled \$3.4 million as of September 30, 2024. 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. The other long-term debts were the liability for compensated absences of \$628,491, and long-term payments due under land purchase agreements of \$249,605.

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

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2024

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Fiscal year 2024 represents the first year of the 3rd Amended Compact Fiscal Procedures Agreement between the FSM and the United States signed in 2023. With Compact Funding for the next 20 years secured and the additional revenue from fishing fees realized, the financial constraints of the last five years momentarily eased. However, with the start of the war in the Middle East and its effect on worldwide inflation, the glimmer of hope of prosperity for the State has quickly faded. As with the rest of the FSM, Yap State must address inflationary increases in the costs of providing basic public services, given no foreseeable new sources of revenue. The local economy which had remained relatively stagnant the previous years would most likely contract; therefore, the State may have no recourse but to develop a long-term fiscal framework that involves tapping into its Trust Funds to balance its annual operating budget, as well as identifying costs that could be reduced or eliminated.

Therefore, even with the 3rd Compact Fiscal Procedures Agreement signed and well underway, the Yap State management must continue to maintain a cautious approach with respect to funding from Compact sector grants, currently comprising 48% of Yap State's revenues. The centralization at the FSM National Government of the administration of public infrastructure grants and maintenance grants, and other uncertainties concerning decisions, such as the subrecipient monitoring requirements, made by the U.S. Department of Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2024 and beyond.

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**

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

YEAR ENDED SEPTEMBER 30, 2024

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2024

	Primary Government			
	Governmental	Business-Type		Component
	Activities	Activities	Total	Units
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 4,760,854	\$ 34,036	\$ 4,794,890	\$ 325,765
Investments	105,086,580	-	105,086,580	1,034,791
Receivables, net of allowance for uncollectibles	9,653,609	36,532	9,690,141	91,676
Advances	286,643	-	286,643	-
Inventories	-	180,607	180,607	116,468
Other current assets	-	11,208	11,208	528,911
Restricted assets:				
Cash and cash equivalents	4,133,208	-	4,133,208	-
Total current assets	123,920,894	262,383	124,183,277	2,097,611
Noncurrent assets:				
Restricted assets:				
Investments	15,148,650	-	15,148,650	-
Capital assets:				
Construction work-in-progress	616,022	-	616,022	88,200
Nondepreciable capital assets	3,539,402	-	3,539,402	-
Capital assets, net of accumulated depreciation	13,433,121	47,979	13,481,100	615,100
Taxes and lease receivable	283,626	-	283,626	-
Right of use assets	-	-	-	-
YSPSC loan receivable	7,694,952	-	7,694,952	-
Other assets	3,965,193	-	3,965,193	1,367,205
Total noncurrent assets	44,680,966	47,979	44,728,945	2,070,505
Total assets	\$ 168,601,860	\$ 310,362	\$ 168,912,222	\$ 4,168,116
LIABILITIES				
Current liabilities:				
Current portion of long-term obligations	\$ 863,624	\$ -	\$ 863,624	\$ 367,511
Accounts payable	4,406,150	10,676	4,416,826	830,157
Current portion of compensated absences	311,918	-	311,918	-
Other liabilities and accruals	1,284,946	41,638	1,326,584	2,939,892
Unearned revenues	3,702,472	-	3,702,472	-
Total current liabilities	10,569,110	52,314	10,621,424	4,137,560
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	10,280,298	-	10,280,298	845,661
Noncurrent portion of compensated absences	316,573	-	316,573	-
Land acquisition claims payable	249,605	-	249,605	-
Total noncurrent liabilities	10,846,476	-	10,846,476	845,661
Total liabilities	21,415,586	52,314	21,467,900	4,983,221
Deferred inflows of resources	178,596	-	178,596	-
NET POSITION				
Net investment in capital assets	17,588,545	47,979	17,636,524	701,598
Restricted for:				
Nonexpendable:				
Future operations	119,457,097	-	119,457,097	-
Expendable:				
Compact related	2,693,608	-	2,693,608	-
Debt service	74,950	-	74,950	-
Unrestricted	7,193,478	210,069	7,403,547	(1,516,703)
Total net position	147,007,678	258,048	147,265,726	(815,105)
Total liabilities and net position, deferred inflows of resources and net position	\$ 168,601,860	\$ 310,362	\$ 168,912,222	\$ 4,168,116

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Statement of Activities
Year Ended September 30, 2024

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component units
					Governmental Activities	Business-Type Activities		
Functions/Programs								
Primary Government:								
Governmental activities:								
Judiciary	\$ 230,859	\$ -	\$ -	\$ -	\$ (230,859)	\$ -	\$ (230,859)	\$ -
General government	2,710,719	705,901	1,875,971	-	(128,847)	-	(128,847)	-
Economic development	1,377,010	-	276,142	-	(1,100,868)	-	(1,100,868)	-
Public safety	761,199	-	-	-	(761,199)	-	(761,199)	-
Community affairs	358,664	-	-	-	(358,664)	-	(358,664)	-
Education	7,043,365	-	6,330,823	-	(712,542)	-	(712,542)	-
Public works and transportation	3,826,910	566,712	646,412	11,992,191	9,378,405	-	9,378,405	-
Health services	7,229,619	357,855	7,070,031	-	198,267	-	198,267	-
Boards and commissions	254,664	-	-	-	(254,664)	-	(254,664)	-
Payments to components	12,123,693	-	-	-	(12,123,693)	-	(12,123,693)	-
Other appropriations	2,642,688	-	154,435	-	(2,488,253)	-	(2,488,253)	-
Interest expense	399,579	-	-	-	(399,579)	-	(399,579)	-
Total governmental activities	<u>38,958,969</u>	<u>1,630,468</u>	<u>16,353,814</u>	<u>11,992,191</u>	<u>(8,982,496)</u>	<u>-</u>	<u>(8,982,496)</u>	<u>-</u>
Business-type activities:								
Public Transportation System	560,954	480,729	-	-	-	(80,225)	(80,225)	-
Total primary government	<u>\$ 39,519,923</u>	<u>\$ 2,111,197</u>	<u>\$ 16,353,814</u>	<u>\$ 11,992,191</u>	<u>(8,982,496)</u>	<u>(80,225)</u>	<u>(9,062,721)</u>	<u>-</u>
Component Units:								
Yap Visitor's Bureau	305,546	-	246,282	-	-	-	-	(59,264)
Yap Fishing Authority	946,248	573,525	88,200	-	-	-	-	(284,523)
The Diving Seagull, Inc.	3,794,023	2,333,737	-	-	-	-	-	(1,460,286)
Total component Units	<u>\$ 5,045,817</u>	<u>\$ 2,907,262</u>	<u>\$ 334,482</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,804,073)</u>
General revenues:								
Taxes:								
FSM revenue sharing:								
Gross revenue taxes					1,163,602	-	1,163,602	-
Import taxes					793,589	-	793,589	-
Income taxes					838,562	-	838,562	-
Other taxes					873,161	-	873,161	-
Fishing fee					5,114,903	-	5,114,903	-
State taxes					2,670,851	-	2,670,851	-
Unrestricted investment earnings					2,701,287	-	2,701,287	226,147
Investment earnings - permanent funds					17,518,953	-	17,518,953	-
Other					88,959	51,226	140,185	2,241
					<u>31,763,867</u>	<u>51,226</u>	<u>31,815,093</u>	<u>228,388</u>
Special items:								
Write-off of receivables and allowance for loan receivables					(179,900)	-	(179,900)	-
SDR adjustment of loan					(221,567)	-	(221,567)	-
					<u>31,362,400</u>	<u>51,226</u>	<u>31,413,626</u>	<u>228,388</u>
Total general revenues, special items and contributions					<u>22,379,904</u>	<u>(28,999)</u>	<u>22,350,905</u>	<u>(1,575,685)</u>
Change in net position								
Net position at the beginning of the year					<u>124,627,774</u>	<u>287,047</u>	<u>124,914,821</u>	<u>760,580</u>
Net position at the end of the year					<u>\$ 147,007,678</u>	<u>\$ 258,048</u>	<u>\$ 147,265,726</u>	<u>\$ (815,105)</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Balance Sheet
Governmental Funds
September 30, 2024

	General	Special Revenue Foreign Assistance Grants	Yap State Investment Trust	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 4,152,843	\$ -	\$ -	\$ -	\$ 608,011	\$ 4,760,854
Investments	14,811,710	-	90,274,870	-	-	105,086,580
Receivables, net						
Federal agencies	-	627,727	-	-	-	627,727
FSM National Government	2,181,507	6,329,035	-	-	515,340	9,025,882
Other	283,626	-	-	-	-	283,626
Due from other funds	1,689,067	4,826,713	-	-	688,527	7,204,307
Advances	144,653	141,990	-	-	-	286,643
YSPSC loan receivable	7,694,952	-	-	-	-	7,694,952
Other assets	3,965,193	-	-	-	-	3,965,193
Restricted assets:						
Cash and cash equivalents	4,133,208	-	-	-	-	4,133,208
Investments	74,950	-	-	15,073,700	-	15,148,650
Total assets	<u>\$ 39,131,709</u>	<u>\$ 11,925,465</u>	<u>\$ 90,274,870</u>	<u>\$ 15,073,700</u>	<u>\$ 1,811,878</u>	<u>\$ 158,217,622</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 575,558	\$ 3,420,263	\$ -	\$ -	\$ 410,329	\$ 4,406,150
Other liabilities and accruals	700,774	581,456	-	-	2,716	1,284,946
Unearned revenues	56	3,592,294	-	-	110,122	3,702,472
Due to other funds	5,515,242	1,637,844	-	51,221	-	7,204,307
Total liabilities	<u>6,791,630</u>	<u>9,231,857</u>	<u>-</u>	<u>51,221</u>	<u>523,167</u>	<u>16,597,875</u>
Deferred inflows of resources	<u>178,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,596</u>
Fund balances:						
Non-spendable	14,159,748	-	90,274,870	15,022,479	-	119,457,097
Restricted	74,950	2,693,608	-	-	349,934	3,118,492
Committed	2,941,001	-	-	-	938,777	3,879,778
Assigned	3,453,275	-	-	-	-	3,453,275
Unassigned:						
General fund	11,532,508	-	-	-	-	11,532,508
Total fund balances	<u>32,161,483</u>	<u>2,693,608</u>	<u>90,274,870</u>	<u>15,022,479</u>	<u>1,288,711</u>	<u>141,441,151</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 39,131,709</u>	<u>\$ 11,925,465</u>	<u>\$ 90,274,870</u>	<u>\$ 15,073,700</u>	<u>\$ 1,811,878</u>	<u>\$ 158,217,622</u>

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

17,588,545

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	(11,143,922)
Compensated absences payable	(628,491)
Land acquisition claims payable	(249,605)

(12,022,018)

Net position of governmental activities

\$ 147,007,678

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2024

	General	Special Revenue Foreign Assistance Grants	Yap State Investment Trust	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:						
Compact funding	\$ -	\$ 22,666,601	\$ -	\$ -	\$ -	\$ 22,666,601
Net change in the fair value of investments	2,576,140	-	19,110,513	(1,591,560)	125,147	20,220,240
Federal contributions and other grants	-	3,496,804	-	-	-	3,496,804
FSM revenue sharing	8,783,817	-	-	-	-	8,783,817
State taxes	2,555,993	-	-	-	114,858	2,670,851
CFSM grants	-	89,082	-	-	2,093,518	2,182,600
Fees and charges	461,328	-	-	-	244,573	705,901
Department charges	924,567	-	-	-	-	924,567
Other	88,959	-	-	-	-	88,959
Total revenues	15,390,804	26,252,487	19,110,513	(1,591,560)	2,578,096	61,740,340
Expenditures:						
Current:						
Judiciary	230,859	-	-	-	-	230,859
Councils of traditional leaders	225,917	-	-	-	-	225,917
General government	1,557,712	286,430	-	-	546,537	2,390,679
Resources and development	638,948	276,142	-	-	821,022	1,736,112
Public safety	672,117	89,082	-	-	-	761,199
Community affairs	341,550	-	-	-	-	341,550
Education	453,760	6,330,823	-	-	-	6,784,583
Public works and transportation	2,240,084	646,412	-	-	-	2,886,496
Health services	761,761	7,070,031	-	-	-	7,831,792
Boards and commissions	240,859	-	-	-	-	240,859
Payments to component units	131,502	11,992,191	-	-	-	12,123,693
Other appropriations	1,244,221	154,435	-	-	1,087,164	2,485,820
Debt service	1,170,691	-	-	-	-	1,170,691
Total expenditures	9,909,981	26,845,546	-	-	2,454,723	39,210,250
Excess (deficiency) of revenues over (under) expenditures	5,480,823	(593,059)	19,110,513	(1,591,560)	123,373	22,530,090
Special item:						
Write-off of receivables and allowance for loan receivables	(179,900)	-	-	-	-	(179,900)
Net change in fund balances	5,300,923	(593,059)	19,110,513	(1,591,560)	123,373	22,350,190
Fund balances at the beginning of the year	26,860,560	3,286,667	71,164,357	16,614,039	1,165,338	119,090,961
Fund balances at the end of the year	\$ 32,161,483	\$ 2,693,608	\$ 90,274,870	\$ 15,022,479	\$ 1,288,711	\$ 141,441,151

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, 2024

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	\$22,350,190
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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 (\$1,675,181) exceeded net capital outlays of \$1,271,057 in the current period.	(404,124)
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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	549,544
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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>(115,706)</u>
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Change in net position of governmental activities.	<u><u>\$22,379,904</u></u>
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STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Position

Proprietary Fund

September 30, 2024

	<u>Public Transportation System</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 34,036
Receivables, net of allowance for uncollectibles	36,532
Inventories	180,607
Other current assets	<u>11,208</u>
Total current assets	262,383
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>47,979</u>
Total assets	<u><u>\$ 310,362</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 10,676
Other liabilities and accruals	<u>41,638</u>
Total liabilities	<u>52,314</u>
NET POSITION	
Net investment in capital assets	47,979
Unrestricted	<u>210,069</u>
Total net position	<u>258,048</u>
Total liabilities and net position	<u><u>\$ 310,362</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, 2024

	Public Transportation System
Operating revenues:	
Charges for services	\$ 170,491
Sales	304,706
Other	5,532
Total operating revenues	480,729
Operating expenses:	
Cost of services	141,804
Administration costs	363,247
Depreciation and amortization	55,903
Total operating expenses	560,954
Loss from operations	(80,225)
Nonoperating revenues:	
Operating subsidy from primary government	51,226
Total nonoperating revenues	51,226
Change in net position	(28,999)
Net position at the beginning of the year	287,047
Net position at the end of the year	\$ 258,048

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2024

	Public Transportation System
Cash flows from operating activities:	
Cash received from customers	\$ 467,054
Cash payments to employees	(295,878)
Cash payments to suppliers	(209,026)
	<u>(37,850)</u>
Net cash used in operating activities	<u>(37,850)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>51,226</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(5,341)</u>
Net cash used in capital and related financing activities	<u>(5,341)</u>
Net change in cash and cash equivalents	8,035
Cash and cash equivalents at the beginning of the year	<u>26,001</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 34,036</u></u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (80,225)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	55,903
Changes in assets and liabilities:	
Other current assets	(13,675)
Receivables	-
Inventories	(5,777)
Accounts payable	6,786
Other liabilities and accruals	(862)
Net cash used in operating activities	<u><u>\$ (37,850)</u></u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combining Statement of Net Position
Component Units
September 30, 2024

	Yap Visitor's <u>Bureau</u>	The Diving Seagull, Inc.	(Unaudited) Yap Fishing <u>Authority</u>	<u>Total</u>
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 121,718	\$ 172,123	\$ 31,924	\$ 325,765
Investments	-	1,034,791	-	1,034,791
Receivables, net:				
General	-	7,031	84,645	91,676
Inventories	-	116,468	-	116,468
Other current assets	701	528,210	-	528,911
Total current assets	122,419	1,858,623	116,569	2,097,611
Noncurrent assets:				
Capital assets:				
Nondepreciable capital assets	-	-	88,200	88,200
Capital assets, net of accumulated depreciation	4,659	80,077	530,364	615,100
Other assets	-	1,367,205	-	1,367,205
Total noncurrent assets	4,659	1,447,282	618,564	2,070,505
Total assets	<u>\$ 127,078</u>	<u>\$ 3,305,905</u>	<u>\$ 735,133</u>	<u>\$ 4,168,116</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 367,511	\$ -	\$ 367,511
Accounts payable	21,981	757,305	50,871	830,157
Other liabilities and accruals	14,511	2,918,123	7,258	2,939,892
Total current liabilities	36,492	4,042,939	58,129	4,137,560
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	845,661	-	845,661
Total noncurrent liabilities	-	845,661	-	845,661
Total liabilities	36,492	4,888,600	58,129	4,983,221
<u>NET POSITION</u>				
Net investment in capital assets	2,957	80,077	618,564	701,598
Unrestricted	87,629	(1,662,772)	58,440	(1,516,703)
Total net position	90,586	(1,582,695)	677,004	(815,105)
Total liabilities and net position	<u>\$ 127,078</u>	<u>\$ 3,305,905</u>	<u>\$ 735,133</u>	<u>\$ 4,168,116</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, 2024

	Yap Visitor's <u>Bureau</u>	The Diving Seagull, Inc.	(Unaudited) Yap Fishing <u>Authority</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ -	\$ -	\$ -	\$ -
Sales	-	1,949,871	573,525	2,523,396
	<u>-</u>	<u>1,949,871</u>	<u>573,525</u>	<u>2,523,396</u>
Total operating revenues	-	1,949,871	573,525	2,523,396
Operating expenses:				
Cost of service	-	3,491,822	169,955	3,661,777
Administration costs	303,066	150,555	125,607	579,228
Bad debt	-	-	385,381	385,381
Other	-	-	162,723	162,723
Depreciation and amortization	2,480	10,489	102,582	115,551
	<u>305,546</u>	<u>3,652,866</u>	<u>946,248</u>	<u>4,904,660</u>
Total operating expenses	305,546	3,652,866	946,248	4,904,660
Operating loss	<u>(305,546)</u>	<u>(1,702,995)</u>	<u>(372,723)</u>	<u>(2,381,264)</u>
Nonoperating revenues (expenses):				
Contributions from the primary government	156,502	-	88,200	244,702
Contributions from FSM National Government	89,780	-	-	89,780
Insurance recovery proceeds	-	383,866	-	383,866
Gain (loss) on disposal of assets	-	(223)	-	(223)
Interest income	-	-	101	101
Interest expense	-	(141,157)	-	(141,157)
Gain (loss) on investment	-	226,046	-	226,046
Other	2,464	-	-	2,464
	<u>248,746</u>	<u>468,532</u>	<u>88,301</u>	<u>805,579</u>
Total nonoperating revenues (expenses), net	248,746	468,532	88,301	805,579
Capital contributions	-	-	-	-
Change in net position	(56,800)	(1,234,463)	(284,422)	(1,575,685)
Net position at the beginning of the year	147,386	(348,232)	961,426	760,580
Net position at the end of the year	<u>\$ 90,586</u>	<u>\$ (1,582,695)</u>	<u>\$ 677,004</u>	<u>\$ (815,105)</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

(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 comprising 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, 2024

(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, 2024

(1) Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

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.

Diving Seagull, Inc. (DSI), a discretely presented component unit of the State of Yap, incurred losses from operations of \$1,702,995 and \$2,614,333 for the years ended September 30, 2024 and 2023, respectively. DSI depends primarily on its fishing activities to generate revenues and sustain its operations. As of September 30, 2024, DSI was behind in the payment of certain current liabilities and had obtained financing from a financial institution to assist in meeting maturing obligations.

DSI has not received subsidies from the State of Yap or the Federated States of Micronesia National Government during the past three years. The continuation of DSI's operations is dependent upon successful fishing activities, improvement in external industry conditions, and the timely collection of amounts due from fish brokers. DSI's ability to continue its operations may also depend upon improvements in cash management, reductions in operating expenses, and the availability of financial support from the State of Yap or the Federated States of Micronesia National Government.

These conditions raise substantial doubt about DSI's ability to continue as a going concern. DSI's financial statements have been prepared assuming that DSI will continue as a going concern and, accordingly, do not include any adjustments that might result from the outcome of this uncertainty.

Yap Fishing Authority (YFA): YFA was created by Yap District Law (YDL) No. 6-13 and is responsible for the promotion, development, and support of the 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.

For the year ended September 30, 2024, YFA is included as a discretely presented component unit of the State. YFA has been excluded from the State's financial statements for at least the past ten (10) years. YFA's financial statements were not audited.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(1) Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

The State received financial information from YFA, and a compilation engagement was performed with respect to the YFA financial statements. Accordingly, no audit opinion or assurance was expressed on YFA's financial statements. The financial information of YFA has been included in the aggregate discretely presented component units because its financial activities are considered material to the component units' reporting unit.

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.

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 utilities 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. Yap State Public Service Corporation (YSPSC) is a discretely presented component unit of the State. The financial statements of YSPSC as of and for the year ended September 30, 2024 were not available in sufficient time for inclusion in the State's financial statements. Accordingly, management elected to issue the State's financial statements without including the financial information of YSPSC.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(1) Summary of Significant Accounting Policies, continued

A. Reporting Entity, continued

The omission of YSPSC constitutes a departure from accounting principles generally accepted in the United States of America.

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 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, 2024

(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 \$122,225,655 of restricted net position, including nonexpendable net position of \$119,457,097 and expendable net position of \$2,768,558.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

(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, 2024

(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, 2024

(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, 2024

(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 (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

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 value measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

(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 fiscal 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(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 \$74,950. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$90,274,870 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$15,073,700 are restricted in that they are not available to be used for current operations.

As of September 30, 2024, 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	\$ 1,648,129
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	2,485,079
	<u>\$ 4,133,208</u>

L. Other Assets

The State holds approximately 26% 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

(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 \$178,596. 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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

(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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

(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. Recently Adopted Accounting Pronouncements

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, 2024, Yap State Government implemented the following pronouncements:

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains certain guidance whose effective dates are in future periods, and certain guidance that was effective for the year ended September 30, 2024. The following provisions of Statement No. 99 were implemented during the year ended September 30, 2024:

- (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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(1) Summary of Significant Accounting Policies, continued

U. Recently Adopted Accounting Pronouncements, continued

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 does not believe that the implementation of this Statement had a material impact on the financial statements.

V. New Accounting Standards

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.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(1) Summary of Significant Accounting Policies, continued

V. New Accounting Standards, continued

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.

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.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by the GASB.

**STATE OF YAP
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Notes to Financial Statements
September 30, 2024

(1) Summary of Significant Accounting Policies, continued

V. New Accounting Standards, continued

This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. GASB Statement No. 104 will be effective for fiscal years ending September 30, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this statement is to improve the financial reporting requirements for subsequent events. The requirements of this Statement will improve financial reporting related to subsequent events by (1) clarifying the subsequent events time frame and the subsequent events that constitute recognized and nonrecognized events and (2) specifying the information items that are required to be disclosed about subsequent events. Statement No. 105 will be effective for fiscal years beginning after June 15, 2026.

Management is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

(1) Summary of Significant Accounting Policies, continued

V. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (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, 2024, 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 comprising 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:

- 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

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, 2024, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$8,894,062 and the corresponding bank balance was \$9,393,906 which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2024, bank deposits in the amount of \$526,234 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.

As of September 30, 2024, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$34,036. There were no significant differences between cash balances and bank balances.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

As of September 30, 2024, the \$34,036 of cash is maintained in one financial institution subject to FDIC coverage and is fully FDIC insured.

As of September 30, 2024, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$325,765 and the corresponding bank balances were \$323,260, which were maintained in financial institutions subject to FDIC coverage. As of September 30, 2024, bank deposits in the amount of \$323,260 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.

As of September 30, 2024, the State's investments are as follows:

<u>General fund</u>	
Fixed income – (Wilshire)	\$ 12,312,107
Domestic equity – (BOFSM stock)	2,499,603
Private equity – (ERP in BOH)	<u>74,950</u>
	\$ <u>14,886,660</u>

Primary Government

The State's General Fund includes an investment of \$12,312,107 in an external investment pool; Federated States of Micronesia – Early Retirement Program Trust Fund. 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

B. Investments, continued

Yap State Investment Fund – (Raymond James):

Fixed income	\$ 26,900,643
Common equities	63,214,232
Money market funds	<u>159,995</u>
	<u>\$ 90,274,870</u>

Compact Trust Fund:

Common trust fund:

Domestic equities	\$ 4,437,916
International equities	-
Global equities	3,867,188
Private equities	1,443,637
Fixed income	3,703,983
Hedge fund	643,129
Real estate	965,896
Money market funds	11,856
Other	<u>95</u>
	<u>\$ 15,073,700</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.

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, 2024.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

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, 2024, 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.

The State has the following recurring fair value measurements as of September 30, 2024:

General Fund	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Investment in an external investment pool by fair value level	\$ 12,312,107	-	12,312,107	-
Private securities	<u>74,950</u>	<u>-</u>	<u>-</u>	<u>74,950</u>
Total investments at fair value	\$ <u>12,387,057</u>	<u>-</u>	<u>12,312,107</u>	<u>74,950</u>
Investments measured at NAV:				
Equity investment in the Bank of the FSM (14.7% ownership)	<u>4799,603</u>			
	\$ <u>14,886,660</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

Yap State Government Trust Fund

	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income	\$ 26,900,643	26,900,643	-	-
Common equities	63,214,232	63,214,232		
Global equities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments at fair value	\$ <u>90,114,875</u>	<u>90,114,875</u>	<u>-</u>	<u>-</u>
Investments measured at NAV:				
Investments measured at amortized cost:				
Cash management account	<u>159,995</u>			
	\$ <u>90,274,870</u>			

Compact Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Domestic equity	\$ 4,437,916	4,437,916	-	-
Global equity	3,867,188	3,867,188	-	-
Private equity	1,443,637	-	-	1,443,637
Fixed income	<u>3,703,983</u>	<u>3,703,983</u>	<u>-</u>	<u>-</u>
Total investments at fair value	13,452,724	<u>12,009,087</u>	<u>-</u>	<u>1,443,637</u>
Investments measured at NAV:				
Hedge fund	643,129			
Real estate	965,896			
Investments measured at amortized cost:				
Money market funds/other	<u>11,951</u>			
	\$ <u>15,073,700</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

Yap State Government Trust Fund:

As of September 30, 2024, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1 to 5 Yrs</u>	<u>6 to 10 Yrs</u>	<u>Over 10 Yrs</u>	<u>Total</u>
U.S. Treasury Securities	\$ 13,507,285	119,454	4,182,795	7,378,796	1,826,240	13,507,285
Corporate Bonds	6,799,641	572,377	2,893,711	3,333,553	-	6,799,641
Asset Backed Securities/Mortgages	<u>6,593,717</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,593,717</u>	<u>6,593,717</u>
Total	<u>\$ 26,900,643</u>	<u>691,831</u>	<u>7,076,506</u>	<u>10,712,349</u>	<u>8,419,957</u>	<u>26,900,643</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

B. Investments, continued

Primary Government, continued

Yap State Government Trust Fund:

As of September 30, 2024, the State's fixed income securities, had the following Moody's Investors Service credit ratings:

Credit ratings - Domestic	Fair
<u>Rating</u>	<u>Value</u>
A1/A	\$683,395
A1/A-	132,650
A1/AA	173,548
A1/BBB+	174,477
A2/A	686,024
A2/A+	434,542
A2/A-	73,733
A3	110,912
A3/A	935,055
A3/A-	226,983
A3/BBB+	479,992
AA2/A+	307,393
AA3/A+	135,664
AA3/AA-	99,280
AAA	13,507,285
AAA/AA+	122,374
BAA1/BBB+	630,959
BAA2/BBB	873,822
BAA2/BBB+	207,120
BAA3/BBB	45,093
BAA3/BBB-	266,627
Not Rated	<u>6,593,717</u>
Total	<u>\$26,900,643</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

B. Investments, continued

Discretely Presented Component Units

The Diving Seagull, Inc. (DSI):

As of September 30, 2024, DSI's investments are as follows:

Fixed income	\$ 397,618
Common equities	621,248
Money market funds	<u>15,925</u>
	<u>\$ 1,034,791</u>

As of September 30, 2024, DSI's fixed income securities, including their Moody's 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	\$201,427	-	110,328	91,099
Corporate Notes	AAA	10,983	-	-	10,983
Corporate Notes	A1	47,778	-	11,264	36,514
Corporate Notes	A2	11,896	-	11,896	-
Corporate Notes	A3	-	-	-	-
Corporate Notes	BAA1	74,720	-	13,163	61,557
Corporate Notes	BAA2	50,814	-	26,044	24,770
Corporate Notes	BAA3	-	-	-	-
		<u>\$397,618</u>	<u>-</u>	<u>172,695</u>	<u>224,923</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

(2) Deposits and Investments, continued

B. Investments, continued

Discretely Presented Component Units

The Diving Seagull, Inc. (DSI):

The DSI has the following recurring fair value measurements as of September 30, 2024:

	Carrying Value	Fair Value Measurements Using		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income securities:				
U.S. Treasury obligations	\$ 201,427	-	201,427	-
Corporate notes	<u>196,191</u>	<u>-</u>	<u>196,191</u>	<u>-</u>
Total fixed income securities	397,618	-	397,618	-
Equity securities:				
Common equities	<u>621,248</u>	<u>621,248</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,018,866	621,248	397,618	-
Investments measured at amortized cost:				
Money market funds	<u>15,925</u>			
	<u>\$ 1,034,791</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

3) Receivables

Primary Government

Receivables as of September 30, 2024, 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	\$ -	\$ 723,108	\$ -	\$ -	\$ -	\$ 723,108
Due from FSM National Government	2,181,507	6,506,666	-	-	515,340	9,203,513
Other	785,080	-	-	-	-	785,080
Allowance for uncollectable amounts	2,966,587 (501,454)	7,229,774 (273,012)	-	-	515,340	10,711,701 (774,466)
	<u>\$ 2,465,133</u>	<u>\$ 6,956,762</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 515,340</u>	<u>\$ 9,937,235</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 believes the amounts due from the FSM National Government arising from Compact sector grant transactions are collectible and, accordingly, no allowance for uncollectible amounts has been recorded with respect to those receivables.

Notes receivable from Yap State Public Service Corporation

The FSM National Government borrowed funds from the Asian Development Bank (ADB) in 1998 (loan 1459). These funds were then lent to Yap State Government (YSG). Yap State Government then lent these funds to Yap State Public Service Corporation. The loan has been presented on YSPSC's financial statements as a direct obligation to ADB, ever since the loan was granted. YSPSC actually has a loan payable to YSG. YSG has a loan payable to the FSM National Government and the FSM National Government has a loan payable to ADB.

There is an agreement between YSPSC and YSG that no interest will be imposed on YSPSC for this loan. YSPSC was making the principal payments under this loan until late in the year ended September 30, 2022. YSPSC informed YSG that it would no longer be able to service this debt.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

3) Receivables, continued

Notes receivable from Yap State Public Service Corporation, continued

YSG has a loan receivable from YSPSC for loan 1459. The unpaid principal amount of this loan was \$1,375,474 at the end of September 2022. During the year ended September 30, 2023 YSG effectively made payments on this loan of \$153,678 for principal and \$11,185 for interest. While the loan payable balance owed by YSG was reduced during the year ended September 30, 2023 the loan receivable from YSPSC does not change. This loan receivable has a balance of \$1,375,474 at September 30, 2024. This is offset by an allowance for a potential collectability issue of \$167,864.

In 2018 YSG borrowed \$4,680,000 from ADB (loan 3004). YSG then lent these funds to YSPSC. The loan has been presented on YSPSC's financial statements as a direct obligation to ADB, ever since the loan was granted. YSPSC actually has a loan payable to YSG. YSG has a loan payable to ADB. YSPSC was making the principal payments under this loan until late in the year ended September 30, 2022. YSPSC informed YSG that it would no longer be able to service this debt.

YSG has a loan receivable from YSPSC for loan 3004. The unpaid principal amount of this loan was \$4,216,199 at the end of September 2022. During the year ended September 30, 2023 YSG effectively made payments on this loan of \$187,387 for principal and \$177,564 for interest. While the loan payable balance owed by YSG to ADB was reduced during the year ended September 30, 2023 the loan receivable from YSPSC does not change. This loan receivable has a balance of \$4,216,199 at September 30, 2024. This is offset by an allowance for a potential collectability issue of \$374,773.

In 2018 YSG borrowed \$4,360,000 from ADB (loan 3005). YSG then lent these funds to YSPSC. The loan has been presented on YSPSC's financial statements as a direct obligation to ADB, ever since the loan was granted. YSPSC actually has a loan payable to YSG. YSG has a loan payable to ADB. YSPSC was making the principal payments under this loan until late in the year ended September 30, 2022. YSPSC informed YSG that it would no longer be able to service this debt.

YSG has a loan receivable from YSPSC for loan 3005. The unpaid principal amount of this loan was \$2,880,893 at the end of September 2022. During the year ended September 30, 2023 YSG effectively made payments on this loan of \$189,573 for principal and \$58,038 for interest. While the loan payable balance owed by YSG to ADB was reduced during the year ended September 30, 2023 the loan receivable from YSPSC does not change. This loan receivable has a balance of \$2,880,893 at September 30, 2024. This is offset by an allowance for a potential collectability issue of \$203,815.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

3) Receivables, continued

Discretely Presented Component Units

Receivables as of September 30, 2024 for the State's discretely presented component units in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>Yap Fishing Authority</u>	<u>The Diving Seagull, Inc</u>	<u>Total</u>
Receivables - general	\$ 470,027	\$ 657,458	\$ 1,127,485
Less: allowance for uncollectible accounts	<u>(385,382)</u>	<u>(650,427)</u>	<u>(1,035,809)</u>
	<u>\$ 84,645</u>	<u>\$ 7,031</u>	<u>\$ 91,676</u>

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, 2024, are summarized as follows:

Summary of due from other funds:

General	Foreign Assistance and Other	\$ 1,689,067
Nonmajor governmental funds	General	688,527
Foreign Assistance Grants	General	<u>4,826,713</u>
		<u>\$ 7,204,307</u>

Summary of due to other funds:

Foreign Assistance Grants	General	\$ 1,637,844
Compact Trust Fund	General	51,221
General	Foreign Assistance and Other	<u>5,515,242</u>
		<u>\$ 7,204,307</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2024 are as follows:

	Balance October 1, 2023	Additions	Retirements	Balance September 30, 2024
<u>Governmental Activities:</u>				
Buildings	\$ 21,502,173	\$ 587,253	\$ -	\$ 22,089,426
Infrastructure	89,412,731		-	89,412,731
Equipment	1,723,509	402,360	-	2,125,869
Vehicles	1,568,895	461,937	-	2,030,832
Vessels	4,072,176		-	4,072,176
Heavy Equipment	2,093,683		-	2,093,683
	<u>120,373,167</u>	<u>1,451,550</u>	<u>-</u>	<u>121,824,717</u>
<u>Less Accumulated Depreciation for:</u>				
Buildings	(14,845,428)	(504,607)	-	(15,350,035)
Infrastructure	(84,707,134)	(604,433)	-	(85,311,567)
Equipment	(963,457)	(142,108)	-	(1,105,565)
Vehicles	(1,060,392)	(175,154)	-	(1,235,546)
Vessels	(3,250,945)	(206,380)	-	(3,457,325)
Heavy Equipment	(1,889,058)	(42,500)	-	(1,931,558)
	<u>(106,716,414)</u>	<u>(1,675,182)</u>	<u>-</u>	<u>(108,391,596)</u>
Total Capital Assets, Being Depreciated, Net	<u>13,656,753</u>	<u>(223,631)</u>	<u>-</u>	<u>13,433,121</u>
<u>Non-Depreciable Assets:</u>				
Construction Work in Progress	796,515	(180,493)	-	616,022
Land	<u>3,539,402</u>		<u>-</u>	<u>3,539,402</u>
Governmental Activities Capital Assets, Net	<u>\$ 17,992,670</u>	<u>\$ (404,124)</u>	<u>\$ -</u>	<u>\$ 17,588,545</u>

	Balance October 1, 2023	Additions	Retirements	Balance September 30, 2024
Business-type activities:				
Depreciable assets:				
Buildings	\$ 134,749	\$ 5696	\$ -	\$ 137,345
Vehicles	1,572,798	-	-	1,572,798
Shop equipment	105,594	5658	-	106,852
Office equipment	139,751	5687	-	141,238
Land improvement	3,445	-	-	3,445
	<u>1,956,337</u>	<u>5641</u>	<u>-</u>	<u>1,961,678</u>
Less accumulated deprecation	<u>(1,857,796)</u>	<u>(55,903)</u>	<u>-</u>	<u>(1,913,699)</u>
Total net capital assets	<u>\$ 98,541</u>	<u>\$ (50,562)</u>	<u>\$ -</u>	<u>\$ 47,979</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

5) Capital Assets, continued

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

Depreciation by Functions:	
Traditional Councils	\$ 17,949
General Government	50,462
Resources & Development	22,145
Community Affairs	17,114
Education	345,898
PW&T	817,127
Health Services	221,053
Boards & Commissions	13,805
Other appropriations	169,628
	<u>\$ 1,675,181</u>

Discretely Presented Component Units:

	Balance October 1, 2023	Additions	Retirements/ others	Balance September 30, 2024
Depreciable assets:				
Lease hold fishing vessel and improvements	\$ 7,347,620	\$ 109,645	\$ (14,287)	\$ 7,442,978
Dock and buildings	4,455,514	-	-	4,455,514
Machinery, equipment and others	2,029,980	4,182	(1,820)	2,032,342
Total capital assets, being depreciated	13,833,114	113,827	(16,107)	13,930,834
Less accumulated depreciation	(13,272,267)	(161,933)	118,466	(13,315,734)
	560,847	(48,106)	102,359	615,100
Non-depreciable assets:				
Construction work in progress	88,200	-	-	88,200
	<u>\$ 649,047</u>	<u>\$ (48,106)</u>	<u>102,359</u>	<u>\$ 703,300</u>

Depreciation expense includes \$46,382 reported within cost of sales by The Diving Seagull, Inc.

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.

STATE OF YAP
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Notes to Financial Statements
September 30, 2024

6) Long-Term Obligations, continued

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, 2024.

As of September 30, 2024, the amount outstanding against this loan was \$1,768,364. Of the required \$3,500,000 identified for future debt service payments, \$74,950 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, 2024, the related principal balances payable on these loans amounted to \$34,269 and \$236,498, 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, 2024, the balance of this loan was \$1,378,677.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

6) Long-Term Obligations, continued

Primary Government, continued

The State entered into a loan agreement for an uncollateralized loan of original principal of \$2,270,837 payable to the FSM National Government, which in turn owes the ADB (loan 1459). YSG lent these funds to YSPSC 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 waived the interest payment requirement. The loan is repayable semiannually in Special Drawing Rights (SDR) commencing August 2007 and maturing in 2034. An SDR adjustment and additional consulting fees increased the loan balance by \$639,957 in fiscal year 2009. In fiscal year 2015, an SDR adjustment of \$348,385 decreased the loan balance. During fiscal year 2024, an SDR adjustment of \$36,812 increased the loan balance. The loan bears interest at 6.82% per annum. The balance of this loan was \$1,207,610 at September 30, 2024.

The State entered into a loan agreement with ADB for a maximum amount of \$4,680,000 for the Yap Renewable Energy Development Project (loan 3004). Interest is due 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. The balance of this loan was \$3,841,425 at September 30, 2024.

The State entered into a loan agreement with ADB for a maximum amount of \$4,360,000 for renewable energy (loan 3005). Interest is due at 2.0% per annum. 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. In fiscal year 2024, an SDR adjustment of \$80,309 increased the loan balance. The balance of this loan was \$2,677,079 at September 30, 2024.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

6) Long-Term Obligations, continued

Primary Government, continued

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

Year ending <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 863,624	154,315	1,017,939
2026	817,676	188,473	1,006,149
2027	821,975	172,775	994,750
2028	837,757	156,993	994,750
2029	854,981	139,769	994,750
2030-2034	4,511,514	422,365	4,933,879
2035-2039	<u>2,436,394</u>	<u>57,713</u>	<u>2,494,108</u>
	<u>\$ 11,143,922</u>	<u>1,292,404</u>	<u>12,436,325</u>

Discretely Presented Component Units

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 in July 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. Insurance proceeds were received in fiscal year 2023 and were used to pay down the loan

\$ 1,213,172

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

6) Long-Term Obligations, continued

Discretely Presented Component Units, continued

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

Year Ending September 30,	Principal	Interest	Total
2025	\$ 367,511	\$ 52,312	\$ 419,823
2026	386,313	33,510	419,823
2027	268,461	11,421	279,882
2028	190,887	2,623	193,510
	<u>\$ 1,213,172</u>	<u>\$ 99,866</u>	<u>\$ 1,313,038</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, 2024, 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, 2023	Additions	Reductions	Balance September 30, 2024	Due Within One year
Loans Payable:					
ADB loans:					
Loan 1520	\$ 1,847,037	\$ 53,170	\$ (131,843)	\$ 1,768,364	\$ 130,954
Loan 1873	55,498	-	(21,229)	34,269	22,955
Loan 1874	263,977	11,250	(38,729)	236,498	24,694
Loan 2099	1,444,873	38,967	(105,163)	1,378,677	110,075
Loan 1459	1,269,664	36,812	(98,866)	1,207,610	101,640
Loan 3004	4,028,812	-	(187,387)	3,841,425	280,796
Loan 3005	2,783,605	80,309	(186,835)	2,677,079	192,510
	<u>11,693,466</u>	<u>220,508</u>	<u>(770,052)</u>	<u>11,143,922</u>	<u>863,624</u>
Other:					
Compensated absences	512,782	115,709	-	628,491	311,918
Land acquisitions claims	249,605	-	-	249,605	-
	<u>\$ 12,455,853</u>	<u>\$ 336,217</u>	<u>\$ (770,052)</u>	<u>\$ 12,022,018</u>	<u>\$ 1,175,542</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

7) Changes in Long-Term Obligations, continued

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, 2024, the State recognized a foreign exchange loss of \$221,568 associated with the valuation of the SDR, which is presented as a special item, net, in the accompanying financial statements, and which results in an increase in ADB loans payable.

As of September 30, 2024, \$249,605 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, 2024, the following changes occurred in liabilities reported as part of the component unit's long-term liabilities in the statement of net position:

Loans Payable:	October 1, 2023	Additions	Reductions	September 30, 2024	Due Within One year
DSI	\$ 1,365,980	-	(152,808)	1,213,172	367,511

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, 2024

8) Fund Balances, continued

	General <u>Fund</u>	Grants Assistance <u>Funds</u>	Yap State Investment <u>Funds</u>	Compact Trust <u>Fund</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
Non-Spendable:						
Permanent fund principal	\$ -	\$ -	\$ 90,274,870	\$ 15,022,479	\$ -	\$ 105,297,349
Pacific Islands						
Development Bank	3,965,193	-	-	-	-	3,965,193
Receivable from YSPSC	7,694,952	-	-	-	-	7,694,952
Bank of the FSM	2,499,603	-	-	-	-	2,499,603
Restricted:						
Debt Service	74,950	-	-	-	-	74,950
Infrastructure	-	2,693,608	-	-	-	2,693,608
Public works and transportation	-	-	-	-	349,934	349,934
Committed:						
General Government	1,541,001	-	-	-	938,777	2,479,778
Infrastructure	1,400,000	-	-	-	-	1,400,000
Assigned:						
Public works and transportation	575,895	-	-	-	-	575,895
Health Services	2,246,638	-	-	-	-	2,246,638
Education	618,710	-	-	-	-	618,710
Community affairs	12,033	-	-	-	-	12,033
Unassigned	11,532,508	-	-	-	-	11,532,508
	<u>\$ 32,161,483</u>	<u>\$ 2,693,608</u>	<u>\$ 90,274,870</u>	<u>\$ 15,022,479</u>	<u>\$ 1,288,711</u>	<u>\$ 141,441,151</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, 2024, the State's significant encumbrances are summarized as follows:

	General <u>Fund</u>	Foreign Assistance <u>Grants</u>	Other Governmental <u>Funds</u>	<u>Total</u>
Encumbrances	<u>\$ 765,013</u>	<u>\$ 17,196,400</u>	<u>\$ 1,793,453</u>	<u>\$ 19,754,866</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

9) Commitments and Contingencies, continued

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.

Insurance Coverage

The State does not maintain insurance coverage for a significant amount of capital 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, 2024. 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, 2024. 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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2024

9) Commitments and Contingencies, continued

As of August 21, 2026, 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. Management obtained an update of the legal representation letter from the Attorney General's office, and they reported no liabilities for claims, or potential claims.

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, 2024, 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, 2024, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ <u>1,170,691</u>
Health services	\$ <u>102,949</u>

These over-expenditures of the General Fund have not been funded by legislative authorization.

11) Leases

Accounting Standard and Scope

Yap State Government (the "State") accounts for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. This note includes only lease arrangements in which Yap State Government is the lessor.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

11) Leases, continued

Lease activities of the State's component units are not included in this note and are disclosed separately in the component unit notes to their financial statements.

Summary of Lease Accounting Policy (Lessor)

Under GASB Statement No. 87, a lease is defined as a contract that conveys control of the right to use a nonfinancial asset for a period of time in an exchange or exchange-like transaction.

As a lessor, Yap State Government recognizes:

- A lease receivable, measured at the present value of lease payments expected to be received during the lease term, and
- A deferred inflow of resources, representing the State's net investment in the lease.

The State uses a discount rate of 7% to measure lease receivables for all lease arrangements.

Lease payments included in the measurement of the lease receivable consist of fixed payments and fixed payments that depend on an index or rate, measured using the index or rate in effect at the commencement of the lease. Variable payments based on future performance or usage are excluded from the lease receivable and are recognized as lease revenue in the period in which the payments are due.

Lease terms include renewal or extension options only when it is reasonably certain that the option will be exercised.

Summary of Significant Lease Arrangements

Yap State Government enters into lease agreements primarily for the use of land and buildings with governmental and private entities. As of September 30, 2024 the State's significant lease arrangements, for which the State is the lessor, are summarized below:

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

11) Leases, continued

<u>Lessee</u>	<u>Commencement Date</u>	<u>Expiration Date</u>	<u>Payment Terms</u>	<u>Discount Rate</u>	<u>Notable Provisions</u>
Yap State Delegation of the Congress	10/1/1998	9/30/2028	\$1,500 per month, payable quarterly	7%	Fixed payments
FSM Petroleum Corporation	7/1/2008	6/30/2023	\$31,500 annually, payable semi- annually	7%	Optional 10-year renewal
Micronesian Legal Services Corporation	8/1/2007	7/31/2027	Monthly rent escalates from \$100 to \$130 over lease term	7%	Step rent increases
Pacific Missionary Aviation	10/1/2020	9/30/2040	\$1,000 annually for first 10 years; variable thereafter	7%	Fair market value adjustment
Waab Transportation Company	8/1/2014	7/31/2044	\$15,450 annually	7%	Fixed

Lease Receivables and Deferred Inflows of Resources

As of September 30, 2024, Yap State Government recognized lease receivables representing the present value of remaining lease payments for applicable leases. Corresponding deferred inflows of resources were recorded and are amortized into lease revenue over the remaining lease terms in a systematic and rational manner.

Variable Lease Payments and Renewal Provisions

Certain leases include:

- Variable lease payments, such as payments based on future fair market value determinations, which are excluded from the measurement of lease receivables and recognized as revenue when earned.
- Renewal options, which are included in the lease term only when management determines it is reasonably certain the option will be exercised.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

11) Leases, continued

Lease Revenue Recognition

Lease revenue recognized by Yap State Government consists of:

- Interest income on the lease receivable, and
- Systematic amortization of the deferred inflow of resources over the lease term.

The future lease payments to be received are as follows:

<u>Years ending</u> <u>September 30:</u>	<u>Payments</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 28,210	\$ 12,131	\$ 16,079
2026	28,210	13,005	15,205
2027	27,950	13,681	14,269
2028	26,650	13,317	13,333
2029	20,650	8,116	12,534
2030-2034	103,250	50,260	52,990
2035-2039	87,500	53,258	34,242
2040-2044	78,250	63,896	14,354
	<u>\$ 400,670</u>	<u>\$ 227,664</u>	<u>\$ 173,006</u>

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

Lease receivable	<u>\$ 227,664</u>
Deferred inflow of resources	<u>\$ 178,596</u>

Weighted average remaining lease term	16.7 years
Weighted average discount rate	7.00%

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2024

12) Date of Management's Review

Management has considered subsequent events through September 30, 2026, the date upon which the financial statements were available to be issued.

Diving Seagull, Inc. Receivership

During the fiscal year ending September 30, 2026, Diving Seagull, Inc., a component unit of the Yap State Government, entered into receivership and ceased operations. As part of the receivership process, arrangements were made for the transfer or disposition of the vessel operated by Diving Seagull, Inc., and the remaining assets of the entity are expected to be liquidated or otherwise disposed of in connection with the receivership. Management has evaluated the effect of these subsequent events on the accompanying financial statements and determined that no adjustment to the amounts reported as of and for the year ended September 30, 2024 is required.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2024

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual- General Fund
September 30, 2024

	Budgeted Amounts		Actual- Budgetary	
	Original	Final	Basis (see Note 1)	Variance with Final Budget
Revenues	\$ 8,585,611	\$ 12,811,133	\$ 15,390,804	(2,579,671)
Total revenues	8,585,611	12,811,133	15,390,804	(2,579,671)
Expenditures:				
Current:				
Judiciary	232,537	268,614	237,504	31,110
Council of traditional leaders	246,958	271,733	243,298	28,435
General government	1,689,318	1,869,997	1,617,306	252,691
Economic development	720,741	856,867	725,285	131,582
Public safety	727,065	810,951	700,933	110,018
Community affairs	323,293	402,655	353,780	48,875
Education	434,741	572,983	454,299	118,684
Public works and transportation	2,731,283	3,002,027	2,772,688	229,339
Health services	645,000	659,400	762,349	(102,949)
Boards and commissions	319,829	348,391	247,452	100,939
Payments to component units	148,945	160,801	131,502	29,299
Other appropriations	770,901	4,544,676	1,257,907	3,286,769
Debt service	-	-	1,170,691	(1,170,691)
Total expenditures	8,990,611	13,769,095	10,674,994	3,094,101
Excess (deficiency) of revenues over (under) expenditures	(405,000)	(957,962)	4,715,810	(5,673,772)
Special item:				
Write-off of receivables and allowance for loan receivable	-	-	(179,900)	179,900
Total special item	-	-	(179,900)	179,900
Net change in fund balance	(405,000)	(957,962)	4,535,910	(5,493,872)
Encumbrances	-	-	(765,013)	765,013
Fund balance at the beginning of the year	20,969,920	20,969,920	20,969,920	-
Fund balance at the end of the year	\$ 20,564,920	\$ 20,011,958	\$ 24,740,817	\$ (4,728,859)

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, 2024

(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	\$ 10,674,994
Change in encumbrances	(765,013)
Expenditures on a GAAP basis	<u>\$ 9,909,981</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
OTHER SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2024**

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2024

		Special Revenue	Permanent		Other	
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust	Governmental Funds	Total
Expenditures:	General					
Salaries and wages	\$ 3,829,641	\$ 6,976,385	\$ -	\$ -	\$ 36,854	\$ 10,842,880
Contractual services	241,246	1,710,245	-	-	1,190,095	3,141,586
Medical	736,677	1,357,172	-	-	104	2,093,953
Utilities	1,059,227	649,864	-	-	3,268	1,712,359
Capital outlay	248,785	1,112,886	-	-	170,562	1,532,233
Supplies and materials	278,988	939,917	-	-	13,687	1,232,592
POL	683,591	384,740	-	-	258,985	1,327,316
Scholarship and training	350,000	225,596	-	-	5,000	580,596
Repairs and maintenance	155,660	258,118	-	-	111,957	525,735
Travel	391,753	558,339	-	-	54,031	1,004,123
Grants and subsidies	192,615	-	-	-	356,900	549,515
Food stuffs	174,558	217,512	-	-	171,054	563,124
Communications	123,314	139,649	-	-	4,787	267,750
Principal repayment	771,112	-	-	-	-	771,112
Professional services	16,198	51,598	-	-	-	67,796
Allowances	160,840	4,940	-	-	-	165,780
Interest payments	397,304	-	-	-	-	397,304
Freight	10,087	77,611	-	-	-	87,698
Rentals	10,657	124,020	-	-	2,726	137,403
Printing and reproduction	5,343	13,832	-	-	26,220	45,395
Payment to component unit	-	11,992,191	-	-	-	11,992,191
Leased housing and land	6,440	20,064	-	-	-	26,504
Other	65,945	30,867	-	-	48,493	145,305
	<u>\$ 9,909,981</u>	<u>\$ 26,845,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,454,723</u>	<u>\$ 39,210,250</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, 2024
(with comparative totals for the year ended September 30, 2023)

	<u>2024</u>	<u>2023</u>
Revenues:		
Revenue sharing:		
Import tax	\$ 793,589	\$ 1,134,229
Fuel tax	82,027	66,495
Income tax	838,562	881,917
Business gross receipts tax	1,163,602	948,363
Fishing fee	5,114,903	1,323,251
Others	791,134	-
	<u>8,783,817</u>	<u>4,354,255</u>
Excise taxes:		
Alcoholic beverages	641,141	589,717
Gasoline and diesel	102,447	99,804
Tobacco	894,158	951,719
Other excise taxes	918,247	675,267
	<u>2,555,993</u>	<u>2,316,507</u>
Fees and charges:		
Licenses and permits	104,480	93,955
Fines/sale of confiscated property	40,022	43,887
Leases and other rentals	316,826	217,609
	<u>461,328</u>	<u>355,451</u>
Departmental charges:		
Sea transportation	390,392	289,995
Air transportation	166,708	119,381
Hospital services	357,855	236,925
Other	9,612	10,883
	<u>924,567</u>	<u>657,184</u>
Net change in the fair value of investments	<u>2,576,140</u>	<u>1,300,021</u>
Other revenues	<u>88,959</u>	<u>710,742</u>
Total revenues	<u>15,390,804</u>	<u>9,694,160</u>
Expenditures:		
Current:		
Judiciary	<u>230,859</u>	<u>188,538</u>
Councils of Traditional Leaders:		
Council of Pilung	99,976	100,096
Council of Tamol	125,941	123,848
	<u>225,917</u>	<u>223,944</u>
General government:		
Office of the Governor	208,540	232,174
State Legislature	592,537	517,295
Office of Administrative Services	479,973	476,775
Office of Public Auditor	126,652	142,079
Office of Planning, Budget and Statistics	150,010	131,125
	<u>1,557,712</u>	<u>1,499,448</u>
Resources and Development:		
Department of Resources and Development	<u>638,948</u>	<u>537,356</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, 2024
(with comparative totals for the year ended September 30, 2023)

Expenditures, continued:	<u>2024</u>	<u>2023</u>
Current, continued:		
Public Safety:		
Department of Public Safety/Attorney General	<u>672,117</u>	<u>562,554</u>
Community Affairs:		
Department of Public Affairs	<u>341,550</u>	<u>278,824</u>
Public Works and Transportation:		
Department of Public Works and Transportation	<u>2,240,084</u>	<u>1,551,917</u>
Education Services:		
Department of Education	<u>453,760</u>	<u>293,776</u>
Health Services:		
Department of Health Services	<u>761,761</u>	<u>224,047</u>
Boards and Commissions:		
Historic Preservation Office	69,133	78,679
EPA Administration Board	56,617	53,549
Election Commissioner	41,516	71,436
Small Business Development Center	58,513	69,679
Yap Investment Trust	<u>15,080</u>	<u>13,901</u>
	<u>240,859</u>	<u>287,244</u>
Payments to component units:		
Public Transportation System	-	48,000
Yap Visitor's Bureau	<u>131,502</u>	<u>121,933</u>
	<u>131,502</u>	<u>169,933</u>
Other appropriations:		
Micronesia Legal Services Corporation	41,275	41,231
Yap Community Action Program	113,981	108,316
Scholarship	350,000	186,862
Medical Referral Program	324,551	584,129
Airport Operations and Maintenance	103,952	117,409
Other	<u>310,462</u>	<u>48,171</u>
	<u>1,244,221</u>	<u>1,086,118</u>
Debt service:		
Principal repayments	771,112	831,415
Interest payments	<u>399,579</u>	<u>354,164</u>
	<u>1,170,691</u>	<u>1,185,579</u>
Total expenditures	<u>9,909,981</u>	<u>8,089,278</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,480,823</u>	<u>1,604,882</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, 2024
(with comparative totals for the year ended September 30, 2023)

Expenditures, continued:	<u>2024</u>	<u>2023</u>
Current, continued:		
Other financing uses:		
Operating transfer out (IMF local match and YSPSC ADB loan)	-	(219,232)
Total other financing uses	-	(219,232)
Special item:		
Write-off of receivables and allowance for loan receivables	(179,900)	(811,940)
Total special item	(179,900)	(811,940)
Net change in fund balance	5,300,923	573,710
Fund balance at the beginning of the year	26,860,560	17,859,680
Adjustment of beginning balance - lease accounting	-	(45,397)
Adjustment of beginning balance - ADB loan recognition YSPSC receivable	-	8,472,567
Fund balance at the end of the year	<u>\$ 32,161,483</u>	<u>\$ 26,860,560</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2024

	Other Special Revenue	Other Capital Projects	Total
ASSETS			
Cash and cash equivalents	\$ 608,011	\$ -	\$ 608,011
Receivables, net	-	515,340	515,340
Due from other funds	374,944	313,583	688,527
Total assets	<u>\$ 982,955</u>	<u>\$ 828,923</u>	<u>\$ 1,811,878</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 44,178	\$ 368,867	\$ 413,045
Deferred revenues	-	110,122	110,122
Total liabilities	<u>44,178</u>	<u>478,989</u>	<u>523,167</u>
Fund balances:			
Restricted	-	349,934	349,934
Committed	938,777	-	938,777
Total fund balances	<u>938,777</u>	<u>349,934</u>	<u>1,288,711</u>
Total liabilities and fund balances	<u>\$ 982,955</u>	<u>\$ 828,923</u>	<u>\$ 1,811,878</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, 2024

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,093,518	\$ 2,093,518
Excise taxes	114,858	-	114,858
Fees and charges	244,573	-	244,573
Net change in the fair value of investments	125,147	-	125,147
Total revenues	<u>484,578</u>	<u>2,093,518</u>	<u>2,578,096</u>
Expenditures by function:			
Current:			
General government	246,347	300,190	546,537
Economic development	-	821,022	821,022
Infrastructure development and maintenance	-	848,003	848,003
Other appropriations	114,858	124,303	239,161
Total expenditures	<u>361,205</u>	<u>2,093,518</u>	<u>2,454,723</u>
Net change in fund balances	123,373	-	123,373
Fund balances at the beginning of the year	815,404	349,934	1,165,338
Fund balances at the end of the year	<u>\$ 938,777</u>	<u>\$ 349,934</u>	<u>\$ 1,288,711</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, 2024

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,093,518	\$ 2,093,518
Excise taxes	114,858	-	114,858
Fees and charges	244,573	-	244,573
Net change in the fair value of investments	125,147	-	125,147
Total revenues	<u>484,578</u>	<u>2,093,518</u>	<u>2,578,096</u>
Expenditures by Account:			
Contractual services	-	1,190,096	1,190,096
Grants and subsidies	356,900	-	356,900
Scholarships and training	-	5,000	5,000
Communication	-	4,787	4,787
Capital outlay	1,143	169,419	170,562
POL	-	258,985	258,985
Supplies and materials	-	10,626	10,626
Food stuffs	-	171,054	171,054
Freight	-	-	-
Rentals	-	2,726	2,726
Printing and reproduction	-	26,220	26,220
Travel	-	54,031	54,031
Medical	-	104	104
Repairs and maintenance	-	111,957	111,957
Other	3,162	88,513	91,675
Total expenditures	<u>361,205</u>	<u>2,093,518</u>	<u>2,454,723</u>
Net change in fund balances	123,373	-	123,373
Fund balances at the beginning of the year	815,404	349,934	1,165,338
Fund balances at the end of the year	<u>\$ 938,777</u>	<u>\$ 349,934</u>	<u>\$ 1,288,711</u>

See Independent Auditor's Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 2024

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	608,011	\$ 608,011
Due from other funds	39,890	40,844	284,918	9,292	374,944
Total assets	<u>\$ 39,890</u>	<u>\$ 40,844</u>	<u>\$ 284,918</u>	<u>\$ 617,303</u>	<u>\$ 982,955</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 39,890	\$ 1,153	\$ 3,135	\$ -	\$ 44,178
Total liabilities	<u>39,890</u>	<u>1,153</u>	<u>3,135</u>	<u>-</u>	<u>44,178</u>
Fund balances:					
Committed	-	39,691	281,783	617,303	938,777
Total fund balances	-	39,691	281,783	617,303	938,777
Total liabilities and fund balances	<u>\$ 39,890</u>	<u>\$ 40,844</u>	<u>\$ 284,918</u>	<u>\$ 617,303</u>	<u>\$ 982,955</u>

See Independent Auditor's Report.

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, 2024

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 114,858	\$ -	\$ -	\$ -	\$ 114,858
Fees and charges	-	14,216	230,357	-	244,573
Net change in the fair value of investments	-	-	-	125,147	125,147
Total revenues	<u>114,858</u>	<u>14,216</u>	<u>230,357</u>	<u>125,147</u>	<u>484,578</u>
Expenditures by function:					
Current:					
General government	-	4,305	242,042	-	246,347
Other appropriations	114,858	-	-	-	114,858
Total expenditures	<u>114,858</u>	<u>4,305</u>	<u>242,042</u>	<u>-</u>	<u>361,205</u>
Net change in fund balances	-	9,911	(11,685)	125,147	123,373
Fund balances at the beginning of the year	-	29,780	293,468	492,156	815,404
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 39,691</u>	<u>\$ 281,783</u>	<u>\$ 617,303</u>	<u>\$ 938,777</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, 2024

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 114,858	\$ -	\$ -	\$ -	\$ 114,858
Fees and charges	-	14,216	230,357	-	244,573
Net change in the fair value of investments	-	-	-	125,147	125,147
Total revenues	<u>114,858</u>	<u>14,216</u>	<u>230,357</u>	<u>125,147</u>	<u>484,578</u>
Expenditures by account:					
Grants and subsidies	114,858	-	242,042	-	356,900
Capital outlay	-	1,143	-	-	1,143
Other	-	3,162	-	-	3,162
Total expenditures	<u>114,858</u>	<u>4,305</u>	<u>242,042</u>	<u>-</u>	<u>361,205</u>
Excess (deficiency) of revenues over (under) expenditures	-	9,911	(11,685)	125,147	123,373
Fund balances at the beginning of the year	-	29,780	293,468	492,156	815,404
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 39,691</u>	<u>\$ 281,783</u>	<u>\$ 617,303</u>	<u>\$ 938,777</u>

See Independent Auditor's Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
NONMAJOR GOVERNMENTAL FUNDS- SPECIAL REVENUE FUNDS
September 30, 2024

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, 2024, 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, 2024

	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F23	F25	
	Education	Health	Environment	Private Sector	Capacity 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
ASSETS														
Receivables:														
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 627,727	\$ -	\$ -	\$ 627,727
FSM National Government	1,301,485	504,472	118,125	54,897	56,876	1,158,069	220,802	-	2,695,852	210,540	-	-	7,917	6,329,035
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	1,200,988	-	-	42,676	-	-	2,820,341	289,302	-	-	441,963	31,443	4,826,713
Advances	51,188	89,670	-	-	-	-	-	-	1,132	-	-	-	-	141,990
	<u>1,352,673</u>	<u>1,795,130</u>	<u>118,125</u>	<u>54,897</u>	<u>99,552</u>	<u>1,158,069</u>	<u>220,802</u>	<u>2,820,341</u>	<u>2,986,286</u>	<u>210,540</u>	<u>627,727</u>	<u>441,963</u>	<u>39,360</u>	<u>11,925,465</u>
LIABILITIES AND FUND BALANCES:														
Liabilities:														
Accounts payable	373,382	247,864	-	-	3,000	232,889	7,516	126,733	2,307,450	19,119	88,427	2,510	11,373	3,420,263
Other liabilities and accruals	202,245	165,275	-	-	2,062	88,356	12,498	-	10,738	51,417	47,375	1,260	230	581,456
Unearned revenues	314,270	1,381,991	70,373	29,022	94,490	429,942	138,158	-	668,098	-	-	438,193	27,757	3,592,294
Due to other funds	462,776	-	47,752	25,875	-	406,882	62,630	-	-	140,004	491,925	-	-	1,637,844
Total liabilities	<u>1,352,673</u>	<u>1,795,130</u>	<u>118,125</u>	<u>54,897</u>	<u>99,552</u>	<u>1,158,069</u>	<u>220,802</u>	<u>126,733</u>	<u>2,986,286</u>	<u>210,540</u>	<u>627,727</u>	<u>441,963</u>	<u>39,360</u>	<u>9,231,857</u>
Fund balances:														
Restricted	-	-	-	-	-	-	-	2,693,608	-	-	-	-	-	2,693,608
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,693,608</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,693,608</u>
Total liabilities and fund balances	<u>\$ 1,352,673</u>	<u>\$ 1,795,130</u>	<u>\$ 118,125</u>	<u>\$ 54,897</u>	<u>\$ 99,552</u>	<u>\$ 1,158,069</u>	<u>\$ 220,802</u>	<u>\$ 2,820,341</u>	<u>\$ 2,986,286</u>	<u>\$ 210,540</u>	<u>\$ 627,727</u>	<u>\$ 441,963</u>	<u>\$ 39,360</u>	<u>\$ 11,925,465</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, 2024

	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F23	F25	
	Education	Health	Environment	Private Sector	Capacity Building	Supplemental Education	ERA Sector	Infrastructure Maintenance		U.S. Grants through FSM	Direct U.S. Grants	Non U.S. Grants	CFSM Grants	Total
	Sector	Sector	Sector	Development	Sector	Education	Sector	Maintenance	Infrastructure					
Revenues:														
Compact funding	\$ 3,673,827	\$ 4,352,877	\$ -	\$ -	\$ 72,545	\$ 2,133,133	\$ 213,885	\$ -	\$ 12,220,334	\$ -	\$ -	\$ -	\$ -	\$ 22,666,601
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	1,073,254	2,411,778	11,772	-	3,496,804
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	89,082	89,082
	<u>3,673,827</u>	<u>4,352,877</u>	<u>-</u>	<u>-</u>	<u>72,545</u>	<u>2,133,133</u>	<u>213,885</u>	<u>-</u>	<u>12,220,334</u>	<u>1,073,254</u>	<u>2,411,778</u>	<u>11,772</u>	<u>89,082</u>	<u>26,252,487</u>
Expenditures by function: Current:														
General government	-	-	-	-	72,545	-	213,885	-	-	-	-	-	-	286,430
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	89,082	89,082
Resources and development	-	-	-	-	-	-	-	-	174,790	-	101,352	-	-	276,142
Education	3,673,827	-	-	-	-	2,133,133	-	-	-	523,863	-	-	-	6,330,823
Public works and transportation	-	-	-	-	-	-	-	593,059	53,353	-	-	-	-	646,412
Health services	-	4,352,877	-	-	-	-	-	-	-	507,957	2,197,425	11,772	-	7,070,031
Boards and commissions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments to component units	-	-	-	-	-	-	-	-	11,992,191	-	-	-	-	11,992,191
Other appropriations	-	-	-	-	-	-	-	-	-	41,434	113,001	-	-	154,435
Total expenditures	<u>3,673,827</u>	<u>4,352,877</u>	<u>-</u>	<u>-</u>	<u>72,545</u>	<u>2,133,133</u>	<u>213,885</u>	<u>593,059</u>	<u>12,220,334</u>	<u>1,073,254</u>	<u>2,411,778</u>	<u>11,772</u>	<u>89,082</u>	<u>26,845,546</u>
Other financing sources:														
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	-	-	-	-	(593,059)	-	-	-	-	-	(593,059)
Fund balances at the beginning of the year	-	-	-	-	-	-	-	3,286,667	-	-	-	-	-	3,286,667
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,693,608</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,693,608</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, 2024

	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F23	F25	
	Education	Health	Environment	Private Sector	Capacity Building	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	Non U.S. Grants	CFSM Grants	Total
Revenues:														
Compact funding	\$ 3,673,827	\$ 4,352,877	\$ -	\$ -	\$ 72,545	\$ 2,133,133	\$ 213,885	\$ -	\$ 12,220,334	\$ -	\$ -	\$ -	\$ -	\$ 22,666,601
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	1,073,254	2,411,778	11,772	-	3,496,804
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	89,082	89,082
	<u>3,673,827</u>	<u>4,352,877</u>	<u>-</u>	<u>-</u>	<u>72,545</u>	<u>2,133,133</u>	<u>213,885</u>	<u>-</u>	<u>12,220,334</u>	<u>1,073,254</u>	<u>2,411,778</u>	<u>11,772</u>	<u>89,082</u>	<u>26,252,487</u>
Expenditures by account:														
Salaries and wages	2,154,646	2,090,432	-	-	16,665	814,770	169,636	-	145,750	845,558	731,419	5,531	1,978	6,976,385
Medical	-	874,903	-	-	-	-	-	-	-	5,899	476,371	-	-	1,357,173
Contractual services	277,149	298,888	-	-	15,880	239,049	-	593,059	35,819	11,750	228,181	-	10,470	1,710,245
Capital outlay	42,061	342,514	-	-	-	147,987	12,371	-	-	7,933	528,718	-	31,302	1,112,886
Supplies and materials	288,318	111,753	-	-	-	240,823	26,707	-	10,462	42,633	199,424	65	19,731	939,916
Utilities	247,334	207,476	-	-	-	86,773	-	-	5,617	19,201	83,462	-	-	649,863
Repairs and maintenance	105,621	79,269	-	-	-	32,654	-	-	907	3,951	27,192	-	8,524	258,118
Travel	15,149	140,882	-	-	-	230,740	2,707	-	-	86,260	76,100	352	6,149	558,339
Professional services	-	-	-	-	40,000	-	-	-	-	-	11,598	-	-	51,598
Scholarship and training	225,101	-	-	-	-	495	-	-	-	-	-	-	-	225,596
Food stuffs	60,375	45,935	-	-	-	101,542	-	-	-	7,696	-	1,964	-	217,512
POL	132,110	71,802	-	-	-	138,896	-	-	1,769	10,956	22,287	-	6,919	384,739
Communications	40,634	28,381	-	-	-	33,354	2,464	-	5,492	8,004	18,812	-	2,509	139,650
Freight	17,927	55,345	-	-	-	4,340	-	-	-	-	-	-	-	77,612
Printing and reproduction	-	4,999	-	-	-	-	-	-	-	4,945	179	3,710	-	13,833
Rentals	54,114	58	-	-	-	46,239	-	-	20,437	19,321	3,765	150	-	144,084
Allowances	-	-	-	-	-	1,471	-	-	-	-	3,470	-	-	4,941
Other	13,288	240	-	-	-	14,000	-	-	11,994,081	(853)	800	-	1,500	12,023,056
Total expenditures	<u>3,673,827</u>	<u>4,352,877</u>	<u>-</u>	<u>-</u>	<u>72,545</u>	<u>2,133,133</u>	<u>213,885</u>	<u>593,059</u>	<u>12,220,334</u>	<u>1,073,254</u>	<u>2,411,778</u>	<u>11,772</u>	<u>89,082</u>	<u>26,845,546</u>
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances (deficit)	-	-	-	-	-	-	-	(593,059)	-	-	-	-	-	(593,059)
Fund balances at the beginning of year	-	-	-	-	-	-	-	3,286,667	-	-	-	-	-	3,286,667
Fund balances at the end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,693,608</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,693,608</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 Francis Itimai
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, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated September 30, 2026. Our report includes an adverse opinion on the aggregate discretely presented component units because of the omission of Yap State Public Service Corporation and describes a scope limitation relating to Yap Fishing Authority because we were unable to obtain sufficient appropriate audit evidence regarding the financial information of Yap Fishing Authority included in the aggregate discretely presented component units. Our report also includes an emphasis-of-matter paragraph concerning the collectability of certain receivables. 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, grant agreements, and other matters did not include Yap Fishing Authority, Yap Visitors Bureau, The Diving Seagull, Inc., or the Public Transportation System. As described in our report on the State's basic financial statements, we were unable to obtain sufficient appropriate audit evidence regarding the financial information of Yap Fishing Authority. Yap Visitors Bureau and The Diving Seagull, Inc. were audited separately by us and are covered by separately issued *Government Auditing Standards* reports. 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.

Saipan Office

1930 Picarro Lane, I Liyang Village
P.O. Box 504053, Saipan, MP 96950
Tel Nos. (670) 235-8722 (670) 233-1837
Fax Nos. (670) 235-6905 (670) 233-8284

Guam Office

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

Palau Office

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

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.

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 a deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a material weakness.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads "Bryan Comer & Associates". The signature is written in a cursive, flowing style.

Saipan, MP
September 30, 2026



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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 Francis Itimai
Governor, State of Yap
Federated States of Micronesia

Report on Compliance for Each Major Federal Program

Unmodified Opinions

We have audited the 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 the State's major federal programs for the year ended September 30, 2024. The State's major federal programs are identified in the Summary of Opinions section of our report.

As discussed in the Notes to the Schedule of Expenditures of Federal Awards (Notes), the State's basic financial statements include discretely presented component units whose federal award activity, if any, is not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2024. Accordingly, our audit of compliance did not include the federal award activity, if any, of those discretely presented component units.

Summary of Opinions

<i>Major Federal Program</i>	<i>Type of Opinion</i>
ALN 15.875 Compact of Free Association Grant Program	Unmodified
Health Center Program Cluster ALN 93.224 ALN 93.527	Unmodified

Unmodified Opinion on Health Center Program Cluster - ALN 93.224 and ALN 93.527

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 Health Center Program Cluster - ALN 93.224 and 93.527 for the year ended September 30, 2024.

Saipan Office

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

Guam Office

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

Palau Office

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

Unmodified Opinion on ALN 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 *ALN 15.875 Compact of Free Association Grant* for the year ended September 30, 2024.

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 Health Center Program Cluster – ALN 93.224 and 93.527 and ALN 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

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.

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.

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.

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 instances of noncompliance and other matters that are required to be reported in accordance with the Uniform Guidance and that are described in the accompanying schedule of findings and questioned costs. Our opinions on each major federal program are 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 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.

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 2024-002, and 2024-003 to be significant deficiencies.

Our audit of Health Center Program Cluster ALN 93.224 and 93.527 and ALN 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, 2024, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated September 30, 2026, which expressed unmodified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information and an adverse opinion on the aggregate discretely presented component units because of the omission of Yap State Public Service Corporation. Our report also described a scope limitation relating to Yap Fishing Authority and included an emphasis-of-matter paragraph concerning the collectability of certain receivables. 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 report 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.

Because our report on the basic financial statements contains an adverse opinion on the aggregate discretely presented component units, auditing standards generally accepted in the United States of America preclude us from expressing an opinion on whether the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Baughman Comer & Associates

Saipan, MP

September 30, 2026

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2024

<u>Agency/Program</u>	<u>Expenditures</u>
U.S. Department of Agriculture	\$ 140,695
U.S. Department of the Interior	23,322,419
U.S. Small Business Administration	52,334
U.S. Department of Education	523,863
U.S. Department of Health and Human Services	<u>2,705,381</u>
 GRAND TOTAL	 \$ <u>26,744,692</u>
 Reconciliation to the basic financial statements:	
Foreign Assistance Grants Fund expenditures	\$ 26,845,546
Less: Non-U.S. Grants Fund expenditures	(11,772)
Less: CFSM Grants Fund expenditures	<u>(89,082)</u>
	\$ <u>26,744,692</u>

See accompanying notes to schedule of expenditures of federal awards.

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Identifying Number Assigned by Pass-Through Entity	Federal Expenditures
<u>U.S. Department of Agriculture:</u>			
Direct Program:			
Cooperative Forestry Assistance	10.664		\$ 140,695
Total U.S. Department of Agriculture			<u>140,695</u>
<u>U.S. Department of the Interior:</u>			
Direct Programs:			
Economic, Social and Political Development of the Territories:			
Compact of Free Association, As Amended, Sector Grants			
Technical Assistance Program: Public Auditor	15.875		<u>21,324</u>
Subtotal Direct Programs			<u>21,324</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	00050-2023-COFA-FSM	1,045,296
Compact III Education Sector			1,009,151
Compact III Health Sector			39,782
Compact III ERA		00050-2016-COFA-FSM	2,628,531
Compact II Education Sector			3,343,726
Compact II Health Sector			-
Compact II Environment Sector			-
Compact II Private Sector Development			72,545
Compact II Capacity Building Sector			2,133,133
Supplemental Education Grant			174,103
Compact II ERA			12,220,334
Compact II Infrastructure Sector			593,059
Compact II Infrastructure Maintenance Sector			<u>41,434</u>
Historic Preservation Fund Grant-In-Aid	15.904		<u>23,301,095</u>
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>23,322,419</u>
Total U.S. Department of the Interior			<u>23,322,419</u>
<u>U.S. Small Business Administration:</u>			
Direct Programs:			
8(a) Business Development Program	59.006		<u>52,334</u>
Total U.S. Small Business Administration			<u>52,334</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>523,863</u>
Special Education Cluster (IDEA) Subtotal			<u>523,863</u>
Total U.S. Department of Education			<u>523,863</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		2,157,189
Grants for new and expanded services under the Health Center Program	93.527		<u>40,236</u>
Health Center Cluster Subtotal and Subtotal Direct Programs			2,197,425
Pass-Through Grants from the FSM National Government		A5	
Public Health Emergency Preparedness	93.069		3,495
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		35,465
Maternal and Child Health Federal Consolidated Program	93.110		23,381
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		54,567
Family Planning Services	93.217		16,121
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.104		5,959
Immunization Cooperative Agreements	93.268		129,886
Leading Edge Acceleration Projects (LEAP) in Health Information Technology	93.345		
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S.			
Affiliated Pacific Islands, U.S. Virgin Islands, and P. R.	93.377		26,790
OPIOID STR	93.788		3,020
National Bioterrorism Hospital Preparedness Program	93.889		(910)
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898		51,853
Assistance Programs for Chronic Disease Prevention and Control	93.945		
Block Grants for Community Mental Health Services	93.958		24,304
Block Grants for Prevention and Treatment of Substance Abuse	93.959		83,371
Block Grants for Preventive Health and Health Services	93.991		
Maternal and Child Health Services Block Grant to the States	93.994		<u>50,655</u>
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>507,957</u>
Total U.S. Department of Health and Human Services			<u>2,705,382</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>26,744,692</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, 2024

1. Scope

The State of Yap is one of the four States of the Federated States of Micronesia. All significant operations of the primary government of the State of Yap, excluding the discretely presented component units, 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, 2024. 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, 2024 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, 2024.

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, 2024

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, 2024

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? No

Federal Awards

Internal control over major federal programs:

5. Material weakness(es) identified? No
6. Significant deficiency(ies) identified? Yes
7. Type of auditors' report issued on compliance for major federal programs: 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:

<u>ALN Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association, as Amended, Compact Sector Grants
	Health Center Program Cluster – Assistance Listings 93.224 and 93.527:
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
93.527	Grants for new and expanded services under the Health Center Program

Dollar threshold used to distinguish between Type A and Type B Programs: \$802,341

10. Auditee qualified as low-risk auditee? No

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2024

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2024-001	External Financial Reporting

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>Finding</u>
2024-002	Health Center Program Cluster – Sliding Fee Discounts ALN 93.224 and 93.527
2024-003	ALN 15.875 Insufficient Documentation of Educator Qualifications

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2024

Finding No.: 2024-001

Area: External Financial Reporting
Title: Component Unit Reporting
Type of Finding: Material Weakness in Internal Control over 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 financial information of Yap State Public Service Corporation (YSPSC), a required discretely presented component unit, was not available in sufficient time for inclusion in the State's fiscal year 2024 financial statements. Accordingly, YSPSC was omitted from the State's financial reporting entity. In addition, financial information of Yap Fishing Authority (YFA) was included in the State's aggregate discretely presented component units; however, YFA's financial statements had not been audited, and sufficient supporting information was not available to permit the State's auditors to obtain sufficient appropriate audit evidence regarding the amounts and disclosures attributable to YFA.

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 omission of YSPSC constitutes a departure from accounting principles generally accepted in the United States of America and resulted in an adverse opinion on the aggregate discretely presented component units. The lack of sufficient appropriate audit evidence regarding YFA resulted in an additional scope limitation relating to the aggregate discretely presented component units. These conditions reduce the reliability and completeness of the financial information available for reporting the State's component units.

Recommendation: The State should establish and implement policies and procedures to facilitate compliance with GASB Statement No. 14, as amended. Such policies and procedures should require the timely preparation and availability of complete component-unit financial information and supporting documentation, regular monitoring of each component unit's financial reporting status, and timely completion of separate audits when applicable, so that component-unit financial information can be properly included in the State's financial statements and sufficient appropriate audit evidence can be obtained.

Identification as a Repeat Finding: Finding No. 2023-001.

Views of Responsible Officials: See the corrective action plan.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2024

Finding No.: 2024-002

Federal Program:	Health Center Program Cluster
Assistance Listings:	93.224 and 93.527
Federal Agency:	U.S. Department of Health and Human Services
Compliance Requirement:	Special Tests and Provisions – Sliding Fee Discounts
Type of Finding:	Significant Deficiency in Internal Control over Compliance and Noncompliance

Criteria: Under the Health Center Program Cluster (ALN 93.224 and ALN 93.527), as governed by Section 330(k)(3)(G) of the Public Health Service Act and 42 CFR 51c.303(f), (g), and (u), health centers are required to implement and apply a sliding fee discount schedule (SFDS) to adjust patient charges based on income and family size, ensuring access to affordable healthcare services for low-income individuals. The sliding fee discounts must be applied in accordance with the health center’s approved schedule.

Condition: This finding was reported in the prior year, and the condition continued during the fiscal year ended September 30, 2024.

In performing our audit procedures at the Wa’ab Community Health Center, we noted that income and family-size assessments were not performed or documented for patients as required by the Health Center Program. The health center treated the entire Yap State population as being below the applicable federal poverty level, resulting in patients automatically qualifying for sliding-fee discounts without documented individual assessments.

The documentation provided by Yap State Government and the health center was limited to cash receipts reports. These reports did not contain sufficient patient-level information regarding income and family size to allow us to determine whether patients were assigned to the appropriate sliding-fee discount category and whether discounts were calculated and applied in accordance with program requirements.

On April 10, 2026, the Wa’ab Community Health Center issued a policy stating that no patient will be denied health care services because of the individual’s inability to pay. Although this policy addresses the requirement to provide services regardless of a patient’s ability to pay, it does not eliminate the separate requirement to assess patients for sliding-fee discount eligibility based on income and family size. The policy also does not demonstrate compliance during the fiscal year ended September 30, 2024.

Accordingly, the April 10, 2026 policy does not resolve the condition identified in the current-year or prior-year finding.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, continued
Year Ended September 30, 2024

Cause: The health center did not establish or consistently implement procedures requiring patient income and family size to be assessed, documented, and periodically reassessed for purposes of determining eligibility under the sliding fee discount program. The health center also did not maintain or provide patient financial records necessary to demonstrate that discounts were properly determined and applied.

Effect: We were unable to determine whether the health center properly assessed patient eligibility or applied sliding-fee discounts in accordance with Health Center Program requirements. The condition increases the risk that patients may be assigned to incorrect discount categories and that patient charges may not be calculated consistently or accurately.

Questioned Costs: None

Recommendation: We recommend that YSG work closely with the health center to establish and enforce procedures for the timely and complete submission of patient financial records for audit and compliance purposes. The health center should ensure that adequate documentation is maintained to support income and family size determinations and the proper application of sliding fee discounts. If necessary, YSG should seek guidance from the federal awarding agency to ensure compliance with program requirements. In addition, Yap State Government health centers should immediately develop, implement, and document a comprehensive Sliding Fee Discount Schedule in accordance with applicable federal regulations.

Identification as a Repeat Finding: Yes – Finding 2023-002

Views of Responsible Officials: See the corrective action plan.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2024

Finding No.: 2024-003

Federal Agency:	U.S. Department of the Interior, Office of Insular Affairs
Federal Program:	Economic, Social, and Political Development of the Territories – Compact of Free Association, as Amended, Compact Sector Grants
Assistance Listing:	15.875
Compliance Requirement:	Activities Allowed or Unallowed – Educator Qualification Requirements
Type of Finding:	Significant Deficiency in Internal Control over Compliance

Criteria: The Compact Grant’s Education Sector terms and conditions, consistent with the FSM Policy on Teacher Certification and JEMCO Resolutions 2009-9 and MT 2011-1, prohibit grant-funded compensation for teachers, tutors, and teacher aides without college degrees. The provision also prohibits payment of culture teachers from the grant.

Condition: We tested 82 educators whose compensation was charged to the Education Sector Grant and were unable to verify degree completion for 16, or approximately 20%, of the items tested. The sample was not statistically selected. Although transcripts were available, the documentation provided for these 16 educators did not demonstrate that degrees had been conferred. Diplomas or other evidence confirming degree completion were not provided for the following samples: 2, 14, 16, 17, 19, 22, 35, 40, 45, 48, 49, 53, 56, 58, 61, and 64.

As a result, we could not verify satisfaction of the college degree requirement for the identified educators subject to that requirement.

Cause: The process for maintaining and reviewing educator qualification records did not ensure that documentation establishing degree completion was retained and available to support verification of compliance with the grant requirement. Management indicated that its practice permits official transcripts in lieu of diplomas when the transcripts clearly confirm that the required degrees were awarded. However, the documentation provided for the remaining exceptions did not establish degree conferral.

Effect: Incomplete qualification records limit Yap State Government’s ability to demonstrate compliance with the grant’s educator qualification requirements and increase the risk that compensation for individuals who do not meet those requirements could be charged to the grant.

The absence of documentation does not, by itself, establish that the educators lacked college degrees or that their compensation was unallowable.

Questioned Costs: Undetermined

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, continued
Year Ended September 30, 2024

Recommendation: We recommend that Yap State Government strengthen its procedures for verifying and maintaining educator qualification records by:

Obtaining documentation confirming degree completion for the identified educators subject to the grant requirement, such as diplomas, official transcripts showing degree conferral, or written confirmation from the issuing institutions.

Maintaining complete and accessible qualification records for educators whose compensation is charged to the grant.

Requiring documented verification of applicable educator qualifications before charging compensation to the grant.

Performing periodic supervisory reviews to identify and resolve missing or incomplete qualification documentation.

Identification as a Repeat Finding: No.

Views of Responsible Officials: See the corrective action plan.



OFFICE OF THE DIRECTOR
Telephone: (691) 350-2307

OFFICE OF ADMINISTRATIVE SERVICES
YAP STATE GOVERNMENT
P.O. Box 610
Colonia, Yap State
Federated States of Micronesia
96943

CABLE ADDRESS: GOV YAP
FAX: (691) 350-4113
Office Telephones:
FINANCE/TREASURY: 350-2142/2107
PROPERTY: 350-2271/2370
PERSONNEL: 350-2145
REVENUE: 350-2472

Summary Schedule of Prior Audit Findings and Questioned
Costs Year Ended September 30, 2024

<u>Finding Number</u>	<u>ALN Number</u>	<u>Costs</u>	<u>Status</u>
2023-001	-	-	On-going. See corrective action taken – Finding 2024-001
2023-002	93.224	_____	On-going. See corrective action taken – Finding 2024-002
		<u>\$</u> _____	



OFFICE OF THE DIRECTOR
Telephone: (691)350-2307

OFFICE OF ADMINISTRATIVE SERVICES
YAP STATE GOVERNMENT
P.O. Box 610
Colonia, Yap
Federated States of Micronesia
96943

CABLE ADDRESS: GOV YAP
FAX: (691)350-2107

Office Telephones
FINANCE/TREASURY 350-2142
SUPPLY 350-2142
PERSONNEL 350-2142
REVENUE 350-2142
ARCHIVES 350-3684

Yap State Government

Corrective Action Plan
2 CFR§200.511©
Year Ended September 30, 2024

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Official Capacity
2024-001	We agree that the component units' financial statements should be included in the Yap State audit report, however, we do not understand why the YSPSC audit was not completed by the deadline of June 30, 2026. The Comptroller informed us that she submitted the YSPSC trial balance for audit back in August 2025. Auditor requests for documents did not begin until January 2026, but only on an intermittent basis, and has continued until now in September 2026. YSPSC assured us that they will do their best to meet the December 31, 2026 deadline for the fiscal year 2025 audit. With regards to the Yap Fishing Authority, even though the financial statements presented in this fiscal year 2024 audit report were unaudited, the availability of financial statements was itself a major achievement for the Authority, considering that for over a decade, the lack of financial statements for the component unit was a recurring finding for the Authority and Yap State. The Authority's fiscal year 2025 financial statements have already been compiled and OAS is seeking the assistance of the Yap State Public Auditor to evaluate whether the	December 31, 2026	Thomas G. Tun, Director of Administrative Services (691) 350-2142 oasdirector@gmail.com



OFFICE OF ADMINISTRATIVE SERVICES
YAP STATE GOVERNMENT
P.O. Box 610
Colonia, Yap
Federated States of Micronesia
96943

CABLE ADDRESS: GOV YAP
FAX: (691)350-2107

Office Telephones
FINANCE/TREASURY 350-2142
SUPPLY 350-2142
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	financial statements could be audited in time for the deadline of the Yap State audit report of December 31, 2026.		
2024-002	We agree with this Finding. We have updated our Sliding fee scale using the US Federal poverty guideline for year 2026, it has been approved by our board of directors as of 04/10/26. This new sliding fee scale is applied in the new ECW Electronic Health Records system that we are currently in the process of completing and instituting into our health centers. This new system is presumed to go live in September 2026 and will be able to accommodate our need to capture accurate demographic data that is needed to determine whether a patient is eligible for the discount or not, it will be able to automatically place each individual patient under the different sliding fee scale categories that they fall under based on their income once they register to see a doctor. So to correct our finding for 2023 and 2024, this is what we have been working on to improve our health center and build a system in place that will be able to capture the data we need, we will also be updating our sliding fee scale in the system every year based on the yearly US federal poverty guideline.	September 2026	Mr. John Gilmatam, COO, Waab Community Health Centers (691) 350-8351 JGilmatam@fsmhealth.fm
2024-003	We partially agree with this Finding which cited certain teachers who had only official transcripts on file and no diplomas. Before the JEMCO resolution came out, we were not	Ongoing	Callistus Hachibmai Management & Support Administrator, Yap State Department of Education, (691) 350-2151, ext. 104



**OFFICE OF ADMINISTRATIVE SERVICES
YAP STATE GOVERNMENT
P.O. Box 610
Colonia, Yap
Federated States of Micronesia
96943**

CABLE ADDRESS: GOV YAP
FAX: (691)350-2107

Office Telephones
FINANCE/TREASURY 350-2142
SUPPLY 350-2142
PERSONNEL 350-2142
REVENUE 350-2142
ARCHIVES 350-3684

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Telephone: (691)350-2307

	required to file diplomas in our personnel files, so most of our teachers do not have diplomas on file. We had sought concurrence from our grant manager on whether we could use official transcripts in lieu of proof of degrees for existing teachers without degrees and for new hires to get them on board sooner. Our pool of personnel to select teachers from is limited, and it is challenging to get quality teachers with degrees. He concurred that we use transcripts as long as they are the official ones from the institutions and clearly state that the students have been awarded the required degrees and that the students' names are written clearly on them. In the meantime, each student/teacher will continue to provide a copy of the required degree so we can have it on file. I think this is the process we are still using and if it is not correct, please let us know.		
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