

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

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

YEARS ENDED SEPTEMBER 30, 2023 AND 2022

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

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

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

Years Ended September 30, 2023 and 2022

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BURGER · COMER & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Yap State Public Service Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Yap State Public Service Corporation (the Company), a component unit of Yap State Government, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Yap State Public Service Corporation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net positions of the Yap State Public Service Corporation as of September 30, 2023 and 2022, and the changes in net positions and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Yap State Public Service Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Yap State Public Service Corporation's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by the *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2026, on our consideration of the Yap State Public Service Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Yap State Public Service Corporation's internal control over financial reporting on compliance.

Burger Comer & Associates

February 19, 2026
Saipan, MP

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Management's Discussion and Analysis
Years ended September 30, 2023, 2022 and 2021

The following Management's Discussion and Analysis is required by GASB Statement No. 34 (GASB 34) issued by the U.S. Governmental Accounting Standards Board. Its objective is to provide the reader with an introduction and overview of the financial statements of the Yap State Public Service Corporation (YSPSC) for the years ending September 30, 2023, 2022, and 2021. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

GASB 34 issued by the U.S. Governmental Accounting Standards Board requires that published financial statements must contain a management's discussion and analysis. This section of the YSPSC's annual report presents our discussion of YSPSC's performance for the years ended September 30, 2023, 2022, and 2021. It should be read in conjunction with financial statements that follow this section.

The following table summarizes the financial condition and operations of YSPSC as of 2023, 2022, and 2021.

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Statements of Revenues, Expenses, and Changes in Net Position
Years ended September 30, 2023, 2022 and 2021

	2023	2022 (Restated)	2021
Operating revenues:			
Electricity sales	\$ 5,469,355	5,129,864	5,151,811
Water and wastewater sales	486,876	488,918	463,334
	5,956,231	5,618,782	5,615,145
Provision for doubtful accounts	-	-	(66,231)
Total net operating revenues	5,956,231	5,618,782	5,548,914
Operating expenses:			
Production fuel	3,237,002	3,254,294	2,154,257
Depreciation	1,240,067	1,194,025	1,065,544
Salaries, wages, and related expenses	1,047,066	1,111,215	1,128,360
Administrative and general	285,251	478,155	432,335
Other production cost	553,324	549,827	809,445
Total net operating expenses	6,362,710	6,587,516	5,589,941
Operating loss	(406,479)	(968,734)	(41,027)

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Management's Discussion and Analysis
Years ended September 30, 2023, 2022 and 2021

Non-operating income (loss)			
Interest income	1,748	582	33,617
Foreign exchange loss, net	(135,825)	(82,827)	(17,415)
Operating grants and subsidies	406,169	158,716	102,328
Interest expenses	(508,801)	(131,905)	(133,272)
Donations to municipal government	-	-	(1,659,168)
Grant expenses	<u>(260,955)</u>	<u>(155,476)</u>	<u>(81,174)</u>
Total non-operating loss	<u>(497,664)</u>	<u>(210,910)</u>	<u>(1,755,084)</u>
Net loss before capital contribution	(904,143)	(1,179,644)	(1,796,111)
Capital contribution	<u>1,995,820</u>	<u>2,313,375</u>	<u>35,250</u>
Change in net position	1,091,677	1,133,731	(1,760,861)
Net position at the beginning of the year	9,866,830	8,370,852	10,131,713
Adjustment due to recognition of GASB 87	-	(80,947)	-
Adjustments to correct loan carrying amount	-	500,665	-
Adjustments to correct loan carrying amount	<u>-</u>	<u>(57,471)</u>	<u>-</u>
Net position at the end of the year	<u>\$ 10,958,507</u>	<u>9,866,830</u>	<u>8,370,852</u>

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Statements of Net Position
As of September 30, 2023, 2022 and 2021

	2023	2022 Restated	2021
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 463,563	305,640	933,613
Accounts receivable	931,273	829,255	838,341
Inventory	1,197,447	1,176,940	466,713
Prepayments	<u>453,486</u>	<u>127,836</u>	<u>290,877</u>
Total current assets	3,045,769	2,439,671	2,529,544

YAP STATE PUBLIC SERVICE CORPORATION
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Management's Discussion and Analysis
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Investment	365,021	328,402	393,951
Property and equipment	17,301,092	16,249,717	14,729,753
Long-term deposits	417,545	274,545	274,545
Long-term replacement parts	-	-	664,472
Right-of-use asset	285,323	294,914	-
Advances to contractors	82,284	82,284	82,284
Total assets	<u>\$ 21,497,034</u>	<u>19,669,533</u>	<u>18,674,549</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 434,427	365,712	361,745
Annual leave and accrued payroll	109,069	102,496	129,692
Deferred revenue	91,892	91,892	81,174
Refund payable to customer	175,318	175,318	175,318
Notes payable to YSG, current	1,275,899	546,041	496,605
Other current liabilities	486,552	208,626	197,287
Total current liabilities	2,573,157	1,490,085	1,441,821
Notes payable to YSG, non-current	7,587,993	7,935,241	8,861,876
Lease liability, non-current	377,377	377,377	-
Total liabilities	10,538,527	9,802,703	10,303,697

Net position:

Net investment in capital assets	8,437,200	7,768,435	5,371,272
Unrestricted	2,521,307	2,098,395	2,999,580
Total net position	10,958,507	9,866,830	8,370,852
Total liabilities and net position	<u>\$ 21,497,034</u>	<u>19,669,533</u>	<u>18,674,549</u>

FINANCIAL OPERATIONS OVERVIEW

YSPSC has again successfully completed twenty-eight years of operation. Continuing with its mission to provide reliable water, sewer and electricity services adequate to meet the needs of the people of Yap at the minimum price possible, the Corporation is always mindful of its commitment to provide the State's utility needs. With the continued focus on venturing into renewable energy related fields for alternative solutions to the rising costs of energy production, certain projects that were initiated as a result of the venture came to completion in 2016. Currently, all inhabited islands in the outer islands are now experiencing access to modern and sustainable electricity services through solar power. The challenge continues for management to ascertain the most cost-effective combination of conventional and renewable energy systems that would best suit the energy demands of the people of Yap State.

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Management's Discussion and Analysis
Years ended September 30, 2023, 2022 and 2021

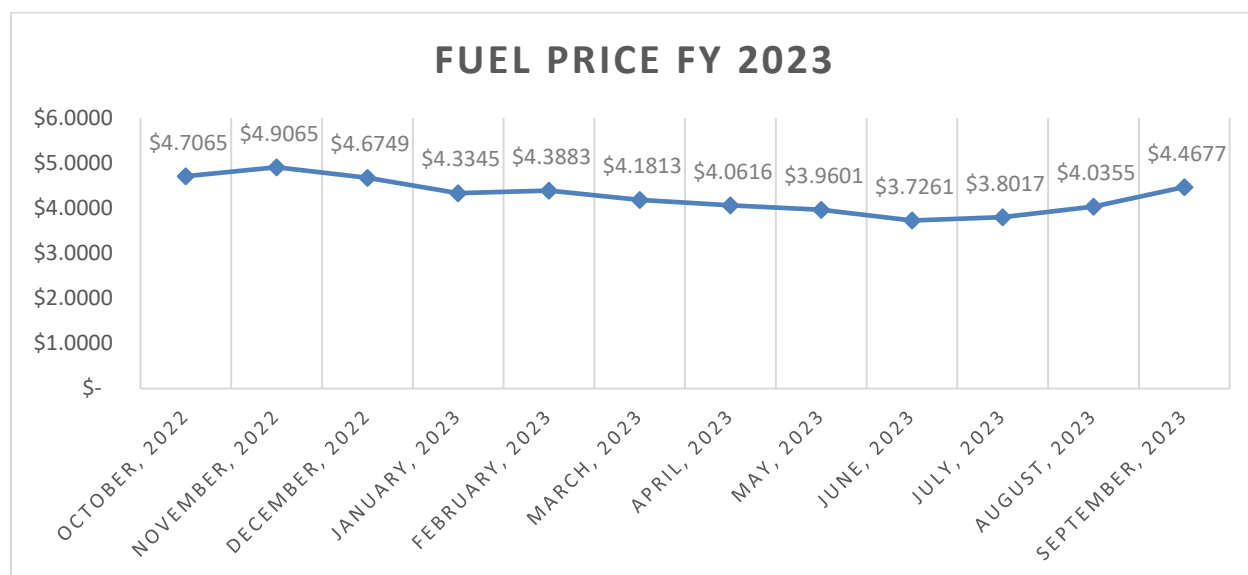
Results of Operations

Operating Profit/Loss – Financial operations for 2023 recognized an operating loss of \$406,479. Primarily because of fuel price increase. Operating loss for FY 2022 and 2021 was \$968,734 and \$41,027, respectively. In 2023, Operating revenues increased by 6% while operating expenses decreased by 3%.

Electric Revenue/Kilowatt Hours Billed: The fiscal year 2023 revenue of \$5,469,355 slightly increased by 6% over FY 2022. While In 2022, the decrease in electric revenue was .43% or \$21,947 against FY 2021, and both reflected an increase in kilowatt hours billed to customers. In FY 2023, 43% was consumed by Commercial customers, 34% was billed to government and 23% for residential.

Water Revenue: Water sales revenue slightly decreased by .4% percent or \$2,042 compared to FY 2022. In FY 2023, commercial customers used 24%, government customers utilized 14% and residential users were billed 62%. Water consumption for all classes was 82 million gallons.

Production Fuel: Production fuel, which represents 51% of the total operating expenses, slightly decreased by .5% or \$17,292 as compared to FY 2022. The average monthly fuel price paid by YSPSC for FY-2023 was \$4.2704 compared to \$4.5476 in 2022. The graph below shows the fuel price for FY 2023.



Other Operating Expenses – Other operating expenses dropped by 6% in 2023 as compared to 2022. Other production costs increased by 1%, and depreciation increased by 4%. General and administrative expenses decreased by 40% and salaries and wages decreased by 6% in 2023.

Significant Changes to Net Assets

YAP STATE PUBLIC SERVICE CORPORATION
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Management's Discussion and Analysis
Years ended September 30, 2023, 2022 and 2021

Cash – Ending cash at \$463,563 on September 30, 2023, is 52% more than the \$305,640 at the end of FY 2022 and was attributable to cash provided by operating activities and various grants received.

Receivables – Customer receivables of \$931,273 on September 30, 2023, signify an increase of 12% over 2022. While FY 2022 indicated a 1% decrease in customer receivables over 2021.

Capital Assets – YSPSC's investment in capital assets, net of accumulated depreciation as of September 30, 2023, and 2022 was \$17,301,092 and \$16,249,717, respectively. This included investment in power generation, distribution, water, and sewer treatment plant-related facilities, as well as general items such as office furniture and computer equipment, vehicles, etc. Capital Assets indicate a 6% increase as of FY 2023 as compared to FY 2022 due to additional construction projects funded by the state government.

Long-term Debt – On September 30, 2023, the Corporation owed \$8,863,892 in long-term loan for three Asian Development Bank (ADB) loans, \$1,275,899 of which is current. Moreover, an additional long-term debt for Lease Liability of \$377,377 was booked as of September 30, 2022. Please refer to Note 5 to the financial statements for additional information related to long-term debts.

Current Liabilities – Current Liabilities slightly increased by 8.6% or \$123,131 for 2023 as compared to 2022.

Capital Projects – Ongoing capital projects in 2023 include the sewer and water facilities assessment and improvement project funded by the Compact Infrastructure Maintenance Fund.

U.S. Federal, Local and Other Grants

Pacific Linemen Training Program – Funded by the U.S. Dept. of Interior Office of Insular Affairs Operations and Maintenance Improvement Program (OMIP) funds, with matching share by participating utilities, the continuing program aims to train professional linemen for the Micronesian island utilities; specifically, Guam Power Authority, Palau Public Utility Corporation, Pohnpei Utilities Corporation, American Samoa, and Yap Public Services Corporation. YSPSC received \$369,550 in fiscal year 2023 in cost reimbursements for the training program.

YAP STATE PUBLIC SERVICE CORPORATION
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Management's Discussion and Analysis
Years ended September 30, 2023, 2022 and 2021

Yap Upcoming projects for the next 5 years:

	Project Type	Project Description	Location	Approximated Cost (\$M)	Funding Status
1	1,973 kWp PV w/ 800 kWh BESS	1,673 kWp ground-mounted PV w/800 kWh BESS, and 300 kWp roof-top PV	Ground-mounted PV near main Power Plant, additional roof-top PV at Sports Complex in the North	\$USD3,517,171 (bid price)	ADB REDP
2	Control System Upgrade	To upgrade the existing Control System in Yap Main Island and integrate diesel and all energy systems, including new PV and BESS installations under REDP	Control Room at main Power Plant in Yap	\$USD0.65	ADB REDP
3	Additional 800 kWh BESS under REDP	Increasing PV capacity and production in the North, where the load is mainly residential and at night, from 200 kWp to 500 kWp under REDP will require the additional BESS to regulate and limit voltage fluctuation, and to store PV production for nighttime use.	Yap Sports Complex in the North of Yap Main Island	\$USD0.961	ADB REDP
4	Ormazabal Substation HV switchboard extension with 4 new Circuit Breaker Panels	2 Circuit Breaker Panels will be used for the PV and BESS installations under REDP, and 2 will be kept as spares or used for future underground mesh.	Yap Power Plant Substation	\$AUD0.161	ADB REDP
5	830 kW diesel generator	Installation of a second peak load genset to create redundancy for the peak diesel generation.	Yap Power Plant	\$USD0.3262	WB SEDAP
6	Diesel Integration	Integration of the new 830 kW diesel to be installed under SEDAP	Yap Power Plant	\$USD0.3	WB SEDAP
7	Solar PV Micro-grid for Ifalik	48.7 kWp, 878 kWh BESS solar PV micro-grid	Ifalik	\$USD1.15	Grant funded by US Federal HECG
8	Solar PV Micro-grid for Lamotrek	28.8 kWp, 518 kWh BESS solar PV micro-grid	Lamotrek	\$USD0.69	Grant funded by US Federal HECG

YAP STATE PUBLIC SERVICE CORPORATION
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	Project Type	Project Description	Location	Approximated Cost (\$M)	Funding Status
9	Rehabilitation of North Rep Systems	Installation of 60kWp of PV, 64.8kW of inverter capacity, 12,000Ah 48Vdc batteries.	Falalop, Ulithi	\$USD0.252	EDF11 SEAM
10	Grid Resiliency				
	a). Yap Underground Mesh – Phase 1	Installation of underground mesh to key government, commercial, and public infrastructures	Yap Main Island	\$USD5.117	WB ARISE Grant
	b.) Yap Underground Mesh – Phase 2	Installation of underground mesh to rest of distribution network not covered under Phase 1.	Yap Main Island	\$USD4.892	Unfunded
	c). Replacing all Wooden Primary Poles with Concrete Poles	443 concrete, 45' Class B guyed poles & accessories	Yap Main Island	\$USD2.766	Unfunded
	d). Outer Islands Underground Mesh	Converting the aerial network for the 4.16 kV mini-grids in Falalop Ulithi and Falalop Woleai to underground mesh	Falalop, Ulithi & Falalop, Woleai	\$USD0.861	Unfunded
11	Power Plant Resiliency	Enclose the main diesel fleet in individual concrete rooms, and reinforce the Control Room against Cat 5 cyclonic wind load.	Yap Main Island	\$USD1.208	Unfunded
12	Distribution Equipment	1 Mini-Bucket Truck; 1 Digger Derrick Truck; 2 4X4 Utility Trucks	Yap Main Island	\$USD0.62	Unfunded

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

Statements of Net Position
September 30, 2023 and 2022

	2023	2022 (restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 463,563	305,640
Accounts receivable	931,273	829,255
Inventory	1,197,447	1,176,940
Prepayments	453,486	127,836
Total current assets	3,045,769	2,439,671
Investments	365,021	328,402
Property and equipment	17,301,092	16,249,717
Long-term deposits	417,545	274,545
Right-to-use asset	285,323	294,914
Advances to contractors	82,284	82,284
Total assets	<u>\$ 21,497,034</u>	<u>19,669,533</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	434,427	365,712
Annual leave and accrued payroll	109,069	102,496
Deferred revenue	91,892	91,892
Refund payable to customer	175,318	175,318
Notes payable to Yap State Government, current	1,275,899	546,041
Other current liabilities	486,552	208,626
	2,573,157	1,490,085
Notes payable to Yap State Government, non-current	7,587,993	7,935,241
Lease liability, non-current	377,377	377,377
Total liabilities	10,538,527	9,802,703
Net position:		
Net investment in capital assets	8,437,200	7,768,435
Unrestricted	2,521,307	2,098,395
Total net position	10,958,507	9,866,830
Total liabilities and net position	<u>\$ 21,497,034</u>	<u>19,669,533</u>

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

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2023 and 2022

	2023	2022 (restated)
Operating revenues:		
Electricity sales	\$ 5,469,355	5,129,864
Water and wastewater sales	486,876	488,918
Total net operating revenues	5,956,231	5,618,782
Operating expenses:		
Production fuel	3,237,002	3,254,294
Depreciation and amortization	1,240,067	1,194,025
Salaries, wages, and related expenses	1,047,066	1,111,215
Administrative and general	285,251	478,155
Other production cost	553,324	549,827
Total operating expenses	6,362,710	6,587,516
Operating loss	(406,479)	(968,734)
Non-operating income (loss):		
Interest income	1,748	582
Foreign exchange loss, net	(135,825)	(82,827)
Operating grants and subsidies	406,169	158,716
Interest expense	(508,801)	(131,905)
Grant expenses	(260,955)	(155,476)
Total non-operating loss	(497,664)	(210,910)
Net loss before capital contribution	(904,143)	(1,179,644)
Capital contribution	1,995,820	2,313,375
Change in net position	1,091,677	1,133,731
Net position at the beginning of the year, as previously reported	9,866,830	8,370,852
Adjustment due to implementation of GASB 87 (Note 9)	-	(80,947)
Adjustments to correct loan carrying amount (Note 5)	-	500,665
Adjustment to recognize default payments to State Government	-	(57,471)
Net position at the beginning of the year, as adjusted	9,866,830	8,733,099
Net position at the end of the year	\$ 10,958,507	9,866,830

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

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	2023	2022 (restated)
Cash flows from operating activities		
Cash received from customers	\$ 5,712,961	5,639,168
Cash paid to suppliers for goods and services	(3,957,314)	(4,219,005)
Cash paid to employees	(1,053,639)	(1,084,019)
Net cash provided by operating activities	<u>702,008</u>	<u>336,144</u>
Cash flows from investing activities:		
Interest and other income	1,748	582
Sale of investments	-	65,549
Net cash provided by investing activities	<u>1,748</u>	<u>66,131</u>
Cash flows from non-capital financing activities:		
Proceeds from operating grants and subsidies	406,169	158,716
Expenses paid from operating grant proceeds	(260,955)	(155,476)
Net cash provided by non-capital investing activities	<u>145,214</u>	<u>3,240</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(617,020)	(2,599,233)
Increase in work-in-progress	(1,664,831)	(105,165)
Interest paid	(26,414)	(125,633)
Capital contributions received	1,760,218	2,313,375
Long term deposits	(143,000)	-
Repayment of loans payable	-	(516,832)
Net cash used in capital and related financing activities	<u>(691,047)</u>	<u>(1,033,488)</u>
Net change in cash and cash equivalents	157,923	(627,973)
Cash and cash equivalents at beginning of year	<u>305,640</u>	<u>933,613</u>
Cash and cash equivalents at end of year	<u><u>\$ 463,563</u></u>	<u><u>305,640</u></u>

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

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	2023	2022 (restated)
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income (loss)	\$ (406,479)	(968,734)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,230,476	1,184,434
Amortization of rent	9,591	9,591
Investment income	(36,619)	-
Decrease (increase) in operating assets:		
Accounts receivable	(102,018)	9,086
Inventory	(20,507)	(45,755)
Prepayments	(325,650)	163,041
Increase (decrease) in operating liabilities:		
Accounts payable	68,715	3,967
Annual leave and accrued payroll	6,573	(27,196)
Deferred revenue	-	10,718
Other current liabilities	277,926	(3,008)
Net cash provided by operating activities	<u>\$ 702,008</u>	<u>336,144</u>
Disclosure of non-cash investing and financing activities		
Right-of-use asset recognized at the beginning of the year	<u>\$ -</u>	<u>301,757</u>
Lease liability recognized at the beginning of the year	<u>\$ -</u>	<u>(384,824)</u>

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

YAP STATE PUBLIC SERVICE CORPORATION

(A Component Unit of the State of Yap)

Notes to Financial Statements

September 30, 2023 and 2022

(1) Organization and Summary of Significant Accounting Policies

Organization

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

Basis of Accounting

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

Net Position

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

- Net Investment in Capital Assets:
 - Net investment in capital assets includes restricted and unrestricted capital assets, net of accumulated depreciation, and is reduced by outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted:
 - Non-Expendable – Net position subject to externally imposed stipulations that require YSPSC to maintain them permanently.
 - Expendable – Net position whose use by YSPSC is subject to externally imposed stipulations that can be fulfilled by actions of YSPSC pursuant to those stipulations or that expire with the passage of time.

YAP STATE PUBLIC SERVICE CORPORATION

(A Component Unit of the State of Yap)

Notes to Financial Statements

September 30, 2023 and 2022

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

Net Position, continued

- Unrestricted:
 - Net position that is not subject to externally imposed stipulations. An unrestricted net position may be designated for specific purposes by the action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

YSPSC has no restricted net position on September 30, 2023 and 2022.

Property and Equipment

Property and equipment were transferred from the Division of Public Utilities to YSPSC as of April 1, 1996, at the estimated net book value without documents supporting cost. The net book value of the property and equipment transferred was \$6,805,075 as of April 1, 1996. Property and equipment acquired after April 1, 1996, is carried at cost. YSPSC generally capitalizes property and equipment with a cost of \$500 or more. Depreciation is computed using the straight-line method over the asset's estimated useful lives (3-40 years for plant assets).

Cash and Cash Equivalents

For purposes of the statements of net position and the statements of cash flows, cash and cash equivalents are defined as cash on hand, cash in bank, and time certificates of deposit with original maturities of three months or less. Time certificates of deposit with original maturities of more than three months are classified separately.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices except for certain money market accounts, which are recorded at amortized cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date on which the fair value of an asset or liability is determined. Management intends to hold the investments for more than 5 years and thus has reported investments as other noncurrent assets in the statements of net position.

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September 30, 2023 and 2022

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

Receivables

All receivables are due from government agencies, businesses, and individuals located within the State of Yap and are interest-free and uncollateralized. The allowance for uncollectible accounts is estimated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Bad debts are written off against the allowance using the specific identification method.

Inventory

Supply inventories are carried at specific identification costs or estimated values when the State of Yap contributes. Fuel inventories are carried at cost determined using the first in-first out method.

Annual and sick leave

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

Revenues

Electricity and water sales are recorded as billed to customers on a monthly billing cycle. As of September 30, 2023 and 2022, unbilled revenues of \$199,836 for both years are estimated and accrued based on the most recent billing cycles.

Operating and Non-Operating Revenues and Expenses

YSPSC considers revenues and expenses directly related to utility operations as operating revenues and expenses. Revenues and expenses related to investing, financing, and capital activities, and revenues and expenses related to natural disasters are reflected as non-operating.

Use of Estimates

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

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

Risk Management

YSPSC is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, and natural disasters. Commercial insurance coverage has been obtained for claims arising from most of these matters. YSPSC is self-insured for typhoon risks. Management is of the opinion that no material losses have been sustained because of this practice during the past three years.

New Accounting Standards

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

During the year ended September 30, 2023 and 2022, the Corporation implemented the following pronouncements:

- GASB Statement No. 84, Fiduciary Activities, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
- GASB Statement No. 93, Replacement of Interbank Offered Rates, establishes accounting and reporting requirements related to replacing Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

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

New Accounting Standards, continued

In June 2017, GASB issued Statement No. 87, Leases. This Statement aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the contract's payment provisions. Management believes this statement, upon implementation, had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 was adopted for the fiscal year ended September 30, 2022. See Note 9 for disclosure regarding leases.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe this statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 was adopted for the fiscal year ended September 30, 2022.

In May 2019, GASB issued Statement No. 91, Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation, establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. In accordance with GASB Statement No. 95, GASB Statement No. 91 is effective for the fiscal year ending September 30, 2023. The adoption of this Statement did not have a material impact on the financial statements.

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September 30, 2023 and 2022

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

New Accounting Standards, continued

In January 2020, GASB issued Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to post-employment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 were adopted for the fiscal year ending September 30, 2022.

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

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

In June 2020, GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.

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

New Accounting Standards, continued

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that the adoption of GASB Statement No. 97 had a material effect on the financial statements. GASB Statement No. 97 was adopted for the fiscal year ended September 30, 2022.

In October 2021, GASB issued Statement No. 98, The Annual Comprehensive Financial Report. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replaces instances of comprehensive annual financial reports and its acronym in generally accepted accounting principles for state and local governments. Management does not believe this statement had a material effect on the financial statements. GASB Statement No. 98 was adopted for the fiscal year ended September 30, 2022.

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

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

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

New Accounting Standards, continued

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

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

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

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

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

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Notes to Financial Statements

September 30, 2023 and 2022

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

New Accounting Standards, continued

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

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

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

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

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

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

New Accounting Standards, continued

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

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

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

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

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

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

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September 30, 2023 and 2022

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

New Accounting Standards, continued

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

In December 2023, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. State and local governments engage in various nonexchange transactions, in which resources are transferred to or from the government without a direct exchange of goods or services. The objective of this Statement is to enhance the consistency and transparency of financial reporting for these types of transactions by establishing clear guidance on how governments should account for and report these transactions.

This Statement provides specific guidance on the recognition, measurement, and reporting of revenues and expenditures for nonexchange transactions, including grants, donations, and entitlements. It requires that governments recognize revenue when an eligibility requirement is met, and expenditures when the related liability is incurred. Additionally, the Statement clarifies the treatment of certain items such as property taxes, fines, and penalties, ensuring consistency in their recognition and measurement.

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

In December 2023, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. State and local governments invest funds to support their operations and meet future financial obligations. The objective of this Statement is to establish comprehensive standards for accounting and financial reporting related to investments and investment pools, to improve the consistency, transparency, and comparability of investment reporting.

This Statement outlines new requirements for the recognition, measurement, and reporting of investments, including how to classify investments as either "investments" or "cash equivalents" and how to report changes in the fair value of investments. The Statement also provides guidance on the reporting of investment pools, including disclosures regarding the pooling arrangement, the type of investments, and the risks associated with the investments.

Additionally, the Statement establishes requirements for the reporting of investment income, including interest, dividends, and realized and unrealized gains or losses. The goal is to provide users of financial statements with relevant and reliable information that reflects the financial position and performance of governmental investments and investment pools.

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September 30, 2023 and 2022

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

New Accounting Standards, continued

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

(2) Cash and Cash Equivalents

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values and are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that YSPSC's deposits may not be returned to it in the event of a bank failure. Such deposits are not covered by depository insurance. They are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. YSPSC does not have a deposit policy for custodial credit risk.

As of September 30, 2023 and 2022, the carrying amount of the YSPSC's total cash and cash equivalents was \$463,563 and \$305,640, respectively, and the corresponding bank balances were \$462,287 and \$304,370, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. On September 30, 2023 and 2022 bank deposits in the amount of \$179,337 and \$16,932, respectively, were in excess of the \$250,000 FDIC insurance limit. Collateralization of deposits is not required; therefore, deposits more than the FDIC-insured amounts are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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

Notes to Financial Statements

September 30, 2023 and 2022

(3) Accounts Receivable and Accrued Unbilled Revenue

YSPSC's accounts receivable, less allowance for doubtful accounts, and accrued unbilled revenue on September 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Gross accounts receivable	\$ 814,632	712,614
Allowance for doubtful accounts	<u>(83,195)</u>	<u>(83,195)</u>
Net accounts receivable	731,437	629,419
Accrued unbilled revenue	<u>199,836</u>	<u>199,836</u>
Net accounts receivable and accrued unbilled revenue	<u><u>\$ 931,273</u></u>	<u><u>829,255</u></u>

(4) Investments

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

	<u>2023</u>	<u>2022</u>
Common stock	\$ 231,425	210,879
Exchange-traded funds	116,610	100,146
Money market funds (imbedded in investment product)	9,763	9,215
Money market funds (liquid)	<u>7,223</u>	<u>8,162</u>
	<u><u>\$ 365,021</u></u>	<u><u>328,402</u></u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, YSPSC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. YSPSC's investments are held and administered by trustees. Accordingly, these investments are exposed to custodial credit risk.

Based on negotiated trust and custody contracts, all investments were held in YSPSC's name by YSPSC's custodial financial institutions on September 30, 2023 and 2022.

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Notes to Financial Statements

September 30, 2023 and 2022

(4) Investments, 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 number of investments in any one issuer that represents five percent (5%) or more of total investments for YSPSC. As of September 30, 2023 and 2022, the following investments in these issuers represented five percent or more of total investments for YSPSC:

	<u>2023</u>	<u>2022</u>
Vanguard Index Funds S&P 500 ETF SHS NEW (VOO)	36%	34%
iShares TR Core US AGGBD ET (AGG)	30%	29%
iShares TR Core MSCI EAFE (IEFA)	7%	7%
iShares TR MSCI USA MIN VOL (USMV)	<u>2%</u>	<u>7%</u>
	<u>75%</u>	<u>77%</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. YSPSC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

YSPSC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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(4) Investments, continued

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

	Heirarchy as of September 30, 2023				Maturity at September 30, 2023				
	Level 1	Level 2	Level 3	Credit Rating	No Maturity	Less than 1 year	1-5 years	6-10 year	More than 10 years
Investments by fair value level:									
Exchange-traded fund	\$ 116,610	\$ -	\$ -	NR	\$ 116,610	\$ -	\$ -	\$ -	\$ -
Common stock	231,425	-	-	NR	231,425	-	-	-	-
	348,035	-	-		348,035	-	-	-	-
Investments measured at amortized cost:									
Money market funds	16,986	-	-		16,986	-	-	-	-
Total investments	<u>\$ 365,021</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 365,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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(4) Investments, continued

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

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(4) Property and Equipment

A summary of changes in capital assets for the years ended September 30, 2023 and 2022 is as follow:

	2023				
	Beginning Balance	Transfers and Additions	Transfers and Deletions	Others	Ending Balance
Depreciable plant:					
Power	\$ 27,382,762	\$ 123,230	\$ -	\$ -	\$ 27,505,992
Water and wastewater	7,157,481	429,100	-	-	7,586,581
General	3,215,304	64,692	-	-	3,279,996
	37,755,547	617,022	-	-	38,372,569
Accumulated depreciation	(21,651,632)	(1,230,476)	-	-	(22,882,108)
Net depreciable plant	16,103,915	(613,454)	-	-	15,490,461
Non-depreciable plant:					
Work-in-progress	145,802	1,664,829	-	-	1,810,631
	\$ 16,249,717	\$ 1,051,375	\$ -	\$ -	\$ 17,301,092

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Notes to Financial Statements
September 30, 2023 and 2022

(4) Property and Equipment, continued

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

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

Notes to Financial Statements

September 30, 2023 and 2022

(5) Notes Payable to Yap State Government

Notes payable on September 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Uncollateralized loan of original principal of \$2,270,837 payable to the Asian Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) and the Yap State Government for the construction of certain water projects. YSPSC was to be liable to Yap State Government (YSG) for interest at 6.82% on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable semiannually in Special Drawing Rights (SDR) commencing August 2007, maturing in 2034. Additional consulting fees increased the loan balance by \$639,957 in fiscal year 2009.	\$ 1,438,914	1,384,189
Loan guaranteed by the Federated States of Micronesia with a maximum amount of \$4,680,000 payable to ADB borrowed through the FSM and YSG for the Yap Renewable Energy Development Project. YSPSC is liable to Yap State for interest at 0.80% which includes a 0.20% maturity premium, net of a 0.20% rebate. The loan is repayable semiannually for a period of 20 years	4,393,763	4,216,199
Loan guaranteed by the FSM with a maximum amount of \$4,360,000 for renewable energy, YSPSC is liable to YSG for interest at 2%. The loan is repayable semiannually for a period of 20 years commencing December 1, 2018.	<u>3,031,215</u>	<u>2,880,894</u>
Total notes payable	8,863,892	8,481,282
Less: current portion	494,088	488,570
Less: default portion	<u>781,811</u>	<u>57,471</u>
Notes payable, net of current portion	<u>\$ 7,587,993</u>	<u>7,935,241</u>

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Notes to Financial Statements
September 30, 2023 and 2022

(5) Notes Payable, continued

Changes in long-term liabilities for the years ended September 30, 2023 and 2022 are as follows:

2023						
	Beginning	Increases	Decreases	Ending Balance	Current	Default
LN# 1459	\$ 1,384,189	\$ 54,725	\$ -	\$ 1,438,914	\$ 121,126	\$ 169,250
LN# 3004	4,216,199	177,564	-	4,393,763	187,387	364,951
LN# 3005	2,880,894	150,321	-	3,031,215	185,575	247,610
	<u>\$ 8,481,282</u>	<u>\$ 382,610</u>	<u>\$ -</u>	<u>\$ 8,863,892</u>	<u>\$ 494,088</u>	<u>\$ 781,811</u>

2022						
	Beginning	Increases	Decreases	Ending Balance	Current	Default
LN# 1459	\$ 1,575,080	\$ 82,827	\$ 273,718	\$ 1,384,189	\$ 121,126	\$ 57,471
LN# 3004	4,403,586	-	187,387	4,216,199	187,387	-
LN# 3005	3,379,815	-	498,921	2,880,894	180,057	-
	<u>\$ 9,358,481</u>	<u>\$ 82,827</u>	<u>\$ 960,026</u>	<u>\$ 8,481,282</u>	<u>\$ 488,570</u>	<u>\$ 57,471</u>

Accumulated interest for default payments was \$235,602 and \$-0- for September 30, 2023 and 2022. The amount is included in the other current liabilities.

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

Notes to Financial Statements

September 30, 2023 and 2022

(5) Notes Payable, continued

The breakdown of the total decreases in 2022 are as follows:

Cash payments	\$ 459,361
Adjustment to correct loan carrying amount	<u>500,665</u>
	<u>\$ 960,026</u>

Future maturities of notes are as follows:

<u>Years ending September 30:</u>	<u>Payments</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 601,595	494,088	107,507
2025	595,628	494,088	101,540
2026	682,979	587,782	95,197
2027	675,513	587,782	87,731
2028	668,046	587,782	80,264
2029-2033	3,228,233	2,938,909	289,324
2034-2038	<u>2,494,313</u>	<u>2,391,650</u>	<u>102,663</u>
	<u>\$ 8,946,307</u>	<u>8,082,081</u>	<u>864,226</u>

(6) Commitments and Contingencies

YSPSC does not currently hold title to real property underlying its operating sites. Such property substantially is held in the name of the State of Yap. YSPSC does not charge for use of this property.

YSPSC is the ultimate beneficiary of two diesel generators and a substation upgrade from the World Bank and a 200 KWP panel solar system from PEC Fund that are operational as of September 30, 2020. These projects were granted to the FSM National Government and turnover of ownership and related documents to YSPSC is still ongoing as of September 30, 2023. YSPSC does not currently hold title to this property, and such is not recorded in the accompanying financial statements.

YAP STATE PUBLIC SERVICE CORPORATION

(A Component Unit of the State of Yap)

Notes to Financial Statements

September 30, 2023 and 2022

(6) Commitments and Contingencies, continued

Federal Grants

YSPSC participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed.

The Office of Insular Affairs (OIA) has determined that old audit findings related to audits submitted to the Federal Audit Clearinghouse (FAC) in March 2023 or earlier are no longer valid under 2 CFR 200.511, as more than two years have passed since the audit report submission, no federal agency or pass-through entity is actively following up on these findings, and no management decision was issued. As a result, OIA will not pursue corrective actions for these audits.

Cumulative unresolved prior years' questioned costs as of September 30, 2023 and 2022 amounted to \$-0- and \$247,296, respectively.

Payable to Federated States of Micronesia

In February 2008, the Yap State Legislature enacted YSL No. 7-25 to amend No. 4-4, YSPSC's enabling legislation, mandating that YSPSC credit back certain charges to prior customers. YSL No. 7-25 directed YSPSC to repeal all fuel surcharges and fees more than \$0.035 per kWh and to refund to customers all fuel surcharges and fees collected more than \$0.035 per kWh from March 2006 to February 2008. On September 30, 2011, the total variable fuel charge refund has been repaid to residential and commercial customers. The repayment of those costs over the legislated \$0.035 was facilitated by a loan from the State of Yap for \$1,600,000 authorized by YSL No. 7-38.

YSL No. 39 then authorized the Governor to forgive any refund that may be owed by YSPSC to Yap State Government agencies for these declared excessive surcharges. The refund owed FSM National Government as a prior customer remains outstanding at \$175,318 on September 30, 2022 and is included as a current liability in the statement of net position. Although the FSM National Government has not asserted a claim to this liability, it has not forgiven this debt.

Contract Commitments

As of September 30, 2023 and 2022, YSPSC has construction contract obligations amounting to \$1,810,631 and \$145,802, respectively.

YAP STATE PUBLIC SERVICE CORPORATION

(A Component Unit of the State of Yap)

Notes to Financial Statements

September 30, 2023 and 2022

(7) Grants

YSPSC received the following grants and capital contributions during the years ended September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
U. S. Government	\$ 1,502,820	153,074
Yap State Government	350,000	2,160,301
Japan Government	<u>143,000</u>	<u>-</u>
	<u>\$ 1,995,820</u>	<u>2,313,375</u>

(8) Related Party Transactions

In the ordinary course of business, YSPSC enters into transactions with the State of Yap and private businesses in which certain of YSPSC's board members hold positions of influence. Several board members hold management positions with the State of Yap, of which YSPSC is a component unit. Several board members hold management positions with private companies with which YSPSC, from time to time, engages in business transactions. YSPSC management is of the opinion that its transactions with related parties are executed under the same laws, terms and conditions as are entered into with unrelated entities.

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

Notes to Financial Statements

September 30, 2023 and 2022

(9) Leases

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

The future lease obligations are as follows:

<u>Years ending September 30:</u>	<u>Payments</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 25,000	-	25,000
2025	25,000	-	25,000
2026	25,000	-	25,000
2027	25,000	-	25,000
2028	25,000	-	25,000
2029-2033	128,125	-	128,125
2034-2038	187,500	30,316	157,184
2039-2043	187,500	81,587	105,913
2044-2048	187,500	114,410	73,090
2049-2053	178,125	151,064	27,061
	<u>\$ 993,750</u>	<u>377,377</u>	<u>616,373</u>

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Notes to Financial Statements
September 30, 2023 and 2022

(9) Leases, continued

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

	2023	2022
Right to use the leased asset	\$ 383,627	383,627
Accumulated amortization	(98,304)	(88,713)
Right to use the leased asset, net	<u>\$ 285,323</u>	<u>294,914</u>
Lease liability, current	\$ -	-
Lease liability, non-current	<u>377,377</u>	<u>377,377</u>
Total lease liability	<u>\$ 377,377</u>	<u>377,377</u>

Supplemental information related to YSPSC's leases follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Interest payments made	\$ 25,000	25,000
Weighted average remaining lease term	29.75 years	30.75 years
Weighted average discount rate	6.82%	6.82%

(10) Coronavirus Pandemic

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the 2019-nCoV (Coronavirus) outbreak a "Public Health Emergency of International Concern".

On May 5, 2023 the World Health Organization declared that the public health emergency had ended. There are lingering aspects of the pandemic that are affecting businesses in Yap, primarily related to the tourism industry. It is anticipated that these impacts will continue for some time. As a result of the spread of the coronavirus pandemic, economic uncertainties have arisen which are likely to impact the day-to-day administration of the Company. While this matter is expected to negatively impact the YSPSC's results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Notes to Financial Statements
September 30, 2023 and 2022

(11) Date of Management's Review

Management has evaluated subsequent events and transactions occurring after the statement of net position date through the date of availability of the financial statements to be issued, February 19, 2026. Management has determined that none of the events occurring after the date of the statement of net position substantially affects the amounts, presentation, and disclosure of the accompanying financial statements.



BURGER · COMER & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors of
Yap State Public Service Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Yap State Public Service Corporation (the "Corporation"), which comprise the statements of net position as September 30, 2023 and 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated February 19, 2026.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Bryan Comer & Associates

February 19, 2026
Saipan, MP

YAP STATE PUBLIC SERVICE CORPORATION
(A Component Unit of the State of Yap)
Summary Schedule of Prior Audit Findings
September 30, 2023

Finding Number	Assistance Listing Number	Questioned Costs Reported in FY 2022	Questioned Costs Forgiven in FY 2023	Remaining Questioned Costs in FY 2023	Status
2015-002	15.875	\$ 247,296	\$ 247,296	\$ -	Forgiven

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