

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2020

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2020

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**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2020

INDEPENDENT AUDITORS' REPORT

Honorable Jesse J. Salalu
Governor, State of Yap
Federated States of Micronesia:

Report on the Financial Statements

We have audited the accompanying 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, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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.

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

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

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The State's component units' column does not include the financial statements of the Yap Fishing Authority. Accounting principles generally accepted in the United States of America require the financial statements of the Yap Fishing Authority be reported with the financial data of the State's component units' column unless the State also issues financial statements for the financial reporting entity that include the financial data for its component units. The State has not issued such reporting entity's financial statements. Because of the departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the aggregately discretely presented component units could not be determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the respective financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2020, or the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Receivables from the FSM National Government

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

COVID-19

As discussed in the Note 11 to the financial statements, the State has determined that the COVID-19 pandemic may negatively impact its result of operations and net position. The State is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

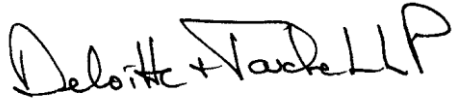
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 as well as the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 53 and 54, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 combining and individual fund financial statements as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining and individual fund financial statements 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 December 31, 2021 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.

A handwritten signature in black ink that reads "Deloitte + Tuck LLP". The signature is stylized, with the "D" being large and the "LLP" being written in a cursive-like font.

December 31, 2021

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2020

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, 2020. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2019 comparative information has been included, where appropriate. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2020, Yap State's total net position increased by \$5.6 million from \$113.5 million in fiscal year 2019 to \$119.1 million at the end of fiscal year 2020. The 4.9% rate of increase is higher than the rate of increase from fiscal year 2018 to 2019 of 3.8% and is primarily attributable to gains in the fair value of investments.
- Total revenue for the State's governmental funds was \$32.7 million, an increase of 15.1% over 2019. Much of the increase came from investment gains in the Permanent Funds. In contrast, General Fund revenue declined by 51.4% as a result of Pandemic-related economic restrictions, from \$9.2 million in 2019 to \$4.47 million in 2020. General Fund revenue as a percentage of total revenue was only 14% in FY20, a big decrease from 32% in the prior year. In contrast, Permanent Funds revenues as a percentage of the whole increased to 28%, compared to only 8% in the prior year. Revenues from foreign assistance grants (48% down from 53%) and other governmental funds (10% up from 7%) changed only slightly in FY20 as compared to FY19.
- At the end of fiscal year 2020, the Yap State Trust Fund reported a balance of \$66.8 million, which was a 7.5% increase of \$4.68 million from the prior year, as a result of gains in the fair value of the investment.
- The "Unassigned" General Fund balance generally considered to be the balance available for appropriation was \$8.9 million at the end of FY20 down from \$10.4 million for fiscal year 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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.

**STATE OF YAP
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Management's Discussion and Analysis
Year Ended September 30, 2020

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

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

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

Fund Financial Statements

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

Yap State has two types of funds:

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

FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2020, Yap State's assets exceeded liabilities by \$118.57 million. Of its total net assets of \$118.57 million, \$17.3 million is restricted for specific uses. Included in net assets are \$21.2 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, 2020 with comparative figures for the prior year:

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**Management's Discussion and Analysis
Year Ended September 30, 2020**

	Governmental Activities		Business Type Activities		Total		Change	%
	2020	2019	2020	2019	2020	2019		
Assets								
Current assets	\$ 20,700,369	\$ 22,017,126	\$ 303,400	\$ 317,151	\$ 21,003,769	\$ 22,334,277	\$ (1,330,508)	-6%
Other assets	88,379,076	79,602,750	-	-	88,379,076	79,602,750	8,776,326	11%
Capital assets, net	21,206,812	21,649,053	254,211	336,591	21,461,023	21,985,644	(524,621.00)	-2%
Total assets	130,286,257	123,268,929	557,611	653,742	130,843,868	123,922,671	6,921,197	6%
Liabilities								
Current Liabilities	6,689,171	5,281,242	30,789	22,661	6,719,960	5,303,903	1,416,057	27%
Noncurrent liabilities	5,027,080	5,146,280	-	-	5,027,080	5,146,280	(119,200)	-2%
Total liabilities	11,716,251	10,427,522	30,789	22,661	11,747,040	10,450,183	1,296,857	12%
Net assets								
Invested in capital assets, net	21,206,812	19,673,955	254,211	336,591	21,461,023	20,010,546	1,450,477	7%
Restricted	17,288,495	17,133,846	-	-	17,288,495	17,133,846	154,649	1%
Unrestricted	80,074,699	76,033,606	272,611	294,490	80,347,310	76,328,096	4,019,214	5%
Total net assets	\$ 118,570,006	\$ 112,841,407	\$ 526,822	\$ 631,081	\$ 119,096,828	\$ 113,472,488	\$ 5,624,340	5%

At the end of fiscal year 2020, Yap State's unrestricted net assets show a surplus of \$80.1 million (67% of total net assets). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$66.8 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2019, Yap State's assets increased by \$5.7 million. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Government Activities		Business-Type Activities		Total		Change	%
	2020	2019	2020	2019	2020	2019	2020	2019
Revenues:								
Program Revenues								
Charges for services	\$ 1,064,708	\$ 1,370,598	\$ 416,228	\$ 412,625	\$ 1,480,936	\$ 1,783,223	\$ (302,287)	-17%
Operating grants & contributions	18,505,666	16,703,554	-	-	18,505,666	16,703,554	1,802,112	11%
Capital grants & contributions	-	-	30,000	30,000	30,000	30,000	-	0%
General Revenue								
Taxes	3,963,251	3,626,755	-	-	3,963,251	3,626,755	336,496	9%
Unrestricted investment (losses) earnings	1,361,964	945,953	-	-	1,361,964	945,953	416,011	44%
Other	(1,543,060)	3,544,025	-	-	(1,543,060)	3,544,025	(5,087,085)	-144%
Total revenue	23,352,529	26,190,885	446,228	442,625	23,798,757	26,633,510	(2,834,753)	-11%
Expenses:								
General Government	4,782,138	3,643,136	550,487	532,251	5,332,625	4,175,387	1,157,238	28%
Health Services	6,926,877	6,211,749	-	-	6,926,877	6,211,749	715,128	12%
Education	7,180,957	7,039,959	-	-	7,180,957	7,039,959	140,998	2%
Economic Development	899,802	908,117	-	-	899,802	908,117	(8,315)	-1%
Public Safety	478,971	540,361	-	-	478,971	540,361	(61,390)	-11%
Public Works and Transportation	4,216,421	3,274,919	-	-	4,216,421	3,274,919	941,502	29%
Community affairs	291,749	107,409	-	-	291,749	107,409	184,340	172%
Boards and commissions	258,155	320,441	-	-	258,155	320,441	(62,286)	-19%
Payments to component units	113,428	151,179	-	-	113,428	151,179	(37,751)	-25%
Judiciary	185,011	188,214	-	-	185,011	188,214	(3,203)	-2%
Others	1,183,487	1,550,889	-	-	1,183,487	1,550,889	(367,402)	-24%
Total expenses	26,516,996	23,936,373	550,487	532,251	27,067,483	24,468,624	2,598,859	11%
Excess (deficiency) of revenue (over) under expenditures	(3,164,467)	2,254,512	(104,259)	(89,626)	(3,268,726)	2,164,886	(5,433,612)	-251%
Contributions to permanent funds	9,335,796	2,186,931	-	-	9,335,796	2,186,931	7,148,865	327%
Receivable written off	-	(148,429)	-	-	-	(148,429)	148,429	100%
Gain from foreign exchange rate	(154,008)	127,060	-	-	(154,008)	127,060	(281,068)	-221%
Loss of impairment of an asset	(288,722)	(184,951)	-	-	(288,722)	(184,951)	(103,771)	56%
Change in net position	5,728,599	4,235,123	(104,259)	(89,626)	5,624,340	4,145,497	1,478,843	36%
Net position at the beginning of the year	112,841,407	108,606,284	631,081	720,707	113,472,488	109,326,991	4,145,497	4%
Net position at the end of the year	\$ 118,570,006	\$ 112,841,407	\$ 526,822	\$ 631,081	\$ 119,096,828	\$ 113,472,488	\$ 5,624,340	5%

**STATE OF YAP
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Management's Discussion and Analysis
Year Ended September 30, 2020

Despite the economic slowdown in fiscal year 2020 due to the FSM border closings which went in effect in April 2020 as a response to the Pandemic, total revenues in fiscal year 2020 decreased only by \$2.8 million as compared to fiscal year 2019. Likewise, total expenses in fiscal year 2020 exceeded the prior year by \$2.6 million. However, the negative economic effects of the Pandemic were mitigated by actions taken by the FSM Congress to increase the States' share of national taxes and by increased U.S. federal funding for Covid-19 relief assistance. These actions, in addition to the unprecedented \$9.3 million in earnings for the Permanent Funds, contributed to the \$5.7 increase in net position for fiscal year 2020.

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

FINANCIAL ANALYSIS OF YAP STATE GOVERNMENTAL FUNDS

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 2020, Yap State's governmental funds reported a combined fund balance of \$103.0 million, which represents an increase of \$6 million in comparison with fiscal year 2019. Of the total fund balance, \$94.1 million is non-spendable, restricted, committed, or assigned. These classifications indicate that the funds are not available for new spending because it is: 1) non-spendable because it is already committed to assets or is restricted by law or other stipulation (\$87.6 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$3.5 million); 3) restricted because the funds are already committed (\$1.3 million); and, 4) restricted and intended for a specific purpose (\$1.6 million). The unassigned combined fund balance is \$8.9 million.

The State's governmental fund changes in fund balances for the years ended September 30, 2020 and 2019 are shown below:

	General Fund		Foreign Asst Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets												
Unrestricted assets	\$ 20,951,628	\$ 22,333,627	\$ 7,786,451	\$ 8,415,870	\$ -	\$ -	\$ -	\$ -	\$ 1,670,204	\$ 1,814,645	\$ 30,408,283	\$ 32,564,142
Restricted assets	3,846,057	4,394,222	-	-	66,783,781	58,590,564	14,142,465	12,999,886	-	-	84,772,303	75,984,672
Total assets	\$ 24,797,685	\$ 26,727,849	\$ 7,786,451	\$ 8,415,870	\$ 66,783,781	\$ 58,590,564	\$ 14,142,465	\$ 12,999,886	\$ 1,670,204	\$ 1,814,645	\$ 115,180,586	\$ 108,548,814
Liabilities	\$ 6,388,108	\$ 5,728,974	\$ 5,277,447	\$ 5,189,684	\$ -	\$ -	\$ 51,221.00	\$ 51,221.00	\$ 439,006	\$ 561,794	\$ 12,155,782	\$ 11,531,673
Fund Balances	18,409,577	20,998,875	2,509,004	3,226,186	66,783,781	58,590,564	14,091,244	12,948,665	1,231,198	1,252,851	103,024,804	97,017,141
Total liabilities and fund balance	24,797,685	26,727,849	7,786,451	8,415,870	66,783,781	58,590,564	14,142,465	12,999,886	1,670,204	1,814,645	115,180,586	108,548,814
Revenues:												
Taxes	\$ 3,875,495	\$ 3,562,426	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87,756	\$ 64,329	\$ 3,963,251	\$ 3,626,755
Compact	-	-	12,593,565	12,051,955	-	-	-	-	-	-	12,593,565	12,051,955
Others/transfers In	590,030	5,620,887	2,979,862	2,993,038	8,193,217	1,768,722	1,142,579	418,209	3,210,949	1,898,250	16,116,637	12,699,106
Total revenue	4,465,525	9,183,313	15,573,427	15,044,993	8,193,217	1,768,722	1,142,579	418,209	3,298,705	1,962,579	32,673,453	28,377,816
Expenditures/Transfers Out	6,766,101	7,218,213	16,290,609	14,005,864	-	-	-	-	3,320,358	1,935,010	26,377,068	23,159,087
Special items	288,722	-	-	-	-	-	-	-	-	-	288,722	-
Total expenditures/transfers out	7,054,823	7,218,213	16,290,609	14,005,864	-	-	-	-	3,320,358	1,935,010	26,665,790	23,159,087
Net Change in Fund Balance	\$ (2,589,298)	\$ 1,965,100	\$ (717,182)	\$ 1,039,129	\$ 8,193,217	\$ 1,768,722	\$ 1,142,579	\$ 418,209	\$ (21,653)	\$ 27,569	\$ 6,007,663	\$ 5,218,729

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2020

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2020. Activities in this fund was relatively stable during the year.

Yap State Investment Trust and Compact Trust Fund

Revenues for these funds are determined by the results of the State's investments. Those results are primarily based on improvement in the U.S. Stock market, which is what transpired during fiscal year 2020.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2020, amounted to \$122.7 million, net of accumulated depreciation of \$106.4 million, leaving a net book value of \$16.3 million. This represents a net increase of \$442,239 from fiscal year 2019. The table below summarizes Yap State's capital assets:

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>%</u>
Land	\$ 3,777,116	\$ 3,170,610	\$ 606,506	0.19
Buildings	7,489,484	7,928,034	(438,550)	-0.06
Equipment	648,102	379,691	268,411	0.71
Heavy Equipment	418,964	367,923	51,041	0.14
Vehicles	367,187	351,160	16,027	0.05
Vessels	1,301,462	1,490,240	(188,778)	-0.13
Infrastructures	6,051,124	6,682,668	(631,544)	-0.09
Construction work in progress	1,153,373	1,278,727	(125,354)	-0.10
	<u>\$ 21,206,812</u>	<u>\$ 21,649,053</u>	<u>\$ (442,241)</u>	<u>-0.02</u>

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

Long-Term Debt

Long-term debt obligations of the Yap State primary government totaled \$5.66 million as of September 30, 2020. This debt is comprised of the non-current portion of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, Basic Social Services Loan and Omnibus Infrastructure Development Loan with all four adding to \$4.86 million, liability for compensated absences of \$553,604, and long-term payments due under land purchase agreements of \$249,608. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by \$688,247 deposited in a restricted investment account jointly held with the FSM National Government.

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2020

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 48% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of the 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 2020 and beyond.

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

COVID-19 ECONOMIC IMPACT

The FSM took strong proactive measures to protect the health of the nation, including closure of its borders. In the early months of 2020, the onset of the COVID-19 global pandemic ravaged the global economy with unprecedented, implemented travel restrictions which led to a collapse of the tourism sector. In Yap, restaurants, hotels, and other tourism oriented business operations were forced to close and their employees were laid off from work. As explained in Note 11, Yap State faces the uncertainty of the continuing impact of the COVID.

POLITICAL LANDSCAPE

The Governor of Yap State was essentially impeached and removed from office pursuant to a Removal Resolution 10-74 adopted by an assenting vote of three fourths ($\frac{3}{4}$) of the Yap State Legislature on December 16, 2021. Lt. Governor was sworn in by the Chief Justice of Yap State as the new Governor of Yap State on December 29, 2021. This matter is not expected to impact the financial statements of the State of Yap.

CONTACTING YAP STATE'S FINANCIAL MANAGEMENT

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Position
September 30, 2020

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Units
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 361,712	\$ 84,818	\$ 446,530	\$ 2,677,754
Investments	12,998,655	-	12,998,655	1,530,339
Receivables, net of allowance for uncollectibles	3,870,446	16,024	3,886,470	968,663
Advances	311,746	-	311,746	-
Inventories	-	190,722	190,722	652,980
Other current assets	-	11,836	11,836	69,587
Restricted assets:				
Cash and cash equivalents	3,157,810	-	3,157,810	-
Total current assets	20,700,369	303,400	21,003,769	5,899,323
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	574,226
Investments	81,614,493	-	81,614,493	-
Investments	2,799,390	-	2,799,390	-
Capital assets:				
Construction work-in-progress	1,153,373	-	1,153,373	-
Nondepreciable capital assets	3,539,402	-	3,539,402	40,637
Capital assets, net of accumulated depreciation	16,514,037	254,211	16,768,248	18,273,165
Other assets	3,965,193	-	3,965,193	2,088,645
Total noncurrent assets	109,585,888	254,211	109,840,099	20,976,673
Total assets	\$ 130,286,257	\$ 557,611	\$ 130,843,868	\$ 26,875,996
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term obligations	\$ 317,665	\$ -	\$ 317,665	\$ 521,948
Accounts payable	1,982,060	6,485	1,988,545	448,761
Current portion of compensated absences	316,865	-	316,865	-
Other liabilities and accruals	494,163	24,304	518,467	3,201,363
Unearned revenues	3,578,418	-	3,578,418	172,492
Total current liabilities	6,689,171	30,789	6,719,960	4,344,564
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	4,540,733	-	4,540,733	11,821,033
Noncurrent portion of compensated absences	236,739	-	236,739	-
Other noncurrent liabilities	249,608	-	249,608	-
Total noncurrent liabilities	5,027,080	-	5,027,080	11,821,033
Total liabilities	11,716,251	30,789	11,747,040	16,165,597
<u>NET POSITION</u>				
Net investment in capital assets	21,206,812	254,211	21,461,023	7,547,927
Restricted for:				
Nonexpendable:				
Future operations	14,091,244	-	14,091,244	-
Expendable:				
Compact related	2,509,004	-	2,509,004	-
Debt service	688,247	-	688,247	-
Other purposes	-	-	-	574,226
Unrestricted	80,074,699	272,611	80,347,310	2,588,246
Total net position	118,570,006	526,822	119,096,828	10,710,399
Total liabilities and net position	\$ 130,286,257	\$ 557,611	\$ 130,843,868	\$ 26,875,996

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2020

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
Judiciary	\$ 185,011	\$ -	\$ -	\$ -	\$ (185,011)	\$ -	\$ (185,011)	\$ -
Councils of traditional leaders	204,147	-	-	-	(204,147)	-	(204,147)	-
General government	4,782,138	474,646	2,854,796	-	(1,452,696)	-	(1,452,696)	-
Resources and development	899,802	-	260,526	-	(639,276)	-	(639,276)	-
Public safety	478,971	-	-	-	(478,971)	-	(478,971)	-
Community affairs	291,749	-	-	-	(291,749)	-	(291,749)	-
Education	7,180,957	-	6,951,186	-	(229,771)	-	(229,771)	-
Public works and transportation	4,216,421	389,425	1,652,284	-	(2,174,712)	-	(2,174,712)	-
Health services	6,926,877	200,637	6,564,105	-	(162,135)	-	(162,135)	-
Boards and commissions	258,155	-	-	-	(258,155)	-	(258,155)	-
Payments to components	113,428	-	-	-	(113,428)	-	(113,428)	-
Other appropriations	816,851	-	222,769	-	(594,082)	-	(594,082)	-
Interest expense	162,489	-	-	-	(162,489)	-	(162,489)	-
Total governmental activities	<u>26,516,996</u>	<u>1,064,708</u>	<u>18,505,666</u>	<u>-</u>	<u>(6,946,622)</u>	<u>-</u>	<u>(6,946,622)</u>	<u>-</u>
Business-type activities:								
Public Transportation System	550,487	416,228	-	-	-	(134,259)	(134,259)	-
Total primary government	<u>\$ 27,067,483</u>	<u>\$ 1,480,936</u>	<u>\$ 18,505,666</u>	<u>\$ -</u>	<u>(6,946,622)</u>	<u>(134,259)</u>	<u>(7,080,881)</u>	<u>-</u>
Component units:								
Yap Visitor's Bureau	\$ 300,668	\$ -	\$ 15,697	\$ -	-	-	-	(284,971)
Yap State Public Service Corporation	5,424,219	5,738,732	148,056	187,075	-	-	-	649,644
The Diving Seagull, Inc.	5,270,653	4,651,429	-	-	-	-	-	(619,224)
Total component units	<u>\$ 10,995,540</u>	<u>\$ 10,390,161</u>	<u>\$ 163,753</u>	<u>\$ 187,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(254,551)</u>
General revenues:								
Taxes:								
FSM revenue sharing:								
Gross revenue taxes					597,237	-	597,237	-
Import taxes					712,127	-	712,127	-
Income taxes					657,558	-	657,558	-
Other taxes					220,622	-	220,622	-
State taxes					1,775,707	-	1,775,707	-
Unrestricted investment earnings					1,361,964	-	1,361,964	(235,675)
Operating subsidy from primary government					-	30,000	30,000	270,445
Other					(1,543,060)	-	(1,543,060)	(559,329)
					<u>3,782,155</u>	<u>30,000</u>	<u>3,812,155</u>	<u>(524,559)</u>
Special items:								
Gain on SDR foreign exchange					(154,008)	-	(154,008)	-
Loss on impairment of investment in Other assets					(288,722)	-	(288,722)	-
Contributions to permanent funds					<u>9,335,796</u>	<u>-</u>	<u>9,335,796</u>	<u>-</u>
					<u>12,675,221</u>	<u>30,000</u>	<u>12,705,221</u>	<u>(524,559)</u>
Total general revenues, special items and contributions					<u>12,675,221</u>	<u>30,000</u>	<u>12,705,221</u>	<u>(524,559)</u>
Change in net position					<u>5,728,599</u>	<u>(104,259)</u>	<u>5,624,340</u>	<u>(779,110)</u>
Net position at the beginning of the year					<u>112,841,407</u>	<u>631,081</u>	<u>113,472,488</u>	<u>11,489,509</u>
Net position at the end of the year					<u>\$ 118,570,006</u>	<u>\$ 526,822</u>	<u>\$ 119,096,828</u>	<u>\$ 10,710,399</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2020

	General	Special Revenue Foreign Assistance Grants	Permanent Yap State Investment Trust	Permanent Compact Trust	Other Governmental Funds	Total
<u>ASSETS</u>						
Cash and cash equivalents	\$ 340,504	\$ -	\$ -	\$ -	\$ 21,208	\$ 361,712
Investments	15,403,750	-	-	-	394,295	15,798,045
Receivables, net:						
Federal agencies	36,331	611,399	-	-	-	647,730
FSM National Government	416,146	2,582,140	-	-	223,830	3,222,116
Other	-	600	-	-	-	600
Due from other funds	744,466	4,325,804	-	-	1,030,871	6,101,141
Advances	45,238	266,508	-	-	-	311,746
Other assets	3,965,193	-	-	-	-	3,965,193
Restricted assets:						
Cash and cash equivalents	3,157,810	-	-	-	-	3,157,810
Investments	688,247	-	66,783,781	14,142,465	-	81,614,493
Total assets	<u>\$ 24,797,685</u>	<u>\$ 7,786,451</u>	<u>\$ 66,783,781</u>	<u>\$ 14,142,465</u>	<u>\$ 1,670,204</u>	<u>\$ 115,180,586</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	877,003	\$ 837,111	\$ -	\$ -	\$ 267,946	\$ 1,982,060
Other liabilities and accruals	149,576	326,808	-	-	17,779	494,163
Unearned revenues	4,854	3,420,283	-	-	153,281	3,578,418
Due to other funds	<u>5,356,675</u>	<u>693,245</u>	<u>-</u>	<u>51,221</u>	<u>-</u>	<u>6,101,141</u>
Total liabilities	<u>6,388,108</u>	<u>5,277,447</u>	<u>-</u>	<u>51,221</u>	<u>439,006</u>	<u>12,155,782</u>
Fund balances:						
Non-spendable	6,764,583	-	66,783,781	14,091,244	-	87,639,608
Restricted	688,247	2,509,004	-	-	349,939	3,547,190
Committed	436,505	-	-	-	881,259	1,317,764
Assigned	1,648,722	-	-	-	-	1,648,722
Unassigned:						
General fund	<u>8,871,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,871,520</u>
Total fund balances	<u>18,409,577</u>	<u>2,509,004</u>	<u>66,783,781</u>	<u>14,091,244</u>	<u>1,231,198</u>	<u>103,024,804</u>
Total liabilities and fund balances	<u>\$ 24,797,685</u>	<u>\$ 7,786,451</u>	<u>\$ 66,783,781</u>	<u>\$ 14,142,465</u>	<u>\$ 1,670,204</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

21,206,812

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 (4,858,398)
Compensated absences payable (553,604)
Land acquisition claims payable (249,608)

(5,661,610)

Net position of governmental activities

\$ 118,570,006

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2020

	General	Special Revenue Foreign Assistance Grants	Permanent Yap State Investment Trust	Compact Trust	Other Governmental Funds	Total
Revenues:						
Compact funding	\$ -	\$ 12,593,565	\$ -	\$ -	\$ -	\$ 12,593,565
Net change in the fair value of investments	1,328,919	-	8,193,217	1,142,579	33,045	10,697,760
Federal contributions and other grants	-	2,852,528	-	-	-	2,852,528
FSM revenue sharing	2,187,544	-	-	-	-	2,187,544
State taxes	1,687,951	-	-	-	87,756	1,775,707
CFSM grants	-	85,928	-	-	2,973,645	3,059,573
Fees and charges	262,269	-	-	-	204,259	466,528
Departmental charges	571,306	26,874	-	-	-	598,180
Other	(1,572,464)	14,532	-	-	-	(1,557,932)
Total revenues	<u>4,465,525</u>	<u>15,573,427</u>	<u>8,193,217</u>	<u>1,142,579</u>	<u>3,298,705</u>	<u>32,673,453</u>
Expenditures:						
Current:						
Judiciary	185,011	-	-	-	-	185,011
Councils of traditional leaders	199,147	-	-	-	-	199,147
General government	1,363,444	639,739	-	-	3,320,358	5,323,541
Resources and development	638,900	260,526	-	-	-	899,426
Public safety	593,290	-	-	-	-	593,290
Community affairs	265,030	-	-	-	-	265,030
Education	276,220	6,951,186	-	-	-	7,227,406
Public works and transportation	1,692,494	1,652,284	-	-	-	3,344,778
Health services	571,811	6,564,105	-	-	-	7,135,916
Boards and commissions	244,350	-	-	-	-	244,350
Payments to component units	113,428	-	-	-	-	113,428
Other appropriations	138,986	222,769	-	-	-	361,755
Debt service	483,990	-	-	-	-	483,990
Total expenditures	<u>6,766,101</u>	<u>16,290,609</u>	<u>-</u>	<u>-</u>	<u>3,320,358</u>	<u>26,377,068</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,300,576)</u>	<u>(717,182)</u>	<u>8,193,217</u>	<u>1,142,579</u>	<u>(21,653)</u>	<u>6,296,385</u>
Special item:						
less: Loss on impairment of investment in other assets	<u>(288,722)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(288,722)</u>
Net change in fund balances	<u>(2,589,298)</u>	<u>(717,182)</u>	<u>8,193,217</u>	<u>1,142,579</u>	<u>(21,653)</u>	<u>6,007,663</u>
Fund balances at the beginning of the year	<u>20,998,875</u>	<u>3,226,186</u>	<u>58,590,564</u>	<u>12,948,665</u>	<u>1,252,851</u>	<u>97,017,141</u>
Fund balances at the end of the year	<u>\$ 18,409,577</u>	<u>\$ 2,509,004</u>	<u>\$ 66,783,781</u>	<u>\$ 14,091,244</u>	<u>\$ 1,231,198</u>	<u>\$ 103,024,804</u>

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, 2020

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	\$ 6,007,663
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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 (2,478,482) exceeded net capital outlays of \$2,036,241 in the current period.	(442,241)
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Special item associated with a loss on SDR foreign exchange adjustment.	(154,008)
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The issuance of long-term debt (e.g. bonds, leases) provides current 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	321,501
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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 accrued interest payable	14,872
Net change in compensated absences payable	<u>(19,188)</u>

Change in net position of governmental activities	\$ <u>5,728,599</u>
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See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Position
Proprietary Fund
September 30, 2020

Public
Transportation
System

ASSETS

Current assets:

Cash and cash equivalents	\$ 84,818
Receivables, net of allowance for uncollectibles	16,024
Inventories	190,722
Other current assets	<u>11,836</u>
Total current assets	303,400

Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>254,211</u>
Total assets	<u><u>\$ 557,611</u></u>

LIABILITIES

Current liabilities:

Accounts payable	\$ 6,485
Other liabilities and accruals	<u>24,304</u>
Total liabilities	<u>30,789</u>

NET POSITION

Net investment in capital assets	254,211
Unrestricted	<u>272,611</u>
Total net position	<u>526,822</u>
	<u><u>\$ 557,611</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, 2020

	Public Transportation System
Operating revenues:	
Charges for services	\$ 142,517
Sales	266,096
Other	<u>7,615</u>
Total operating revenues	<u>416,228</u>
Operating expenses:	
Cost of services	134,791
Administration costs	327,334
Depreciation and amortization	<u>88,362</u>
Total operating expenses	<u>550,487</u>
Loss from operations	(134,259)
Nonoperating revenues:	
Operating subsidy from primary government	<u>30,000</u>
Total nonoperating revenues	<u>30,000</u>
Change in net position	(104,259)
Net position at the beginning of the year	<u>631,081</u>
Net position at the end of the year	<u><u>\$ 526,822</u></u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2020

	Public Transportation <u>System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 422,170
Cash payments to employees	(177,722)
Cash payments to suppliers	<u>(281,951)</u>
Net cash provided by operating activities	<u>(37,503)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>30,000</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(5,982)</u>
Net cash used in capital and related financing activities	<u>(5,982)</u>
Net change in cash and cash equivalents	(13,485)
Cash and cash equivalents at the beginning of the year	<u>98,303</u>
Cash and cash equivalents at the end of the year	<u>\$ 84,818</u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (134,259)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation expense	88,362
Changes in assets and liabilities:	
Other	(4,387)
Receivables	5,942
Inventories	(1,289)
Accounts payable	3,337
Other liabilities and accruals	<u>4,791</u>
Net cash used in operating activities	<u>\$ (37,503)</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combining Statement of Net Position
Component Units
September 30, 2020

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 176,166	\$ 1,646,183	\$ 855,405	\$ 2,677,754
Time certificate of deposit	-	-	-	-
Investments	-	-	1,530,339	1,530,339
Receivables, net:				
General	-	953,126	15,537	968,663
Inventories	-	564,923	88,057	652,980
Other current assets	-	58,908	10,679	69,587
Total current assets	<u>176,166</u>	<u>3,223,140</u>	<u>2,500,017</u>	<u>5,899,323</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	574,226	574,226
Capital assets:				
Nondepreciable capital assets	-	40,637	-	40,637
Capital assets, net of accumulated depreciation	28,927	16,457,245	1,786,993	18,273,165
Other assets	-	977,508	1,111,137	2,088,645
Total noncurrent assets	<u>28,927</u>	<u>17,475,390</u>	<u>3,472,356</u>	<u>20,976,673</u>
Total assets	<u>\$ 205,093</u>	<u>\$ 20,698,530</u>	<u>\$ 5,972,373</u>	<u>\$ 26,875,996</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 403,005	\$ 118,943	\$ 521,948
Short term loan	-	-	-	-
Accounts payable	-	163,949	284,812	448,761
Unearned revenues	-	172,492	-	172,492
Other liabilities and accruals	<u>5,387</u>	<u>485,683</u>	<u>2,710,293</u>	<u>3,201,363</u>
Total current liabilities	<u>5,387</u>	<u>1,225,129</u>	<u>3,114,048</u>	<u>4,344,564</u>
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	9,341,688	2,479,345	11,821,033
Total noncurrent liabilities	<u>-</u>	<u>9,341,688</u>	<u>2,479,345</u>	<u>11,821,033</u>
Total liabilities	<u>5,387</u>	<u>10,566,817</u>	<u>5,593,393</u>	<u>16,165,597</u>
<u>NET POSITION</u>				
Net investment in capital assets	28,927	6,753,189	765,811	7,547,927
Restricted, expendable	-	-	574,226	574,226
Unrestricted	<u>170,779</u>	<u>3,378,524</u>	<u>(961,057)</u>	<u>2,588,246</u>
Total net position	<u>199,706</u>	<u>10,131,713</u>	<u>378,980</u>	<u>10,710,399</u>
	<u>\$ 205,093</u>	<u>\$ 20,698,530</u>	<u>\$ 5,972,373</u>	<u>\$ 26,875,996</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, 2020

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,738,732	\$ -	\$ 5,738,732
Sales	-	-	4,651,429	4,651,429
Total operating revenues	-	5,738,732	4,651,429	10,390,161
Operating expenses:				
Cost of services	-	2,109,120	4,952,881	7,062,001
Administration costs	286,142	2,113,112	315,431	2,714,685
Depreciation and amortization	14,526	1,201,987	2,341	1,218,854
Total operating expenses	300,668	5,424,219	5,270,653	10,995,540
Operating income (loss)	(300,668)	314,513	(619,224)	(605,379)
Nonoperating revenues (expenses):				
Contributions from the primary government	270,445	-	-	270,445
Contributions from FSM National Government	15,697	-	-	15,697
Contributions from U.S. Government	-	148,056	-	148,056
Interest income	-	960	97,206	98,166
Interest expense	-	(201,443)	(132,398)	(333,841)
Loss on online fraud	-	-	(200,000)	(200,000)
Other	-	(312,693)	(46,636)	(359,329)
Total nonoperating revenues (expenses), net	286,142	(365,120)	(281,828)	(360,806)
Capital contributions	-	187,075	-	187,075
Change in net position	(14,526)	136,468	(901,052)	(779,110)
Net position at the beginning of the year	214,232	9,995,245	1,280,032	11,489,509
Net position at the end of the year	<u>\$ 199,706</u>	<u>\$ 10,131,713</u>	<u>\$ 378,980</u>	<u>\$ 10,710,399</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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.

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

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

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Omitted Component Units:

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

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

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

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

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

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, 2020

(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 all of 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 two 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 \$17,288,495 of restricted net position.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

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. 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

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.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

F. Investments

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

The State categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

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. Reimbursements due to the State for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies".

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 advances in both government-wide and fund financial statements.

I. Interfund Receivables/Payables

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

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

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 \$688,247. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$66,783,781 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$14,142,465 are restricted in that they are not available to be used for current operations.

As of September 30, 2020, cash and cash equivalents of the primary government and the discretely presented component units were restricted for the following uses:

Primary Government

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	\$ 1,524,553
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>1,633,257</u>
	\$ <u>3,157,810</u>

Discretely Presented Component Units

The Diving Seagull, Inc.:

Time certificate of deposit restricted as collateral for long-term debt with a bank.	\$ 569,907
Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank.	<u>4,319</u>
	\$ <u>574,226</u>

L. Other Assets

The State holds approximately 15% of the outstanding shares of Pacific Islands Development Bank 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, the bank holds \$3,000,000 for the Yap State's loan program.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

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. Such 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.

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 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:

Buildings	40 - 50 years
Infrastructure	25 - 50 years
Facilities	3 - 40 years
Machinery and equipment	3 - 25 years
Furniture and fixtures	3 - 10 years

N. 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.

O. 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. The unearned revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

P. 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.

Q. Deferred Inflows of Resources

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

R. 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 and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes negative fund balances in other governmental 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, 2020

(1) Summary of Significant Accounting Policies, Continued

S. 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 of 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. However, no material losses have been incurred as a result of this policy in the last three years.

T. New Accounting Standards

During the year ended September 30, 2020, the State implemented the following pronouncements:

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones 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 originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is 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 payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for the fiscal year ending September 30, 2022.

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 that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve 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. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year September 30, 2021.

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

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 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 postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

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

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

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*. 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 postemployment 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 this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

U. Estimates

The preparation of financial statements in accordance with 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(1) Summary of Significant Accounting Policies, Continued

V. 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, 2019 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) insurance. 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 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. The following restrictions apply: (1) Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation 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 - Investments in bonds are 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 issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 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 the fund 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2020, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$3,519,522 and the corresponding bank balance was \$3,497,504 which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2020, bank deposits in the amount of \$500,000 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, 2020, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$84,818. There were no significant differences between cash balances and bank balances. As of September 30, 2020, \$84,818 of cash is maintained in one financial institution subject to FDIC insurance and which is fully FDIC insured.

As of September 30, 2020, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$3,251,980 and the corresponding bank balances were \$3,528,175, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2020, bank deposits in the amount of \$927,218 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, an entity comprised of the FSM National Government and its four component states. The State has also invested its excess Compact Funds in the Yap State Investment Trust Fund, which was established in the current year to more appropriately account for its investments. The Legislature believes that the State may become more financially independent by placing its invested funds in a Trust account. Investment income originating from the pool accrues to the General Fund.

Primary Government

As of September 30, 2020, the State's investments are as follows:

General Fund:

Fixed income	\$ 5,181,295
Domestic equities	2,993,870
Common equities	7,202,094
Cash management account	<u>714,738</u>
	<u>16,091,997</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Yap State Investment Fund:

Fixed income	20,559,690
Common equities	30,650,883
International equities	13,449,101
Real estate	874,756
Cash management account	<u>1,249,351</u>
	<u>66,783,781</u>

Compact Trust Fund:

Common trust funds:	
Domestic Equity	2,219,904
International Equity	2,374,098
Global Equity	2,154,856
Private Equity	692,095
Fixed Income	5,518,896
Hedge Fund	443,824
Real Estate	720,023
Money market funds	<u>18,769</u>
	<u>14,142,465</u>

Other Governmental Funds:

Mutual Funds	39,754
Common equities	346,701
Money market funds	<u>7,840</u>
	<u>394,295</u>

\$97,412,538

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2020, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

General Fund:

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>Market Value</u>	<u>Current</u>	<u>Investment Maturity (in Years)</u>		
				<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>
U.S. Treasury Notes and Bonds	Aaa	\$ 58,165	\$ -	\$35,831	\$ 914	\$21,420
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	Aaa	25,372	13,846	1,525	10,001	-
Federal Home Loan Bank	Aaa	10,237	-	1,610	8,627	-
Federal Home Loan Mortgage Corporation	Aaa	1,503	2	-	-	1,501
Government National Mortgage Association	Aaa	126	-	-	-	126
Federal National Mortgage Association	Aaa	3,887	-	-	-	3,887
Overseas Private Investment Corporation	Aaa	9,312	-	9,312	-	-
Tennessee Valley Authority	Aaa	15,984	-	3,455	-	12,529
Municipal Obligations	Aa1	5,767	2,284	1,593	619	1,271
Municipal Obligations	Aa2	10,229	5,827	-	2,023	2,379
Municipal Obligations	Aa3	991	-	991	-	-
Corporate Bonds	Aaa	18,893	-	13,378	2,433	3,082
Corporate Bonds	Aa1	963	-	963	-	-
Corporate Bonds	Aa2	8,227	2,134	3,419	-	2,674
Corporate Bonds	Aa3	2,259	-	-	2,259	-
Corporate Bonds	A1	15,533	1,508	4,025	5,015	4,985
Corporate Bonds	A2	12,612	1,220	4,124	6,579	689
Corporate Bonds	A3	9,277	-	4,147	1,039	4,091
Corporate Bonds	Baa1	12,924	-	3,290	5,435	4,199
Corporate Bonds	Baa2	2,590	-	1,888	702	-
Corporate Bonds	Baa3	2,951	-	2,951	-	-
Corporate Bonds	No rating	4,928	-	661	3,118	1,149
		<u>\$232,730</u>	<u>\$26,821</u>	<u>\$93,163</u>	<u>\$48,764</u>	<u>\$63,982</u>

<u>Investment Type (no aging schedule)</u>	<u>Average Credit Rating</u>	<u>Fair Value</u>
U.S. Treasury	Aaa	\$ 505,808
U.S. Agency	A3	35,061
Securitized		
Mortgage-Backed	Aa1	1,640,449
Asset Backed	B2	323,265
Corporate Securities		
Industrial	Baa1	782,487
Financial	Baa1	609,614
Yankee Bond	Baa1	144,275
Utilities	A3	140,247
Other	Aa2	767,359
		<u>\$4,948,565</u>
		<u>\$5,181,295</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Yap State Investment Trust Fund:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Ratings
		Less than 1	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 6,450,105	\$ 443,678	\$3,771,854	\$2,234,573	\$ -	Aaa
U.S. Treasury Notes and Bonds	299,976	299,976	-	-	-	No rating
U.S. Government Agencies Obligations:						
Federal Home Loan Bank	2,788,622	1,944,745	843,877	-	-	Aaa
Federal Agricultural Mortgage Corp	574,848	-	574,848	-	-	No rating
Corporate Bonds	102,653	-	102,653	-	-	Aaa
Corporate Bonds	468,805	-	468,805	-	-	A1
Corporate Bonds	3,157,813	-	514,871	2,184,442	458,500	A2
Corporate Bonds	3,724,307	67,603	450,057	3,206,647	-	A3
Corporate Bonds	101,924	-	101,924	-	-	Aa2
Corporate Bonds	208,053	95,209	112,844	-	-	Aa3
Corporate Bonds	510,918	-	342,747	168,171	-	Baa1
Corporate Bonds	1,254,549	75,873	462,730	715,946	-	Baa2
Corporate Bonds	86,268	-	-	86,268	-	Baa3
Corporate Bonds	377,321	-	377,321	-	-	No rating
Asset-Backed	453,528	-	-	-	453,528	No rating
	<u>\$20,559,690</u>	<u>\$2,927,084</u>	<u>\$8,124,531</u>	<u>\$8,596,047</u>	<u>\$912,028</u>	

The State has the following recurring fair value measurements as of September 30, 2020:

General Fund:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S Treasury obligation	\$ 563,973	\$ -	\$ 563,973	\$ -
U.S Government agencies	101,482	-	101,482	-
Municipal obligation	1,980,701	-	1,980,701	-
Corporate notes	<u>2,535,139</u>	<u>-</u>	<u>2,535,139</u>	<u>-</u>
	5,181,295	-	5,181,295	-
Equity securities:				
U.S equities	<u>7,202,094</u>	<u>7,202,094</u>	<u>-</u>	<u>-</u>
Total investment at fair value	12,383,389	<u>\$7,202,094</u>	<u>\$5,181,295</u>	<u>\$ -</u>
Investments measured at NAV:				
Equity investment in Bank of the FSM	2,993,870			
Investment measured amortized cost:				
Cash management account	<u>714,738</u>			
	<u>\$16,091,997</u>			
Yap State Investment Trust Fund:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income	\$20,559,690	\$20,559,690	\$ -	\$ -
Common equities	30,650,883	30,650,883	-	-
International equities	<u>13,449,101</u>	<u>13,449,101</u>	<u>-</u>	<u>-</u>
Total investment at fair value	64,659,674	<u>\$64,659,674</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at NAV:				
Real estate	874,756			
Investment measured amortized cost:				
Cash management account	<u>1,249,351</u>			
	<u>\$66,783,781</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Compact Trust Fund:	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 2,219,904	\$ 2,219,904	\$ -	\$ -
International Equity	2,374,098	2,374,098	-	-
Global Equity	2,154,856	2,154,856	-	-
Private Equity	692,095	-	-	692,095
Fixed Income	5,518,896	2,154,856	-	-
Total investment at fair value	12,959,849	<u>\$12,267,754</u>	<u>\$ -</u>	<u>\$692,095</u>
Investments measured at NAV:				
Hedge Fund	443,824			
Real Estate	720,023			
Investment measured amortized cost:				
Money market funds	<u>18,769</u>			
	<u>\$14,142,465</u>			

Other Governmental Funds

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Other governmental funds:				
Mutual Funds	\$ 39,754	\$ 39,754	\$ -	\$ -
Common Equities	<u>346,701</u>	<u>346,701</u>	-	-
Total investments at fair value	386,455	<u>\$ 386,455</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money Market Funds	<u>7,840</u>			
	<u>\$ 394,295</u>			

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, 2020.

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, 2020, 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Ba1" as rated by Moody's as of September 30, 2020. High yield debt receiving a credit rating below "A" comprises approximately 65.5% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2020. At September 30, 2020, the weighted average maturity of the bonds comprising MIM CFI is 7.7 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2020. High yield debt receiving a credit rating below "A" comprises approximately 29.9% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2020. At September 30, 2020, the weighted average maturity of the bonds comprising MIM OFI is 10.3 years.

The Trust Fund's investment policy does not require direct investment in fixed maturity securities ("Bonds") as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a common trust fund, ETF, or similar investment vehicle have no maturity date.

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2020, the Trust Fund held approximately \$221,315,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$46,371,000 was held in securities whose functional currency is the Euro, \$18,758,000 whose functional currency is the British pound, \$40,904,000 whose functional currency is the Japanese yen, and \$115,282,000 in functional currencies of 36 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 4.3% of invested assets at September 30, 2020.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A ("Mercer Hedge Fund") and the Blackstone Partners Offshore Fund Ltd. Mercer Hedge Funds Investors SPC, who incorporated the Mercer Hedge Fund, and the Blackstone Partners Offshore Fund Ltd. are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the hedge fund pools are equivalent to the value of the pool shares.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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. An equity investment in the common stock of the Bank of the Federated States of Micronesia (investee) 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' equities reported by the investee.

Discretely Presented Component Units

The Diving Seagull, Inc. (DSI):

As of September 30, 2020, DSI's investments are as follows:

Fixed income	\$ 467,535
Common equities	989,160
Money market funds	<u>73,644</u>
	<u>\$ 1,530,339</u>

As of September 30, 2020, DSI's fixed income securities, including their S & P credit ratings, had 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	\$187,386	\$30,095	\$106,088	\$ 51,203
Corporate Notes	A1	46,262	-	21,834	24,428
Corporate Notes	A2	80,193	-	56,499	23,694
Corporate Notes	A3	24,522	-	12,510	12,012
Corporate Notes	AA2	15,015	15,015	-	-
Corporate Notes	AA3	10,167	-	-	10,167
Corporate Notes	BAA1	52,728	-	52,728	-
Corporate Notes	BAA2	<u>51,262</u>	<u>-</u>	<u>51,262</u>	<u>-</u>
		<u>\$467,535</u>	<u>\$45,110</u>	<u>\$300,921</u>	<u>\$121,504</u>

The Diving Seagull has the following recurring fair value measurements as of September 30, 2020:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 187,386	\$ -	\$187,386	\$ -
Corporate notes	<u>280,149</u>	<u>-</u>	<u>280,149</u>	<u>-</u>
	467,535	-	467,535	-
U.S. equities	<u>989,160</u>	<u>989,160</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,456,695	<u>\$989,160</u>	<u>\$467,535</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>73,644</u>			
	<u>\$1,530,339</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(3) Receivables

Primary Government

Receivables as of September 30, 2020, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	Foreign Assistance <u>Grants</u>	Yap State Investment <u>Trust</u>	Compact <u>Trust</u>	Other Governmental <u>Funds</u>	Public Transportation <u>System</u>	<u>Total</u>
Receivables:							
Federal agencies	\$ -	\$ 736,716	\$ -	\$ -	\$ -	\$ -	\$ 736,716
Due from FSM National Government	459,821	4,458,745	-	-	1,128,286	-	6,046,852
Other	<u>585,126</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,585</u>	<u>-</u>	<u>595,711</u>
	1,044,947	5,195,461	-	-	1,138,871	-	7,379,279
Allowance for uncollectable accounts	<u>(592,470)</u>	<u>(2,001,922)</u>	<u>-</u>	<u>-</u>	<u>(915,041)</u>	<u>-</u>	<u>(3,509,433)</u>
	<u>\$ 452,477</u>	<u>\$ 3,193,539</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 223,830</u>	<u>\$ -</u>	<u>\$ 3,869,846</u>

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

Discretely Presented Component Units

Receivables for the State's discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	<u>Yap Visitor's Bureau</u>	<u>Yap State Public Service Corporation</u>	<u>The Diving Seagull, Inc.</u>	<u>Total</u>
General	\$ -	\$1,036,321	\$665,784	\$1,702,105
Less: allowance for uncollectibles	<u>-</u>	<u>(83,195)</u>	<u>(650,247)</u>	<u>(733,442)</u>
	<u>\$ -</u>	<u>\$ 953,126</u>	<u>\$ 15,537</u>	<u>\$ 968,663</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, 2020, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Foreign Assistance Grants	\$ 4,325,804
Foreign Assistance Grants	General	693,245
Nonmajor governmental funds	General	1,030,871
Compact Trust	General	<u>51,221</u>
		<u>\$ 6,101,141</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2020, are as follows:

	Balance October 1, 2019	Additions	Retirements	Balance September 30, 2020
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 20,618,946	\$ 576,719	\$ -	\$ 21,195,665
Infrastructure	87,066,659	538,981	-	87,605,640
Equipment	1,122,530	383,729	-	1,506,259
Vehicles	2,947,345	170,887	-	3,118,232
Vessels	5,156,463	-	-	5,156,463
Heavy equipment	<u>4,204,891</u>	<u>122,487</u>	<u>-</u>	<u>4,327,378</u>
	<u>121,116,834</u>	<u>1,792,803</u>	<u>-</u>	<u>122,909,637</u>
Less accumulated depreciation for:				
Buildings	(12,690,912)	(777,555)	-	(13,468,467)
Infrastructure	(80,383,992)	(1,170,524)	-	(81,554,516)
Equipment	(742,839)	(115,318)	-	(858,157)
Vehicles	(2,596,187)	(154,858)	-	(2,751,045)
Vessels	(3,666,220)	(188,781)	-	(3,855,001)
Heavy equipment	<u>(3,836,968)</u>	<u>(71,446)</u>	<u>-</u>	<u>(3,908,414)</u>
	<u>(103,917,118)</u>	<u>(2,478,482)</u>	<u>-</u>	<u>(106,395,600)</u>
Total capital assets, being depreciated, net	17,199,716	(685,679)	-	16,514,037
Non-depreciable assets:				
Construction work-in-progress	1,278,727	(125,354)	-	1,153,373
Land	<u>3,170,610</u>	<u>368,792</u>	<u>-</u>	<u>3,539,402</u>
Governmental activities capital assets, net	<u>\$ 21,649,053</u>	<u>\$ (442,241)</u>	<u>\$ -</u>	<u>\$ 21,206,812</u>

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

Traditional Councils	\$ 5,000
General Government	45,915
Resources & Development	6,976
Community Affairs	26,718
Education	357,882
Public Works & Transportation	1,417,016
Health Services	150,073
Boards & Commissions	13,805
Other appropriations	<u>455,097</u>
	<u>\$2,478,482</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(5) Capital Assets, Continued

	Balance October 1, 2019	Additions	Retirements	Balance September 30, 2020
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 134,750	\$ -	\$ -	\$ 134,750
Vehicles	1,552,717	-	-	1,552,717
Shop equipment	84,977	1,115	-	86,092
Office equipment	122,639	3,194	-	125,833
Land improvement	<u>1,771</u>	<u>1,673</u>	<u>-</u>	<u>3,444</u>
	1,896,854	5,982	-	1,902,836
Less accumulated depreciation	<u>(1,560,263)</u>	<u>(88,362)</u>	<u>-</u>	<u>(1,648,625)</u>
Total net capital assets	\$ <u>336,591</u>	\$ <u>(82,380)</u>	\$ <u>-</u>	\$ <u>254,211</u>

Discretely Presented Component Units:

	Balance October 1, 2019	Additions	Retirements	Balance September 30, 2020
Depreciable assets:				
Utility plants	\$35,565,182	\$ 611,595	\$ -	\$36,176,777
Machinery, equipment, and others	<u>16,016,094</u>	<u>61,255</u>	<u>(4,448,888)</u>	<u>11,628,461</u>
Total capital assets, being depreciated	51,581,276	672,850	(4,448,888)	47,805,238
Less accumulated depreciation	<u>(32,449,783)</u>	<u>(1,421,436)</u>	<u>4,339,146</u>	<u>(29,532,073)</u>
	19,131,493	(748,586)	(109,742)	18,273,165
Non-depreciable assets:				
Construction work-in-progress	<u>17,400</u>	<u>23,237</u>	<u>-</u>	<u>40,637</u>
	\$ <u>19,148,893</u>	\$ <u>(725,349)</u>	\$ <u>(109,742)</u>	\$ <u>18,313,802</u>

(6) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loans:

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(6) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued:

Funds for the repayment of the 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 appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2020. As of September 30, 2020, the amount outstanding against this loan was \$2,392,751 of the required \$3,500,000 identified for future debt service payments, \$688,247 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 entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the Basic Social Services Program Loan with the ADB (Loan Number 1816 FSM (SF)), for the purpose of promoting basic social services in Yap, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semiannually commencing February 1, 2009, at which time the service charge increases to 1.5% per annum, with a maturity date of August 1, 2032. As of September 30, 2020, the outstanding balance is \$0.

The State 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% - 1.5% per annum. The principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2011 and the last payment on November 15, 2026. As of September 30, 2020, the balances payable on these loans amounted to \$130,817 and \$416,556, 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 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, which date the State determined that GTWA could not generate sufficient cash flows to fund related debt service. As of September 30, 2020, the balance of this loan amounted to \$1,918,274.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 317,665	\$ 43,284	\$ 360,949
2022	317,665	40,398	358,063
2023	317,665	37,512	355,177
2024	317,665	34,626	352,291
2025	317,665	31,740	349,405
2026-2030	1,481,292	117,442	1,598,734
2031-2035	1,423,116	51,672	1,474,788
2036-2037	<u>365,665</u>	<u>3,897</u>	<u>369,562</u>
	\$ <u>4,858,398</u>	\$ <u>360,571</u>	\$ <u>5,218,969</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(6) Long-Term Obligations, Continued

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC):

Uncollateralized loan of original principal of \$2,270,837 payable to the ADB borrowed through the FSM National Government and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% per annum on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable semiannually in Special Drawing Rights (SDR) commencing August 2007. An SDR adjustment and additional consulting fees increased the loan balance by \$639,957 in fiscal year 2009. In fiscal year 2015, an SDR adjustment of \$348,385 decreased the loan balance. \$ 1,672,620

Guaranteed loan with a maximum amount of \$4,680,000 payable to the ADB borrowed through the FSM National Government and Yap State for the Yap Renewable Energy Development Project. YSPSC is liable to Yap State for interest at 0.80% per annum, which includes a 0.20% maturity premium, net of a 0.20% rebate. The loan is repayable semiannually for a period of 20 years commencing December 1, 2018. 4,497,281

Loan with a maximum amount of \$4,360,000 for renewable energy, YSPSC is liable to ADB for interest at 2%. The loan is repayable semiannually for a period of 20 years commencing December 1, 2018. 3,574,792
\$ 9,744,693

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

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 403,005	\$ 98,652	\$ 501,657
2022	496,605	93,639	590,244
2023	496,605	88,447	585,052
2024	496,605	83,255	579,860
2025	496,605	78,063	574,668
2026 through 2030	2,951,028	302,631	3,253,659
2031 through 2035	2,806,754	155,007	2,961,761
2036 through 2039	<u>1,597,486</u>	<u>26,623</u>	<u>1,624,109</u>
	\$ <u>9,744,693</u>	\$ <u>926,317</u>	\$ <u>10,671,010</u>

The Diving Seagull, Inc. (DSI):

Bank loan in the amount of \$2,608,523 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. This loan is collateralized by the vessel and DSI's investments with Raymond James worth \$1,000,000. \$ 2,598,288

**STATE OF YAP
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Notes to Financial Statements
September 30, 2020

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

The Diving Seagull, Inc. (DSI), Continued:

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 118,934	\$ 93,661	\$ 212,595
2022	134,819	96,720	231,539
2023	140,312	91,227	231,539
2024	146,028	85,511	231,539
2025	<u>2,058,195</u>	<u>13,680</u>	<u>2,071,875</u>
	<u>\$ 2,598,288</u>	<u>\$ 380,799</u>	<u>\$ 2,979,087</u>

(7) Change in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2020, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

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, 2020, the State recognized a foreign exchange loss of \$154,008 financial statements, and which results in a reduction in ADB loans payable.

	<u>Balance October 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2020</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$2,455,379	\$ 75,354	\$ (137,982)	\$2,392,751	\$140,761
Loan 1816	5,941	-	(5,941)	-	-
Loan 1873	149,892	4,123	(23,198)	130,817	23,785
Loan 1874	439,581	17,282	(40,307)	416,556	30,856
Loan 2099	<u>1,975,098</u>	<u>57,249</u>	<u>(114,073)</u>	<u>1,918,274</u>	<u>122,263</u>
	5,025,891	154,008	(321,501)	4,858,398	317,665
Other:					
Compensated Absences	534,416	314,159	(294,971)	553,604	316,865
Land acquisition claims	<u>249,608</u>	-	-	<u>249,608</u>	-
	<u>\$5,809,915</u>	<u>\$468,167</u>	<u>\$(616,472)</u>	<u>\$5,661,610</u>	<u>\$634,530</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(7) Change in Long-Term Obligations, Continued

Primary Government, Continued

As of September 30, 2020, \$249,608 in land acquisition claims payable due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

Discretely Presented Component Units

During the year ended September 30, 2020, the following changes occurred in liabilities reported as part of the component unit's long-term liabilities in the statement of net position:

	Balance October 1, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2020</u>	Due Within <u>One Year</u>
Loans payable:					
YSPSC	\$ 9,971,841	\$ 93,692	\$ (320,840)	\$ 9,744,693	\$ 403,005
DSI	<u>982,361</u>	<u>1,615,927</u>	<u>-</u>	<u>2,598,288</u>	<u>118,943</u>
	\$ <u>10,954,202</u>	\$ <u>1,709,619</u>	\$ (320,840)	\$ <u>12,342,981</u>	\$ <u>521,948</u>

(8) Fund Balances

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

	General <u>Fund</u>	Grants Assistance <u>Fund</u>	Yap State Investment <u>Trust</u>	Compact Trust <u>Fund</u>	Nonmajor <u>Funds</u>	Total Governmental <u>Funds</u>
Non-spendable:						
Permanent fund principal	\$ -	\$ -	\$66,783,781	\$14,091,244	\$ -	\$ 80,875,025
Pacific Islands Development Bank	3,965,193	-	-	-	-	3,965,193
Bank of the FSM	2,799,390	-	-	-	-	2,799,390
Debt service	688,247	-	-	-	-	688,247
Infrastructure	-	2,509,004	-	-	-	2,509,004
Public works and transportation	-	-	-	-	349,939	349,939
General government	-	-	-	-	881,259	881,259
Community affairs	436,505	-	-	-	-	436,505
Assigned	1,648,722	-	-	-	-	1,648,722
Unassigned	<u>8,871,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,871,520</u>
	<u>\$18,409,577</u>	<u>\$2,509,004</u>	<u>\$66,783,781</u>	<u>\$14,091,244</u>	<u>\$1,231,198</u>	<u>\$103,024,804</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(9) Commitments and Contingencies

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2020, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>654,041</u>	\$ <u>4,746,604</u>	\$ <u>1,740,531</u>	\$ <u>7,141,176</u>

Sick Leave

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

Insurance Coverage

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

Federal Grants

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2020. 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, 2020. 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(9) Commitments and Contingencies, Continued

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI), for which obligation on these lands ceased in May, 1984. Subsequent to May 1984, responsibility to rent or purchase the sites was transferred to the State. The State's Division of Land and Surveys has estimated that the State may be responsible for funding the indefinite land use sites for back rent with interest. The State is actively attempting to negotiate purchase prices for these properties.

Continuing Appropriations

As of September 30, 2020, the State has significant continuing appropriations summarized as follows:

General Fund:

Autopsies (YSL No. 5-47)	\$ 13,558
FY19 IMF Matching YSL (5-47)	210,909
FY19 IMF Matching YSL (10-19)	<u>212,038</u>
	\$ <u>436,505</u>

Fines and Penalties

In July 2017, Diving Seagull, Inc. entered into a settlement agreement with Nauru Fisheries and Marine Resources Authority relating to fishing violations committed by the Company in the waters of Nauru. Diving Seagull, Inc. was required to pay a sum of \$1,200,000 payable in installment. As of September 30, 2020, the Company has partially paid \$1,000,000 with remaining balance of \$200,000 to be paid in fiscal year 2020.

(10) Budgetary Compliance

For the year ended September 30, 2020, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ 483,990
Impairment of investment	<u>288,722</u>
	\$ <u>772,712</u>

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2020

(11) Covid-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of December 31, 2021, there have been no confirmed cases of COVID-19 in the Federated States of Micronesia. The State has determined that should the pandemic reach the FSM, it may negatively impact the State's results of operations and financial position and the State may become dependent upon the financial support of the FSM National Government. However, the effect of the pandemic on FSM National Government is also uncertain and future available funding may be limited. Therefore, while the State expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2020

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual - Budgetary Basis (see Note 1)</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other	\$ 7,048,202	\$ 7,351,306	\$ 4,465,525	\$ (2,885,781)
Total revenues	<u>7,048,202</u>	<u>7,351,306</u>	<u>4,465,525</u>	<u>(2,885,781)</u>
Expenditures:				
Current:				
Judiciary	219,112	219,112	188,833	30,279
Council of traditional leaders	229,914	242,433	216,821	25,612
General government	1,570,534	1,588,149	1,445,231	142,918
Economic development	529,422	541,551	483,935	57,616
Public safety	673,318	746,931	620,954	125,977
Community affairs	283,786	294,351	271,286	23,065
Education	376,391	376,391	276,220	100,171
Public works and transportation	1,912,533	1,979,897	1,843,979	135,918
Health services	232,400	324,410	299,431	24,979
Boards and commissions	361,669	370,444	261,292	109,152
Payments to component units	184,080	184,080	128,103	55,977
Other appropriations	981,428	989,941	900,067	89,874
Debt service	-	-	483,990	(483,990)
Total expenditures	<u>7,554,587</u>	<u>7,857,690</u>	<u>7,420,142</u>	<u>437,548</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(506,385)</u>	<u>(506,384)</u>	<u>(2,954,617)</u>	<u>(2,448,233)</u>
Special item:				
less: Loss from impairment of investment	-	-	(288,722)	(288,722)
Total special item	<u>-</u>	<u>-</u>	<u>(288,722)</u>	<u>(288,722)</u>
Net change in fund balance	(506,385)	(506,384)	(3,243,339)	(2,736,955)
Encumbrances	718,423	718,423	654,041	(64,382)
Fund balance at the beginning of the year	<u>20,998,875</u>	<u>20,998,875</u>	<u>20,998,875</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 21,210,913</u>	<u>\$ 21,210,914</u>	<u>\$ 18,409,577</u>	<u>\$ (2,801,337)</u>

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, 2020

(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	\$ 7,420,142
Change in encumbrances	<u>(654,041)</u>
Expenditures on a GAAP basis	\$ <u>6,766,101</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2020

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2020

		<u>Special Revenue</u>	<u>Permanent</u>			
		Foreign	Yap		Other	
	<u>General</u>	Assistance Grants	Investment Trust	Compact Trust	Governmental Funds	<u>Total</u>
Expenditures:						
Salaries and wages	\$ 3,079,302	\$ 6,686,100	\$ -	\$ -	\$ -	\$ 9,765,402
Grants and subsidies	25,000	-	-	-	274,890	299,890
Utilities	997,939	867,920	-	-	-	1,865,859
Contractual services	174,660	2,109,819	-	-	1,377,307	3,661,786
Supplies and materials	184,632	1,999,957	-	-	56,891	2,241,480
Scholarship and training	174,064	232,387	-	-	-	406,451
Travel	113,393	392,527	-	-	23,971	529,891
Capital outlay	152,251	1,104,093	-	-	656,204	1,912,548
Rentals	4,526	43,476	-	-	-	48,002
Food stuffs	88,807	214,010	-	-	-	302,817
Communications	150,439	140,383	-	-	-	290,822
Printing and reproduction	-	38,553	-	-	-	38,553
Medical supplies	-	1,455,822	-	-	-	1,455,822
Repairs and maintenance	170,015	302,170	-	-	-	472,185
Freight	12,802	39,076	-	-	-	51,878
Professional services	15,000	106,326	-	-	-	121,326
POL	346,205	285,702	-	-	77,463	709,370
Allowances	123,500	5,960	-	-	-	129,460
Leased housing and land	22,586	133,260	-	-	-	155,846
Principal repayment	390,750	-	-	-	-	390,750
Interest payments	93,240	-	-	-	-	93,240
Other	446,990	133,068	-	-	853,632	1,433,690
	<u>\$ 6,766,101</u>	<u>\$ 16,290,609</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,320,358</u>	<u>\$ 26,377,068</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2020

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund. The United States Compact of Free Association current account and inflation adjustment funds associated with the current account are accounted for in this fund in addition to local taxes and other revenues.

See Accompanying Independent Auditors' 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, 2020
(with comparative totals for the year ended September 30, 2019)

	<u>2020</u>	<u>2019</u>
Revenues:		
Revenue sharing:		
Import tax	\$ 712,127	\$ 767,562
Fuel tax	220,622	154,262
Income tax	657,558	594,349
Business gross receipts tax	<u>597,237</u>	<u>553,091</u>
	<u>2,187,544</u>	<u>2,069,264</u>
Excise taxes:		
Alcoholic beverages	460,389	432,492
Gasoline and diesel	72,631	83,775
Tobacco	664,235	433,405
Other excise taxes	<u>490,696</u>	<u>543,490</u>
	<u>1,687,951</u>	<u>1,493,162</u>
Fees and charges:		
Licenses and permits	94,487	90,012
Fines/sale of confiscated property	25,557	36,749
Leases and other rentals	<u>142,225</u>	<u>154,715</u>
	<u>262,269</u>	<u>281,476</u>
Departmental charges:		
Sea transportation	287,139	215,251
Air transportation	102,286	192,921
Hospital services	173,763	424,530
Other	<u>8,118</u>	<u>28,754</u>
	<u>571,306</u>	<u>861,456</u>
Net change in the fair value of investments	<u>1,328,919</u>	<u>938,600</u>
Other revenues	<u>(1,572,464)</u>	<u>3,539,355</u>
Total revenues	<u>4,465,525</u>	<u>9,183,313</u>
Expenditures:		
Current:		
Judiciary	<u>185,011</u>	<u>188,214</u>
Councils of Traditional Leaders:		
Council of Pilung	84,929	76,266
Council of Tamol	<u>114,218</u>	<u>107,370</u>
	<u>199,147</u>	<u>183,636</u>
General government:		
Office of the Governor	175,333	182,269
State Legislature	437,155	451,981
Office of Administrative Services	482,640	435,232
Office of Planning, Budget and Statistics	116,840	125,856
Office of Public Auditor	<u>151,476</u>	<u>158,484</u>
	<u>1,363,444</u>	<u>1,353,822</u>
Resources and Development:		
Department of Resources and Development	<u>638,900</u>	<u>706,772</u>
Public Safety:		
Department of Public Safety/Attorney General	<u>593,290</u>	<u>540,361</u>

See Accompanying Independent Auditors' 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, 2020
(with comparative totals for the year ended September 30, 2019)

	<u>2020</u>	<u>2019</u>
Expenditures, continued:		
Current, continued:		
Community Affairs		
Department of Public Affairs	<u>265,030</u>	<u>326,120</u>
Public Works and Transportation:		
Department of Public Works and Transportation	<u>1,692,494</u>	<u>1,517,029</u>
Education Services:		
Department of Education	<u>276,220</u>	<u>277,138</u>
Health Services:		
Department of Health Services	<u>571,811</u>	<u>234,823</u>
Boards and Commissions:		
Historic Preservation Office	54,338	47,458
EPA Administration Board	83,399	85,225
Election Commissioner	13,302	55,152
Small Business Development Center	77,657	101,050
Yap Investment Trust	15,654	17,751
Other	<u>-</u>	<u>-</u>
	<u>244,350</u>	<u>306,636</u>
Payments to component units:		
Yap Visitor's Bureau	113,428	151,179
Public Transportation System	<u>-</u>	<u>-</u>
	<u>113,428</u>	<u>151,179</u>
Other appropriations:		
Micronesian Legal Services Corporation	25,000	41,280
Japan Overseas Cooperation Volunteers	2,118	9,376
Yap Public Library	2,703	-
Yap Community Action Program	109,165	133,475
Preparation for 2018 Micro Games	-	146
Medical Referral Program	-	312,026
Airport Operations and Maintenance	-	130,605
Others	<u>-</u>	<u>51,245</u>
	<u>138,986</u>	<u>678,153</u>
Debt service:		
Principal repayments	390,750	329,212
Interest payments	<u>93,240</u>	<u>91,738</u>
	<u>483,990</u>	<u>420,950</u>
Total expenditures	<u>6,766,101</u>	<u>6,884,833</u>
Excess of revenues over expenditures	<u>(2,300,576)</u>	<u>2,298,480</u>
Special item:		
Less: Write-off of receivables	-	(148,429)
Less: Loss on impairment of Other assets	<u>(288,722)</u>	<u>(184,951)</u>
Total special item	<u>(288,722)</u>	<u>(333,380)</u>
Net change in fund balance	(2,589,298)	1,965,100
Fund balance at the beginning of the year	<u>20,998,875</u>	<u>19,033,775</u>
Fund balance at the end of the year	<u>\$ 18,409,577</u>	<u>\$ 20,998,875</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	
	Original	Final	Budgetary Basis	Variance
Revenues:				
Other revenues	\$ 7,048,202	\$ 7,351,306	\$ 4,465,525	\$ (2,885,781)
Total revenues	<u>7,048,202</u>	<u>7,351,306</u>	<u>4,465,525</u>	<u>(2,885,781)</u>
Expenditures:				
Current:				
Judiciary	<u>219,112</u>	<u>219,112</u>	<u>188,833</u>	<u>30,279</u>
Councils of Traditional Leaders:				
Council of Pilung	101,794	112,813	87,419	25,394
Council of Tamol	<u>128,120</u>	<u>129,620</u>	<u>129,402</u>	<u>218</u>
	<u>229,914</u>	<u>242,433</u>	<u>216,821</u>	<u>25,612</u>
General government:				
Office of the Governor	195,669	195,669	183,770	11,899
State Legislature	473,241	473,241	442,242	30,999
Office of Administrative Services	559,875	567,651	523,723	43,928
Office of Public Auditor	147,000	156,839	118,434	38,405
Office of Planning, Budget and Statistics	<u>194,749</u>	<u>194,749</u>	<u>177,062</u>	<u>17,687</u>
	<u>1,570,534</u>	<u>1,588,149</u>	<u>1,445,231</u>	<u>142,918</u>
Economic Development:				
Department of Resources and Development	<u>529,422</u>	<u>541,551</u>	<u>483,935</u>	<u>57,616</u>
Public Safety:				
Department of Public Safety/Attorney General	<u>673,318</u>	<u>746,931</u>	<u>620,954</u>	<u>125,977</u>
Community Affairs:				
Department of Public Affairs	<u>283,786</u>	<u>294,351</u>	<u>271,286</u>	<u>23,065</u>
Education:				
Department of Education	<u>376,391</u>	<u>376,391</u>	<u>276,220</u>	<u>100,171</u>
Public Works and Transportation:				
Department of Public Works and Transportation	<u>1,912,533</u>	<u>1,979,897</u>	<u>1,843,979</u>	<u>135,918</u>
Health services:				
Department of Health Services	<u>232,400</u>	<u>324,410</u>	<u>299,431</u>	<u>24,979</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund, Continued
Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	
	Original	Final	Budgetary Basis	Variance
Expenditures, continued:				
Boards and Commissions:				
Historic Preservation Office	113,361	122,136	69,446	52,690
Environment Protection Agency	100,642	100,642	83,455	17,187
Yap State Election Commission	39,799	39,799	15,046	24,753
Small Business Development Center	87,830	87,830	77,691	10,139
Yap Investment Trust	20,037	20,037	15,654	4,383
	<u>361,669</u>	<u>370,444</u>	<u>261,292</u>	<u>109,152</u>
Payments to component units:				
Yap Visitor's Bureau	179,088	179,088	123,111	55,977
Public Transportation System	4,992	4,992	4,992	-
	<u>184,080</u>	<u>184,080</u>	<u>128,103</u>	<u>55,977</u>
Other appropriations:				
Micronesian Legal Services Corporation	25,000	25,000	25,000	-
Japan Overseas Cooperation Volunteers	9,000	9,000	3,918	5,082
Peace Corps Program	-	-	2,703	(2,703)
Yap CAP	112,371	112,371	112,296	75
2018 Micro Games	26,181	26,181	26,181	-
Scholarship	175,000	175,000	174,064	936
Medical Referral Program	357,178	357,178	296,875	60,303
Airport Operations and Maintenance	251,630	251,630	238,538	13,092
Sports Complex	1,600	1,600	1,600	-
Yap Day 2020	-	8,513	-	8,513
Others	23,468	23,468	18,892	4,576
	<u>981,428</u>	<u>989,941</u>	<u>900,067</u>	<u>89,874</u>
Debt service:				
Principal repayments	-	-	390,750	(390,750)
Interest payments	-	-	93,240	(93,240)
	<u>-</u>	<u>-</u>	<u>483,990</u>	<u>(483,990)</u>
Total expenditures	<u>7,554,587</u>	<u>7,857,690</u>	<u>7,420,142</u>	<u>437,548</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(506,385)</u>	<u>(506,384)</u>	<u>(2,954,617)</u>	<u>(2,448,233)</u>
Special item:				
less: Loss from impairment of investment	<u>-</u>	<u>-</u>	<u>(288,722)</u>	<u>(288,722)</u>
Total special item	<u>-</u>	<u>-</u>	<u>(288,722)</u>	<u>(288,722)</u>
Net change in fund balance	<u>(506,385)</u>	<u>(506,384)</u>	<u>(3,243,339)</u>	<u>(2,736,955)</u>
Encumbrances	718,423	718,423	654,041	(64,382)
Fund balance at the beginning of the year	<u>20,998,875</u>	<u>20,998,875</u>	<u>20,998,875</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 21,210,913</u>	<u>\$ 21,210,914</u>	<u>\$ 18,409,577</u>	<u>\$ (2,801,337)</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2020

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 21,208	\$ -	\$ 21,208
Investments	394,295	-	394,295
Receivables, net	-	223,830	223,830
Due from other funds	<u>500,961</u>	<u>529,910</u>	<u>1,030,871</u>
Total assets	<u>\$ 916,464</u>	<u>\$ 753,740</u>	<u>\$ 1,670,204</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 35,205	\$ 232,741	\$ 267,946
Other liabilities and accruals	-	17,779	17,779
Deferred revenues	<u>-</u>	<u>153,281</u>	<u>153,281</u>
Total liabilities	<u>35,205</u>	<u>403,801</u>	<u>439,006</u>
Fund balances:			
Restricted	-	349,939	349,939
Committed	<u>881,259</u>	<u>-</u>	<u>881,259</u>
Total fund balances	<u>881,259</u>	<u>349,939</u>	<u>1,231,198</u>
Total liabilities and fund balances	<u>\$ 916,464</u>	<u>\$ 753,740</u>	<u>\$ 1,670,204</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2020

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,973,645	\$ 2,973,645
Excise taxes	87,756	-	87,756
Fees and charges	204,259	-	204,259
Net change in the fair value of investments	<u>33,045</u>	<u>-</u>	<u>33,045</u>
Total revenues	<u>325,060</u>	<u>2,973,645</u>	<u>3,298,705</u>
Expenditures by function:			
Current:			
General government	<u>346,713</u>	<u>2,973,645</u>	<u>3,320,358</u>
Total expenditures	<u>346,713</u>	<u>2,973,645</u>	<u>3,320,358</u>
Net change in fund balances	(21,653)	-	(21,653)
Fund balances at the beginning of the year	<u>902,912</u>	<u>349,939</u>	<u>1,252,851</u>
Fund balances at the end of the year	<u>\$ 881,259</u>	<u>\$ 349,939</u>	<u>\$ 1,231,198</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2020

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,973,645	\$ 2,973,645
Excise taxes	87,756	-	87,756
Fees and charges	204,259	-	204,259
Net change in the fair value of investments	<u>33,045</u>	<u>-</u>	<u>33,045</u>
Total revenues	<u>325,060</u>	<u>2,973,645</u>	<u>3,298,705</u>
Expenditures by account:			
Grants and subsidies	274,890	-	274,890
Contractual services	-	1,377,307	1,377,307
Supplies and materials	-	56,891	56,891
Travel	-	23,971	23,971
Capital outlay	-	656,204	656,204
POL	-	77,463	77,463
Other	<u>71,823</u>	<u>781,809</u>	<u>853,632</u>
Total expenditures	<u>346,713</u>	<u>2,973,645</u>	<u>3,320,358</u>
Net change in fund balances	(21,653)	-	(21,653)
Fund balances at the beginning of the year	<u>902,912</u>	<u>349,939</u>	<u>1,252,851</u>
Fund balances at the end of the year	<u>\$ 881,259</u>	<u>\$ 349,939</u>	<u>\$ 1,231,198</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2020

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, 2020, 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 Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2020

	F39	F76	F85	F86	
	<u>Sports Development</u>	<u>Housing Maintenance</u>	<u>Enterprise</u>	<u>Expendable Trust</u>	<u>Total</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 21,208	\$ 21,208
Investments	-	-	-	394,295	394,295
Due from other funds	<u>23,643</u>	<u>49,005</u>	<u>418,783</u>	<u>9,530</u>	<u>500,961</u>
Total assets	<u><u>\$ 23,643</u></u>	<u><u>\$ 49,005</u></u>	<u><u>\$ 418,783</u></u>	<u><u>\$ 425,033</u></u>	<u><u>\$ 916,464</u></u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	<u>\$ 23,643</u>	<u>\$ 10,261</u>	<u>\$ 1,301</u>	<u>\$ -</u>	<u>\$ 35,205</u>
Total liabilities	<u>23,643</u>	<u>10,261</u>	<u>1,301</u>	<u>-</u>	<u>35,205</u>
Fund balances:					
Committed	<u>-</u>	<u>38,744</u>	<u>417,482</u>	<u>425,033</u>	<u>881,259</u>
Total fund balances	<u>-</u>	<u>38,744</u>	<u>417,482</u>	<u>425,033</u>	<u>881,259</u>
Total liabilities and fund balances	<u><u>\$ 23,643</u></u>	<u><u>\$ 49,005</u></u>	<u><u>\$ 418,783</u></u>	<u><u>\$ 425,033</u></u>	<u><u>\$ 916,464</u></u>

See Accompanying Independent Auditors' 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, 2020

	F39	F76	F85	F86	
	<u>Sports Development</u>	<u>Housing Maintenance</u>	<u>Enterprise</u>	<u>Expendable Trust</u>	<u>Total</u>
Revenues:					
Excise taxes	\$ 87,756	\$ -	\$ -	\$ -	\$ 87,756
Fees and charges	-	15,580	188,679	-	204,259
Net change in the fair value of investments	-	-	-	33,045	33,045
Total revenues	<u>87,756</u>	<u>15,580</u>	<u>188,679</u>	<u>33,045</u>	<u>325,060</u>
Expenditures by function:					
Current:					
General government	<u>87,756</u>	<u>28,256</u>	<u>230,701</u>	<u>-</u>	<u>346,713</u>
Total expenditures	<u>87,756</u>	<u>28,256</u>	<u>230,701</u>	<u>-</u>	<u>346,713</u>
Net change in fund balances	-	(12,676)	(42,022)	33,045	(21,653)
Fund balances at the beginning of the year	<u>-</u>	<u>51,420</u>	<u>459,504</u>	<u>391,988</u>	<u>902,912</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 38,744</u>	<u>\$ 417,482</u>	<u>\$ 425,033</u>	<u>\$ 881,259</u>

See Accompanying Independent Auditors' Report.

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
Year Ended September 30, 2020

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 87,756	\$ -	\$ -	\$ -	\$ 87,756
Fees and charges	-	15,580	188,679	-	204,259
Net change in the fair value of investments	-	-	-	33,045	33,045
Total revenues	<u>87,756</u>	<u>15,580</u>	<u>188,679</u>	<u>33,045</u>	<u>325,060</u>
Expenditures by account:					
Grants and subsidies	87,756	-	187,134	-	274,890
Other	-	28,256	43,567	-	71,823
Total expenditures	<u>87,756</u>	<u>28,256</u>	<u>230,701</u>	<u>-</u>	<u>346,713</u>
Net change in fund balances	-	(12,676)	(42,022)	33,045	(21,653)
Fund balances at the beginning of the year	-	51,420	459,504	391,988	902,912
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 38,744</u>	<u>\$ 417,482</u>	<u>\$ 425,033</u>	<u>\$ 881,259</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Balance Sheet
September 30, 2020

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
ASSETS																
Receiveables:																
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 611,399	\$ -	\$ -	\$ -	\$ 611,399
FSM National Government	-	374,186	697,641	63,055	167,011	37,171	53,679	154,420	-	712,530	321,231	-	-	-	1,216	2,582,140
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	600	600
Due from other funds	-	-	624,584	-	-	56,773	33,195	-	2,592,365	466,762	-	-	-	493,159	58,966	4,325,804
Advances	-	-	149,476	-	-	-	19,200	-	-	97,832	-	-	-	-	-	266,508
	<u>\$ -</u>	<u>\$ 374,186</u>	<u>\$ 1,471,701</u>	<u>\$ 63,055</u>	<u>\$ 167,011</u>	<u>\$ 93,944</u>	<u>\$ 106,074</u>	<u>\$ 154,420</u>	<u>\$ 2,592,365</u>	<u>\$ 1,277,124</u>	<u>\$ 321,231</u>	<u>\$ 611,399</u>	<u>\$ -</u>	<u>\$ 493,159</u>	<u>\$ 60,782</u>	<u>\$ 7,786,451</u>
LIABILITIES AND FUND BALANCES																
Liabilities:																
Accounts payable	\$ -	\$ 144,678	\$ 349,025	\$ (144)	\$ 17,427	\$ 19,620	\$ 66,779	\$ 9,307	\$ 83,361	\$ 53,126	\$ 18,584	\$ 64,555	\$ -	\$ 8,955	\$ 1,838	\$ 837,111
Other liabilities and accruals	-	104,089	84,055	-	-	2,858	39,295	6,398	-	12,293	43,161	31,916	-	1,417	1,326	326,808
Unearned revenues	-	77,875	1,038,621	48,373	29,022	71,466	-	-	-	1,211,705	-	402,816	-	482,787	57,618	3,420,283
Due to other funds	-	47,544	-	14,826	120,562	-	-	138,715	-	-	259,486	112,112	-	-	-	693,245
Total liabilities	<u>-</u>	<u>374,186</u>	<u>1,471,701</u>	<u>63,055</u>	<u>167,011</u>	<u>93,944</u>	<u>106,074</u>	<u>154,420</u>	<u>83,361</u>	<u>1,277,124</u>	<u>321,231</u>	<u>611,399</u>	<u>-</u>	<u>493,159</u>	<u>60,782</u>	<u>5,277,447</u>
Fund balances:																
Restricted	-	-	-	-	-	-	-	-	2,509,004	-	-	-	-	-	-	2,509,004
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,509,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,509,004</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 374,186</u>	<u>\$ 1,471,701</u>	<u>\$ 63,055</u>	<u>\$ 167,011</u>	<u>\$ 93,944</u>	<u>\$ 106,074</u>	<u>\$ 154,420</u>	<u>\$ 2,592,365</u>	<u>\$ 1,277,124</u>	<u>\$ 321,231</u>	<u>\$ 611,399</u>	<u>\$ -</u>	<u>\$ 493,159</u>	<u>\$ 60,782</u>	<u>\$ 7,786,451</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances
Year Ended September 30, 2020

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
Revenues:																
Compact funding	\$ -	\$ 5,091,018	\$ 4,781,572	\$ 386	\$ 157,017	\$ 106,649	\$ 1,336,862	\$ 234,466	\$ -	\$ 885,595	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,593,565
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,452,286	1,244,906	-	155,336	-	2,852,528
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	85,928	85,928
Departmental charges	-	-	-	-	-	-	-	-	-	-	-	26,874	-	-	-	26,874
Other	-	-	-	-	-	-	-	-	2,733	-	-	-	-	11,799	-	14,532
	<u>-</u>	<u>5,091,018</u>	<u>4,781,572</u>	<u>386</u>	<u>157,017</u>	<u>106,649</u>	<u>1,336,862</u>	<u>234,466</u>	<u>2,733</u>	<u>885,595</u>	<u>1,452,286</u>	<u>1,271,780</u>	<u>-</u>	<u>167,135</u>	<u>85,928</u>	<u>15,573,427</u>
Expenditures by function:																
Current:																
General government	-	-	-	386	-	106,649	-	234,466	-	-	62,381	159,967	-	-	75,890	639,739
Resources and development	-	-	-	-	157,017	-	-	-	-	-	-	95,576	-	-	7,933	260,526
Education	-	5,091,018	-	-	-	-	1,336,862	-	-	-	515,866	-	-	7,440	-	6,951,186
Public works and transportation	-	-	-	-	-	-	-	-	475,030	1,130,480	-	-	-	46,774	-	1,652,284
Health services	-	-	4,781,572	-	-	-	-	-	-	-	749,828	993,245	-	39,460	-	6,564,105
Other appropriations	-	-	-	-	-	-	-	-	-	-	124,211	22,992	-	73,461	2,105	222,769
	<u>-</u>	<u>5,091,018</u>	<u>4,781,572</u>	<u>386</u>	<u>157,017</u>	<u>106,649</u>	<u>1,336,862</u>	<u>234,466</u>	<u>475,030</u>	<u>1,130,480</u>	<u>1,452,286</u>	<u>1,271,780</u>	<u>-</u>	<u>167,135</u>	<u>85,928</u>	<u>16,290,609</u>
Total expenditures																
Deficiency of revenues under expenditures	-	-	-	-	-	-	-	-	(472,297)	(244,885)	-	-	-	-	-	(717,182)
Net change in fund balances	-	-	-	-	-	-	-	-	(472,297)	(244,885)	-	-	-	-	-	(717,182)
Fund balances at the beginning of the year	-	-	-	-	-	-	-	-	2,981,301	244,885	-	-	-	-	-	3,226,186
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,509,004</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,509,004</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances
Year Ended September 30, 2020

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
Revenues:																
Compact funding	\$ -	\$ 5,091,018	\$ 4,781,572	\$ 386	\$ 157,017	\$ 106,649	\$ 1,336,862	\$ 234,466	\$ -	\$ 885,595	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,593,565
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,452,286	1,244,906	-	155,336	-	2,852,528
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	85,928	85,928
Department charges	-	-	-	-	-	-	-	-	-	-	-	26,874	-	-	-	26,874
Other	-	-	-	-	-	-	-	-	2,733	-	-	-	-	11,799	-	14,532
	<u>-</u>	<u>5,091,018</u>	<u>4,781,572</u>	<u>386</u>	<u>157,017</u>	<u>106,649</u>	<u>1,336,862</u>	<u>234,466</u>	<u>2,733</u>	<u>885,595</u>	<u>1,452,286</u>	<u>1,271,780</u>	<u>-</u>	<u>167,135</u>	<u>85,928</u>	<u>15,573,427</u>
Expenditures by account:																
Salaries and wages	-	2,125,097	1,862,622	-	-	82,291	775,512	134,228	-	205,635	835,033	645,203	-	14,728	5,751	6,686,100
Utilities	-	340,789	415,838	-	-	-	34,006	-	-	4,935	25,568	46,784	-	-	-	867,920
Contractual services	-	216,675	262,939	-	143,787	-	10,000	30,000	249,195	259,090	64,659	64,139	-	1,029	(853)	1,300,660
Supplies and materials	-	494,069	81,951	-	309	149	104,082	38,778	-	6,812	98,267	202,972	-	-	15,137	1,042,526
Books and educational materials	-	957,431	-	-	-	-	-	-	-	-	-	-	-	-	-	957,431
Construction	-	-	-	-	-	-	-	-	-	583,324	-	-	-	-	-	583,324
Construction maintenance	-	-	-	-	-	-	-	-	225,835	-	-	-	-	-	-	225,835
Scholarship and training	-	229,831	-	-	-	2,556	-	-	-	-	-	-	-	-	-	232,387
Travel	-	26,252	51,870	-	-	6,880	98,520	2,878	-	1,970	143,033	59,857	-	(25)	1,292	392,527
Capital outlay	-	239,322	477,050	-	-	-	58,263	-	-	(666)	82,746	43,401	-	151,200	52,777	1,104,093
Rentals	-	5,055	9,097	-	-	-	30	-	-	50	28,549	695	-	-	-	43,476
Food stuffs	-	70,378	66,471	-	-	-	77,456	-	-	-	-	-	-	-	(295)	214,010
Communications	-	60,283	13,164	-	-	-	12,444	10,869	-	11,925	12,783	17,984	-	-	931	140,383
Printing and reproduction	-	-	9,022	-	12,421	-	-	-	-	1,100	15,898	-	-	-	112	38,553
Medical supplies	-	-	1,346,378	-	-	-	-	-	-	-	12,591	96,853	-	-	-	1,455,822
Repairs and maintenance	-	142,114	47,906	-	500	-	54,330	2,544	-	416	11,829	36,797	-	65	5,669	302,170
Freight	-	14,993	20,674	-	-	-	2,621	-	-	-	-	788	-	-	-	39,076
Professional services	-	-	-	-	-	-	78,679	15,000	-	-	-	12,647	-	-	-	106,326
POL	-	99,585	34,155	386	-	-	16,458	-	-	2,188	104,349	24,168	-	89	4,324	285,702
Leased housing	-	-	74,465	-	-	7,200	-	-	-	51,595	-	-	-	-	-	133,260
Allowances	-	-	-	-	-	-	1,380	-	-	-	800	3,780	-	-	-	5,960
Other	-	69,144	7,970	-	-	7,573	13,081	169	-	2,106	16,181	15,712	-	49	1,083	133,068
Total expenditures	<u>-</u>	<u>5,091,018</u>	<u>4,781,572</u>	<u>386</u>	<u>157,017</u>	<u>106,649</u>	<u>1,336,862</u>	<u>234,466</u>	<u>475,030</u>	<u>1,130,480</u>	<u>1,452,286</u>	<u>1,271,780</u>	<u>-</u>	<u>167,135</u>	<u>85,928</u>	<u>16,290,609</u>
Deficiency of revenues under expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(472,297)</u>	<u>(244,885)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(717,182)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(472,297)</u>	<u>(244,885)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(717,182)</u>
Fund balances at the beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,981,301</u>	<u>244,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,226,186</u>
Fund balances at the end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,509,004</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,509,004</u>

See Accompanying Independent Auditors' Report.

**INDEPENDENT AUDITORS' 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 Jesse J. Salalu
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, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 31, 2021. Our report includes an adverse opinion for the omission of a certain component unit, and includes explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our report includes a reference to other auditors who audited the financial statements of the Public Transportation System, as described in our report on the State's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Internal Control Over Financial Reporting, Continued

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 that is 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001 that we consider to be material weaknesses.

Compliance and Other Matters

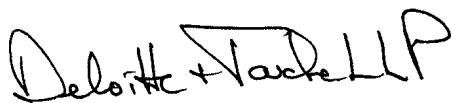
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

The State's Response to Findings

The State's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



December 31, 2021

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

Honorable Jessie J. Salalu
Governor, State of Yap
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited the State of Yap's (the State's) compliance with the types of compliance requirements described 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, 2020. The State's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2020. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State's compliance.

Opinion on Each Major Federal Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

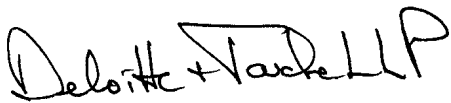
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 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.

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

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.

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, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated December 31, 2021, which contained an adverse opinion for the omission of a certain component unit, and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. We did not audit the financial statements of the Public Transportation System, which represent 100% of the assets, net position, and operating revenues of the State's business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



December 31, 2021

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2020

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 20,878
U.S. Department of the Interior	13,576,823
U.S. Small Business Administration	32,086
U.S. Department of Education	536,380
U.S. Department of Health and Human Services	<u>1,871,379</u>
 GRAND TOTAL	 \$ <u><u>16,037,546</u></u>
 Reconciliation to the basic financial statements:	
Foreign Assistance Grants Fund expenditures	\$ 16,290,609
Less: Non-U.S. Grants Fund expenditures	(167,135)
Less: CFSM Grants Fund expenditures	<u>(85,928)</u>
	\$ <u><u>16,037,546</u></u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

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		\$ 20,878
Total U.S. Department of Agriculture			<u>20,878</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		13,728
CF Asst. Consolidated Grants			57,584
Yap LFA Control Effort			<u>77,992</u>
Subtotal Direct Programs			149,304
Pass-Through Grants from the FSM National Government:		A5	
Economic, Social and Political Development of the Territories:			
Compact of Free Association, As Amended, Sector Grants	15.875	00050-2016-COFA-FSM	
Compact II Education Sector			5,091,018
Compact II Health Sector			4,781,572
Compact II Environment Sector			386
Compact II Private Sector Development			157,017
Compact II Capacity Building Sector			106,649
Supplemental Education Grant			1,336,862
Compact II ERA			234,466
Compact II Infrastructure Sector			1,130,480
Compact II Infrastructure Maintenance Sector			475,030
Historic Preservation Fund Grant-In-Aid	15.904		<u>114,039</u>
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>13,427,519</u>
Total U.S. Department of the Interior			<u>13,576,823</u>
<u>U.S. Small Business Administration:</u>			
Direct Programs:			
8(a) Business Development Program	59.006		<u>32,086</u>
Total U.S. Small Business Administration			<u>32,086</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		536,380
Special Education Cluster (IDEA) Subtotal			<u>536,380</u>
Total U.S. Department of Education			<u>536,380</u>
<u>U.S. Department of Health and Human Services:</u>			
Direct Programs:			
Health Center Program Cluster:			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		<u>1,069,512</u>
Health Center Cluster Subtotal and Subtotal Direct Programs			1,069,512
Pass-Through Grants from the FSM National Government		A5	
Public Health Emergency Preparedness	93.069		11,951
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		28,522
Maternal and Child Health Federal Consolidated Program	93.110		11,235
Project Grants and Cooperative Agreements for Tuberculosis			
Control Programs	93.116		43,055
Family Planning Services	93.217		47,941

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

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 Health and Human Services, Continued:</u>			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		69,525
Immunization Cooperative Agreements	93.268		97,477
Leading Edge Acceleration Projects (LEAP) in Health Information Technology	93.345		185,680
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		1,986
OPIOID STR	93.788		38,586
National Bioterrorism Hospital Preparedness Program	93.889		9,799
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898		66,415
Assistance Programs for Chronic Disease Prevention and Control	93.945		22,375
Block Grants for Community Mental Health Services	93.958		14,148
Block Grants for Prevention and Treatment of Substance Abuse	93.959		61,458
Block Grants for Preventive Health and Health Services	93.991		213
Maternal and Child Health Services Block Grant to the States	93.994		91,501
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>801,867</u>
Total U.S. Department of Health and Human Services			<u>1,871,379</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ <u><u>16,037,546</u></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, 2020

1. Scope

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Yap under programs of the federal government for the year ended September 30, 2020. 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, 2020 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, 2020.

C. Matching Costs

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

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2020

3. Summary of Significant Accounting Policies, Continued

E. CFDA #15.875

CFDA #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 is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA #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, 2020

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? | None reported |
| 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? | None reported |
| 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)? | No |
| 9. Identification of major federal programs: | |

<u>CFDA 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
84.027	Special Education Cluster (IDEA): Special Education – Grants to States (IDEA, Part B)

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

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2020-001	External Financial Reporting

Section III - Federal Award Findings and Questioned Costs

No matters were reported

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2020

Finding No.: 2020-001
Area: External Financial Reporting

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

Condition: The fiscal year 2020 financial audit of a component unit, Yap Fishing Authority, was not completed in a timely manner due to delayed reconciliations and year-end closings.

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

Effect: The State is in noncompliance with GASB Statement No. 14, as amended, and lacks audited financial statements for inclusion in the State's general purpose financial statements. Yap Fishing Authority did not incur federal program expenditures during the year ended September 30, 2020.

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

Identification as a Repeat Finding: Finding No. 2019-003

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



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Office Telephones:
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PROPERTY: 350-2271/2370
PERSONNEL: 350-2145
REVENUE: 350-2472

Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2020

<u>Questioned Finding Number</u>	<u>CFDA Number</u>	<u>Costs</u>	<u>Status</u>
2017-001	15.875	\$ 76,540	Not corrected, corrective action ongoing.
2017-002	93.224	18,515	Not corrected, corrective action ongoing.
2018-001	15.875	263,177	Not corrected, corrective action ongoing.
2018-002	15.875	112,703	Not corrected, corrective action ongoing.
2019-001	15.875	164,760	Not corrected, corrective action ongoing.
2019-002	93.224	<u>9,998</u>	Not corrected, corrective action ongoing.
		\$ <u>645,693</u>	



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Corrective Action Plan
2 CFR § 200.511©
Year Ended September 30, 2020

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2019-001	The Division of Procurement & Property Management and The Division of Finance & Treasury have already begun close coordination with all Departments, Offices, and Agencies of the Yap State Government to ensure that all applicable Laws, Rules, Regulations, Policies and Procedures are properly being followed. Purchases relating to the COVID-19 Pandemic (Emergency) posed a difficult challenge with bid waivers and bidding requirements.	March 31, 2022	Julie Gurwan, Chief, Division of Procurement & Property Management and also Irene Laabrug, Chief, Division of Finance & Treasury (691) 350-2142 ppm.oas@gmail.com
2019-002	The Division of Procurement & Property Management and The Division of Finance & Treasury have already begun working closely with all Departments, Offices, and Agencies of the Yap State Government to ensure that all applicable Laws, Rules, Regulations, Policies and Procedures are properly being followed. A policy guideline was issued relative to emergency purchases for the COVID-19 Pandemic.	March 31, 2022	Julie Gurwan, Chief, Division of Procurement & Property Management and also Irene Laabrug, Chief, Division of Finance & Treasury (691) 350-2142 ppm.oas@gmail.com
2020-001	We agree with this finding. OPA is working on the backlog with YFA to do the field work to confirm balances of the accts. Last audit done on YFA was 2010. OPA received TB from YFA for fiscal year 2011 – fiscal year 2014. After a year of working on TB for 2011-2014, OPA now concludes the financial records are un-auditable and recommends a different strategy to resolve the finding. YFA Management, OPA and OAS will meet again to agree on the multi-year process. In fiscal year 2021-2022, YFA and OPA will produce a listing of the fixed assets. In fiscal year 2023, the assets will be transferred to Yap State Government. This will be the ultimate corrective action.	June 30, 2023	Gabriel Ramoloiug, Director, OAS (691) 350-2142 yapoaservdir@gmail.com