

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2018

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2018

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**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2018

INDEPENDENT AUDITORS' REPORT

Honorable Henry S. Falan
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, 2018, 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 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 financial statements do not include financial data for Yap Fishing Authority. Accounting principles generally accepted in the United States of America require the financial data for this component unit be presented as a component unit and financial information about Yap Fishing Authority be part of the discretely presented component units' column, thus increasing the assets, liabilities, net position, revenues, expenses, and changes in net position of the component units. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the discretely presented component units' column is not reasonably determinable.

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 financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2018, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2018, 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-Matter***Receivables from the FSM National Government***

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

Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

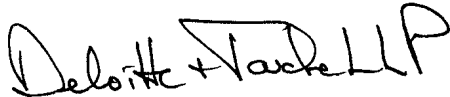
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 as well as the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 53 and 54, 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 (GASB) 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 June 30, 2019 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 to solely 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

June 30, 2019

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2018

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, 2018. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2017 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, 2018, Yap State's total net position increased by \$4.1 million (or 3.9%) from \$105.3 million in the prior year to \$109.4 million.
- In comparison to fiscal year 2017, revenues decreased by \$6.7 million (or -22.2%), and total expenditures decreased by \$5.3 million (or -18.1%). The decrease in revenue was due to decreases in general fund of \$2.4 million and foreign assistance grants of \$1.9 million compared to fiscal year 2017 of \$9.2 in general fund and \$14.4 million in foreign assistance grants.
- Fiscal year 2018 revenues available for appropriation were \$5.2 million less than budgeted for the general fund. Actual expenditures were \$615,800 less than the final budgeted amount.
- At the end of fiscal year 2018, the Yap State Investment Trust Fund reported a fund balance of \$56.8 million, which was an increase of \$4.5 million from the prior year, due to gains in the fair value of the investment.
- At the end of the fiscal year, the unassigned balance of the general fund was \$9.2 million.

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.

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

**STATE OF YAP
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Management's Discussion and Analysis
Year Ended September 30, 2018

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

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about Yap State's significant funds. Funds are accounting devices that Yap State uses to keep track of specific sources of funding and spending for particular services. The State uses fund accounting to comply with financial and related legal reporting 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 fund 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 charges customers. Such 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 2018, Yap State's assets exceeded liabilities by \$109.4 million. Of its total net position, \$16 million is restricted for specific uses and \$21.5 million is invested in capital assets (buildings, roads, etc.). The capital assets provide services to its citizens; consequently, these assets are not available for future spending. Although Yap State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following schedule summarizes Yap State's net position as of September 30, 2018 with comparative figures of the prior year:

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**Management's Discussion and Analysis
Year Ended September 30, 2018**

	Governmental Activities		Business Type Activities		Total			
	2018	2017	2018	2017	2018	2017	Change	%
Assets								
Current assets	\$ 20,963,732	\$ 24,330,791	\$311,789	\$ 309,574	\$ 21,275,521	\$ 24,640,365	\$(3,364,844)	-13.7
Other assets	77,567,618	69,971,016	-	-	77,567,618	69,971,016	7,596,602	10.9
Capital assets, net	23,173,757	22,083,940	431,901	537,176	23,605,658	22,621,116	984,542	4.4
Total assets	121,705,107	116,385,747	743,690	846,750	122,448,797	117,232,497	5,216,300	4.4
Liabilities								
Current liabilities	7,458,877	5,921,225	22,983	36,662	7,481,860	5,957,887	1,523,973	25.6
Non-current liabilities	5,639,946	6,001,909	-	-	5,639,946	6,001,909	(361,963)	-6.0
Total liabilities	13,098,823	11,923,134	22,983	36,662	13,121,806	11,959,796	1,162,010	9.7
Net assets								
Invested in Capital assets, net	21,040,946	22,083,940	431,901	537,176	21,472,847	22,621,116	(1,148,269)	-5.1
Restricted	16,005,217	16,082,691	-	-	16,005,217	16,082,691	(77,474)	-0.5
Unrestricted	71,560,121	66,295,982	288,806	272,912	71,848,927	66,568,894	5,280,033	7.9
Total net assets	\$108,606,284	\$104,462,613	\$720,707	\$ 810,088	\$109,326,991	\$105,272,701	4,054,290	3.9

At the end of fiscal year 2018, Yap State's unrestricted net position shows a surplus of \$71.8 million (65.7% of total net position). Included in this amount is the Yap State Investment Trust with a fiscal year end surplus of \$56.8 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2017, Yap State's net position increased by \$4.1 million. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Governmental Activities		Business Type Activities		Total			
	2018	2017	2018	2017	2018	2017	Change	%
Revenues:								
Program Revenues:								
Charges for services	\$ 1,480,215	\$ 1,451,207	\$435,024	\$370,990	\$ 1,915,239	\$ 1,822,197	93,042	5.1
Operating grants and contributions	14,932,204	16,295,307	-	110,056	14,932,204	16,405,363	(1,473,159)	-9.0
Capital grants and contributions	-	3,121,582	92,068	465,398	92,068	3,586,980	(3,494,912)	-97.4
General Revenues:								
Taxes	4,025,642	4,148,734	-	-	4,025,642	4,148,734	(123,092)	-3.0
Unrestricted investment (losses) earnings	981,268	2,499,322	-	-	981,268	2,499,322	(1,518,054)	-60.7
Other	914,415	1,474,731	-	-	914,415	1,474,731	(560,316)	-38.0
Total revenues	22,333,744	28,990,883	527,092	946,444	22,860,836	29,937,327	(7,076,491)	-23.6
Expenses:								
General government	5,072,423	4,920,110	616,473	594,424	5,688,896	5,514,534	174,362	3.2
Health Services	5,761,065	5,864,424	-	-	5,761,065	5,864,424	(103,359)	-1.8
Education	6,357,400	7,718,183	-	-	6,357,400	7,718,183	(1,360,783)	-17.6
Economic development	1,105,773	1,111,157	-	-	1,105,773	1,111,157	(5,384)	-0.5
Public Safety	520,309	538,078	-	-	520,309	538,078	(17,769)	-3.3
Public works and transportation	800,887	3,925,163	-	-	800,887	3,925,163	(3,124,276)	-79.6
Community affairs	103,924	327,301	-	-	103,924	327,301	(223,377)	-68.2
Boards and commissions	242,591	214,494	-	-	242,591	214,494	28,097	13.1
Payments to components	15,439	2,562,844	-	-	15,439	2,562,844	(2,547,405)	-99.4
Judiciary	198,602	194,108	-	-	198,602	194,108	4,494	2.3
Public auditor	-	-	-	-	-	-	-	0.0
Other	3,205,820	1,307,212	-	-	3,205,820	1,307,212	1,898,608	145.2
Total expenses	23,384,233	28,683,074	616,473	594,424	24,000,706	29,277,498	(5,276,792)	-18.0
Contributions to permanent funds	5,339,106	7,569,986	-	-	5,339,106	7,569,986	(2,230,880)	-29.5
Receivable written off	(220,065)	-	-	-	(220,065)	-	(220,065)	-
Gain from foreign exchange rate	75,119	-	-	-	75,119	-	75,119	-
Change in net position	4,143,671	7,877,795	(89,381)	352,020	4,054,290	8,229,815	(4,175,525)	-50.7
Net position at the beginning of the year	104,462,613	96,816,755	810,088	458,068	105,272,701	97,274,823	7,997,878	8.2
Net assets at the end of the year	\$ 108,606,284	\$ 104,694,550	\$ 720,707	\$ 810,088	\$ 109,326,991	\$ 105,504,638	3,822,353	3.6

Total revenues in fiscal year 2018 decreased by \$6.7 million over prior year's \$29.9 million primarily due to significant losses on the fair value of investments. Most of the losses were in the Yap State Trust investments.

Total expenses of \$24 million in fiscal year 2018 is 18.1% less than that of fiscal year 2017's expenses of \$29.3 million.

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Management's Discussion and Analysis
Year Ended September 30, 2018

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 2018, Yap State's governmental funds reported a combined fund balance of \$91.8 million, which represents an increase of \$2.7 million in comparison with fiscal year 2017. Of the total fund balance, \$82.6 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 (\$76.3 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$3.8 million); 3) restricted because the funds are already committed (\$1.1 million); and, 4) restricted and intended for a specific purpose (\$1.5 million). The unassigned combined fund balance is \$9.2 million.

Changes in the State's governmental fund balances for the years ended September 30, 2018 and 2017 are shown below:

	General Fund		Foreign Assistance Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues:										
Taxes	\$ 3,719,317	\$ 4,033,749	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 306,325	\$ 114,985
Compact	-	-	9,398,241	12,097,661	-	-	-	-	-	-
Other/Transfers in	3,070,611	5,156,389	3,162,585	2,320,767	4,501,476	6,073,483	837,630	1,496,503	2,676,665	2,145,750
Total revenues	6,789,928	9,190,138	12,560,826	14,418,428	4,501,476	6,073,483	837,630	1,496,503	2,982,990	2,260,735
Expenditures/transfers out	7,816,626	6,361,553	14,214,523	15,100,531	-	-	-	-	2,745,558	2,255,479
Net change in fund balances	\$ (1,026,698)	\$ 2,828,585	\$ (1,653,697)	\$ (682,103)	\$ 4,501,476	\$ 6,073,483	\$ 837,630	\$ 1,496,503	\$ 237,432	\$ 5,256

GENERAL FUND BUDGETARY HIGHLIGHTS

Yap State budgetary report is impacted by the financial market's performance. The market's performance during the fiscal year resulted in a \$1.5 million loss which contributed to the state's decrease in revenues as compared to prior year. Actual expenditures for the fiscal year were \$1 million more than the total revenues.

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2018. 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 2018.

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Management's Discussion and Analysis
Year Ended September 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2018, amounted to \$124.6 million, with accumulated depreciation of \$101.5 million, leaving a net book value of \$23.2 million. This represents a net increase of \$1.1 million from fiscal year 2017. The table below summarizes Yap State's capital assets:

	2018	2017	Change	%
Land	\$ 3,170,610	\$ 3,170,610	\$ -	0.00
Buildings	8,436,770	6,633,429	1,803,341	27.19
Equipment	330,902	244,610	86,292	35.28
Heavy Equipment	424,058	480,193	(56,135)	-11.69
Vehicles	441,128	251,832	189,296	75.17
Vessels	1,679,024	1,867,805	(188,781)	-10.11
Infrastructure	7,640,781	9,435,461	(1,794,680)	-19.02
Construction work-in progress	1,050,484	-	1,050,484	100.00
Total	<u>\$23,173,757</u>	<u>\$22,083,940</u>	<u>\$1,089,817</u>	<u>4.93</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 \$6.4 million at September 30, 2018. 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 \$5.5 million, liability for compensated absences of \$0.6 million, and long-term payments due under land purchase agreements of \$0.2 million. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by \$1.7 million 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 notes 6 and 7 to the financial statements.

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 52% 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 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 2018 and beyond.

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Management's Discussion and Analysis
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Yap State Government continued its commitment to sound financial discipline by establishing a trust fund four 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.

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, 2018

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 1,798,528	\$ 48,177	\$ 1,846,705	\$ 2,459,184
Time certificates of deposit	-	-	-	569,733
Investments	13,636,517	-	13,636,517	1,429,332
Receivables, net of allowance for uncollectibles	3,221,358	16,211	3,237,569	1,292,798
Advances	349,860	-	349,860	-
Inventories	-	214,839	214,839	1,311,218
Other current assets	-	32,562	32,562	69,228
Restricted assets:				
Cash and cash equivalents	1,957,469	-	1,957,469	-
Total current assets	20,963,732	311,789	21,275,521	7,131,493
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	2,241,746
Investments	70,640,002	-	70,640,002	-
Investments	2,488,750	-	2,488,750	-
Capital assets:				
Construction work-in-progress	1,050,484	-	1,050,484	-
Nondepreciable capital assets	3,170,610	-	3,170,610	57,490
Capital assets, net of accumulated depreciation	18,952,663	431,901	19,384,564	20,523,075
Other assets	4,438,866	-	4,438,866	697,285
Total noncurrent assets	100,741,375	431,901	101,173,276	23,519,596
Total assets	\$ 121,705,107	\$ 743,690	\$ 122,448,797	\$ 30,651,089
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term obligations	318,891	-	318,891	1,001,555
Current portion of fines and penalties payable	-	-	-	200,000
Short term loan	-	-	-	850,000
Accounts payable	1,523,550	4,489	1,528,039	1,587,228
Current portion of compensated absences	392,176	-	392,176	-
Accrued interest payable	14,872	-	14,872	-
Other liabilities and accruals	373,654	18,494	392,148	2,376,301
Unearned revenues	4,835,734	-	4,835,734	114,632
Total current liabilities	7,458,877	22,983	7,481,860	6,129,716
Noncurrent liabilities:				
Noncurrent portion of fines and penalties payable	-	-	-	-
Noncurrent portion of long-term obligations	5,181,799	-	5,181,799	10,056,325
Noncurrent portion of compensated absences	208,539	-	208,539	-
Other noncurrent liabilities	249,608	-	249,608	-
Total noncurrent liabilities	5,639,946	-	5,639,946	10,056,325
Total liabilities	13,098,823	22,983	13,121,806	16,186,041
<u>NET POSITION</u>				
Net investment in capital assets	21,040,946	431,901	21,472,847	9,868,908
Restricted for:				
Nonexpendable:				
Future operations	12,530,456	-	12,530,456	-
Expendable:				
Compact related	2,187,057	-	2,187,057	-
Debt service	1,287,704	-	1,287,704	-
Other purposes	-	-	-	2,279,019
Unrestricted	71,560,121	288,806	71,848,927	2,317,121
Total net position	108,606,284	720,707	109,326,991	14,465,048
Total liabilities and net position	\$ 121,705,107	\$ 743,690	\$ 122,448,797	\$ 30,651,089

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2018

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	\$ 198,602	\$ -	\$ -	\$ -	\$ (198,602)	\$ -	\$ (198,602)	\$ -
Councils of traditional leaders	171,378	-	-	-	(171,378)	-	(171,378)	-
General government	5,072,423	506,150	1,908,315	-	(2,657,958)	-	(2,657,958)	-
Resources and development	1,105,773	-	530,233	-	(575,540)	-	(575,540)	-
Public safety	520,309	-	-	-	(520,309)	-	(520,309)	-
Community affairs	103,924	1,060	-	-	(102,864)	-	(102,864)	-
Education	6,357,400	500	5,902,379	-	(454,521)	-	(454,521)	-
Public works and transportation	800,887	491,766	962,502	-	653,381	-	653,381	-
Health services	5,761,065	463,902	5,435,931	-	138,768	-	138,768	-
Boards and commissions	242,591	16,837	-	-	(225,754)	-	(225,754)	-
Payments to components	15,439	-	-	-	(15,439)	-	(15,439)	-
Other appropriations	2,947,897	-	192,844	-	(2,755,053)	-	(2,755,053)	-
Interest expense	86,545	-	-	-	(86,545)	-	(86,545)	-
Total governmental activities	<u>23,384,233</u>	<u>1,480,215</u>	<u>14,932,204</u>	<u>-</u>	<u>(6,971,814)</u>	<u>-</u>	<u>(6,971,814)</u>	<u>-</u>
Business-type activities:								
Public Transportation System	616,473	435,024	-	-	-	(181,449)	(181,449)	-
Total primary government	<u>\$ 24,000,706</u>	<u>\$ 1,915,239</u>	<u>\$ 14,932,204</u>	<u>\$ -</u>	<u>(6,971,814)</u>	<u>(181,449)</u>	<u>(7,153,263)</u>	<u>-</u>
Component units:								
Yap Visitor's Bureau	\$ 260,013	\$ -	\$ 278,735	\$ -	-	-	-	18,722
Yap State Public Service Corporation	6,121,071	5,919,246	229,000	438,456	-	-	-	465,631
The Diving Seagull, Inc.	9,079,695	8,912,280	-	-	-	-	-	(167,415)
Total component units	<u>\$ 15,460,779</u>	<u>\$ 14,831,526</u>	<u>\$ 507,735</u>	<u>\$ 438,456</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>316,938</u>
General revenues:								
Taxes:								
FSM revenue sharing:								
Gross revenue taxes					648,741	-	648,741	-
Import taxes					756,495	-	756,495	-
Income taxes					678,841	-	678,841	-
Other taxes					201,029	-	201,029	-
State taxes					1,740,536	-	1,740,536	-
Unrestricted investment earnings					981,268	-	981,268	108,597
Operating subsidy from primary government					-	92,068	92,068	6,194
Other					<u>914,415</u>	<u>-</u>	<u>914,415</u>	<u>(458,134)</u>
					5,921,325	92,068	6,013,393	(343,343)
Special items:								
Write-off of receivables					(220,065)	-	(220,065)	-
Gain on SDR foreign exchange					75,119	-	75,119	-
Contributions to permanent funds					<u>5,339,106</u>	<u>-</u>	<u>5,339,106</u>	<u>-</u>
Total general revenues, special items and contributions					<u>11,115,485</u>	<u>92,068</u>	<u>11,207,553</u>	<u>(343,343)</u>
Change in net position					<u>4,143,671</u>	<u>(89,381)</u>	<u>4,054,290</u>	<u>(26,405)</u>
Net position at the beginning of the year					<u>104,462,613</u>	<u>810,088</u>	<u>105,272,701</u>	<u>14,491,453</u>
Net position at the end of the year					<u>\$ 108,606,284</u>	<u>\$ 720,707</u>	<u>\$ 109,326,991</u>	<u>\$ 14,465,048</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2018

		Special Revenue	Permanent		Other Governmental Funds	Total
	General	Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
ASSETS						
Cash and cash equivalents	\$ 1,777,458	\$ -	\$ -	\$ -	\$ 21,070	\$ 1,798,528
Investments	15,771,371	-	-	-	353,896	16,125,267
Receivables, net:						
Federal agencies	-	18,876	-	-	-	18,876
FSM National Government	418,306	2,392,091	-	-	312,803	3,123,200
Other	78,682	600	-	-	-	79,282
Due from other funds	345,623	5,410,219	-	-	947,171	6,703,013
Advances	162,827	187,033	-	-	-	349,860
Other assets	4,438,866	-	-	-	-	4,438,866
Restricted assets:						
Cash and cash equivalents	1,957,469	-	-	-	-	1,957,469
Investments	1,287,704	-	56,821,842	12,530,456	-	70,640,002
Total assets	<u>\$ 26,238,306</u>	<u>\$ 8,008,819</u>	<u>\$ 56,821,842</u>	<u>\$ 12,530,456</u>	<u>\$ 1,634,940</u>	<u>\$ 105,234,363</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	743,968	\$ 541,061	\$ -	\$ -	\$ 238,521	\$ 1,523,550
Other liabilities and accruals	103,103	252,746	-	-	17,805	373,654
Unearned revenues	70	4,682,332	-	-	153,332	4,835,734
Due to other funds	6,357,390	345,623	-	-	-	6,703,013
Total liabilities	<u>7,204,531</u>	<u>5,821,762</u>	<u>-</u>	<u>-</u>	<u>409,658</u>	<u>13,435,951</u>
Fund balances:						
Non-spendable	6,927,616	-	56,821,842	12,530,456	-	76,279,914
Restricted	1,287,704	2,187,057	-	-	349,939	3,824,700
Committed	202,124	-	-	-	875,343	1,077,467
Assigned	1,463,726	-	-	-	-	1,463,726
Unassigned:						
General fund	9,152,605	-	-	-	-	9,152,605
Capital projects funds	-	-	-	-	-	-
Total fund balances	<u>19,033,775</u>	<u>2,187,057</u>	<u>56,821,842</u>	<u>12,530,456</u>	<u>1,225,282</u>	<u>91,798,412</u>
Total liabilities and fund balances	<u>\$ 26,238,306</u>	<u>\$ 8,008,819</u>	<u>\$ 56,821,842</u>	<u>\$ 12,530,456</u>	<u>\$ 1,634,940</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

23,173,757

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	(5,500,690)
Compensated absences payable	(600,715)
Accrued interest payable	(14,872)
Land acquisition claims payable	(249,608)

(6,365,885)

Net position of governmental activities

\$ 108,606,284

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, 2018

		Special Revenue	Permanent		Other Governmental Funds	Total
	General	Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
Revenues:						
Compact funding	\$ -	\$ 9,398,241	\$ -	\$ -	\$ -	\$ 9,398,241
Net change in the fair value of investments	951,995	-	4,501,476	837,630	29,273	6,320,374
Federal contributions and other grants	-	2,725,985	-	-	-	2,725,985
FSM revenue sharing	2,285,106	-	-	-	-	2,285,106
State taxes	1,434,211	-	-	-	306,325	1,740,536
CFSM grants	-	376,101	-	-	2,431,877	2,807,978
Fees and charges	309,316	-	-	-	215,515	524,831
Departmental charges	927,965	27,419	-	-	-	955,384
Other	881,335	33,080	-	-	-	914,415
Total revenues	<u>6,789,928</u>	<u>12,560,826</u>	<u>4,501,476</u>	<u>837,630</u>	<u>2,982,990</u>	<u>27,672,850</u>
Expenditures:						
Current:						
Judiciary	198,602	-	-	-	-	198,602
Councils of traditional leaders	166,378	-	-	-	-	166,378
General government	1,184,134	1,190,634	-	-	2,745,558	5,120,326
Resources and development	625,733	530,233	-	-	-	1,155,966
Public safety	520,309	-	-	-	-	520,309
Community affairs	292,873	-	-	-	-	292,873
Education	241,115	5,902,379	-	-	-	6,143,494
Public works and transportation	1,235,936	962,502	-	-	-	2,198,438
Health services	473,317	5,435,931	-	-	-	5,909,248
Boards and commissions	228,786	-	-	-	-	228,786
Payments to component units	15,439	-	-	-	-	15,439
Other appropriations	2,320,868	192,844	-	-	-	2,513,712
Debt service	313,136	-	-	-	-	313,136
Total expenditures	<u>7,816,626</u>	<u>14,214,523</u>	<u>-</u>	<u>-</u>	<u>2,745,558</u>	<u>24,776,707</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,026,698)</u>	<u>(1,653,697)</u>	<u>4,501,476</u>	<u>837,630</u>	<u>237,432</u>	<u>2,896,143</u>
Other financing sources (uses):						
Operating transfer in	468,276	1,274,393	-	-	-	1,742,669
Operating transfer out	(1,274,393)	(468,276)	-	-	-	(1,742,669)
Total other financing sources (uses), net	<u>(806,117)</u>	<u>806,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Special item:						
less: Write-off of receivables	(220,065)	-	-	-	-	(220,065)
Net change in fund balances	<u>(2,052,880)</u>	<u>(847,580)</u>	<u>4,501,476</u>	<u>837,630</u>	<u>237,432</u>	<u>2,676,078</u>
Fund balances at the beginning of the year	<u>21,086,655</u>	<u>3,034,637</u>	<u>52,320,366</u>	<u>11,692,826</u>	<u>987,850</u>	<u>89,122,334</u>
Fund balances at the end of the year	<u>\$ 19,033,775</u>	<u>\$ 2,187,057</u>	<u>\$ 56,821,842</u>	<u>\$ 12,530,456</u>	<u>\$ 1,225,282</u>	<u>\$ 91,798,412</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, 2018

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	\$ 2,676,078
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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 capital outlays (\$4,106,927) exceeded depreciation (\$3,017,110) in the current period.	1,089,817
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Special item associated with a gain on SDR foreign exchange adjustment.	75,119
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The incurrence 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	357,470
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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:

Change in compensated absences payable	<u>(54,813)</u>
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Change in net position of governmental activities	\$ <u>4,143,671</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, 2018

	Public Transportation <u>System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 48,177
Receivables, net of allowance for uncollectibles	16,211
Inventories	214,839
Other current assets	<u>32,562</u>
Total current assets	311,789
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>431,901</u>
Total assets	<u>\$ 743,690</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 4,489
Other liabilities and accruals	<u>18,494</u>
Total liabilities	<u>22,983</u>
<u>NET POSITION</u>	
Net investment in capital assets	431,901
Unrestricted	<u>288,806</u>
Total net position	<u>720,707</u>
	<u>\$ 743,690</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, 2018

	Public Transportation System
Operating revenues:	
Charges for services	\$ 184,064
Sales	243,895
Other	<u>7,065</u>
Total operating revenues	<u>435,024</u>
Operating expenses:	
Cost of services	103,452
Administration costs	385,522
Depreciation and amortization	<u>127,499</u>
Total operating expenses	<u>616,473</u>
Loss from operations	(181,449)
Nonoperating revenues:	
Operating subsidy from primary government	<u>92,068</u>
Total nonoperating revenues	<u>92,068</u>
Change in net position	(89,381)
Net position at the beginning of the year	<u>810,088</u>
Net position at the end of the year	<u>\$ 720,707</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2018

	Public Transportation <u>System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 447,223
Cash payments to employees	(329,558)
Cash payments to suppliers	<u>(197,011)</u>
Net cash used in operating activities	<u>(79,346)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>92,068</u>
Cash flows from capital and related financing activities:	
Others	(56)
Purchase of capital assets	<u>(22,168)</u>
Net cash used in capital and related financing activities	<u>(22,224)</u>
Net change in cash and cash equivalents	(9,502)
Cash and cash equivalents at the beginning of the year	<u>57,679</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 48,177</u></u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (181,449)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	127,449
Changes in assets and liabilities:	
Other	26,138
Receivables	(1,460)
Inventories	(36,345)
Accounts payable	(2,623)
Other liabilities and accruals	<u>(11,056)</u>
Net cash used in operating activities	<u><u>\$ (79,346)</u></u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combining Statement of Net Position
Component Units
September 30, 2018

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 178,613	\$ 1,265,228	\$ 1,015,343	\$ 2,459,184
Time certificate of deposit	-	-	569,733	569,733
Investments	-	-	1,429,332	1,429,332
Receivables, net:				
General	-	954,736	-	954,736
Other	-	29,361	308,701	338,062
Inventories	-	1,202,386	108,832	1,311,218
Other current assets	-	28,963	40,265	69,228
Total current assets	<u>178,613</u>	<u>3,480,674</u>	<u>3,472,206</u>	<u>7,131,493</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	2,241,746	2,241,746
Capital assets:				
Nondepreciable capital assets	-	57,490	-	57,490
Capital assets, net of accumulated depreciation	33,052	17,968,016	2,522,007	20,523,075
Other assets	-	697,285	-	697,285
Total noncurrent assets	<u>33,052</u>	<u>18,722,791</u>	<u>4,763,753</u>	<u>23,519,596</u>
Total assets	<u>\$ 211,665</u>	<u>\$ 22,203,465</u>	<u>\$ 8,235,959</u>	<u>\$ 30,651,089</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 395,085	\$ 606,470	\$ 1,001,555
Current portion of fines and penalties payable	-	-	200,000	200,000
Short term loan	-	-	850,000	850,000
Accounts payable	-	202,256	1,384,972	1,587,228
Unearned revenues	-	114,632	-	114,632
Other liabilities and accruals	<u>7,838</u>	<u>1,264,607</u>	<u>1,103,856</u>	<u>2,376,301</u>
Total current liabilities	<u>7,838</u>	<u>1,976,580</u>	<u>4,145,298</u>	<u>6,129,716</u>
Noncurrent liabilities:				
Noncurrent portion of fines and penalties payable	-	-	-	-
Noncurrent portion of long-term debt	-	9,520,211	536,114	10,056,325
Total noncurrent liabilities	<u>-</u>	<u>9,520,211</u>	<u>536,114</u>	<u>10,056,325</u>
Total liabilities	<u>7,838</u>	<u>11,496,791</u>	<u>4,681,412</u>	<u>16,186,041</u>
<u>NET POSITION</u>				
Net investment in capital assets	33,052	8,110,210	1,725,646	9,868,908
Restricted, expendable	-	37,273	2,241,746	2,279,019
Unrestricted	<u>170,775</u>	<u>2,559,191</u>	<u>(412,845)</u>	<u>2,317,121</u>
Total net position	<u>203,827</u>	<u>10,706,674</u>	<u>3,554,547</u>	<u>14,465,048</u>
	<u>\$ 211,665</u>	<u>\$ 22,203,465</u>	<u>\$ 8,235,959</u>	<u>\$ 30,651,089</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, 2018

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,436,530	\$ 8,911,650	\$ 14,348,180
Sales	-	482,716	630	483,346
Total operating revenues	-	5,919,246	8,912,280	14,831,526
Operating expenses:				
Cost of services	-	4,440,692	8,828,727	13,269,419
Administration costs	244,766	519,270	243,988	1,008,024
Depreciation and amortization	15,247	1,161,109	6,980	1,183,336
Total operating expenses	260,013	6,121,071	9,079,695	15,460,779
Operating income (loss)	(260,013)	(201,825)	(167,415)	(629,253)
Nonoperating revenues (expenses):				
Contributions from the primary government	278,735	-	-	278,735
Contributions from FSM National Government	6,194	-	-	6,194
Contributions from U.S. Government	-	229,000	-	229,000
Interest income	-	7,543	101,054	108,597
Interest expense	-	(160,242)	(107,868)	(268,110)
Other	-	(190,024)	-	(190,024)
Total nonoperating revenues (expenses), net	284,929	(113,723)	(6,814)	164,392
Capital contributions	-	438,456	-	438,456
Change in net position	24,916	122,908	(174,229)	(26,405)
Net position at the beginning of the year	178,911	10,583,766	3,728,776	14,491,453
Net position at the end of the year	\$ 203,827	\$ 10,706,674	\$ 3,554,547	\$ 14,465,048

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(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, 2018

(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, 2018

(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, 2018

(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 \$16,005,217 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, 2018

(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, 2018

(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, 2018

(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, 2018

(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 \$1,287,704. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$56,821,842 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$12,530,456 are restricted in that they are not available to be used for current operations.

As of September 30, 2018, 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

\$ 1,342,413

Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended

615,056

\$ 1,957,469

Discretely Presented Component Units

The Diving Seagull, Inc.:

Time certificate of deposit restricted as collateral for long-term debt with a bank.

\$ 2,091,746

Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank.

150,000

\$ 2,241,746

L. Other Assets

The State holds approximately 15% of the outstanding shares of Pacific Islands Development Bank with a carrying amount of \$1,438,866. 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, 2018

(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, 2018

(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, 2018

(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, 2018, the State implemented the following pronouncements:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the State's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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, 2018

(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, 2017 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

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.

As of September 30, 2018, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$3,755,997 and the corresponding bank balance was \$4,328,269, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018, bank deposits in the amount of \$270,280 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, 2018, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$48,177. There were no significant differences between cash balances and bank balances. As of September 30, 2018, \$48,177 of cash is maintained in one financial institution subject to FDIC insurance and which is fully FDIC insured.

As of September 30, 2018, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$5,270,663 and the corresponding bank balances were \$5,212,244, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2018, bank deposits in the amount of \$3,137,285 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

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, 2018, the State's investments are as follows:

General Fund:

Fixed income	\$ 5,608,719
Domestic equities	2,488,750
Common equities	6,044,119
International equities	2,163,330
Cash management account	<u>754,157</u>
	<u>17,059,075</u>

Yap State Investment Trust Fund:

Fixed income	17,978,474
Common equities	24,258,701
International equities	13,078,187
Real estate	637,922
Cash management account	<u>868,558</u>
	<u>56,821,842</u>

Compact Trust Fund:

Common trust funds:	
Domestic Equity	1,736,226
International Equity	2,505,759
Global Equity	1,193,777
Fixed Income	5,212,419
Private Equity	588,892
Hedge Fund	484,603
Real Estate	794,038
Money market funds	<u>14,742</u>
	<u>12,530,456</u>

Other Governmental Funds:

Mutual Funds	93,555
Common equities	167,655
International equities	82,534
Money market funds	<u>10,152</u>
	<u>353,896</u>
	<u>\$ 86,765,269</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2018, 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>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Ratings</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
U.S. Treasury Notes and Bonds	\$ 123,509	\$ 15,593	\$ 72,617	\$ 3,344	\$ 31,955	Aaa
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	7,071	-	7,071	-	-	Aaa
Federal Home Loan Mortgage Corporation	3,378	13	73	-	3,292	Aaa
Federal National Mortgage Association	12,385	3,371	-	-	9,014	Aaa
Federal Home Loan Bank	9,569	-	2,438	7,131	-	Aaa
Tennessee Valley Authority	15,956	-	5,128	-	10,828	Aaa
Freddie Home Loan Mortgage Corporation	9,110	-	9,110	-	-	Aaa
Private Export Funding Corporation	9,613	-	9,613	-	-	Aaa
Government National Mortgage Association	252	-	-	-	252	No Rating
Overseas Private Investment Corporation	22,653	-	-	22,653	-	No Rating
Municipal Obligations	1,357	-	1,357	-	-	Aaa
Municipal Obligations	16,303	-	15,210	-	1,093	Aa1
Municipal Obligations	6,281	-	2,364	1,416	2,501	Aa2
Corporate Bonds	24,205	-	21,461	-	2,744	Aaa
Corporate Bonds	16,942	13,103	3,839	-	-	Aa1
Corporate Bonds	7,682	-	7,682	-	-	Aa2
Corporate Bonds	8,211	-	8,211	-	-	Aa3
Corporate Bonds	9,082	-	5,358	1,392	2,332	A1
Corporate Bonds	20,692	-	20,692	-	-	A2
Corporate Bonds	7,725	-	5,819	-	1,906	A3
Corporate Bonds	11,657	-	1,434	4,751	5,472	Baa1
Corporate Bonds	2,169	-	-	-	2,169	Baa2
Corporate Bonds	4,434	-	-	-	4,434	Baa3
Corporate Bonds	3,846	-	-	3,846	-	Ba1
Corporate Bonds	11,929	-	2,410	9,519	-	No rating
	<u>\$ 366,011</u>	<u>\$ 32,080</u>	<u>\$ 201,887</u>	<u>\$ 54,052</u>	<u>\$ 77,992</u>	

<u>Investment Type (no aging schedule)</u>	<u>Fair Value</u>	<u>Credit Rating</u>
U.S. Treasury Notes and Bonds	\$ 1,713,846	Aaa
U.S. Government Agencies Obligations	89,409	A2
Mortgage Backed	765,199	Aaa
Asset-Backed	45,250	A2
Corporate Bonds - Industrial	1,153,962	A3
Corporate Bonds - Finance	840,427	Baa1
Corporate Bonds - Yankee Bond	279,096	Baa1
Corporate Bonds - Utilities	163,976	A3
Corporate Bonds - Others	191,543	Aa1
	<u>\$ 5,242,708</u>	
	<u>\$ 5,608,719</u>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(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	\$ 7,715,883	\$ 886,857	\$ 2,896,960	\$ 2,261,114	\$ 1,670,952	Aaa
U.S. Government Agencies Obligations:						
Federal Home Loan Bank	266,747	-	266,747	-	-	Aaa
Federal National Mortgage Association	398,291	398,291	-	-	-	Aaa
Federal Home Loan Mortgage Corp.	481,038	-	481,038	-	-	Aaa
Corporate Bonds	97,636	-	97,636	-	-	Aaa
Corporate Bonds	406,406	315,958	-	90,448	-	Aa2
Corporate Bonds	2,029,105	485,550	1,189,849	353,706	-	A1
Corporate Bonds	1,783,621	-	1,293,984	489,637	-	A2
Corporate Bonds	1,727,471	-	961,217	766,254	-	A3
Corporate Bonds	290,429	290,429	-	-	-	Aa1
Corporate Bonds	99,217	-	-	99,217	-	Aa3
Corporate Bonds	674,469	-	144,310	530,159	-	Baa1
Corporate Bonds	780,824	59,872	213,574	507,378	-	Baa2
Corporate Bonds	70,720	-	-	70,720	-	Baa3
Corporate Bonds	73,353	-	73,353	-	-	No rating
Asset-Backed	<u>1,083,264</u>	<u>-</u>	<u>-</u>	<u>329,947</u>	<u>753,317</u>	No rating
	<u>\$ 17,978,474</u>	<u>\$ 2,436,957</u>	<u>\$ 7,618,668</u>	<u>\$ 5,498,580</u>	<u>\$ 2,424,269</u>	

The State has the following recurring fair value measurements as of September 30, 2018:

General Fund

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury Notes and Bonds	\$ 1,837,355	\$ -	\$ 1,837,355	\$ -
U.S. Government Agencies Obligations	179,396	-	179,396	-
Securitized Assets	810,449	-	810,449	-
Municipal Obligations	23,941	-	23,941	-
Corporate Bonds	<u>2,757,578</u>	<u>-</u>	<u>2,757,578</u>	<u>-</u>
	5,608,719	-	5,608,719	-
Equity securities:				
U.S. Equities	6,044,119	6,044,119	-	-
International Equities	<u>2,163,330</u>	<u>2,163,330</u>	<u>-</u>	<u>-</u>
	8,207,449	8,207,449	-	-
Total investments at fair value	13,816,168	<u>8,207,449</u>	<u>5,608,719</u>	<u>-</u>
Investments measured at NAV:				
Equity Investment in Bank of the FSM	2,488,750			
Investments measured at amortized cost:				
Money Market Funds	<u>754,157</u>			
	<u>\$ 17,059,075</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Yap State Investment Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Yap State investment trust funds:				
Common Equities	\$ 24,258,701	\$ 24,258,701	\$ -	\$ -
International Equities	13,078,187	13,078,187	-	-
Fixed Income	<u>17,978,474</u>	<u>17,978,474</u>	<u>-</u>	<u>-</u>
Total investments at fair value	55,315,362	\$ <u>55,315,362</u>	\$ <u>-</u>	\$ <u>-</u>
Investments measured at NAV:				
Real estate	637,922			
Investments measured at amortized cost:				
Cash Management Account	<u>868,558</u>			
	<u>\$ 56,821,842</u>			

Compact Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 1,736,226	\$ 1,736,226	\$ -	\$ -
International Equity	2,505,759	2,505,759	-	-
Global Equity	1,193,777	1,193,777		
Fixed Income	5,212,419	5,212,419	-	-
Private Equity	<u>588,892</u>	<u>-</u>	<u>-</u>	<u>588,892</u>
Total investments at fair value	11,237,073	\$ <u>10,648,181</u>	\$ <u>-</u>	\$ <u>588,892</u>
Investments measured at NAV:				
Hedge Fund	484,603			
Real Estate	794,038			
Investments measured at amortized cost:				
Money market funds	<u>14,742</u>			
	<u>\$ 12,530,456</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Other Governmental Funds

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Other governmental funds:				
Mutual Funds	\$ 93,555	\$ 93,555	\$ -	\$ -
Common Equities	167,655	167,655	-	-
International Equities	<u>82,534</u>	<u>82,534</u>	-	-
Total investments at fair value	<u>343,744</u>	<u>\$ 343,744</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money Market Funds	<u>10,152</u>			
	<u>\$ 353,896</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, 2018.

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, 2018, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

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

The 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 "Aa3" as rated by Moody's as of September 30, 2018. High yield debt receiving a credit rating below "A" comprises approximately 29.2% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2018. At September 30, 2018, the weighted average maturity of the bonds comprising MIM CFI is 10.62 years.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2018. High yield debt receiving a credit rating below "A" comprises approximately 49.3% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2018. At September 30, 2018, the weighted average maturity of the bonds comprising MIM OFI is 6.79 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, 2018, the Trust Fund held approximately \$208,518,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$40,065,000 was held in securities whose functional currency is the Euro, \$18,462,000 whose functional currency is the British pound, \$28,017,000 whose functional currency is the Japanese yen, and \$121,974,000 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 12.8% of invested assets at September 30, 2018.

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.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

The Diving Seagull, Inc. (DSI):

As of September 30, 2018, DSI's investments are as follows:

Fixed income	\$ 463,971
Common equities	935,873
Money market funds	<u>29,488</u>
	<u>\$ 1,429,332</u>

As of September 30, 2018, DSI's fixed income securities, including their S & P credit ratings, had the following maturities:

		<u>Investment Maturities (In Years)</u>			
	<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	\$ 190,799	\$ -	\$ 127,934	\$ 62,865
U.S. Government agencies obligations	AAA	19,962	19,962	-	-
Corporate Notes	A1	30,245	-	30,245	-
Corporate Notes	A2	62,433	14,945	47,488	-
Corporate Notes	A3	88,327	10,000	68,485	9,842
Corporate Notes	AA2	14,996	-	14,996	-
Corporate Notes	BAA1	35,676	-	24,384	11,292
Corporate Notes	BAA2	<u>21,533</u>	-	<u>21,533</u>	-
		<u>\$ 463,971</u>	<u>\$ 44,907</u>	<u>\$ 335,065</u>	<u>\$ 83,999</u>

The Diving Seagull has the following recurring fair value measurements as of September 30, 2018:

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
Fixed income:				
U.S. Treasury obligations	\$ 190,799	\$ -	\$ 190,799	\$ -
U.S. Government agencies	19,962	-	19,962	-
Corporate notes	<u>253,210</u>	<u>-</u>	<u>253,210</u>	<u>-</u>
	463,971	-	463,971	-
Equity securities:				
U.S. equities	<u>935,873</u>	<u>935,873</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,399,844	\$ <u>935,873</u>	\$ <u>463,971</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>29,488</u>			
	\$ <u>1,429,332</u>			

**STATE OF YAP
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Notes to Financial Statements
September 30, 2018

(3) Receivables

Primary Government

Receivables as of September 30, 2018, 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>	<u>Foreign Assistance Grants</u>	<u>Yap State Investment Trust</u>	<u>Compact Trust</u>	<u>Nonmajor and Other Funds</u>	<u>Public Transportation System</u>	<u>Total</u>
Receivables:							
Federal agencies	\$ -	\$ 18,876	\$ -	\$ -	\$ -	\$ -	\$ 18,876
FSM National Government	451,492	2,392,089	-	-	1,076,741	-	3,920,322
Other	<u>613,477</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,420</u>	<u>654,497</u>
	1,064,969	2,411,565	-	-	1,076,741	40,420	4,593,695
Less: allowance for uncollectible accounts	<u>(567,981)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(763,938)</u>	<u>(24,209)</u>	<u>(1,356,128)</u>
Net receivables	\$ <u>496,988</u>	\$ <u>2,411,565</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>312,803</u>	\$ <u>16,211</u>	\$ <u>3,237,567</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 Visitors Bureau</u>	<u>Yap State Public Service Corporation</u>	<u>The Diving Seagull, Inc.</u>	<u>Total</u>
Receivables:				
General	\$ -	\$ 1,046,647	\$ -	\$ 1,046,647
Other	<u>-</u>	<u>29,361</u>	<u>958,376</u>	<u>987,737</u>
	-	1,076,008	958,376	2,034,384
Less: allowance for uncollectible accounts	<u>-</u>	<u>(91,911)</u>	<u>(649,675)</u>	<u>(741,586)</u>
Net receivables	\$ <u>-</u>	\$ <u>984,097</u>	\$ <u>308,701</u>	\$ <u>1,292,798</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, 2018, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Foreign Assistance Grants	\$ 345,623
Foreign Assistance Grants	General	5,410,219
Nonmajor governmental funds	General	<u>947,171</u>
		\$ <u>6,703,013</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2018, are as follows:

	Balance October 1 <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2018</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 17,797,450	\$ 2,569,628	\$ -	\$ 20,367,078
Infrastructure	86,807,703	-	-	86,807,703
Equipment	847,530	150,000	-	997,530
Vehicles	2,547,339	336,813	-	2,884,152
Vessels	5,156,463	-	-	5,156,463
Heavy equipment	<u>4,204,891</u>	<u>-</u>	<u>-</u>	<u>4,204,891</u>
	<u>117,361,376</u>	<u>3,056,441</u>	<u>-</u>	<u>120,417,817</u>
Less accumulated depreciation for:				
Buildings	(11,164,021)	(766,287)	-	(11,930,308)
Infrastructure	(77,372,242)	(1,794,680)	-	(79,166,922)
Equipment	(602,920)	(63,708)	-	(666,628)
Vehicles	(2,295,507)	(147,517)	-	(2,443,024)
Vessels	(3,288,658)	(188,781)	-	(3,477,439)
Heavy equipment	<u>(3,724,698)</u>	<u>(56,135)</u>	<u>-</u>	<u>(3,780,833)</u>
	<u>(98,448,046)</u>	<u>(3,017,108)</u>	<u>-</u>	<u>(101,465,154)</u>
Total capital assets, being depreciated, net	18,913,330	39,333	-	18,952,663
Non-depreciable Assets:				
Construction work-in-progress	-	3,620,112	(2,569,628)	1,050,484
Land	<u>3,170,610</u>	<u>-</u>	<u>-</u>	<u>3,170,610</u>
Governmental activities capital assets, net	\$ <u>22,083,940</u>	\$ <u>3,659,445</u>	\$ <u>(2,569,628)</u>	\$ <u>23,173,757</u>

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

Councils of traditional leaders	\$ 5,000
General government	28,163
Resources and development	6,656
Community affairs	12,546
Education	372,549
Public works and transportation	2,044,002
Health services	100,203
Boards and commissions	13,805
Other appropriations	<u>434,184</u>
	\$ <u>3,017,108</u>

**STATE OF YAP
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Notes to Financial Statements
September 30, 2018

(5) Capital Assets, Continued

	Balance October 1, 2017	Additions	Retirements	Balance September 30, 2018
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 128,899	\$ -	\$ -	\$ 128,899
Vehicles	1,536,906	15,865	-	1,552,771
Shop equipment	82,911	2,067	-	84,978
Office equipment	118,348	4,291	-	122,639
Land improvement	<u>1,678</u>	<u>93</u>	<u>-</u>	<u>1,771</u>
	1,868,742	22,316	-	1,891,058
Less accumulated depreciation	<u>(1,331,658)</u>	<u>(127,499)</u>	<u>-</u>	<u>(1,459,157)</u>
Total net capital assets	\$ <u>537,084</u>	\$ <u>(105,183)</u>	\$ <u>-</u>	\$ <u>431,901</u>

Discretely Presented Component Units:

	Balance October 1, 2017	Additions	Retirements	Balance September 30, 2018
Depreciable assets:				
Utility plant	\$ 28,213,099	\$ 7,251,012	\$ -	\$ 35,464,111
Machinery, equipment and others	<u>15,729,921</u>	<u>234,198</u>	<u>(39,700)</u>	<u>15,924,419</u>
	43,943,020	7,485,210	(39,700)	51,388,530
Less accumulated depreciation	<u>(29,147,584)</u>	<u>(1,757,571)</u>	<u>39,700</u>	<u>(30,865,455)</u>
	14,795,436	5,727,639	-	20,523,075
Nondepreciable assets:				
Construction work-in-progress	<u>5,002,693</u>	<u>1,787,172</u>	<u>(6,732,375)</u>	<u>57,490</u>
	\$ <u>19,798,129</u>	\$ <u>7,514,811</u>	\$ <u>(6,732,375)</u>	\$ <u>20,580,565</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, 2018

(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, 2018. As of September 30, 2018, the amount outstanding against this loan was \$2,648,689. Of the required \$3,500,000 identified for future debt service payments, \$1,287,704 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, 2018, the outstanding balance is \$48,484.

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, 2018, the balances payable on these loans amounted to \$176,903 and \$493,803, 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, 2018, the balance of this loan amounted to \$2,132,811.

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>
2019	\$ 318,891	\$ 49,645	\$ 368,536
2020	318,891	46,716	365,607
2021	318,891	43,787	362,678
2022	318,891	40,859	359,750
2023	318,891	37,930	356,821
2024 through 2028	1,535,485	146,226	1,681,711
2029 through 2033	1,473,055	78,207	1,551,262
2034 through 2037	<u>897,695</u>	<u>16,729</u>	<u>914,424</u>
	<u>\$ 5,500,690</u>	<u>\$ 460,099</u>	<u>\$ 5,960,789</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(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.

\$ 1,865,720

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.

4,283,993

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.

3,765,583

\$ 9,915,296

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>
2019	\$ 395,085	\$ 104,638	\$ 499,723
2020	395,085	100,219	495,304
2021	395,085	95,801	490,886
2022	480,765	90,893	571,658
2023	480,765	85,822	566,587
2024 through 2028	2,660,866	349,614	3,010,480
2029 through 2033	2,831,999	207,494	3,039,493
2034 through 2038	<u>2,275,646</u>	<u>64,395</u>	<u>2,340,041</u>
	\$ <u>9,915,296</u>	\$ <u>1,098,876</u>	\$ <u>11,014,172</u>

The Diving Seagull, Inc. (DSI):

Bank loan in the amount of \$3,000,000 granted by the FSM Development Bank, with interest at 9% per annum, to purchase a fishing vessel. Interest and principal are payable in monthly installments of \$38,003, commencing April 25, 2010. This loan is collateralized by a security agreement over all assets of Diving Seagull, Inc. and secured by certain deposit accounts.

\$ 796,361

Bank loan in the amount of \$1,000,000 with interest at 2.12% per annum, to fund fishing operations. Interest and principal are payable in monthly installments of \$17,605, commencing June 10, 2015. This loan is collateralized by DSI's time certificate of deposit.

346,223

\$ 1,142,584

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(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>
2019	\$ 606,470	\$ 60,830	\$ 667,300
2020	<u>536,114</u>	<u>19,005</u>	<u>555,119</u>
	\$ <u>1,142,584</u>	\$ <u>79,835</u>	\$ <u>1,222,419</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, 2018, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2018</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 2,822,504	\$ -	\$ (173,815)	\$ 2,648,689	\$ 139,415
Loan 1816	87,898	-	(39,414)	48,484	3,463
Loan 1873	203,100	-	(26,197)	176,903	23,587
Loan 1874	543,568	-	(49,765)	493,803	31,858
Loan 2099	<u>2,276,209</u>	<u>-</u>	<u>(143,398)</u>	<u>2,132,811</u>	<u>120,568</u>
	<u>5,933,279</u>	<u>-</u>	<u>(432,589)</u>	<u>5,500,690</u>	<u>318,891</u>
Other:					
Compensated absences	545,902	295,577	(240,764)	600,715	392,176
Land acquisition claims	<u>249,608</u>	<u>-</u>	<u>-</u>	<u>249,608</u>	<u>-</u>
	<u>795,510</u>	<u>295,577</u>	<u>(240,764)</u>	<u>850,323</u>	<u>392,176</u>
	\$ <u>6,728,789</u>	\$ <u>295,577</u>	\$ <u>(673,353)</u>	\$ <u>6,351,013</u>	\$ <u>711,067</u>

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, 2018, the State recognized a foreign exchange gain of \$75,119 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a reduction in ADB loans payable.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(7) Change in Long-Term Obligations, Continued

Primary Government, Continued

As of September 30, 2018, \$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, 2018, 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,			Balance September 30,	Due Within
Loans payable:	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>One Year</u>
YSPSC	\$ 9,427,984	\$ 714,737	\$ (227,425)	\$ 9,915,296	\$ 395,085
DSI	<u>1,696,842</u>	<u>-</u>	<u>(554,258)</u>	<u>1,142,584</u>	<u>606,470</u>
	<u>\$ 11,124,826</u>	<u>\$ 714,737</u>	<u>\$ (781,683)</u>	<u>\$ 11,057,880</u>	<u>\$ 1,001,555</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	\$ -	\$ -	\$ 56,821,842	\$ 12,530,456	\$ -	\$ 69,352,298
Pacific Islands Development Bank	4,438,866	-	-	-	-	4,438,866
Bank of the FSM	2,488,750	-	-	-	-	2,488,750
Restricted for:						
Debt service	1,287,704	-	-	-	-	1,287,704
Infrastructure	-	2,187,057	-	-	-	2,187,057
Public works and transportation	-	-	-	-	349,939	349,939
Committed for:						
General government	13,558	-	-	-	875,343	888,901
Community affairs	183,124	-	-	-	-	183,124
Other programs	5,442	-	-	-	-	5,442
Assigned	1,463,726	-	-	-	-	1,463,726
Unassigned	<u>9,152,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,152,605</u>
	<u>\$ 19,033,775</u>	<u>\$ 2,187,057</u>	<u>\$ 56,821,842</u>	<u>\$ 12,530,456</u>	<u>\$ 1,225,282</u>	<u>\$ 91,798,412</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(9) Operating Transfers In/Out

Primary Government

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2018, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	Foreign Assistance Grants Fund	\$ 1,274,393	\$ 1,274,393
Foreign Assistance Grants Fund	General Fund	\$ 468,276	\$ 468,276

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. Specifically, the State transferred \$1,274,393 from the General Fund to the Foreign Assistance Grants Fund representing the State's share of contribution to the Compact sector infrastructure maintenance fund and \$468,276 from the Foreign Assistance Grants Fund to the General Fund representing the residual fund balance of the section 221(b) Special Block grant fund.

(10) 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, 2018, 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>857,225</u>	\$ <u>1,732,257</u>	\$ <u>706,669</u>	\$ <u>3,296,151</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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(10) Commitments and Contingencies, Continued

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, 2018. 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, 2018. 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.

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, 2018, the State has significant continuing appropriations summarized as follows:

General Fund:

Historical Preservation Office (Mangiyol project) (YSL No. 9-62, 9-77, 9-102)	\$ 14,892
Autopsies (YSL No. 5-47)	13,558
SYWA (Badger water & residential meters purchases) (YSL No. 9-57, 9-77)	5,441
Wuloo Village Power (YSL 9-85, 9-102)	36,973
Woleai Water Catchment Repair (YSL 9-85, 9-102)	4,980
Gilfith Retaining Wall Project, IMF (YSL 9-89, 9-102)	<u>126,280</u>
	\$ <u>202,124</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2018

(10) Commitments and Contingencies, Continued

Fines and Penalties

In July 2017, the Company 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. The Company was required to pay a sum of \$1,200,000 payable in installment. As of September 30, 2018, the Company has partially paid \$1,000,000 with remaining balance of \$200,000 to be paid in fiscal year 2019.

(11) Budgetary Compliance

For the year ended September 30, 2018, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ 313,136
Write-off of receivables	<u>220,065</u>
	\$ <u>533,201</u>

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2018

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2018

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget
	Original	Final		
Revenues:				
Other	\$ 12,036,524	\$ 12,036,524	\$ 6,789,928	\$ (5,246,596)
Total revenues	<u>12,036,524</u>	<u>12,036,524</u>	<u>6,789,928</u>	<u>(5,246,596)</u>
Expenditures:				
Current:				
Judiciary	235,772	235,772	198,602	37,170
Council of traditional leaders	200,934	200,934	166,378	34,556
General government	1,393,030	1,443,030	1,319,626	123,404
Economic development	466,771	798,129	660,255	137,874
Public safety	613,397	613,397	520,309	93,088
Community affairs	306,241	310,941	420,748	(109,807)
Education	348,379	348,379	241,115	107,264
Public works and transportation	1,987,752	2,018,495	1,746,751	271,744
Health services	284,430	684,145	498,629	185,516
Boards and commissions	289,281	300,234	228,786	71,448
Payments to component units	20,431	20,431	15,439	4,992
Other appropriations	1,616,728	2,315,764	2,344,077	(28,313)
Debt service	-	-	313,136	(313,136)
Total expenditures	<u>7,763,146</u>	<u>9,289,651</u>	<u>8,673,851</u>	<u>615,800</u>
Excess (deficiency) of revenues over (under) expenditures	4,273,378	2,746,873	(1,883,923)	(4,630,796)
Special item:				
less: Write-off of receivables	-	-	(220,065)	(220,065)
Other financing uses:				
Operating transfer in	-	-	468,276	468,276
Operating transfer out	-	-	(1,274,393)	(1,274,393)
Net change in fund balance	4,273,378	2,746,873	(2,910,105)	(5,656,978)
Encumbrances	1,787,510	1,787,510	857,225	(930,285)
Fund balance at the beginning of the year	<u>21,086,655</u>	<u>21,086,655</u>	<u>21,086,655</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 27,147,543</u>	<u>\$ 25,621,038</u>	<u>\$ 19,033,775</u>	<u>\$ (6,587,263)</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, 2018

(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 and therefore include \$2,250,000 of budgetary expenditures for the Yap loan program held by Pacific Islands Development Bank (PIDB), which are not so recognized on a GAAP basis:

Expenditures on a non-GAAP budgetary basis	\$ 8,673,851
Change in encumbrances	1,392,775
Less: non-GAAP expenditures, investment in PIDB	<u>(2,250,000)</u>
Expenditures on a GAAP basis	\$ <u>7,816,626</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2018

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2018

		Special Revenue	Permanent		Other	
		Foreign	Yap		Governmental	
		Assistance	Investment	Compact	Funds	Total
	General	Grants	Trust	Trust		
Expenditures:						
Salaries and wages	\$ 2,721,567	\$ 6,680,857	\$ -	\$ -	\$ 45,239	\$ 9,447,663
Grants and subsidies	25,100	-	-	-	291,541	316,641
Utilities	960,569	969,309	-	-	-	1,929,878
Contractual services	1,438,693	1,326,036	-	-	1,632,375	4,397,104
Supplies and materials	279,542	739,765	-	-	103,546	1,122,853
Scholarship and training	172,625	229,831	-	-	-	402,456
Travel	234,694	701,127	-	-	15,566	951,387
Capital outlay	209,953	857,173	-	-	102,470	1,169,596
Rentals	29,689	20,768	-	-	-	50,457
Food stuffs	154,569	166,867	-	-	-	321,436
Communications	129,963	159,869	-	-	-	289,832
Printing and reproduction	-	49,216	-	-	-	49,216
Medical supplies	450	1,004,783	-	-	-	1,005,233
Repairs and maintenance	125,048	257,841	-	-	-	382,889
Freight	26,383	121,734	-	-	-	148,117
Professional services	22,650	171,617	-	-	-	194,267
POL	198,100	200,309	-	-	4,165	402,574
Allowances	108,250	9,420	-	-	-	117,670
Leased housing and land	2,066	-	-	-	-	2,066
Principal repayment	201,560	-	-	-	-	201,560
Interest payments	111,576	-	-	-	-	111,576
Other	663,579	548,001	-	-	550,656	1,762,236
	<u>\$ 7,816,626</u>	<u>\$ 14,214,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,745,558</u>	<u>\$ 24,776,707</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2018

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, 2018
(with comparative totals for the year ended September 30, 2017)

	<u>2018</u>	<u>2017</u>
Revenues:		
Revenue sharing:		
Import tax	\$ 756,495	\$ 870,840
Fuel tax	201,029	296,309
Income tax	678,841	592,053
Business gross receipts tax	<u>648,741</u>	<u>643,385</u>
	<u>2,285,106</u>	<u>2,402,587</u>
Excise taxes:		
Alcoholic beverages	463,063	496,699
Gasoline and diesel	110,948	86,245
Tobacco	295,864	542,155
Other excise taxes	<u>564,336</u>	<u>506,063</u>
	<u>1,434,211</u>	<u>1,631,162</u>
Fees and charges:		
Licenses and permits	82,758	86,805
Fines/sale of confiscated property	38,958	45,049
Leases and other rentals	<u>187,600</u>	<u>213,531</u>
	<u>309,316</u>	<u>345,385</u>
Departmental charges:		
Sea transportation	255,169	142,888
Air transportation	218,477	196,407
Hospital services	436,483	534,033
Other	<u>17,836</u>	<u>4,136</u>
	<u>927,965</u>	<u>877,464</u>
Net change in the fair value of investments	<u>951,995</u>	<u>2,458,809</u>
Other revenues	<u>881,335</u>	<u>1,474,731</u>
Total revenues	<u>6,789,928</u>	<u>9,190,138</u>
Expenditures:		
Current:		
Judiciary	<u>198,602</u>	<u>194,108</u>
Councils of Traditional Leaders:		
Council of Pilung	76,636	76,050
Council of Tamol	<u>89,742</u>	<u>94,612</u>
	<u>166,378</u>	<u>170,662</u>
General government:		
Office of the Governor	194,317	160,443
State Legislature	424,913	436,335
Office of Administrative Services	468,224	529,975
Office of Planning, Budget and Statistics	<u>96,680</u>	<u>137,462</u>
	<u>1,184,134</u>	<u>1,264,215</u>
Resources and Development:		
Department of Resources and Development	<u>625,733</u>	<u>513,947</u>
Public Safety:		
Department of Public Safety/Attorney General	<u>520,309</u>	<u>538,078</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, 2018
(with comparative totals for the year ended September 30, 2017)

	2018	2017
Expenditures, continued:		
Current, continued:		
Community Affairs		
Department of Public Affairs	292,873	313,775
Public Works and Transportation:		
Department of Public Works and Transportation	1,235,936	1,402,513
Education Services:		
Department of Education	241,115	32,162
Health Services:		
Department of Health Services	473,317	652,630
Boards and Commissions:		
Historic Preservation Office	82,809	73,166
EPA Administration Board	72,466	56,088
Election Commissioner	52,269	38,906
Small Business Development Center	855	16,765
Yap Investment Trust	11,069	15,764
Other	9,318	-
	228,786	200,689
Payments to component units:		
Yap State Public Service Corporation	-	121,303
Public Transportation System	15,439	29,556
	15,439	150,859
Other appropriations:		
Micronesia Legal Services Corporation	25,000	41,187
Japan Overseas Cooperation Volunteers	7,636	8,936
Peace Corps Program	24,000	23,419
Yap Community Action Program	78,935	81,804
Preparation for 2018 Micro Games	1,709,623	400,390
Medical Referral Program	319,111	-
Airport Operations and Maintenance	147,331	-
Sports Complex	7,191	-
Public Auditor's Office	2,041	-
Others	-	15,290
	2,320,868	571,026
Debt service:		
Principal repayments	201,560	278,120
Interest payments	111,576	78,769
	313,136	356,889
Total expenditures	7,816,626	6,361,553
Excess of revenues over expenditures	(1,026,698)	2,828,585
Special item:		
Less: Write-off of receivables	(220,065)	(212,180)
Other financing uses:		
Operating transfers in	468,276	-
Operating transfers out	(1,274,393)	(150,790)
Total other financing sources (uses), net	(806,117)	(150,790)
Net change in fund balance	(2,052,880)	2,465,615
Fund balance at the beginning of the year	21,086,655	18,621,040
Fund balance at the end of the year	\$ 19,033,775	\$ 21,086,655

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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues	<u>\$ 12,036,524</u>	<u>\$ 12,036,524</u>	<u>\$ 6,789,928</u>	<u>\$ (5,246,596)</u>
Total revenues	<u>12,036,524</u>	<u>12,036,524</u>	<u>6,789,928</u>	<u>(5,246,596)</u>
Expenditures:				
Current:				
Judiciary	<u>235,772</u>	<u>235,772</u>	<u>198,602</u>	<u>37,170</u>
Councils of Traditional Leaders:				
Council of Pilung	<u>85,602</u>	<u>85,602</u>	<u>76,636</u>	<u>8,966</u>
Council of Tamol	<u>115,332</u>	<u>115,332</u>	<u>89,742</u>	<u>25,590</u>
	<u>200,934</u>	<u>200,934</u>	<u>166,378</u>	<u>34,556</u>
General government:				
Office of the Governor	<u>158,863</u>	<u>208,863</u>	<u>329,809</u>	<u>(120,946)</u>
State Legislature	<u>487,325</u>	<u>487,325</u>	<u>424,913</u>	<u>62,412</u>
Office of Administrative Services	<u>599,108</u>	<u>599,108</u>	<u>468,224</u>	<u>130,884</u>
Office of Planning, Budget and Statistics	<u>147,734</u>	<u>147,734</u>	<u>96,680</u>	<u>51,054</u>
	<u>1,393,030</u>	<u>1,443,030</u>	<u>1,319,626</u>	<u>123,404</u>
Economic Development:				
Department of Resources and Development	<u>466,771</u>	<u>798,129</u>	<u>660,255</u>	<u>137,874</u>
Public Safety:				
Department of Public Safety/Attorney General	<u>613,397</u>	<u>613,397</u>	<u>520,309</u>	<u>93,088</u>
Community Affairs:				
Department of Public Affairs	<u>306,241</u>	<u>310,941</u>	<u>420,748</u>	<u>(109,807)</u>
Education:				
Department of Education	<u>348,379</u>	<u>348,379</u>	<u>241,115</u>	<u>107,264</u>
Public Works and Transportation:				
Department of Public Works and Transportation	<u>1,987,752</u>	<u>2,018,495</u>	<u>1,746,751</u>	<u>271,744</u>
Health services:				
Department of Health Services	<u>284,430</u>	<u>684,145</u>	<u>498,629</u>	<u>185,516</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, 2018

	<u>Budgeted Amounts</u>		Actual Amounts	
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Variance</u>
Expenditures, continued:				
Boards and Commissions:				
Historic Preservation Office	99,567	99,567	82,809	16,758
Environment Protection Agency	87,298	87,298	72,466	14,832
Yap State Election Commission	54,849	65,802	52,269	13,533
Small Business Development Center	16,765	16,765	855	15,910
Yap Investment Trust	18,852	18,852	11,069	7,783
Rural Development	11,950	11,950	9,318	2,632
	<u>289,281</u>	<u>300,234</u>	<u>228,786</u>	<u>71,448</u>
Payments to component units:				
Public Transportation System	20,431	20,431	15,439	4,992
	<u>20,431</u>	<u>20,431</u>	<u>15,439</u>	<u>4,992</u>
Other appropriations:				
Micronesian Legal Services Corporation	25,000	25,000	25,000	-
Japan Overseas Cooperation Volunteers	9,000	9,000	7,636	1,364
Peace Corps Program	24,000	24,000	24,000	-
Yap CAP	76,552	76,552	78,935	(2,383)
2018 Micro Games	980,681	1,612,380	1,709,623	(97,243)
Medical Referral Program	-	-	319,111	(319,111)
Airport Operations and Maintenance	-	-	147,331	(147,331)
Sports Complex	-	-	7,191	(7,191)
Public Auditor's Office	69,507	69,507	2,041	67,466
Others	431,988	499,325	23,209	476,116
	<u>1,616,728</u>	<u>2,315,764</u>	<u>2,344,077</u>	<u>(28,313)</u>
Debt service:				
Principal repayments	-	-	201,560	(201,560)
Interest payments	-	-	111,576	(111,576)
	<u>-</u>	<u>-</u>	<u>313,136</u>	<u>(313,136)</u>
Total expenditures	<u>7,763,146</u>	<u>9,289,651</u>	<u>8,673,851</u>	<u>615,800</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,273,378</u>	<u>2,746,873</u>	<u>(1,883,923)</u>	<u>(4,630,796)</u>
Special item:				
less: Write-off of receivables	-	-	(220,065)	(220,065)
Other financing uses:				
Operating transfer in	-	-	468,276	468,276
Operating transfer out	-	-	(1,274,393)	(1,274,393)
Net change in fund balance	<u>4,273,378</u>	<u>2,746,873</u>	<u>(2,910,105)</u>	<u>(5,656,978)</u>
Encumbrances	1,787,510	1,787,510	857,225	(930,285)
Fund balance at the beginning of the year	<u>21,086,655</u>	<u>21,086,655</u>	<u>21,086,655</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 27,147,543</u>	<u>\$ 25,621,038</u>	<u>\$ 19,033,775</u>	<u>\$ (6,587,263)</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2018

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 21,070	\$ -	\$ 21,070
Investments	353,896	-	353,896
Receivables, net	-	312,803	312,803
Due from other funds	<u>533,750</u>	<u>413,421</u>	<u>947,171</u>
Total assets	<u>\$ 908,716</u>	<u>\$ 726,224</u>	<u>\$ 1,634,940</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 33,373	\$ 205,148	\$ 238,521
Other liabilities and accruals	-	17,805	17,805
Deferred revenues	<u>-</u>	<u>153,332</u>	<u>153,332</u>
Total liabilities	<u>33,373</u>	<u>376,285</u>	<u>409,658</u>
Fund balances:			
Restricted	-	349,939	349,939
Committed	<u>875,343</u>	<u>-</u>	<u>875,343</u>
Total fund balances	<u>875,343</u>	<u>349,939</u>	<u>1,225,282</u>
Total liabilities and fund balances	<u>\$ 908,716</u>	<u>\$ 726,224</u>	<u>\$ 1,634,940</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, 2018

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,431,877	\$ 2,431,877
Excise taxes	306,325	-	306,325
Fees and charges	215,515	-	215,515
Net change in the fair value of investments	<u>29,273</u>	<u>-</u>	<u>29,273</u>
Total revenues	<u>551,113</u>	<u>2,431,877</u>	<u>2,982,990</u>
Expenditures by function:			
Current:			
General government	<u>313,681</u>	<u>2,431,877</u>	<u>2,745,558</u>
Total expenditures	<u>313,681</u>	<u>2,431,877</u>	<u>2,745,558</u>
Net change in fund balances	237,432	-	237,432
Fund balances at the beginning of the year	<u>637,911</u>	<u>349,939</u>	<u>987,850</u>
Fund balances at the end of the year	<u><u>\$ 875,343</u></u>	<u><u>\$ 349,939</u></u>	<u><u>\$ 1,225,282</u></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, 2018

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,431,877	\$ 2,431,877
Excise taxes	306,325	-	306,325
Fees and charges	215,515	-	215,515
Net change in the fair value of investments	<u>29,273</u>	<u>-</u>	<u>29,273</u>
Total revenues	<u>551,113</u>	<u>2,431,877</u>	<u>2,982,990</u>
Expenditures by account:			
Salaries and wages	-	45,239	45,239
Grants and subsidies	246,541	45,000	291,541
Contractual services	-	1,632,375	1,632,375
Supplies and materials	-	103,546	103,546
Travel	-	15,566	15,566
Capital outlay	-	102,470	102,470
POL	-	4,165	4,165
Other	<u>67,140</u>	<u>483,516</u>	<u>550,656</u>
Total expenditures	<u>313,681</u>	<u>2,431,877</u>	<u>2,745,558</u>
Net change in fund balances	237,432	-	237,432
Fund balances at the beginning of the year	<u>637,911</u>	<u>349,939</u>	<u>987,850</u>
Fund balances at the end of the year	<u>\$ 875,343</u>	<u>\$ 349,939</u>	<u>\$ 1,225,282</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2018

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, 2018, 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, 2018

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 21,070	\$ 21,070
Due from other funds	<u>21,193</u>	<u>36,222</u>	<u>466,666</u>	<u>9,669</u>	<u>533,750</u>
Total assets	<u>\$ 21,193</u>	<u>\$ 36,222</u>	<u>\$ 466,666</u>	<u>\$ 384,635</u>	<u>\$ 908,716</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	<u>\$ 21,193</u>	<u>\$ -</u>	<u>\$ 12,180</u>	<u>\$ -</u>	<u>\$ 33,373</u>
Other liabilities and accruals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>21,193</u>	<u>-</u>	<u>12,180</u>	<u>-</u>	<u>33,373</u>
Fund balances:					
Committed	<u>-</u>	<u>36,222</u>	<u>454,486</u>	<u>384,635</u>	<u>875,343</u>
Total fund balances	<u>-</u>	<u>36,222</u>	<u>454,486</u>	<u>384,635</u>	<u>875,343</u>
Total liabilities and fund balances	<u>\$ 21,193</u>	<u>\$ 36,222</u>	<u>\$ 466,666</u>	<u>\$ 384,635</u>	<u>\$ 908,716</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, 2018

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 78,777	\$ -	\$ 227,548	\$ -	\$ 306,325
Net change in the fair value of investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,273</u>	<u>29,273</u>
Total revenues	<u>78,777</u>	<u>15,593</u>	<u>427,470</u>	<u>29,273</u>	<u>551,113</u>
Expenditures by function:					
Current:					
General government	<u>78,777</u>	<u>-</u>	<u>234,904</u>	<u>-</u>	<u>313,681</u>
Total expenditures	<u>78,777</u>	<u>-</u>	<u>234,904</u>	<u>-</u>	<u>313,681</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>15,593</u>	<u>192,566</u>	<u>29,273</u>	<u>237,432</u>
Other financing sources:					
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:					
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	15,593	192,566	29,273	237,432
Fund balances at the beginning of the year	<u>-</u>	<u>20,629</u>	<u>261,920</u>	<u>355,362</u>	<u>637,911</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 36,222</u>	<u>\$ 454,486</u>	<u>\$ 384,635</u>	<u>\$ 875,343</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, 2018

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 78,777	\$ -	\$ 227,548	\$ -	\$ 306,325
Fees and charges	-	15,593	199,922	-	215,515
Total revenues	<u>78,777</u>	<u>15,593</u>	<u>427,470</u>	<u>29,273</u>	<u>551,113</u>
Expenditures by account:					
Grants and subsidies	78,777	-	167,764	-	246,541
Other	<u>-</u>	<u>-</u>	<u>67,140</u>	<u>-</u>	<u>67,140</u>
Total expenditures	<u>78,777</u>	<u>-</u>	<u>234,904</u>	<u>-</u>	<u>313,681</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>15,593</u>	<u>192,566</u>	<u>29,273</u>	<u>237,432</u>
Other financing sources (uses):					
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:					
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	15,593	192,566	29,273	237,432
Fund balances at the beginning of the year	<u>-</u>	<u>20,629</u>	<u>261,920</u>	<u>355,362</u>	<u>637,911</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 36,222</u>	<u>\$ 454,486</u>	<u>\$ 384,635</u>	<u>\$ 875,343</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Balance Sheet
September 30, 2018

	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																
Receivables:																
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,876	\$ -	\$ -	\$ -	\$ 18,876
FSM National Government	-	186,111	805,101	-	40,188	145,700	276,242	5,347	-	439,810	395,602	-	-	-	97,990	2,392,091
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	600	600
Due from other funds	69,239	1,046,986	86,539	134,347	81,149	69,070	-	62,792	1,942,172	97,903	-	21,317	1,165,029	588,613	45,063	5,410,219
Advances	-	126,642	44,808	1,098	-	-	14,485	-	-	-	-	-	-	-	-	187,033
	<u>\$ 69,239</u>	<u>\$ 1,359,739</u>	<u>\$ 936,448</u>	<u>\$ 135,445</u>	<u>\$ 121,337</u>	<u>\$ 214,770</u>	<u>\$ 290,727</u>	<u>\$ 68,139</u>	<u>\$ 1,942,172</u>	<u>\$ 537,713</u>	<u>\$ 395,602</u>	<u>\$ 40,193</u>	<u>\$ 1,165,029</u>	<u>\$ 588,613</u>	<u>\$ 143,653</u>	<u>\$ 8,008,819</u>
LIABILITIES AND FUND BALANCES																
Liabilities:																
Accounts payable	\$ 69,239	\$ 81,705	\$ 115,028	\$ 13,214	\$ 26,953	\$ 29,566	\$ 63,043	\$ 6,793	\$ -	\$ 3,085	\$ 31,357	\$ 15,324	\$ -	\$ 1,390	\$ 84,364	\$ 541,061
Other liabilities and accruals	-	77,568	60,970	4,483	4,338	4,004	30,028	6,490	-	6,728	31,303	24,869	-	294	1,671	252,746
Unearned revenues	-	1,200,466	760,450	117,748	90,046	181,200	184,975	54,856	-	283,015	-	-	1,165,029	586,929	57,618	4,682,332
Due to other funds	-	-	-	-	-	-	12,681	-	-	-	332,942	-	-	-	-	345,623
Total liabilities	<u>69,239</u>	<u>1,359,739</u>	<u>936,448</u>	<u>135,445</u>	<u>121,337</u>	<u>214,770</u>	<u>290,727</u>	<u>68,139</u>	<u>-</u>	<u>292,828</u>	<u>395,602</u>	<u>40,193</u>	<u>1,165,029</u>	<u>588,613</u>	<u>143,653</u>	<u>5,821,762</u>
Fund balances:																
Restricted	-	-	-	-	-	-	-	-	1,942,172	244,885	-	-	-	-	-	2,187,057
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,942,172</u>	<u>244,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,187,057</u>
Total liabilities and fund balances	<u>\$ 69,239</u>	<u>\$ 1,359,739</u>	<u>\$ 936,448</u>	<u>\$ 135,445</u>	<u>\$ 121,337</u>	<u>\$ 214,770</u>	<u>\$ 290,727</u>	<u>\$ 68,139</u>	<u>\$ 1,942,172</u>	<u>\$ 537,713</u>	<u>\$ 395,602</u>	<u>\$ 40,193</u>	<u>\$ 1,165,029</u>	<u>\$ 588,613</u>	<u>\$ 143,653</u>	<u>\$ 8,008,819</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, 2018

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
Section 221(b)																
Special Block	Education	Health	Environment	Private	Capacity											
Grant	Sector	Sector	Sector	Sector	Building	Supplemental	ERA	Infrastructure	Infrastructure	Infrastructure	U.S. Grants	Direct U.S.	FEMA	Non U.S.	CFSM	Total
					Development	Education	Sector	Maintenance			through FSM	Grants	Grants	Grants	Grants	
Revenues:																
Compact funding	\$ -	\$ 3,829,944	\$ 3,308,311	\$ 459,669	\$ 388,883	\$ (515,491)	\$ 1,031,913	\$ 233,721	\$ -	\$ 661,291	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,398,241
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	376,101
Departmental charges	-	-	-	-	-	-	-	-	-	-	-	27,419	-	-	-	27,419
Other	-	-	-	-	-	-	-	-	33,080	-	-	-	-	-	-	33,080
	<u>-</u>	<u>3,829,944</u>	<u>3,308,311</u>	<u>459,669</u>	<u>388,883</u>	<u>(515,491)</u>	<u>1,031,913</u>	<u>233,721</u>	<u>33,080</u>	<u>661,291</u>	<u>1,287,736</u>	<u>1,412,416</u>	<u>-</u>	<u>53,252</u>	<u>376,101</u>	<u>12,560,826</u>
Expenditures by function:																
Current:																
General government	69,240	-	-	459,669	-	258,250	-	233,721	-	-	-	100,221	-	-	69,533	1,190,634
Resources and development	-	-	-	-	388,883	-	-	-	-	-	-	129,210	-	12,400	(260)	530,233
Education	-	3,829,944	-	-	-	-	1,421,648	-	-	-	650,787	-	-	-	-	5,902,379
Public works and transportation	-	-	-	-	-	-	-	78,438	661,291	-	-	-	-	14,180	208,593	962,502
Health services	-	-	3,683,934	-	-	-	-	-	-	589,784	1,148,011	-	-	14,202	-	5,435,931
Other appropriations	-	-	-	-	-	-	-	-	-	47,165	34,974	-	-	12,470	98,235	192,844
	<u>69,240</u>	<u>3,829,944</u>	<u>3,683,934</u>	<u>459,669</u>	<u>388,883</u>	<u>258,250</u>	<u>1,421,648</u>	<u>233,721</u>	<u>78,438</u>	<u>661,291</u>	<u>1,287,736</u>	<u>1,412,416</u>	<u>-</u>	<u>53,252</u>	<u>376,101</u>	<u>14,214,523</u>
Total expenditures																
Excess (deficiency) of revenues over (under) expenditures	(69,240)	-	(375,623)	-	-	(773,741)	(389,735)	-	(45,358)	-	-	-	-	-	-	(1,653,697)
Other financing sources:																
Operating transfers in	#REF!	-	-	-	#REF!	-	-	-	323,212	-	-	-	272	-	-	#REF!
Deficiency of revenues under expenditures	(69,240)	-	(375,623)	-	-	(773,741)	(389,735)	-	(45,358)	-	-	-	-	-	-	(1,653,697)
Other financing uses:																
Operating transfers in	-	-	-	-	-	-	-	-	1,274,393	-	-	-	-	-	-	1,274,393
Operating transfers out	(468,276)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(468,276)
Net change in fund balances	(537,516)	-	(375,623)	-	-	(773,741)	(389,735)	-	1,229,035	-	-	-	-	-	-	(847,580)
Fund balances at the beginning of the year	537,516	-	375,623	-	-	773,741	389,735	-	713,137	244,885	-	-	-	-	-	3,034,637
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>\$ 1,942,172</u>	<u>\$ 244,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,187,057</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, 2018

	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	\$ -	\$ 3,829,944	\$ 3,308,311	\$ 459,669	\$ 388,883	\$ (515,491)	\$ 1,031,913	\$ 233,721	\$ -	\$ 661,291	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,398,241
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,287,736	1,384,997	-	53,252	-	2,725,985
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	376,101	376,101
Department charges	-	-	-	-	-	-	-	-	-	-	-	27,419	-	-	-	27,419
Other	-	-	-	-	-	-	-	-	33,080	-	-	-	-	-	-	33,080
	<u>-</u>	<u>3,829,944</u>	<u>3,308,311</u>	<u>459,669</u>	<u>388,883</u>	<u>(515,491)</u>	<u>1,031,913</u>	<u>233,721</u>	<u>33,080</u>	<u>661,291</u>	<u>1,287,736</u>	<u>1,412,416</u>	<u>-</u>	<u>53,252</u>	<u>376,101</u>	<u>12,560,826</u>
Expenditures by account:																
Salaries and wages	-	2,099,191	1,546,928	185,541	135,027	156,356	729,742	184,494	2,371	150,475	870,013	600,219	-	12,396	8,104	6,680,857
Utilities	69,240	323,961	399,165	21,761	32,612	6,625	32,406	-	-	4,611	16,262	47,630	-	73	14,963	969,309
Contractual services	-	191,426	163,452	125,949	57,397	33,822	10,000	-	55,922	304,492	38,260	32,975	-	24,321	288,020	1,326,036
Supplies and materials	-	227,600	67,966	17,074	38,310	12,597	141,050	8,620	273	14,021	49,029	146,703	-	1,461	15,061	739,765
Scholarship and training	-	229,831	-	-	-	-	-	-	-	-	-	-	-	-	-	229,831
Travel	-	51,909	59,538	53,195	11,922	-	122,462	9,198	1,898	12,023	158,493	217,503	-	3,549	(563)	701,127
Capital outlay	-	207,747	311,092	1,000	38,400	899	84,034	4,740	-	106,980	61,363	23,991	-	-	16,927	857,173
Rentals	-	8,513	-	3,198	5,140	-	30	-	-	1,389	190	298	-	150	1,860	20,768
Food stuffs	-	40,626	23,253	-	-	-	102,909	-	-	-	-	-	-	-	79	166,867
Communications	-	42,946	11,634	14,992	20,996	11,316	12,550	9,560	-	9,380	10,260	16,035	-	200	-	159,869
Printing and reproduction	-	-	3,673	-	17,784	-	-	-	-	298	13,497	13,964	-	-	-	49,216
Medical supplies	-	-	841,636	-	-	-	-	-	-	-	8,217	154,930	-	-	-	1,004,783
Repairs and maintenance	-	128,494	27,973	5,711	14,898	555	19,166	1,173	17,015	2,950	9,885	27,986	-	60	1,975	257,841
Freight	-	18,770	79,397	57	366	-	1,848	-	-	294	829	20,156	-	17	-	121,734
Professional services	-	1,559	5,000	-	-	-	110,708	15,000	-	-	-	13,100	-	-	26,250	171,617
POL	-	83,544	37,868	15,242	3,277	96	23,641	-	-	1,999	10,962	-	-	2,058	-	200,309
Allowances	-	-	-	-	-	-	780	-	-	-	-	8,640	-	-	-	9,420
Other	-	173,827	105,359	15,949	12,754	35,984	30,322	936	959	52,379	40,476	66,664	-	8,967	3,425	548,001
Total expenditures	<u>69,240</u>	<u>3,829,944</u>	<u>3,683,934</u>	<u>459,669</u>	<u>388,883</u>	<u>258,250</u>	<u>1,421,648</u>	<u>233,721</u>	<u>78,438</u>	<u>661,291</u>	<u>1,287,736</u>	<u>1,412,416</u>	<u>-</u>	<u>53,252</u>	<u>376,101</u>	<u>14,214,523</u>
Deficiency of revenues under expenditures	(69,240)	-	(375,623)	-	-	(773,741)	(389,735)	-	(45,358)	-	-	-	-	-	-	(1,653,697)
Other financing uses:																
Operating transfers in	-	-	-	-	-	-	-	-	1,274,393	-	-	-	-	-	-	1,274,393
Operating transfers out	(468,276)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(468,276)
Net change in fund balances	<u>(537,516)</u>	<u>-</u>	<u>(375,623)</u>	<u>-</u>	<u>-</u>	<u>(773,741)</u>	<u>(389,735)</u>	<u>-</u>	<u>1,229,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(847,580)</u>
Fund balances at the beginning of year	<u>537,516</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>713,137</u>	<u>244,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,034,637</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>\$ 1,942,172</u>	<u>\$ 244,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,187,057</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 Henry S. Falan
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 State of Yap as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise State of Yap's basic financial statements, and have issued our report thereon dated June 30, 2019. Our report includes an adverse opinion for the omission of a certain component unit and a reference to other auditors. Other auditors audited the financial statements of the Public Transportation System, as described in our report on State of Yap'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, and other matters did not include the discretely presented component units, 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 that report are not included herein.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control 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 2018-003 that we consider to be material weaknesses.

Compliance and Other Matters

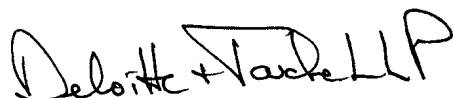
As part of obtaining reasonable assurance about whether State of Yap's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2018-003.

State of Yap's Response to Findings

State of Yap's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. State of Yap'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.

A handwritten signature in black ink that reads "Deloitte + State LLP". The signature is written in a cursive, stylized font.

June 30, 2019

**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 Henry S. Falan
Governor, State of Yap
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited State of Yap'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 State of Yap's major federal programs for the year ended September 30, 2018. State of Yap'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, State of Yap's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2018. 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 State of Yap'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 State of Yap'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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of State of Yap's compliance.

Basis for Qualified Opinion on CFDA 15.875 Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants

As described in item 2018-001 in the accompanying Schedule of Findings and Questioned Costs, State of Yap did not comply with requirements regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program Name</i>	<i>Compliance Requirement</i>
2018-001	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Procurement and Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for State of Yap to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 15.875 Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, State of Yap complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA Program 15.875 Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants for the year ended September 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, State of Yap complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2018.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

State of Yap's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. State of Yap's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of State of Yap 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 State of Yap'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 State of Yap's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001 to be material weaknesses.

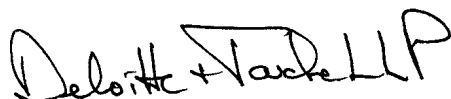
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2018-002 to be significant deficiencies.

State of Yap's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. State of Yap's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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 State of Yap as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise State of Yap's basic financial statements. We issued our report thereon dated June 30, 2019, which contained an adverse opinion on those financial statements due to the omission of a certain component unit, and which included a reference to 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.



June 30, 2019

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Identifying Number Assigned by Pass- Through Entity	Passed through to Subrecipients	Federal Expenditures
<u>U. S. Department of Agriculture:</u>				
Direct Program:				
Cooperative Forestry Assistance	10.664			\$ 129,210
Total U. S. Department of Agriculture				\$ 129,210
<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			\$ 100,221
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				\$ 3,829,944
Compact II Health Sector				3,683,933
Compact II Private Sector Development			\$ 259,190	388,883
Compact II Capacity Building Sector				258,250
Compact II Environment Sector				459,669
Compact II Infrastructure Sector				661,290
Compact II Infrastructure Maintenance Sector				78,438
Supplemental Education Grant				1,421,646
Compact II ERA				233,721
Historic Preservation Fund Grant-In-Aid	15.904			47,164
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			259,190	11,062,938
Total U. S. Department of the Interior			\$ 259,190	\$ 11,163,159
<u>U. S. Small Business Administration</u>				
Direct Programs:				
8(a) Business Development Program	59.006			\$ 34,973
Total U. S. Small Business Administration				\$ 34,973
<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	84.027A			\$ 650,787
Total Special Education Cluster (IDEA) and Total U.S. Department of Education				\$ 650,787
<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			\$ 1,148,011
Subtotal Health Center Program Cluster				\$ 1,148,011
Pass-Through Grants from the FSM National Government:		A5		
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			31,008
Maternal and Child Health Federal Consolidated Programs	93.110			9,723
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			55,251
Family Planning-Services	93.217			34,877
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243			105,382
Immunization Cooperative Grants	93.268			103,710
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283			53,206

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Identifying Number Assigned by Pass- Through Entity	Passed through to Subrecipients	Federal Expenditures
<u>U. S. Department of Health and Human Services, Continued</u>				
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323			5,747
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758			9,875
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898			12,468
Assistance Programs for Chronic Disease Prevention and Control	93.945			30,683
Block Grants for Community Mental Health Services	93.958			5,543
Block Grants for Prevention and Treatment of Substance Abuse	93.959			59,958
Maternal and Child Health Services Block Grant to the States	93.994			72,359
Subtotal Pass-Through Grants from Federated States of Micronesia National Government				\$ 589,790
Total U. S. Department of Health and Human Services				1,737,801
Total Expenditures of Federal Awards			\$ 259,190	\$ 13,715,930
Reconciliation to the basic financial statements:				
Foreign Assistance Grants Fund expenditures			\$	14,214,523
Less: Non-U.S. Grants Fund expenditures				(53,252)
Less: CFSM Grants Fund expenditures				(376,101)
Less: Section 221(b) Special Block Grant Fund expenditures				(69,240)
			\$	13,715,930

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, 2018

1. Scope

The State of Yap is one of the four States of the Federated States of Micronesia. All significant operations of the State of Yap are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as the 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, 2018. 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 positions or changes in financial positions 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, the State of Yap's reporting entity is defined in Note 1A to its September 30, 2018 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by the State of Yap, as defined above, for the year ended September 30, 2018.

The Yap State Public Service Corporation (YSPSC), a discretely presented component unit of the State of Yap, separately satisfies the requirements of the Uniform Guidance. YSPSC expended \$191,727 in federal grants during the year ended September 30, 2018.

C. Matching Costs

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

D. Subrecipients

Certain program funds are passed through the State of Yap to subrecipient organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipient outside of the State of Yap's control utilizes these funds.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2018

3. Summary of Significant Accounting Policies, Continued

E. Indirect Cost Allocation

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

F. 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, 2018

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? | Yes |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | |
| CFDA 15.875 | Qualified |
| CFDA 93.224 | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |

9. Identification of major federal programs:

<u>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 Health Center Program Cluster:
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2018-003	External Financial Reporting

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2018-002	15.875	Procurement and Suspension and Debarment	\$ 263,177
2018-003	15.875	Period of Performance	<u>112,703</u>
			\$ <u>375,880</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Finding No.: 2018-001
Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$263,177

Criteria: In accordance with applicable procurement requirements, State of Yap should conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of a procurement. These records should include a rationale for the method of procurement, selection of contract type, contractor selection of rejection, and the basis for the contract price.

Condition:

Of 25 non-payroll transactions tested, aggregating \$1,665,807 of \$5,825,650 in total program non-payroll costs, we noted the following deficiencies:

1. For 1 (or 4%), State price quotations sent to vendors included requirements for a particular brand name, product, or feature of a product, peculiar to one manufacturer, thereby precluding consideration of an equivalent product manufactured by another company.

<u>Check</u>	<u>Transaction</u>	<u>Amount</u>
98078	217996T-0000021	\$ 73,297

2. For 3 (or 12%) procurement transactions aggregating \$189,880, the State requirement to perform formal bidding procedures was waived by the State Governor. Payments were processed without documentation of procurement procedures as the file did not contain written rationale supporting the basis of the emergency and we were unable to determine the nature of the emergency.

<u>Check</u>	<u>Transaction</u>	<u>Amount</u>
94678	211016T-0000005	\$ 132,517
93047	211015T-0000003	29,143
93060	211015T-0000001	<u>28,220</u>
		\$ <u>189,880</u>

Cause: State of Yap appears to be inconsistent in complying with applicable procurement requirements.

Effect: State of Yap is in potential noncompliance with applicable procurement requirements, and questioned costs of \$263,177 result.

Identification as a Repeat Finding: 2017-001

Recommendation: State of Yap should follow and document full and open competition procedures in accordance with applicable procurement requirements and conform to standard Yap State policies.

Views of Auditee and Planned Corrective Actions: State of Yap agrees with this finding and describes corrective action in the Corrective Action Plan.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Finding No.: 2018-002
Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award No.: Compact Sector Grants
Requirement: Period of Performance
Questioned Costs: \$112,703

Criteria: In accordance with applicable period of performance requirements, State of Yap should liquidate funds under a grant award by the end of the liquidation period.

Condition: For 2 (or 8%) of 25 non-payroll transactions tested, aggregating \$1,665,807 of \$5,825,650 in total program non-payroll costs, expenditures were liquidated after the liquidation period.

<u>Check</u>	<u>Transaction</u>	<u>Sector</u>	<u>Liquidation Due</u>	<u>Payment Cleared</u>	<u>Amount</u>
92617	203516T-0000075	Health	12/31/2017	01/03/2018	\$ 73,713
93020	204859T-0000007	Health	12/31/2017	03/19/2018	38,990
					\$ <u>112,703</u>

Cause: State of Yap appears to lack monitoring controls over compliance with period of performance requirements.

Effect: State of Yap is in noncompliance with applicable period of performance requirements, and questioned costs of \$112,703 result.

Recommendation: State of Yap should establish monitoring controls over compliance with applicable period of performance requirements.

Views of Auditee and Planned Corrective Actions: The State agrees with this finding and describes corrective action in the Corrective Action Plan.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Finding No.: 2018-003
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 for, 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: A fiscal year 2018 financial audit of the following component unit was not completed in a timely manner due to delayed reconciliations and year-end closings:

Yap Fishing Authority

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

Effect: State of Yap 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, 2018.

Identification as a Repeat Finding: 2017-003

Recommendation: We recommend that State of Yap establish policies and procedures to facilitate compliance with GASB Statement No. 14, as amended.

Views of Auditee and Planned Corrective Actions: State of Yap agrees with this finding and describes corrective action in the Corrective Action Plan.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended September 30, 2018

The following is a summary of unresolved questioned costs for the State of Yap:

	Questioned Costs Set Forth in Prior Audit Report <u>2017</u>	Questioned Costs Resolved in Fiscal Year <u>2018</u>	Questioned Costs at <u>September 30, 2018</u>
Unresolved Questioned Costs FY 08	\$ 69,590	\$ -	\$ 69,590
Unresolved Questioned Costs FY 09	37,710	-	37,710
Unresolved Questioned Costs FY 13	45,776	-	45,776
Unresolved Questioned Costs FY 14	28,913	-	28,913
Unresolved Questioned Costs FY 17	<u>95,055</u>	<u>-</u>	<u>95,055</u>
Questioned Costs FY 18	\$ <u>277,044</u>	\$ <u>-</u>	277,044 <u>375,880</u>
Total Questioned Costs			\$ <u>652,924</u>



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PERSONNEL: 350-2145
REVENUE: 350-2472

Yap State Government

Corrective Action Plan
2 CFR § 200.511©
Year Ended September 30, 2018

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2018-001	We agree with this finding. The Procurement Office has already begun screening to ensure that purchase requests do not specify brands, models or any other specifications that restrict participation from other vendors. The office has also begun screening all requests to ensure that all bidding requirements are complied with. The office will continue to work collaboratively with all government agencies to ensure that all laws and regulations are complied with and that all relevant personnel have a clear and thorough understanding of all the applicable laws and regulations.	December 31, 2019	Chief of Procurement (691) 350-2142 Ppm.oas@gmail.com
2018-002	We partially agree with this finding. The Office of Administrative Services will continue to work with all government agencies to ensure all expenditures are liquidated in a timely manner.	December 31, 2019	Chief of Procurement & Chief of Finance (691) 350-2142 Ppm.oas@gmail.com
2018-003	We agree with this finding. This repeat finding will be brought to the appropriate authorities for a resolution.	September 30, 2019	Director, OAS (691) 350-2142 oasyap@mail.fm