

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2019

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2019

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**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2019

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, 2019, 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.

Auditor's 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, 2019, 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters*Receivables from the FSM National Government*

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

COVID-19

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

Our opinion is not modified with respect to these matters.

Other Matters*Required Supplementary Information*

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2020 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 + Stark LLP". The signature is written in a cursive, stylized font.

December 28, 2020

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2019

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, 2019. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2018 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, 2019, Yap State's total net position increased by \$4.1 million (or 3.8%), from \$109.3 million in fiscal year 2018 to \$113.5 in fiscal year 2019.
- In comparison to fiscal year 2018, revenues totaled \$28.4 million, an increase of \$0.7 million (or 2.5%) from \$27.7 million in prior year, and total expenditures totaled \$22.8 million, a decrease of \$552,140 million (or 2.3%) from \$24.8 million in prior year. The increase in revenue was mainly due to the increase of general fund revenues by \$2.4 million (or 35.3%) and foreign assistance grant by \$2.4 million (or 19.0%). The decrease in expenditures is driven mainly by the decrease in general fund expenditures of \$0.9 million (or 11.5%) and foreign assistance grant expenditures of \$0.2 million (or 1.4%).
- At the end of fiscal year 2019, the Yap State Trust Fund reported a balance of \$58.6 million, which was an increase of \$1.8 million from the prior year, due to gains in the fair value of the investments.
- At the end of the fiscal year, the unassigned balance of the general fund was \$10.42 million. Beginning with fiscal year 2011, GASB 54 changed the classifications of fund balance, so as to more consistently apply and clarify fund balance definitions.

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.

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2019

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

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

Fund Financial Statements

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

Yap State has two types of funds:

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

FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2019, Yap State's assets exceeded liabilities by \$113.5 million. Of its total net position, \$37.1 million is restricted for specific uses. Included in the restricted amount is the \$20.0 million is invested in capital assets (buildings, roads, etc.). Yap State uses these capital assets to 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2019

The following schedule summarizes Yap State's net position as of September 30, 2019 with comparative figures for the prior year:

	Governmental Activities		Business -Type Activities		Total			
	2019	2018	2019	2018	2019	2018	Change	%
Assets								
Current assets	\$ 22,017,126	\$ 20,963,732	\$317,151	\$ 311,789	\$ 22,334,277	\$ 21,275,521	\$ 1,058,756	5.0
Other assets	79,602,750	77,567,618	-	-	79,602,750	77,567,618	2,035,132	2.6
Capital assets, net	21,649,053	23,173,757	336,591	431,901	21,985,644	23,605,658	(1,620,014)	-6.9
Total assets	<u>123,268,929</u>	<u>121,705,107</u>	<u>653,742</u>	<u>743,690</u>	<u>123,922,671</u>	<u>122,448,797</u>	<u>1,473,874</u>	<u>1.2</u>
Liabilities								
Current liabilities	5,281,242	7,458,877	22,661	22,983	5,303,903	7,481,860	(2,177,957)	-29.1
Non-current liabilities	5,146,280	5,639,946	-	-	5,146,280	5,639,946	(493,666)	-8.8
Total liabilities	<u>10,427,522</u>	<u>13,098,823</u>	<u>22,661</u>	<u>22,983</u>	<u>10,450,183</u>	<u>13,121,806</u>	<u>(2,671,623)</u>	<u>-20.4</u>
Net assets								
Invested in Capital assets, net	19,673,955	21,040,946	336,591	431,901	20,010,546	21,472,847	(1,462,301)	-6.8
Restricted	17,133,846	16,005,217	-	-	17,133,846	16,005,217	1,128,629	7.1
Unrestricted	76,033,606	71,560,121	294,490	288,806	76,328,096	71,848,927	4,479,169	6.2
Total net assets	<u>\$112,841,407</u>	<u>\$108,606,284</u>	<u>\$631,081</u>	<u>\$ 720,707</u>	<u>\$113,472,488</u>	<u>\$109,326,991</u>	<u>4,145,497</u>	<u>3.8</u>

At the end of fiscal year 2019, Yap State's unrestricted assets show a surplus of \$76.3 million (67% of total net position). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$58.6 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2018, Yap State's assets 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			
	2019	2018	2019	2018	2019	2018	Change	%
Revenues:								
Program Revenues:								
Charges for services	\$ 1,370,598	\$ 1,480,215	\$412,625	\$435,024	\$ 1,783,223	\$ 1,915,239	(132,016)	-6.9
Operating grants and contributions	16,703,554	14,932,204	-	-	16,703,554	14,932,204	1,771,350	11.9
Capital grants and contributions	-	-	30,000	92,068	30,000	92,068	(62,068)	-67.4
General Revenues:								
Taxes	3,626,755	4,025,642	-	-	3,626,755	4,025,642	(398,887)	-9.9
Unrestricted investment (losses) earnings	945,953	981,268	-	-	945,953	981,268	(35,315)	-3.6
Other	3,544,025	914,415	-	-	3,544,025	914,415	2,629,610	287.6
Total revenues	<u>26,190,885</u>	<u>22,333,744</u>	<u>442,625</u>	<u>527,092</u>	<u>26,633,510</u>	<u>22,860,836</u>	<u>3,772,674</u>	<u>16.5</u>
Expenses:								
General government	3,643,136	5,072,423	532,251	616,473	4,175,387	5,688,896	(1,513,509)	-26.6
Health Services	6,211,749	5,761,065	-	-	6,211,749	5,761,065	450,684	7.8
Education	7,039,959	6,357,400	-	-	7,039,959	6,357,400	682,559	10.7
Economic development	908,117	1,105,773	-	-	908,117	1,105,773	(197,656)	-17.9
Public Safety	540,361	520,309	-	-	540,361	520,309	20,052	3.9
Public works and transportation	3,274,919	800,887	-	-	3,274,919	800,887	2,474,032	308.9
Community affairs	107,409	103,924	-	-	107,409	103,924	3,485	3.4
Boards and commissions	320,441	242,591	-	-	320,441	242,591	77,850	32.1
Payments to components	151,179	15,439	-	-	151,179	15,439	135,740	879.2
Judiciary	188,214	198,602	-	-	188,214	198,602	(10,388)	-5.2
Public auditor	-	-	-	-	-	-	-	0.0
Other	1,550,889	3,205,820	-	-	1,550,889	3,205,820	(1,654,931)	-51.6
Total expenses	<u>23,936,373</u>	<u>23,384,233</u>	<u>532,251</u>	<u>616,473</u>	<u>24,468,624</u>	<u>24,000,706</u>	<u>467,918</u>	<u>1.9</u>
Contributions to permanent funds	2,186,931	5,339,106	-	-	2,186,931	5,339,106	(3,152,175)	-59.0
Receivable written off	(148,429)	(220,065)	-	-	(148,429)	(220,065)	71,636	-32.6
Gain from foreign exchange rate	127,060	75,119	-	-	127,060	75,119	51,941	69.1
Loss on impairment of asset	(184,951)	-	-	-	(184,951)	-	(184,951)	-
Change in net position	4,235,123	4,143,671	(89,626)	(89,381)	4,145,497	4,054,290	91,207	2.2
Net position at the beginning of the year	108,606,284	104,462,613	720,707	810,088	109,326,991	105,272,701	4,054,290	3.9
Net assets at the end of the year	<u>\$ 112,841,407</u>	<u>\$ 108,606,284</u>	<u>\$ 631,081</u>	<u>\$ 720,707</u>	<u>\$ 113,472,488</u>	<u>\$ 109,326,991</u>	<u>4,145,497</u>	<u>3.8</u>

Total revenues in fiscal year 2019 increased by \$3.8 million over prior year's \$22.8 million primarily due to an increase in operating grants and contributions and other revenues.

Total expenses of \$24.5 million in fiscal year 2019 are 2% more than that of fiscal year 2018 expenses of \$24.0 million.

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2019

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 2019, Yap State's governmental funds reported a combined fund balance of \$97.0 million, which represents an increase of \$5.2 million in comparison with fiscal year 2018 fund balance of \$91.8. Of the total fund balance, \$86.6 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 (\$78.6 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$4.5 million); 3) restricted because the funds are already committed (\$1.3 million); and, 4) restricted and intended for a specific purpose (\$2.12 million). The unassigned combined fund balance is \$10.4 million. As mentioned above, GASB 54 was implemented in fiscal year 2011, which changed the classification definitions in the State's fund balance.

The State's governmental fund changes in fund balances for the years ended September 30, 2019 and 2018 are shown below:

	General Fund		Foreign Assistance Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenues:										
Taxes	\$ 3,562,426	\$ 3,719,317	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,329	\$ 306,325
Compact	-	-	12,051,955	9,398,241	-	-	-	-	-	-
Other/Transfers in	5,620,887	3,538,887	2,993,038	4,436,978	1,768,722	4,501,476	418,209	837,630	1,898,250	2,676,665
Total revenues	9,183,313	7,258,204	15,044,993	13,835,219	1,768,722	4,501,476	418,209	837,630	1,962,579	2,982,990
Expenditures/transfers out	7,218,213	9,311,084	14,005,864	14,682,799	-	-	-	-	1,935,010	2,745,558
Net change in fund balances	\$ 1,965,100	\$ (2,052,880)	\$ 1,039,129	\$ (847,580)	\$ 1,768,722	\$ 4,501,476	\$ 418,209	\$ 837,630	\$ 27,569	\$ 237,432

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 \$938,600 gains which contributed to the state's increase in revenues as compared to prior year. Actual expenditures for the fiscal year were \$1,580,057 million less than the total revenues.

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal year which increased by \$2.7 in 2019. Activities in this fund were relatively stable during the year.

Yap State Investment Trust and Compact Trust Fund

Revenues for these funds are determined by the results of the State's investments. Results in 2019 are primarily based on improvement in the U.S. Stock market.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the governmental activities as of September 30, 2019, amounted to \$125.6 million with accumulated depreciation of \$103.9 million, leaving a net book value of \$21.7 million. This represents a net decrease of \$1.5 from fiscal year 2018.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2019

The table below summarizes Yap State's capital assets:

	2019	2018	Change	%
Land	\$ 3,170,610	\$ 3,170,610	\$ -	0
Buildings	7,928,034	8,436,770	(508,736)	-6
Equipment	379,691	330,902	48,789	15
Heavy Equipment	367,923	424,058	(56,135)	-13
Vehicles	351,160	441,128	(89,968)	-20
Vessels	1,490,240	1,679,024	(188,784)	-11
Infrastructure	6,682,668	7,640,781	(958,113)	-13
Construction work-in progress	1,278,727	1,050,484	228,243	22
Total	<u>\$21,649,053</u>	<u>\$23,173,757</u>	<u>(\$1,524,704)</u>	<u>-7</u>

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

Long-Term Debt

Long-term debt obligations of the Yap State primary government totaled \$5.8 million at September 30, 2019. 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, Loan 2099, and Omnibus Infrastructure Development Loan with all five adding to \$5.0 million. Liability for compensated absences of \$534,416, and long-term payments due under land purchase agreements of \$249,608. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by \$958,995 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 42 % of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of the Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2019 and beyond.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2019

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.

COVID-19

No COVID-19 cases have been reported in the FSM. Should it reach FSM, it may negatively impact the State. However, its impact on the States operations and financial position cannot be reasonably estimated at this time.

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, 2019

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Units
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 195,681	\$ 98,303	\$ 293,984	\$ 1,832,546
Investments	12,779,690	-	12,779,690	1,433,079
Receivables, net of allowance for uncollectibles	4,345,856	21,966	4,367,822	1,116,713
Advances	1,260,672	-	1,260,672	-
Inventories	-	189,433	189,433	1,100,675
Other current assets	-	7,449	7,449	46,953
Restricted assets:				
Cash and cash equivalents	3,435,227	-	3,435,227	-
Total current assets	<u>22,017,126</u>	<u>317,151</u>	<u>22,334,277</u>	<u>5,529,966</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	2,740,930
Investments	72,549,445	-	72,549,445	-
Investments	2,799,390	-	2,799,390	-
Capital assets:				
Construction work-in-progress	1,278,727	-	1,278,727	-
Nondepreciable capital assets	3,170,610	-	3,170,610	17,400
Capital assets, net of accumulated depreciation	17,199,716	336,591	17,536,307	19,131,493
Other assets	4,253,915	-	4,253,915	1,235,597
Total noncurrent assets	<u>101,251,803</u>	<u>336,591</u>	<u>101,588,394</u>	<u>23,125,420</u>
Total assets	<u>\$ 123,268,929</u>	<u>\$ 653,742</u>	<u>\$ 123,922,671</u>	<u>\$ 28,655,386</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term obligations	\$ 315,608	\$ -	\$ 315,608	\$ 543,399
Short term loan	-	-	-	950,000
Accounts payable	1,801,191	3,148	1,804,339	2,203,255
Current portion of compensated absences	348,027	-	348,027	-
Accrued interest payable	14,872	-	14,872	-
Other liabilities and accruals	405,452	19,513	424,965	2,857,872
Unearned revenues	2,396,092	-	2,396,092	200,548
Total current liabilities	<u>5,281,242</u>	<u>22,661</u>	<u>5,303,903</u>	<u>6,755,074</u>
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	4,710,283	-	4,710,283	10,410,803
Noncurrent portion of compensated absences	186,389	-	186,389	-
Other noncurrent liabilities	249,608	-	249,608	-
Total noncurrent liabilities	<u>5,146,280</u>	<u>-</u>	<u>5,146,280</u>	<u>10,410,803</u>
Total liabilities	<u>10,427,522</u>	<u>22,661</u>	<u>10,450,183</u>	<u>17,165,877</u>
<u>NET POSITION</u>				
Net investment in capital assets	19,673,955	336,591	20,010,546	8,335,085
Restricted for:				
Nonexpendable:				
Future operations	12,948,665	-	12,948,665	-
Expendable:				
Compact related	3,226,186	-	3,226,186	-
Debt service	958,995	-	958,995	-
Other purposes	-	-	-	2,171,023
Unrestricted	76,033,606	294,490	76,328,096	983,401
Total net position	<u>112,841,407</u>	<u>631,081</u>	<u>113,472,488</u>	<u>11,489,509</u>
Total liabilities and net position	<u>\$ 123,268,929</u>	<u>\$ 653,742</u>	<u>\$ 123,922,671</u>	<u>\$ 28,655,386</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2019

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	\$ 188,214	\$ -	\$ -	\$ -	\$ (188,214)	\$ -	\$ (188,214)	\$ -
Councils of traditional leaders	188,636	-	-	-	(188,636)	-	(188,636)	-
General government	3,643,136	178,964	3,191,934	-	(272,238)	-	(272,238)	-
Resources and development	908,117	-	194,689	-	(713,428)	-	(713,428)	-
Public safety	540,361	90,012	-	-	(450,349)	-	(450,349)	-
Community affairs	107,409	185,330	-	-	77,921	-	77,921	-
Education	7,039,959	-	6,416,228	-	(623,731)	-	(623,731)	-
Public works and transportation	3,274,919	408,172	744,534	-	(2,122,213)	-	(2,122,213)	-
Health services	6,211,749	451,269	5,979,465	-	218,985	-	218,985	-
Boards and commissions	320,441	56,851	-	-	(263,590)	-	(263,590)	-
Payments to components	151,179	-	-	-	(151,179)	-	(151,179)	-
Other appropriations	1,289,042	-	176,704	-	(1,112,338)	-	(1,112,338)	-
Interest expense	73,211	-	-	-	(73,211)	-	(73,211)	-
Total governmental activities	23,936,373	1,370,598	16,703,554	-	(5,862,221)	-	(5,862,221)	-
Business-type activities:								
Public Transportation System	532,251	412,625	-	-	-	(119,626)	(119,626)	-
Total primary government	\$ 24,468,624	\$ 1,783,223	\$ 16,703,554	\$ -	(5,862,221)	(119,626)	(5,981,847)	-
Component units:								
Yap Visitor's Bureau	\$ 208,508	\$ -	\$ 17,918	\$ -	-	-	-	(190,590)
Yap State Public Service Corporation	6,377,180	5,791,118	144,084	52,709	-	-	-	(389,269)
The Diving Seagull, Inc.	8,864,451	6,765,672	-	-	-	-	-	(2,098,779)
Total component units	\$ 15,450,139	\$ 12,556,790	\$ 162,002	\$ 52,709	-	-	-	(2,678,638)
General revenues:								
Taxes:								
FSM revenue sharing:								
Gross revenue taxes					553,091	-	553,091	-
Import taxes					767,562	-	767,562	-
Income taxes					594,349	-	594,349	-
Other taxes					154,262	-	154,262	-
State taxes					1,557,491	-	1,557,491	-
Unrestricted investment earnings					945,953	-	945,953	(271,305)
Operating subsidy from primary government					-	30,000	30,000	200,995
Other					3,544,025	-	3,544,025	(226,591)
					8,116,733	30,000	8,146,733	(296,901)
Special items:								
Write-off of receivables					(148,429)	-	(148,429)	-
Gain on SDR foreign exchange					127,060	-	127,060	-
Loss on impairment of investment in Other assets					(184,951)	-	(184,951)	-
Contributions to permanent funds					2,186,931	-	2,186,931	-
Total general revenues, special items and contributions					10,097,344	30,000	10,127,344	(296,901)
Change in net position					4,235,123	(89,626)	4,145,497	(2,975,539)
Net position at the beginning of the year					108,606,284	720,707	109,326,991	14,465,048
Net position at the end of the year					\$ 112,841,407	\$ 631,081	\$ 113,472,488	\$ 11,489,509

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2019

	General	Special Revenue Foreign Assistance Grants	Permanent Yap State Investment Trust	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 174,511	\$ -	\$ -	\$ -	\$ 21,170	\$ 195,681
Investments	15,217,831	-	-	-	361,249	15,579,080
Receivables, net:						
Federal agencies	108,733	108,580	-	-	-	217,313
FSM National Government	456,014	3,192,133	-	-	480,396	4,128,543
Due from other funds	1,899,414	4,077,694	-	-	951,830	6,928,938
Advances	223,209	1,037,463	-	-	-	1,260,672
Other assets	4,253,915	-	-	-	-	4,253,915
Restricted assets:						
Cash and cash equivalents	3,435,227	-	-	-	-	3,435,227
Investments	958,995	-	58,590,564	12,999,886	-	72,549,445
Total assets	<u>\$ 26,727,849</u>	<u>\$ 8,415,870</u>	<u>\$ 58,590,564</u>	<u>\$ 12,999,886</u>	<u>\$ 1,814,645</u>	<u>\$ 108,548,814</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	575,492	\$ 828,787	\$ -	\$ -	\$ 396,912	\$ 1,801,191
Other liabilities and accruals	123,958	263,715	-	-	17,779	405,452
Unearned revenues	-	2,248,989	-	-	147,103	2,396,092
Due to other funds	<u>5,029,524</u>	<u>1,848,193</u>	<u>-</u>	<u>51,221</u>	<u>-</u>	<u>6,928,938</u>
Total liabilities	<u>5,728,974</u>	<u>5,189,684</u>	<u>-</u>	<u>51,221</u>	<u>561,794</u>	<u>11,531,673</u>
Fund balances:						
Non-spendable	7,053,305	-	58,590,564	12,948,665	-	78,592,534
Restricted	958,995	3,226,186	-	-	349,939	4,535,120
Committed	436,505	-	-	-	902,912	1,339,417
Assigned	2,128,834	-	-	-	-	2,128,834
Unassigned:						
General fund	10,421,236	-	-	-	-	10,421,236
Capital projects funds	-	-	-	-	-	-
Total fund balances	<u>20,998,875</u>	<u>3,226,186</u>	<u>58,590,564</u>	<u>12,948,665</u>	<u>1,252,851</u>	<u>97,017,141</u>
Total liabilities and fund balances	<u>\$ 26,727,849</u>	<u>\$ 8,415,870</u>	<u>\$ 58,590,564</u>	<u>\$ 12,999,886</u>	<u>\$ 1,814,645</u>	

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

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

21,649,053

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 (5,025,891)
Compensated absences payable (534,416)
Accrued interest payable (14,872)
Land acquisition claims payable (249,608)

(5,824,787)

Net position of governmental activities

\$ 112,841,407

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	\$ -	\$ 12,051,955	\$ -	\$ -	\$ -	\$ 12,051,955
Net change in the fair value of investments	938,600	-	1,768,722	418,209	7,353	3,132,884
Federal contributions and other grants	-	2,846,422	-	-	-	2,846,422
FSM revenue sharing	2,069,264	-	-	-	-	2,069,264
State taxes	1,493,162	-	-	-	64,329	1,557,491
CFSM grants	-	115,207	-	-	1,689,970	1,805,177
Fees and charges	281,476	-	-	-	200,927	482,403
Departmental charges	861,456	26,739	-	-	-	888,195
Other	3,539,355	4,670	-	-	-	3,544,025
Total revenues	9,183,313	15,044,993	1,768,722	418,209	1,962,579	28,377,816
Expenditures:						
Current:						
Judiciary	188,214	-	-	-	-	188,214
Councils of traditional leaders	183,636	-	-	-	-	183,636
General government	1,353,822	494,244	-	-	1,935,010	3,783,076
Resources and development	706,772	194,689	-	-	-	901,461
Public safety	540,361	-	-	-	-	540,361
Community affairs	326,120	-	-	-	-	326,120
Education	277,138	6,416,228	-	-	-	6,693,366
Public works and transportation	1,517,029	744,534	-	-	-	2,261,563
Health services	234,823	5,979,465	-	-	-	6,214,288
Boards and commissions	306,636	-	-	-	-	306,636
Payments to component units	151,179	-	-	-	-	151,179
Other appropriations	678,153	176,704	-	-	-	854,857
Debt service	420,950	-	-	-	-	420,950
Total expenditures	6,884,833	14,005,864	-	-	1,935,010	22,825,707
Excess (deficiency) of revenues over (under) expenditures	2,298,480	1,039,129	1,768,722	418,209	27,569	5,552,109
Special item:						
less: Write-off of receivables	(148,429)	-	-	-	-	(148,429)
less: Loss on impairment of investment in Other ass	(184,951)	-	-	-	-	(184,951)
Net change in fund balances	1,965,100	1,039,129	1,768,722	418,209	27,569	5,218,729
Fund balances at the beginning of the year	19,033,775	2,187,057	56,821,842	12,530,456	1,225,282	91,798,412
Fund balances at the end of the year	\$ 20,998,875	\$ 3,226,186	\$ 58,590,564	\$ 12,948,665	\$ 1,252,851	\$ 97,017,141

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, 2019

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	\$ 5,218,729
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 \$927,260 exceed depreciation (\$2,451,964) in the current period.	(1,524,704)
Special item associated with a gain on SDR foreign exchange adjustment.	127,060
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	347,739
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>66,299</u>
Change in net position of governmental activities	\$ <u>4,235,123</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Position
Proprietary Fund
September 30, 2019

	Public Transportation <u>System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 98,303
Receivables, net of allowance for uncollectibles	21,966
Inventories	189,433
Other current assets	<u>7,449</u>
Total current assets	317,151
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>336,591</u>
Total assets	<u><u>\$ 653,742</u></u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 3,148
Other liabilities and accruals	<u>19,513</u>
Total liabilities	<u>22,661</u>
<u>NET POSITION</u>	
Net investment in capital assets	336,591
Unrestricted	<u>294,490</u>
Total net position	<u>631,081</u>
	<u><u>\$ 653,742</u></u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
Year Ended September 30, 2019

	Public Transportation <u>System</u>
Operating revenues:	
Charges for services	\$ 178,531
Sales	226,242
Other	<u>7,852</u>
Total operating revenues	<u>412,625</u>
Operating expenses:	
Cost of services	91,697
Administration costs	339,393
Depreciation and amortization	<u>101,161</u>
Total operating expenses	<u>532,251</u>
Loss from operations	(119,626)
Nonoperating revenues:	
Operating subsidy from primary government	<u>30,000</u>
Total nonoperating revenues	<u>30,000</u>
Change in net position	(89,626)
Net position at the beginning of the year	<u>720,707</u>
Net position at the end of the year	<u>\$ 631,081</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Fund
Year Ended September 30, 2019

	Public Transportation System
Cash flows from operating activities:	
Cash received from customers	\$ 415,485
Cash payments to employees	(220,005)
Cash payments to suppliers	<u>(169,503)</u>
Net cash provided by operating activities	<u>25,977</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>30,000</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(5,851)</u>
Net cash used in capital and related financing activities	<u>(5,851)</u>
Net change in cash and cash equivalents	50,126
Cash and cash equivalents at the beginning of the year	<u>48,177</u>
Cash and cash equivalents at the end of the year	<u>\$ 98,303</u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (119,626)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation expense	101,161
Changes in assets and liabilities:	
Other	25,113
Receivables	(5,755)
Inventories	25,406
Accounts payable	(1,341)
Other liabilities and accruals	<u>1,019</u>
Net cash used in operating activities	<u>\$ 25,977</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combining Statement of Net Position
Component Units
September 30, 2019

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 176,552	\$ 754,654	\$ 901,340	\$ 1,832,546
Time certificate of deposit	-	-	-	-
Investments	-	-	1,433,079	1,433,079
Receivables, net:				
General	-	1,081,298	27,799	1,109,097
Other	-	-	7,616	7,616
Inventories	-	937,734	162,941	1,100,675
Other current assets	-	39,344	7,609	46,953
Total current assets	<u>176,552</u>	<u>2,813,030</u>	<u>2,540,384</u>	<u>5,529,966</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	2,740,930	2,740,930
Capital assets:				
Nondepreciable capital assets	-	17,400	-	17,400
Capital assets, net of accumulated depreciation	43,453	17,047,637	2,040,403	19,131,493
Other assets	-	998,383	237,214	1,235,597
Total noncurrent assets	<u>43,453</u>	<u>18,063,420</u>	<u>5,018,547</u>	<u>23,125,420</u>
Total assets	<u>\$ 220,005</u>	<u>\$ 20,876,450</u>	<u>\$ 7,558,931</u>	<u>\$ 28,655,386</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 403,005	\$ 140,394	\$ 543,399
Short term loan	-	-	950,000	950,000
Accounts payable	5,773	236,496	1,960,986	2,203,255
Unearned revenues	-	200,548	-	200,548
Other liabilities and accruals	-	472,320	2,385,552	2,857,872
Total current liabilities	<u>5,773</u>	<u>1,312,369</u>	<u>5,436,932</u>	<u>6,755,074</u>
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	9,568,836	841,967	10,410,803
Total noncurrent liabilities	<u>-</u>	<u>9,568,836</u>	<u>841,967</u>	<u>10,410,803</u>
Total liabilities	<u>5,773</u>	<u>10,881,205</u>	<u>6,278,899</u>	<u>17,165,877</u>
<u>NET POSITION</u>				
Net investment in capital assets	43,453	7,093,196	1,198,436	8,335,085
Restricted, expendable	-	-	2,171,023	2,171,023
Unrestricted	<u>170,779</u>	<u>2,902,049</u>	<u>(2,089,427)</u>	<u>983,401</u>
Total net position	<u>214,232</u>	<u>9,995,245</u>	<u>1,280,032</u>	<u>11,489,509</u>
	<u>\$ 220,005</u>	<u>\$ 20,876,450</u>	<u>\$ 7,558,931</u>	<u>\$ 28,655,386</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, 2019

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,267,362	\$ 6,740,232	\$ 12,007,594
Sales	-	523,756	25,440	549,196
Total operating revenues	-	5,791,118	6,765,672	12,556,790
Operating expenses:				
Cost of services	-	4,557,778	8,541,897	13,099,675
Administration costs	195,706	562,154	315,941	1,073,801
Depreciation and amortization	12,802	1,257,248	6,613	1,276,663
Total operating expenses	208,508	6,377,180	8,864,451	15,450,139
Operating income (loss)	(208,508)	(586,062)	(2,098,779)	(2,893,349)
Nonoperating revenues (expenses):				
Contributions from the primary government	200,995	-	-	200,995
Contributions from FSM National Government	17,918	-	-	17,918
Contributions from U.S. Government	-	144,084	-	144,084
Interest income	-	1,863	25,378	27,241
Interest expense	-	(216,576)	(81,970)	(298,546)
Other	-	(107,447)	(119,144)	(226,591)
Total nonoperating revenues (expenses), net	218,913	(178,076)	(175,736)	(134,899)
Capital contributions	-	52,709	-	52,709
Change in net position	10,405	(711,429)	(2,274,515)	(2,975,539)
Net position at the beginning of the year	203,827	10,706,674	3,554,547	14,465,048
Net position at the end of the year	\$ 214,232	\$ 9,995,245	\$ 1,280,032	\$ 11,489,509

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2019

(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, 2019

(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, 2019

(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, 2019

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

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

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

The government-wide Statement of Net Position reports \$17,133,846 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, 2019

(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, 2019

(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, 2019

(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, 2019

(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 \$958,995. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$58,590,564 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$12,999,886 are restricted in that they are not available to be used for current operations.

As of September 30, 2019, 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	\$ 1,056,230
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>2,378,997</u>
	\$ <u>3,435,227</u>

Discretely Presented Component Units

The Diving Seagull, Inc.:

Time certificate of deposit restricted as collateral for long-term debt with a bank.	\$ 569,907
Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank.	<u>2,171,023</u>
	\$ <u>2,740,930</u>

L. Other Assets

The State holds approximately 15% of the outstanding shares of Pacific Islands Development Bank with a carrying amount of \$1,253,915. 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, 2019

(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, 2019

(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, 2019

(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, 2019, the State implemented the following pronouncements:

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

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 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

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.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

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.

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, 2018 from which summarized information was derived.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments

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

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

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

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

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

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The State does not have a deposit policy for custodial credit risk.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2019, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$3,630,908 and the corresponding bank balance was \$4,227,302 which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019, bank deposits in the amount of \$276,955 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, 2019, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$98,303. There were no significant differences between cash balances and bank balances. As of September 30, 2019, \$98,303 of cash is maintained in one financial institution subject to FDIC insurance and which is fully FDIC insured.

As of September 30, 2019, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$4,573,476 and the corresponding bank balances were \$4,590,272, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2019, bank deposits in the amount of \$677,066 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

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

Primary Government

As of September 30, 2019, the State's investments are as follows:

General Fund:

Fixed income	\$ 5,231,017
Domestic equities	2,799,390
Common equities	5,441,773
International equities	1,973,192
Cash management account	<u>731,454</u>
	<u>16,176,826</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Yap State Investment Trust Fund:

Fixed income	19,511,259
Common equities	24,473,169
International equities	12,959,062
Real estate	750,558
Cash management account	<u>896,516</u>
	<u>58,590,564</u>

Compact Trust Fund:

Common trust funds:

Domestic Equity	3,318,580
International Equity	3,067,456
Fixed Income	2,263,392
Private Equity	85,186
Hedge Fund	604,656
Real Estate	1,216,005
Global Equity	1,469,433
Private Equity – diversified	973,362
Money market funds	<u>1,816</u>
	<u>12,999,886</u>

Other Governmental Funds:

Mutual Funds	42,331
Common equities	225,877
International equities	80,743
Money market funds	<u>12,298</u>
	<u>361,249</u>

\$ 88,128,525

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

As of September 30, 2019, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

General 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	\$ 95,717	\$ 9,880	\$ 40,973	\$ 9,605	\$ 35,259	Aaa
U.S. Government Agencies Obligations:						
Federal Farm Credit Bank	18,799	-	8,201	10,598	-	Aaa
Federal Home Loan Mortgage Corporation	2,506	-	24	-	2,482	Aaa
Federal National Mortgage Association	6,382	-	-	-	6,382	Aaa
Federal Home Loan Bank	12,947	-	2,130	10,817	-	Aaa
Tennessee Valley Authority	19,714	-	4,522	-	15,192	Aaa
Freddie Home Loan Mortgage Corporation	3,685	-	3,685	-	-	Aaa
Private Export Funding Corporation	-	-	-	-	-	Aaa
Government National Mortgage Association	172	-	-	-	172	No Rating
Overseas Private Investment Corporation	14,997	-	-	14,997	-	No Rating
Municipal Obligations	23,235	6,567	7,632	5,357	3,679	Aa1
Municipal Obligations	-	-	-	-	-	Aa1
Municipal Obligations	-	-	-	-	-	Aa2
Corporate Bonds	10,839	-	2,173	3,403	5,263	A1
Corporate Bonds	21,745	823	12,229	8,693	-	A2
Corporate Bonds	9,107	-	4,971	-	4,136	A3
Corporate Bonds	5,354	2,046	1,247	2,061	-	Aa1
Corporate Bonds	6,581	1,636	4,945	-	-	Aa2
Corporate Bonds	7,179	2,453	4,726	-	-	Aa3
Corporate Bonds	36,097	6,130	20,938	2,871	6,158	Aaa
Corporate Bonds	3,323	-	-	3,323	-	Ba1
Corporate Bonds	15,579	-	1,267	7,015	7,297	Baa1
Corporate Bonds	2,026	-	-	-	2,026	Baa2
Corporate Bonds	3,931	-	-	-	3,931	Baa3
Corporate Bonds	1,029	-	-	1,029	-	Not listed
Corporate Bonds	7,718	-	-	7,718	-	No rating
	<u>\$ 328,662</u>	<u>\$ 29,535</u>	<u>\$ 119,663</u>	<u>\$ 87,487</u>	<u>\$ 91,977</u>	

Investment Type (no aging schedule)	Fair Value	Credit Rating
U.S. Treasury Notes and Bonds	\$ 480,882	Aaa
U.S. Government Agencies Obligations	89,306	Aa3
Mortgage Backed	2,498,186	Aaa
Asset-Backed	201,492	Caa1
Corporate Bonds - Industrial	642,581	A3
Corporate Bonds - Finance	509,683	A3
Corporate Bonds - Yankee Bond	135,746	Baa1
Corporate Bonds - Utilities	112,489	A2
Corporate Bonds - Others	231,989	A2
	<u>4,902,355</u>	
	<u>\$ 5,231,017</u>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Yap State Investment Trust Fund:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Ratings
		Less than 1	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 6,603,590	\$ 70,459	\$ 3,493,400	\$ 1,109,830	\$ 1,929,901	Aaa
U.S. Government Agencies Obligations:						
Federal Home Loan Bank	2,128,008	489,785	1,638,223	-	-	Aaa
Federal Home Loan Mortgage Corp.	489,014	489,014	-	-	-	Aaa
Corporate Bonds	101,373	-	101,373	-	-	Aaa
Corporate Bonds	1,610,257	271,912	1,243,911	94,434	-	A1
Corporate Bonds	3,287,500	100,353	2,627,352	559,795	-	A2
Corporate Bonds	2,167,180	-	1,647,501	519,679	-	A3
Corporate Bonds	97,161	-	-	97,161	-	Aa2
Corporate Bonds	407,621	109,926	190,559	107,136	-	Aa3
Corporate Bonds	650,611	-	75,164	575,447	-	Baa1
Corporate Bonds	799,642	-	369,282	430,360	-	Baa2
Corporate Bonds	154,171	-	74,171	80,000	-	Baa3
Corporate Bonds	452,428	-	452,428	-	-	No rating
Asset-Backed	562,703	-	-	-	562,703	No rating
	<u>\$ 19,511,259</u>	<u>\$ 1,531,449</u>	<u>\$ 11,913,364</u>	<u>\$ 3,573,842</u>	<u>\$ 2,492,604</u>	

The State has the following recurring fair value measurements as of September 30, 2019:

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	\$ 576,667	\$ -	\$ 576,667	\$ -
U.S. Government Agencies Obligations	168,565	-	168,565	-
Securitized Assets	2,699,678	-	2,699,678	-
Municipal Obligations	23,251	-	23,251	-
Corporate Bonds	<u>1,762,856</u>	<u>-</u>	<u>1,762,856</u>	<u>-</u>
	5,231,017	-	5,231,017	-
Equity securities:				
U.S. Equities	5,441,773	5,441,773	-	-
International Equities	<u>1,973,192</u>	<u>1,973,192</u>	<u>-</u>	<u>-</u>
	<u>7,414,965</u>	<u>7,414,965</u>	<u>-</u>	<u>-</u>
Total investments at fair value	12,645,982	\$ <u>7,414,965</u>	\$ <u>5,231,017</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity Investment in Bank of the FSM	2,799,390			
Investments measured at amortized cost:				
Money Market Funds	<u>731,454</u>			
	<u>\$ 16,176,826</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(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	\$ 24,473,169	24,473,169	\$ -	\$ -
International Equities	12,959,062	12,959,062	-	-
Fixed Income	<u>19,511,259</u>	<u>19,511,259</u>	-	-
Total investments at fair value	56,943,490	\$ <u>56,943,490</u>	\$ -	\$ -
Investments measured at NAV:				
Real estate	750,558			
Investments measured at amortized cost:				
Cash Management Account	<u>896,516</u>			
	\$ <u>58,590,564</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	\$ 3,318,580	\$ 3,318,580	\$ -	\$ -
International Equity	3,067,456	3,067,456	-	-
Global Equity	-	-	-	-
Fixed Income	2,263,392	2,263,392	-	-
Private Equity	<u>85,186</u>	-	-	<u>85,186</u>
Total investments at fair value	8,734,614	\$ <u>8,649,428</u>	\$ -	\$ <u>85,186</u>
Investments measured at NAV:				
Hedge Fund	604,656			
Real Estate	1,216,005			
Global Equity	1,469,433			
Private Equity - diversified	973,362			
Investments measured at amortized cost:				
Money market funds	<u>1,816</u>			
	\$ <u>12,999,886</u>			

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	\$ 42,331	\$ 42,331	\$ -	\$ -
Common Equities	225,877	225,877	-	-
International Equities	<u>80,743</u>	<u>80,743</u>	-	-
Total investments at fair value	348,951	\$ <u>348,951</u>	\$ -	\$ -
Investments measured at amortized cost:				
Money Market Funds	<u>12,298</u>			
	\$ <u>361,249</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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, 2019.

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, 2019, 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, 2019. High yield debt receiving a credit rating below "A" comprises approximately 26.8% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2019. At September 30, 2019, the weighted average maturity of the bonds comprising MIM CFI is 9.92 years.

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, 2019. High yield debt receiving a credit rating below "A" comprises approximately 52.1% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2019. At September 30, 2019, the weighted average maturity of the bonds comprising MIM OFI is 7.69 years.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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, 2019, the Trust Fund held approximately \$209,299,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$42,676,000 was held in securities whose functional currency is the Euro, \$20,125,000 whose functional currency is the British pound, \$34,385,000 whose functional currency is the Japanese yen, and \$112,113,000 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, 2019.

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.

Discretely Presented Component Units

The Diving Seagull, Inc. (DSI):

As of September 30, 2019, DSI's investments are as follows:

Fixed income	\$ 501,377
Common equities	903,364
Money market funds	<u>28,338</u>
	<u>\$ 1,433,079</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

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

As of September 30, 2019, DSI's fixed income securities, including their S & P credit ratings, had the following maturities:

	Credit Ratings	<u>Investment Maturities (In Years)</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	\$ 178,243	\$ -	\$ 142,901	\$ 35,342
U.S. Government agencies obligations	AAA	65,166	65,166	-	-
Corporate Notes	A1	31,324	9,994	21,330	-
Corporate Notes	A2	89,220	12,002	61,686	15,532
Corporate Notes	A3	22,234	10,056	12,178	-
Corporate Notes	AA2	15,168	-	15,168	-
Corporate Notes	BAA1	50,480	-	25,543	24,937
Corporate Notes	BAA2	37,478	-	37,478	-
Corporate Notes	BAA3	<u>12,064</u>	<u>-</u>	<u>12,064</u>	<u>-</u>
		<u>\$ 501,377</u>	<u>\$ 97,218</u>	<u>\$ 328,348</u>	<u>\$ 75,811</u>

The Diving Seagull has the following recurring fair value measurements as of September 30, 2019:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 178,243	\$ -	\$ 178,243	\$ -
U.S. Government agencies	65,166	-	65,166	-
Corporate notes	<u>257,968</u>	<u>-</u>	<u>257,968</u>	<u>-</u>
	501,377	-	501,377	-
U.S. equities	<u>903,364</u>	<u>903,364</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,404,741	\$ <u>903,364</u>	\$ <u>501,377</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>28,338</u>			
	<u>\$ 1,433,079</u>			

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(3) Receivables

Primary Government

Receivables as of September 30, 2019, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Foreign Assistance Grants	Yap State Investment Trust	Compact Trust	Nonmajor and Other Funds	Public Transportation System	Total
Receivables:							
Federal agencies	\$ -	\$ 293,486	\$ -	\$ -	\$ -	\$ -	\$ 293,486
FSM National Government	495,423	5,086,137	-	-	1,395,437	-	6,976,997
Other	<u>610,917</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,500</u>	<u>657,017</u>
	1,106,340	5,380,223	-	-	1,395,437	45,500	7,927,500
Less: allowance for uncollectible accounts	<u>(541,593)</u>	<u>(2,079,510)</u>	<u>-</u>	<u>-</u>	<u>(915,041)</u>	<u>(23,534)</u>	<u>(3,559,678)</u>
Net receivables	\$ <u>564,747</u>	\$ <u>3,300,713</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>480,396</u>	\$ <u>21,966</u>	\$ <u>4,367,822</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:

	Yap Visitors Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Receivables:				
General	\$ -	\$ 1,136,561	\$ -	\$ 1,136,561
Other	<u>-</u>	<u>-</u>	<u>718,675</u>	<u>718,675</u>
	-	1,136,561	718,675	1,855,236
Less: allowance for uncollectible accounts	<u>-</u>	<u>(55,263)</u>	<u>(683,260)</u>	<u>(738,523)</u>
Net receivables	\$ <u>-</u>	\$ <u>1,081,298</u>	\$ <u>35,415</u>	\$ <u>1,116,713</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, 2019, are summarized as follows:

Receivable Fund	Payable Fund	Amount
General	Foreign Assistance Grants	\$ 4,077,694
Foreign Assistance Grants	General	1,848,193
Nonmajor governmental funds	General	951,830
Compact Trust	General	<u>51,221</u>
		\$ <u>6,928,938</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2019, are as follows:

	Balance October 1 <u>2018</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2019
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 20,367,078	\$ 251,868	\$ -	\$ 20,618,946
Infrastructure	86,807,703	258,956	-	87,066,659
Equipment	997,530	125,000	-	1,122,530
Vehicles	2,884,152	63,193	-	2,947,345
Vessels	5,156,463	-	-	5,156,463
Heavy equipment	<u>4,204,891</u>	<u>-</u>	<u>-</u>	<u>4,204,891</u>
	<u>120,417,817</u>	<u>699,017</u>	<u>-</u>	<u>121,116,834</u>
Less accumulated depreciation for:				
Buildings	(11,930,308)	(760,604)	-	(12,690,912)
Infrastructure	(79,166,922)	(1,217,070)	-	(80,383,992)
Equipment	(666,628)	(76,211)	-	(742,839)
Vehicles	(2,443,024)	(153,163)	-	(2,596,187)
Vessels	(3,477,439)	(188,781)	-	(3,666,220)
Heavy equipment	<u>(3,780,833)</u>	<u>(56,135)</u>	<u>-</u>	<u>(3,836,968)</u>
	<u>(101,465,154)</u>	<u>(2,451,964)</u>	<u>-</u>	<u>(103,917,118)</u>
Total capital assets, being depreciated, net	18,952,663	(1,752,947)	-	17,199,716
Non-depreciable Assets:				
Construction work-in-progress	1,050,484	487,200	(258,957)	1,278,727
Land	<u>3,170,610</u>	<u>-</u>	<u>-</u>	<u>3,170,610</u>
Governmental activities capital assets, net	\$ <u>23,173,757</u>	\$ <u>(1,265,747)</u>	\$ <u>(258,957)</u>	\$ <u>21,649,053</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	23,051
Resources and development	6,656
Community affairs	33,157
Education	356,191
Public works and transportation	1,454,363
Health services	126,486
Boards and commissions	13,805
Other appropriations	<u>433,255</u>
	\$ <u>2,451,964</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(5) Capital Assets, Continued

	Balance October 1, 2018	Additions	Retirements	Balance September 30, 2019
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 128,899	\$ 5,851	\$ -	\$ 134,750
Vehicles	1,552,771	-	-	1,552,771
Shop equipment	84,978	-	-	84,978
Office equipment	122,639	-	-	122,639
Land improvement	<u>1,771</u>	<u>-</u>	<u>-</u>	<u>1,771</u>
	1,891,058	5,851	-	1,896,909
Less accumulated depreciation	<u>(1,459,157)</u>	<u>(101,161)</u>	<u>-</u>	<u>(1,560,318)</u>
Total net capital assets	<u>\$ 431,901</u>	<u>\$ (95,310)</u>	<u>\$ -</u>	<u>\$ 336,591</u>

Discretely Presented Component Units:

	Balance October 1, 2018	Additions	Retirements	Balance September 30, 2019
Depreciable assets:				
Utility plant	\$ 35,464,111	\$ 494,147	\$ (393,076)	\$ 35,565,182
Machinery, equipment and others	<u>15,924,419</u>	<u>91,675</u>	<u>-</u>	<u>16,016,094</u>
	51,388,530	585,822	(393,076)	51,581,276
Less accumulated depreciation	<u>(30,865,455)</u>	<u>(1,820,126)</u>	<u>235,798</u>	<u>(32,449,783)</u>
	20,523,075	(1,234,304)	(157,278)	19,131,493
Nondepreciable assets:				
Construction work-in-progress	<u>57,490</u>	<u>-</u>	<u>(40,090)</u>	<u>17,400</u>
	<u>\$ 20,580,565</u>	<u>\$ (1,234,304)</u>	<u>\$ (197,368)</u>	<u>\$ 19,148,893</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, 2019

(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, 2019. As of September 30, 2019, the amount outstanding against this loan was \$2,455,379. Of the required \$3,500,000 identified for future debt service payments, \$958,995 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, 2019, the outstanding balance is \$5,941.

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, 2019, the balances payable on these loans amounted to \$149,892 and \$439,581, 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, 2019, the balance of this loan amounted to \$1,975,098.

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>
2020	\$ 315,608	\$ 46,261	\$ 361,869
2021	315,608	43,368	358,976
2022	315,608	40,475	356,083
2023	315,608	37,582	353,190
2024	315,608	34,689	350,297
2025 through 2029	1,492,086	131,189	1,623,275
2030 through 2034	1,433,555	64,700	1,498,255
2035 through 2037	<u>522,210</u>	<u>9,092</u>	<u>531,302</u>
	\$ <u>5,025,891</u>	\$ <u>407,356</u>	\$ <u>5,433,247</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(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.

\$ 1,722,853

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.

4,590,973

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.

3,658,015

\$ 9,971,841

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>
2020	\$ 403,005	\$ 103,131	\$ 506,136
2021	403,005	98,652	501,657
2022	496,605	93,639	590,244
2023	496,605	88,447	585,052
2024	496,605	83,255	579,860
2025 through 2029	2,857,428	331,978	3,189,406
2030 through 2034	2,856,987	184,531	3,041,518
2035 through 2038	<u>1,961,601</u>	<u>41,335</u>	<u>2,002,936</u>
	\$ <u>9,971,841</u>	\$ <u>1,024,968</u>	\$ <u>10,996,809</u>

The Diving Seagull, Inc. (DSI):

Bank loan in the amount of \$2,608,523 granted by the FSM Development Bank, with interest at 4% per annum, to fund the dry dock of the fishing vessel, Yap Seagull. Interest and principal are payable in monthly installments of \$19,294, commencing November 25, 2020. This loan is collateralized by the vessel and DSI's investments with Raymond James worth \$1,000,000.

\$ 841,967

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.

140,394

\$ 982,361

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(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>
2020	\$ 140,394	\$ 37,880	\$ 178,274
2021	184,425	28,377	212,802
2022	209,042	22,497	231,539
2023	217,559	13,980	231,539
2024	226,423	5,116	231,539
Thereafter	<u>4,518</u>	<u>15</u>	<u>4,533</u>
	\$ <u>982,361</u>	\$ <u>107,865</u>	\$ <u>1,090,226</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, 2019, 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, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 2,648,689	\$ -	\$(193,310)	\$ 2,455,379	\$ 139,520
Loan 1816	48,484	-	(42,543)	5,941	468
Loan 1873	176,903	-	(27,011)	149,892	23,585
Loan 1874	493,803	-	(54,222)	439,581	31,005
Loan 2099	<u>2,132,811</u>	<u>-</u>	<u>(157,713)</u>	<u>1,975,098</u>	<u>121,030</u>
	<u>5,500,690</u>	<u>-</u>	<u>(474,799)</u>	<u>5,025,891</u>	<u>315,608</u>
Other:					
Compensated absences	600,715	275,129	(341,428)	534,416	348,027
Land acquisition claims	<u>249,608</u>	<u>-</u>	<u>-</u>	<u>249,608</u>	<u>-</u>
	<u>850,323</u>	<u>275,129</u>	<u>(341,428)</u>	<u>784,024</u>	<u>348,027</u>
	\$ <u>6,351,013</u>	\$ <u>275,129</u>	\$ <u>(816,227)</u>	\$ <u>5,809,915</u>	\$ <u>663,635</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, 2019, the State recognized a foreign exchange gain of \$127,060 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, 2019

(7) Change in Long-Term Obligations, Continued

Primary Government, Continued

As of September 30, 2019, \$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, 2019, the following changes occurred in liabilities reported as part of the component unit's long-term liabilities in the statement of net position:

	Balance October 1, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2019</u>	Due Within <u>One Year</u>
Loans payable:					
YSPSC	\$ 9,915,296	\$ 571,500	\$ (514,955)	\$ 9,971,841	\$ 403,005
DSI	<u>1,142,584</u>	<u>841,967</u>	<u>(1,002,190)</u>	<u>982,361</u>	<u>140,394</u>
	\$ <u>11,057,880</u>	\$ <u>1,413,467</u>	\$ <u>(1,517,145)</u>	\$ <u>10,954,202</u>	\$ <u>543,399</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	\$ -	\$ -	\$ 58,590,564	\$ 12,948,665	\$ -	\$ 71,539,229
Pacific Islands Development Bank	4,253,915	-	-	-	-	4,253,915
Bank of the FSM	2,799,390	-	-	-	-	2,799,390
Restricted for:						
Debt service	958,995	-	-	-	-	958,995
Infrastructure	-	3,226,186	-	-	-	3,226,186
Public works and transportation	-	-	-	-	349,939	349,939
Committed for:						
General government	-	-	-	-	902,912	902,912
Community affairs	436,505	-	-	-	-	436,505
Other programs	-	-	-	-	-	-
Assigned	2,128,834	-	-	-	-	2,128,834
Unassigned	<u>10,421,236</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,421,236</u>
	\$ <u>20,998,875</u>	\$ <u>3,226,186</u>	\$ <u>58,590,564</u>	\$ <u>12,948,665</u>	\$ <u>1,252,851</u>	\$ <u>97,017,141</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(9) Commitments and Contingencies

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2019, 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>718,423</u>	\$ <u>3,478,650</u>	\$ <u>2,371,169</u>	\$ <u>6,568,242</u>

Sick Leave

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

Insurance Coverage

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

Federal Grants

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2019. 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, 2019. 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(9) Commitments and Contingencies, Continued

Continuing Appropriations

As of September 30, 2019, the State has significant continuing appropriations summarized as follows:

General Fund:

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

Fines and Penalties

In July 2017, Diving Seagull, Inc. entered into a settlement agreement with Nauru Fisheries and Marine Resources Authority relating to fishing violations committed by the Company in the waters of Nauru. The Company was required to pay a sum of \$1,200,000 payable in installment. As of September 30, 2019, the Company has partially paid \$1,000,000 with remaining balance of \$200,000 to be paid in fiscal year 2019.

(10) Budgetary Compliance

For the year ended September 30, 2019, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ 420,950
Write-off of receivables	148,429
Council of Tamol	6,981
Office of Planning, Budget and Statistics	74,270
Department of Public Works and Transportation	46,985
Department of Health Services	5,911
Small Business Development Center	13,408
Yap Investment Trust	496
Japan Overseas Cooperation Volunteers	376
2018 Micro Games	26,327
Medical Referral Program	324,204
Airport Operations and Maintenance	218,995
Sports Complex	1,600
Others	<u>148,429</u>
	\$ <u>1,288,932</u>

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2019

(11) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of December 28, 2020, there have been no confirmed cases of COVID-19 in the Federated States of Micronesia. The State has determined that should the pandemic reach the FSM, it may negatively impact the State's results of operations and financial position and the State may become dependent upon the financial support of the FSM National Government. However, the effect of the pandemic on FSM National Government is also uncertain and future available funding may be limited. Therefore, while the State expects this matter to potentially have a negative impact on its operations and financial position, the related financial impact cannot be reasonably estimated at this time.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2019

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, 2019

	<u>Budgeted Amounts</u>		<u>Actual - Budgetary Basis (see Note 1)</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other	<u>\$ 6,938,660</u>	<u>\$ 7,097,204</u>	<u>\$ 9,183,313</u>	<u>\$ 2,086,109</u>
Total revenues	<u>6,938,660</u>	<u>7,097,204</u>	<u>9,183,313</u>	<u>2,086,109</u>
Expenditures:				
Current:				
Judiciary	214,895	214,895	192,721	22,174
Council of traditional leaders	207,657	209,057	199,730	9,327
General government	1,558,404	1,558,404	1,452,073	106,331
Economic development	276,522	825,860	738,166	87,694
Public safety	618,169	618,169	554,172	63,997
Community affairs	411,704	426,316	335,958	90,358
Education	49,588	379,181	279,821	99,360
Public works and transportation	1,740,591	1,805,795	1,852,780	(46,985)
Health services	270,312	243,312	249,223	(5,911)
Boards and commissions	367,812	367,812	341,454	26,358
Payments to component units	163,699	163,699	156,810	6,889
Other appropriations	209,830	209,830	829,398	(619,568)
Debt service	-	-	420,950	(420,950)
Total expenditures	<u>6,089,183</u>	<u>7,022,330</u>	<u>7,603,256</u>	<u>(580,926)</u>
Excess (deficiency) of revenues over (under) expenditures	849,477	74,874	1,580,057	1,505,183
Special item:				
less: Loss from impairment of investment	-	-	(148,429)	(148,429)
less: Write-off of receivables	-	-	(184,951)	(184,951)
Other financing uses:				
Operating transfer out	<u>(210,909)</u>	<u>(210,909)</u>	<u>-</u>	<u>210,909</u>
Net change in fund balance	638,568	(136,035)	1,246,677	1,382,712
Encumbrances	857,225	857,225	718,423	(138,802)
Fund balance at the beginning of the year	<u>19,033,775</u>	<u>19,033,775</u>	<u>19,033,775</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 20,529,568</u>	<u>\$ 19,754,965</u>	<u>\$ 20,998,875</u>	<u>\$ 1,243,910</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, 2019

(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 which are not so recognized on a GAAP basis:

Expenditures on a non-GAAP budgetary basis	\$ 7,603,256
Change in encumbrances	<u>(718,423)</u>
Expenditures on a GAAP basis	\$ <u>6,884,833</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2019

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2019

		<u>Special Revenue</u>	<u>Permanent</u>		<u>Other</u>	
		Foreign	Yap		Governmental	
	<u>General</u>	Assistance	Investment	Compact	Funds	<u>Total</u>
		Grants	Trust	Trust		
Expenditures:						
Salaries and wages	\$ 3,127,880	\$ 6,275,544	\$ -	\$ -	\$ 11,507	\$ 9,414,931
Grants and subsidies	45,523	-	-	-	285,265	330,788
Utilities	782,530	859,894	-	-	-	1,642,424
Contractual services	272,000	989,354	-	-	785,170	2,046,524
Supplies and materials	177,558	1,064,554	-	-	136,207	1,378,319
Scholarship and training	223,847	229,831	-	-	-	453,678
Travel	205,150	794,011	-	-	20,558	1,019,719
Capital outlay	112,395	656,992	-	-	72,301	841,688
Rentals	7,415	25,640	-	-	-	33,055
Food stuffs	88,221	154,410	-	-	-	242,631
Communications	157,588	124,974	-	-	-	282,562
Printing and reproduction	-	19,300	-	-	-	19,300
Medical supplies	5,074	1,507,365	-	-	-	1,512,439
Repairs and maintenance	170,360	227,790	-	-	-	398,150
Freight	17,345	44,174	-	-	-	61,519
Professional services	14,892	185,381	-	-	-	200,273
POL	258,325	257,914	-	-	130,113	646,352
Allowances	125,000	4,660	-	-	-	129,660
Leased housing and land	21,386	-	-	-	-	21,386
Principal repayment	329,212	-	-	-	-	329,212
Interest payments	91,738	-	-	-	-	91,738
Other	651,394	584,076	-	-	493,889	1,729,359
	<u>\$ 6,884,833</u>	<u>\$ 14,005,864</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,935,010</u>	<u>\$ 22,825,707</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2019

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, 2019
(with comparative totals for the year ended September 30, 2018)

	<u>2019</u>	<u>2018</u>
Revenues:		
Revenue sharing:		
Import tax	\$ 767,562	\$ 756,495
Fuel tax	154,262	201,029
Income tax	594,349	678,841
Business gross receipts tax	<u>553,091</u>	<u>648,741</u>
	<u>2,069,264</u>	<u>2,285,106</u>
Excise taxes:		
Alcoholic beverages	432,492	463,063
Gasoline and diesel	83,775	110,948
Tobacco	433,405	295,864
Other excise taxes	<u>543,490</u>	<u>564,336</u>
	<u>1,493,162</u>	<u>1,434,211</u>
Fees and charges:		
Licenses and permits	90,012	82,758
Fines/sale of confiscated property	36,749	38,958
Leases and other rentals	<u>154,715</u>	<u>187,600</u>
	<u>281,476</u>	<u>309,316</u>
Departmental charges:		
Sea transportation	215,251	255,169
Air transportation	192,921	218,477
Hospital services	424,530	436,483
Other	<u>28,754</u>	<u>17,836</u>
	<u>861,456</u>	<u>927,965</u>
Net change in the fair value of investments	<u>938,600</u>	<u>951,995</u>
Other revenues	<u>3,539,355</u>	<u>881,335</u>
Total revenues	<u>9,183,313</u>	<u>6,789,928</u>
Expenditures:		
Current:		
Judiciary	<u>188,214</u>	<u>198,602</u>
Councils of Traditional Leaders:		
Council of Pilung	76,266	76,636
Council of Tamol	<u>107,370</u>	<u>89,742</u>
	<u>183,636</u>	<u>166,378</u>
General government:		
Office of the Governor	182,269	194,317
State Legislature	451,981	424,913
Office of Administrative Services	435,232	468,224
Office of Planning, Budget and Statistics	125,856	96,680
Office of Public Auditor	<u>158,484</u>	<u>2,041</u>
	<u>1,353,822</u>	<u>1,186,175</u>
Resources and Development:		
Department of Resources and Development	<u>706,772</u>	<u>625,733</u>
Public Safety:		
Department of Public Safety/Attorney General	<u>540,361</u>	<u>520,309</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, 2019
(with comparative totals for the year ended September 30, 2018)

	2019	2018
Expenditures, continued:		
Current, continued:		
Community Affairs		
Department of Public Affairs	326,120	292,873
Public Works and Transportation:		
Department of Public Works and Transportation	1,517,029	1,235,936
Education Services:		
Department of Education	277,138	241,115
Health Services:		
Department of Health Services	234,823	473,317
Boards and Commissions:		
Historic Preservation Office	47,458	82,809
EPA Administration Board	85,225	72,466
Election Commissioner	55,152	52,269
Small Business Development Center	101,050	855
Yap Investment Trust	17,751	11,069
Other	-	9,318
	306,636	228,786
Payments to component units:		
Yap Visitor's Bureau	151,179	-
Public Transportation System	-	15,439
	151,179	15,439
Other appropriations:		
Micronesian Legal Services Corporation	41,280	25,000
Japan Overseas Cooperation Volunteers	9,376	7,636
Peace Corps Program	-	24,000
Yap Community Action Program	133,475	78,935
Preparation for 2018 Micro Games	146	1,709,623
Medical Referral Program	312,026	319,111
Airport Operations and Maintenance	130,605	147,331
Sports Complex	-	7,191
Others	51,245	-
	678,153	2,318,827
Debt service:		
Principal repayments	329,212	201,560
Interest payments	91,738	111,576
	420,950	313,136
Total expenditures	6,884,833	7,816,626
Excess of revenues over expenditures	2,298,480	(1,026,698)
Special item:		
Less: Write-off of receivables	(148,429)	(220,065)
Less: Loss on impairment of Other assets	(184,951)	-
Total special item	(333,380)	(220,065)
Other financing uses:		
Operating transfers in	-	468,276
Operating transfers out	-	(1,274,393)
Total other financing sources (uses), net	-	(806,117)
Net change in fund balance	1,965,100	(2,052,880)
Fund balance at the beginning of the year	19,033,775	21,086,655
Fund balance at the end of the year	\$ 20,998,875	\$ 19,033,775

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, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues	<u>\$ 6,938,660</u>	<u>\$ 7,097,204</u>	<u>\$ 9,183,313</u>	<u>\$ 2,086,109</u>
Total revenues	<u>6,938,660</u>	<u>7,097,204</u>	<u>9,183,313</u>	<u>2,086,109</u>
Expenditures:				
Current:				
Judiciary	<u>214,895</u>	<u>214,895</u>	<u>192,721</u>	<u>22,174</u>
Councils of Traditional Leaders:				
Council of Pilung	<u>93,227</u>	<u>94,627</u>	<u>78,319</u>	<u>16,308</u>
Council of Tamol	<u>114,430</u>	<u>114,430</u>	<u>121,411</u>	<u>(6,981)</u>
	<u>207,657</u>	<u>209,057</u>	<u>199,730</u>	<u>9,327</u>
General government:				
Office of the Governor	<u>290,033</u>	<u>290,033</u>	<u>193,674</u>	<u>96,359</u>
State Legislature	<u>467,378</u>	<u>467,378</u>	<u>459,531</u>	<u>7,847</u>
Office of Administrative Services	<u>514,159</u>	<u>514,159</u>	<u>486,766</u>	<u>27,393</u>
Office of Public Auditor	<u>176,651</u>	<u>176,651</u>	<u>127,649</u>	<u>49,002</u>
Office of Planning, Budget and Statistics	<u>110,183</u>	<u>110,183</u>	<u>184,453</u>	<u>(74,270)</u>
	<u>1,558,404</u>	<u>1,558,404</u>	<u>1,452,073</u>	<u>106,331</u>
Economic Development:				
Department of Resources and Development	<u>276,522</u>	<u>825,860</u>	<u>738,166</u>	<u>87,694</u>
Public Safety:				
Department of Public Safety/Attorney General	<u>618,169</u>	<u>618,169</u>	<u>554,172</u>	<u>63,997</u>
Community Affairs:				
Department of Public Affairs	<u>411,704</u>	<u>426,316</u>	<u>335,958</u>	<u>90,358</u>
Education:				
Department of Education	<u>49,588</u>	<u>379,181</u>	<u>279,821</u>	<u>99,360</u>
Public Works and Transportation:				
Department of Public Works and Transportation	<u>1,740,591</u>	<u>1,805,795</u>	<u>1,852,780</u>	<u>(46,985)</u>
Health services:				
Department of Health Services	<u>270,312</u>	<u>243,312</u>	<u>249,223</u>	<u>(5,911)</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, 2019

	<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	80,420	80,420	77,566	2,854
Environment Protection Agency	105,784	105,784	87,581	18,203
Yap State Election Commission	62,351	62,351	56,011	6,340
Small Business Development Center	87,642	87,642	101,050	(13,408)
Yap Investment Trust	18,750	18,750	19,246	(496)
Rural Development	12,865	12,865	-	12,865
	<u>367,812</u>	<u>367,812</u>	<u>341,454</u>	<u>26,358</u>
Payments to component units:				
Yap Visitor's Bureau	163,699	163,699	151,818	11,881
Public Transportation System	-	-	4,992	(4,992)
	<u>163,699</u>	<u>163,699</u>	<u>156,810</u>	<u>6,889</u>
Other appropriations:				
Micronesian Legal Services Corporation	41,280	41,280	41,280	-
Japan Overseas Cooperation Volunteers	9,000	9,000	9,376	(376)
Peace Corps Program	-	-	-	-
Yap CAP	136,341	136,341	135,903	438
2018 Micro Games	-	-	26,327	(26,327)
Medical Referral Program	-	-	324,204	(324,204)
Airport Operations and Maintenance	-	-	218,995	(218,995)
Sports Complex	-	-	1,600	(1,600)
Others	23,209	23,209	71,713	(48,504)
	<u>209,830</u>	<u>209,830</u>	<u>829,398</u>	<u>(619,568)</u>
Debt service:				
Principal repayments	-	-	329,212	(329,212)
Interest payments	-	-	91,738	(91,738)
	<u>-</u>	<u>-</u>	<u>420,950</u>	<u>(420,950)</u>
Total expenditures	<u>6,089,183</u>	<u>7,022,330</u>	<u>7,603,256</u>	<u>(580,926)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>849,477</u>	<u>74,874</u>	<u>1,580,057</u>	<u>1,505,183</u>
Special item:				
less: Loss from impairment of investment	-	-	(148,429)	(148,429)
less: Write-off of receivables	-	-	(184,951)	(184,951)
Other financing uses:				
Operating transfer out	<u>(210,909)</u>	<u>(210,909)</u>	<u>-</u>	<u>210,909</u>
Net change in fund balance	<u>638,568</u>	<u>(136,035)</u>	<u>1,246,677</u>	<u>1,382,712</u>
Encumbrances	857,225	857,225	718,423	(138,802)
Fund balance at the beginning of the year	<u>19,033,775</u>	<u>19,033,775</u>	<u>19,033,775</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 20,529,568</u>	<u>\$ 19,754,965</u>	<u>\$ 20,998,875</u>	<u>\$ 1,243,910</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2019

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 21,170	\$ -	\$ 21,170
Investments	361,249	-	361,249
Receivables, net	-	480,396	480,396
Due from other funds	<u>543,698</u>	<u>408,132</u>	<u>951,830</u>
Total assets	<u>\$ 926,117</u>	<u>\$ 888,528</u>	<u>\$ 1,814,645</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 23,205	\$ 373,707	\$ 396,912
Other liabilities and accruals	-	17,779	17,779
Deferred revenues	<u>-</u>	<u>147,103</u>	<u>147,103</u>
Total liabilities	<u>23,205</u>	<u>538,589</u>	<u>561,794</u>
Fund balances:			
Restricted	-	349,939	349,939
Committed	<u>902,912</u>	<u>-</u>	<u>902,912</u>
Total fund balances	<u>902,912</u>	<u>349,939</u>	<u>1,252,851</u>
Total liabilities and fund balances	<u>\$ 926,117</u>	<u>\$ 888,528</u>	<u>\$ 1,814,645</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, 2019

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 1,689,970	\$ 1,689,970
Excise taxes	64,329	-	64,329
Fees and charges	200,927	-	200,927
Net change in the fair value of investments	<u>7,353</u>	<u>-</u>	<u>7,353</u>
Total revenues	<u>272,609</u>	<u>1,689,970</u>	<u>1,962,579</u>
Expenditures by function:			
Current:			
General government	<u>245,040</u>	<u>1,689,970</u>	<u>1,935,010</u>
Total expenditures	<u>245,040</u>	<u>1,689,970</u>	<u>1,935,010</u>
Net change in fund balances	27,569	-	27,569
Fund balances at the beginning of the year	<u>875,343</u>	<u>349,939</u>	<u>1,225,282</u>
Fund balances at the end of the year	<u><u>\$ 902,912</u></u>	<u><u>\$ 349,939</u></u>	<u><u>\$ 1,252,851</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, 2019

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 1,689,970	\$ 1,689,970
Excise taxes	64,329	-	64,329
Fees and charges	200,927	-	200,927
Net change in the fair value of investments	<u>7,353</u>	<u>-</u>	<u>7,353</u>
Total revenues	<u>272,609</u>	<u>1,689,970</u>	<u>1,962,579</u>
Expenditures by account:			
Salaries and wages	-	11,507	11,507
Grants and subsidies	231,265	54,000	285,265
Contractual services	-	785,170	785,170
Supplies and materials	-	136,207	136,207
Travel	-	20,558	20,558
Capital outlay	-	72,301	72,301
POL	-	130,113	130,113
Other	<u>13,775</u>	<u>480,114</u>	<u>493,889</u>
Total expenditures	<u>245,040</u>	<u>1,689,970</u>	<u>1,935,010</u>
Net change in fund balances	27,569	-	27,569
Fund balances at the beginning of the year	<u>875,343</u>	<u>349,939</u>	<u>1,225,282</u>
Fund balances at the end of the year	<u>\$ 902,912</u>	<u>\$ 349,939</u>	<u>\$ 1,252,851</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2019

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, 2019, 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, 2019

	F39	F76	F85	F86	
	Sports <u>Development</u>	Housing <u>Maintenance</u>	<u>Enterprise</u>	Expendable <u>Trust</u>	<u>Total</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 21,170	\$ 21,170
Investments	-	-	-	361,249	361,249
Due from other funds	<u>19,399</u>	<u>51,420</u>	<u>463,310</u>	<u>9,569</u>	<u>543,698</u>
Total assets	<u>\$ 19,399</u>	<u>\$ 51,420</u>	<u>\$ 463,310</u>	<u>\$ 391,988</u>	<u>\$ 926,117</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	<u>\$ 19,399</u>	<u>\$ -</u>	<u>\$ 3,806</u>	<u>\$ -</u>	<u>\$ 23,205</u>
Total liabilities	<u>19,399</u>	<u>-</u>	<u>3,806</u>	<u>-</u>	<u>23,205</u>
Fund balances:					
Committed	<u>-</u>	<u>51,420</u>	<u>459,504</u>	<u>391,988</u>	<u>902,912</u>
Total fund balances	<u>-</u>	<u>51,420</u>	<u>459,504</u>	<u>391,988</u>	<u>902,912</u>
Total liabilities and fund balances	<u>\$ 19,399</u>	<u>\$ 51,420</u>	<u>\$ 463,310</u>	<u>\$ 391,988</u>	<u>\$ 926,117</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, 2019

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 64,329	\$ -	\$ -	\$ -	\$ 64,329
Fees and charges	-	15,597	185,330	-	200,927
Net change in the fair value of investments	-	-	-	7,353	7,353
Total revenues	<u>64,329</u>	<u>15,597</u>	<u>185,330</u>	<u>7,353</u>	<u>272,609</u>
Expenditures by function:					
Current:					
General government	<u>64,329</u>	<u>399</u>	<u>180,312</u>	<u>-</u>	<u>245,040</u>
Total expenditures	<u>64,329</u>	<u>399</u>	<u>180,312</u>	<u>-</u>	<u>245,040</u>
Net change in fund balances	-	15,198	5,018	7,353	27,569
Fund balances at the beginning of the year	<u>-</u>	<u>36,222</u>	<u>454,486</u>	<u>384,635</u>	<u>875,343</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 51,420</u>	<u>\$ 459,504</u>	<u>\$ 391,988</u>	<u>\$ 902,912</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, 2019

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 64,329	\$ -	\$ -	\$ -	\$ 64,329
Fees and charges	-	15,597	185,330	-	200,927
Net change in the fair value of investments	-	-	-	7,353	7,353
Total revenues	<u>64,329</u>	<u>15,597</u>	<u>185,330</u>	<u>7,353</u>	<u>272,609</u>
Expenditures by account:					
Grants and subsidies	64,329	-	166,936	-	231,265
Other	-	399	13,376	-	13,775
Total expenditures	<u>64,329</u>	<u>399</u>	<u>180,312</u>	<u>-</u>	<u>245,040</u>
Net change in fund balances	-	15,198	5,018	7,353	27,569
Fund balances at the beginning of the year	-	36,222	454,486	384,635	875,343
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 51,420</u>	<u>\$ 459,504</u>	<u>\$ 391,988</u>	<u>\$ 902,912</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Foreign Assistance Grants Fund
Combining Balance Sheet
September 30, 2019

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,580	\$ -	\$ -	\$ -	\$ 108,580
FSM National Government	-	586,660	1,007,180	117,738	86,915	181,632	397,661	22,044	-	568,047	204,434	-	-	-	19,822	3,192,133
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	3,030,586	33,407	230,096	189,552	-	539,933	54,120	4,077,694
Advances	-	923,447	106,352	-	-	5,888	1,776	-	-	-	-	-	-	-	-	1,037,463
	<u>\$ -</u>	<u>\$ 1,510,107</u>	<u>\$ 1,113,532</u>	<u>\$ 117,738</u>	<u>\$ 86,915</u>	<u>\$ 187,520</u>	<u>\$ 399,437</u>	<u>\$ 22,044</u>	<u>\$ 3,030,586</u>	<u>\$ 601,454</u>	<u>\$ 434,530</u>	<u>\$ 298,132</u>	<u>\$ -</u>	<u>\$ 539,933</u>	<u>\$ 73,942</u>	<u>\$ 8,415,870</u>
LIABILITIES AND FUND BALANCES																
Liabilities:																
Accounts payable	\$ -	\$ 217,474	\$ 257,670	\$ 14,320	\$ 4,499	\$ 20,220	\$ 156,828	\$ 400	\$ 49,285	\$ 3,773	\$ 24,283	\$ 64,611	\$ -	\$ 507	\$ 14,917	\$ 828,787
Other liabilities and accruals	-	93,845	68,854	-	-	1,845	30,024	5,076	-	6,828	30,452	25,181	-	203	1,407	263,715
Unearned revenues	-	857,541	136,764	48,373	-	48,115	-	7,047	-	345,968	-	208,340	-	539,223	57,618	2,248,989
Due to other funds	-	341,247	650,244	55,045	82,416	117,340	212,585	9,521	-	-	379,795	-	-	-	-	1,848,193
Total liabilities	<u>-</u>	<u>1,510,107</u>	<u>1,113,532</u>	<u>117,738</u>	<u>86,915</u>	<u>187,520</u>	<u>399,437</u>	<u>22,044</u>	<u>49,285</u>	<u>356,569</u>	<u>434,530</u>	<u>298,132</u>	<u>-</u>	<u>539,933</u>	<u>73,942</u>	<u>5,189,684</u>
Fund balances:																
Restricted	-	-	-	-	-	-	-	-	2,981,301	244,885	-	-	-	-	-	3,226,186
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,981,301</u>	<u>244,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,226,186</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 1,510,107</u>	<u>\$ 1,113,532</u>	<u>\$ 117,738</u>	<u>\$ 86,915</u>	<u>\$ 187,520</u>	<u>\$ 399,437</u>	<u>\$ 22,044</u>	<u>\$ 3,030,586</u>	<u>\$ 601,454</u>	<u>\$ 434,530</u>	<u>\$ 298,132</u>	<u>\$ -</u>	<u>\$ 539,933</u>	<u>\$ 73,942</u>	<u>\$ 8,415,870</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, 2019

	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	\$ -	\$ 4,160,005	\$ 4,167,356	\$ 83,864	\$ 54,728	\$ 49,998	\$ 1,563,119	\$ 244,330	\$ 1,215,181	\$ 513,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,051,955
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,369,664	1,350,319	-	126,439	-	2,846,422
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	115,207	115,207
Departmental charges	-	-	-	-	-	-	-	-	-	-	-	26,739	-	-	-	26,739
Other	-	-	-	-	-	-	-	-	4,670	-	-	-	-	-	-	4,670
	<u>-</u>	<u>4,160,005</u>	<u>4,167,356</u>	<u>83,864</u>	<u>54,728</u>	<u>49,998</u>	<u>1,563,119</u>	<u>244,330</u>	<u>1,219,851</u>	<u>513,374</u>	<u>1,369,664</u>	<u>1,377,058</u>	<u>-</u>	<u>126,439</u>	<u>115,207</u>	<u>15,044,993</u>
Expenditures by function:																
Current:																
General government	-	-	-	83,864	-	49,998	-	244,330	-	-	-	25,211	-	-	90,841	494,244
Resources and development	-	-	-	-	54,728	-	-	-	-	-	-	138,971	-	990	-	194,689
Education	-	4,160,005	-	-	-	-	1,563,119	-	-	-	620,224	-	-	72,880	-	6,416,228
Public works and transportation	-	-	-	-	-	-	-	-	180,722	513,374	-	-	-	28,592	21,846	744,534
Health services	-	-	4,167,356	-	-	-	-	-	-	-	627,078	1,180,018	-	5,013	-	5,979,465
Other appropriations	-	-	-	-	-	-	-	-	-	-	122,362	32,858	-	18,964	2,520	176,704
	<u>-</u>	<u>4,160,005</u>	<u>4,167,356</u>	<u>83,864</u>	<u>54,728</u>	<u>49,998</u>	<u>1,563,119</u>	<u>244,330</u>	<u>180,722</u>	<u>513,374</u>	<u>1,369,664</u>	<u>1,377,058</u>	<u>-</u>	<u>126,439</u>	<u>115,207</u>	<u>14,005,864</u>
Total expenditures	<u>-</u>	<u>4,160,005</u>	<u>4,167,356</u>	<u>83,864</u>	<u>54,728</u>	<u>49,998</u>	<u>1,563,119</u>	<u>244,330</u>	<u>180,722</u>	<u>513,374</u>	<u>1,369,664</u>	<u>1,377,058</u>	<u>-</u>	<u>126,439</u>	<u>115,207</u>	<u>14,005,864</u>
Deficiency of revenues under expenditures	-	-	-	-	-	-	-	-	1,039,129	-	-	-	-	-	-	1,039,129
Net change in fund balances	-	-	-	-	-	-	-	-	1,039,129	-	-	-	-	-	-	1,039,129
Fund balances at the beginning of the year	-	-	-	-	-	-	-	-	1,942,172	244,885	-	-	-	-	-	2,187,057
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,981,301</u>	<u>\$ 244,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,226,186</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, 2019

	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	\$ -	\$ 4,160,005	\$ 4,167,356	\$ 83,864	\$ 54,728	\$ 49,998	\$ 1,563,119	\$ 244,330	\$ 1,215,181	\$ 513,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,051,955
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,369,664	1,350,319	-	126,439	-	2,846,422
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	115,207	115,207
Department charges	-	-	-	-	-	-	-	-	-	-	-	26,739	-	-	-	26,739
Other	-	-	-	-	-	-	-	-	4,670	-	-	-	-	-	-	4,670
	<u>-</u>	<u>4,160,005</u>	<u>4,167,356</u>	<u>83,864</u>	<u>54,728</u>	<u>49,998</u>	<u>1,563,119</u>	<u>244,330</u>	<u>1,219,851</u>	<u>513,374</u>	<u>1,369,664</u>	<u>1,377,058</u>	<u>-</u>	<u>126,439</u>	<u>115,207</u>	<u>15,044,993</u>
Expenditures by account:																
Salaries and wages	-	2,106,591	1,565,857	-	1,785	43,562	762,980	151,427	-	201,829	821,793	608,241	-	5,013	6,466	6,275,544
Utilities	-	317,801	411,329	708	-	-	33,327	-	-	5,713	18,358	71,035	-	1,623	-	859,894
Contractual services	-	199,586	128,042	45,711	30,120	-	10,000	31,782	180,722	157,373	46,830	28,738	-	101,472	28,978	989,354
Supplies and materials	-	400,876	96,786	33,034	7,106	537	204,804	12,571	-	10,936	71,388	210,779	-	3,452	12,285	1,064,554
Scholarship and training	-	229,831	-	-	-	-	-	-	-	-	-	-	-	-	-	229,831
Travel	-	73,074	116,063	1,098	-	1,233	197,575	12,040	-	37,663	169,197	178,152	-	5,974	1,942	794,011
Capital outlay	-	94,184	283,365	2,320	14,604	-	112,487	1,450	-	23,182	103,955	10,624	-	2,070	8,751	656,992
Rentals	-	9,635	4,594	-	850	-	4,892	250	-	475	1,894	50	-	480	2,520	25,640
Food stuffs	-	53,635	40,397	-	-	-	49,211	-	-	-	-	-	-	1,507	9,660	154,410
Communications	-	53,263	10,748	-	-	-	10,362	10,349	-	13,676	6,669	17,551	-	2,356	-	124,974
Printing and reproduction	-	-	5,429	-	-	-	-	-	-	815	12,546	500	-	10	-	19,300
Medical supplies	-	-	1,301,005	-	-	-	-	-	-	-	34,783	171,577	-	-	-	1,507,365
Repairs and maintenance	-	123,144	39,144	314	314	-	13,124	7,685	-	2,074	17,537	22,746	-	327	1,381	227,790
Freight	-	17,850	22,890	-	-	-	647	-	-	-	-	2,787	-	-	-	44,174
Professional services	-	-	15,317	-	-	-	113,354	15,000	-	-	28,962	12,748	-	-	-	185,381
POL	-	112,284	33,455	679	(51)	-	27,675	-	-	2,939	14,016	24,159	-	815	41,943	257,914
Allowances	-	-	-	-	-	-	630	-	-	-	550	3,480	-	-	-	4,660
Other	-	368,251	92,935	-	-	4,666	22,051	1,776	-	56,699	21,186	13,891	-	1,340	1,281	584,076
Total expenditures	<u>-</u>	<u>4,160,005</u>	<u>4,167,356</u>	<u>83,864</u>	<u>54,728</u>	<u>49,998</u>	<u>1,563,119</u>	<u>244,330</u>	<u>180,722</u>	<u>513,374</u>	<u>1,369,664</u>	<u>1,377,058</u>	<u>-</u>	<u>126,439</u>	<u>115,207</u>	<u>14,005,864</u>
Deficiency of revenues under expenditures	-	-	-	-	-	-	-	-	1,039,129	-	-	-	-	-	-	1,039,129
Net change in fund balances	-	-	-	-	-	-	-	-	1,039,129	-	-	-	-	-	-	1,039,129
Fund balances at the beginning of year	-	-	-	-	-	-	-	-	1,942,172	244,885	-	-	-	-	-	2,187,057
Fund balances at the end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,981,301</u>	<u>\$ 244,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,226,186</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 the State of Yap (the State) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 28, 2020. Our report includes an adverse opinion for the omission of a certain component unit, and includes explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our report includes a reference to other auditors who audited the financial statements of the Public Transportation System, as described in our report on the State's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, 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 those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) 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 the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State'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 a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-003 that we consider to be a material weakness.

Compliance and Other Matters

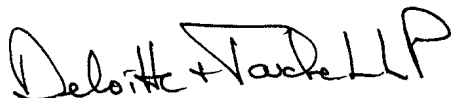
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The State's Response to Findings

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

Purpose of this Report

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

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

December 28, 2020

**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 the State of Yap's (the State's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended September 30, 2019. The State's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2019. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the State'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 Finding 2019-001 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-001	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 the State 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, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on 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, 2019.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the other major federal program identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2019.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2019-002. Our opinion on each major federal program is not modified with respect to this matter.

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

The State is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The State's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

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 reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as item 2019-002 to be a significant deficiency.

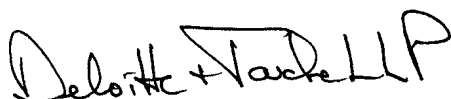
The State's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The State's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no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

The State is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The State's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated December 28, 2020, which contained an adverse opinion on those financial statements due to the omission of a certain component unit, and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. We did not audit the financial statements of the Public Transportation System, which represent 100% of the assets, net position, and operating revenues of the State's business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



December 28, 2020

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Identifying Number Assigned by Pass- Through Entity	Federal Expenditures
<u>U. S. Department of Agriculture:</u>			
Direct Program:			
Cooperative Forestry Assistance	10.664		\$ 133,498
Total U. S. Department of Agriculture			<u>133,498</u>
<u>U. S. Department of the Interior:</u>			
Direct Programs:			
Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants			
Technical Assistance Program: Public Auditor	15.875		25,211
CF Asst. Consolidated Grants			5,473
Pass-Through Grants from the FSM National Government:		A5	
Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	15.875	00050-2016-COFA-FSM	
Compact II Education Sector			4,160,005
Compact II Health Sector			4,167,356
Compact II Private Sector Development			54,728
Compact II Capacity Building Sector			49,998
Compact II Environment Sector			83,864
Compact II Infrastructure Sector			513,374
Compact II Infrastructure Maintenance Sector			180,722
Supplemental Education Grant			1,563,119
Compact II ERA			244,330
Historic Preservation Fund Grant-In-Aid	15.904		<u>122,362</u>
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>11,139,858</u>
Total U. S. Department of the Interior			<u>11,170,542</u>
<u>U. S. Small Business Administration</u>			
Direct Programs:			
8(a) Business Development Program	59.006		<u>32,858</u>
Total U. S. Small Business Administration			<u>32,858</u>
<u>U. S. Department of Education:</u>			
Pass-Through Grants from the FSM National Government:		A5	
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027A		<u>620,224</u>
Total Special Education Cluster (IDEA) and Total U.S. Department of Education			<u>620,224</u>
<u>U. S. Department of Health and Human Services:</u>			
Direct Programs:			
Health Center Program Cluster:			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		<u>1,180,018</u>
Subtotal Health Center Program Cluster			<u>1,180,018</u>
Pass-Through Grants from the FSM National Government:		A5	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		23,521
Maternal and Child Health Federal Consolidated Programs	93.110		10,820
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		59,285
Family Planning-Services	93.217		46,545
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243		97,272
Immunization Cooperative Agreements	93.268		99,626

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Identifying Number Assigned by Pass- Through Entity	Federal Expenditures
<u>U. S. Department of Health and Human Services, Continued</u>			
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354		2,685
Opioid STR	93.788		25,502
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.815		18,000
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898		51,366
Assistance Programs for Chronic Disease Prevention and Control	93.945		28,916
Block Grants for Community Mental Health Services	93.958		15,188
Block Grants for Prevention and Treatment of Substance Abuse	93.959		58,170
Block Grants for Preventive Health and Health Services	93.991		10,125
Maternal and Child Health Services Block Grant to the States	93.994		80,057
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>627,078</u>
Total U. S. Department of Health and Human Services			<u>1,807,096</u>
Total Expenditures of Federal Awards			<u>\$ 13,764,218</u>
Reconciliation to the basic financial statements:			
Foreign Assistance Grants Fund expenditures			\$ 14,005,864
Less: Non-U.S. Grants Fund expenditures			(126,439)
Less: CFMS Grants Fund expenditures			<u>(115,207)</u>
			<u>\$ 13,764,218</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

1. Scope

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Yap under programs of the federal government for the year ended September 30, 2019. 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, State of Yap's reporting entity is defined in Note 1A to its September 30, 2019 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Yap, as defined above, for the year ended September 30, 2019.

Yap State Public Service Corporation (YSPSC), a discretely presented component unit of State of Yap, separately satisfies the requirements of the Uniform Guidance. YSPSC expended \$209,894 in federal grants during the year ended September 30, 2019.

C. Matching Costs

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

D. Indirect Cost Allocation

State of Yap did not receive any indirect cost allocation. 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

3. Summary of Significant Accounting Policies, Continued

E. CFDA #15.875

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|---------------------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Adverse and
Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | 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
93.224	Health Center Program Cluster: 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, 2019

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2019-003	External Financial Reporting

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2019-001	15.875	Procurement and Suspension and Debarment	\$ 164,760
2019-002	93.224	Procurement and Suspension and Debarment	<u>9,998</u>
			\$ <u>174,758</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

Finding No.: 2019-001
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: \$164,760

Criteria: In accordance with applicable procurement requirements, the State 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: For 4 (or 16%) of 25 non-payroll transactions tested, aggregating \$1,170,787 of \$6,183,465 in total program non-payroll costs, the State requirement to perform formal bidding procedures was waived by the Governor; however, rationale supporting the basis of the emergency is neither sufficient nor adequately justified.

<u>Transaction</u>	<u>Amount</u>	<u>Check No.</u>
238639	\$ 91,075	104490
222890	30,000	99448
232648	22,279	102358
222883	<u>21,406</u>	99452
	\$ <u>164,760</u>	

Cause: The State did not effectively enforce controls over compliance with applicable procurement regulations.

Effect: The State is in potential noncompliance with applicable procurement requirements, and questioned costs of \$164,760 result.

Identification as a Repeat Finding: 2018-001

Recommendation: The State should follow and document full and open competition procedures in accordance with applicable procurement requirements and conform to standard Yap State policies. Accordingly, waiver of procurement laws should only be utilized during emergency cases and not on circumstances where proper planning could have taken place. The State should implement internal controls to effectively identify emergency cases where waiver of procurement laws is acceptable.

Views of Responsible Officials: The State agrees with the 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, 2019

Finding No.: 2019-002
Federal Agency: U.S. Department of the Health and Human Services
CFDA Program: 93.224 Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$9,998

Criteria: In accordance with applicable procurement requirements, the State 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: For 2 (or 8%) of 25 non-payroll transactions tested, aggregating \$155,774 of \$651,939 in total program non-payroll costs, the State requirement to perform formal bidding procedures was not followed.

<u>Transaction</u>	<u>Amount</u>	<u>Check No.</u>
221519	\$ 4,999	98991
221936	<u>4,999</u>	99102
	\$ <u>9,998</u>	

Cause: The State did not effectively enforce controls over compliance with applicable procurement regulations.

Effect: The State is in potential noncompliance with applicable procurement requirements, and questioned costs of \$9,998 result, as the projected questioned costs exceed the \$25,000 threshold.

Recommendation: The State should follow and document full and open competition procedures in accordance with applicable procurement requirements and conform to standard Yap State policies. Accordingly, waiver of procurement laws should only be utilized during emergency cases and not on circumstances where proper planning could have taken place. The State should implement internal controls to effectively identify emergency cases where waiver of procurement laws is acceptable.

Views of Responsible Officials: The State agrees with the 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, 2019

Finding No.: 2019-003
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: The fiscal year 2019 financial audit of a component unit, Yap Fishing Authority, was not completed in a timely manner due to delayed reconciliations and year-end closings:

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

Effect: The State is in noncompliance with GASB Statement No. 14, as amended, and lacks audited financial statements for inclusion in the State's general purpose financial statements. Yap Fishing Authority did not incur federal program expenditures during the year ended September 30, 2019.

Identification as a Repeat Finding: 2018-003

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

Views of Responsible Officials: The State agrees with the finding and describes corrective action in the Corrective Action Plan.



OFFICE OF THE DIRECTOR
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YAP STATE GOVERNMENT
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96943

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Office Telephones:
FINANCE/TREASURY: 350-2142/2107
PROPERTY: 350-2271/2370
PERSONNEL: 350-2145
REVENUE: 350-2472

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

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2017-001	15.875	\$ 76,540	Not Corrected. See corrective action plan- Finding 2019-001
2017-002	93.224	18,515	Not Corrected. See corrective action plan- Finding 2019-002
2018-001	15.875	263,177	Not Corrected. See corrective action plan- Finding 2019-001
2018-002	15.875	<u>112,703</u>	Not Corrected. The Office of the Administrative Services will
			continue to work with all government agencies to ensure
		\$ <u>470,935</u>	all expenditures are liquidated in a timely manner.



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REVENUE: 350-2472

Corrective Action Plan
2 CFR § 200.511©
Year Ended September 30, 2019

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2019-001	We agree with this finding. The Division of Procurement & Property Management and The Division of Finance & Treasury are working closely together with all Departments, Offices, and Agencies of the Yap State Government to ensure that all applicable Laws, Rules, Regulations, Policies and Procedures are properly being followed.	February 28, 2021	Chief, Division of Procurement & Property Management and also Chief, Division of Finance & Treasury (691) 350-2142 ppm.oas@gmail.com
2019-002	We agree with this finding. The Division of Procurement & Property Management and The Division of Finance & Treasury are working closely together with all Departments, Offices, and Agencies of the Yap State Government to ensure that all applicable Laws, Rules, Regulations, Policies and Procedures are properly being followed.	February 28, 2021	Chief, Division of Procurement & Property Management and also Chief, Division of Finance & Treasury (691) 350-2142 ppm.oas@gmail.com
2019-003	We agree with this finding. We have already started the effort to resolve the finding. We met with YFA Management, OPA, OAS Financial Consultant and we agreed that it is a multi-year process. In fiscal year 2020 - 2021, YFA and OPA will produce a listing of the fixed assets. In fiscal year 2021, the assets will be transferred to Yap State Government. This is the ultimate corrective action.	June 30, 2021	Director, OAS (691) 350-2142 yapoaservdir@gmail.com