

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2021**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2021**

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**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2021**

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Transportation System, which represents 100% of the assets, net position, and operating revenues of the State's business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

**Summary of Opinions**

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
Foreign Assistance Grants Fund	Unmodified
Yap State Investment Trust Fund	Unmodified
Compact Trust Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

**Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units**

The State's component units' column does not include the financial statements of the Yap Fishing Authority. Accounting principles generally accepted in the United States of America require financial information about the Yap Fishing Authority to be part of the State's aggregate discretely presented component units. Because of the departure from accounting principles generally accepted in the United States of America, the amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the aggregate discretely presented component units could not be determined.

**Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the respective financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2021, or the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Unmodified Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis-of-Matters***

### *Receivables from the FSM National Government*

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

### *COVID-19*

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

Our opinion is not modified with respect to these matters.

## ***Other Matters***

### *Required Supplementary Information*

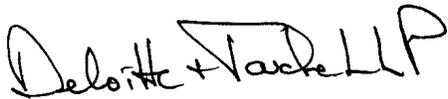
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 as well as the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 53 and 54,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

### *Other Information*

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

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2022 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

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

December 31, 2022

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2021

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, 2021. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2020 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, 2021, Yap State's total net position increased by \$17.5 million from \$119.1 million in fiscal year 2020 to \$136.6 million at the end of fiscal year 2021. The 15% rate of increase is significantly higher than the rate of increase from fiscal year 2019 to 2020 of 5% and is primarily attributable to gains in the fair value of investments.
- Total revenue for the State's governmental funds was \$42.4 million, an increase of 30% from 2020. Much of the increase came from investment gains in the Permanent Funds. However, General Fund revenue did double, from \$4.5 million in 2020 to \$8.8 million in 2021 causing General Fund revenue as a percentage of total revenue to rise to 21% as compared to 14% in the previous year. \$1.6 million of the increase came from State and National Revenue Sharing Taxes and \$.757 million from gains in the fair value of General Fund investments. Permanent Funds revenues as a percentage of the whole increased to 36%, compared to 29% in the prior year. Revenues from foreign assistance grants as a percentage of total revenues decreased (38% down from 48%) and other governmental funds revenue decreased as a percentage of the total in FY21 as compared to FY20 (6% down from 10%).
- Fiscal year 2021 actual revenue for the General Fund was \$8.8 million of which only \$6.3 million was appropriated. Actual expenditures totaled \$5.8 million compared to \$6.8 million for fiscal year 2020.
- At the end of fiscal year 2021, the Yap State Trust Fund reported a balance of \$78.7 million, which was an 18% increase of \$11.9 million in the fair value of the investment for the fiscal year.
- The "Unassigned" General Fund balance generally considered to be the balance available for appropriation, was \$10.6 million at the end of FY21, up from \$8.9 million for the previous year.

**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 include combining statements for governmental fund component units.

Government-Wide Financial Statements

The government-wide statements report information about Yap State as a whole, using accounting methods similar to those used by private-sector companies. It provides both long-term and short-term information about the State's financial status.

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2021

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

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

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

Fund Financial Statements

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

Yap State has two types of funds:

- Governmental funds. Most of Yap State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the user 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 balance sheet and statement of revenues, expenditures and changes in fund balance, or on the subsequent page, that explains and reconciles the relationship (or differences) between them.
- Proprietary funds. Services for which Yap State charges 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 2021, Yap State's assets exceeded liabilities by \$136.6 million. Of its total net assets of \$136.6 million, \$20.1 million is restricted for specific uses. Also included in net position is \$21 million invested in capital assets (buildings, roads, etc.). Yap State uses these capital assets to provide services to its citizens; consequently, these assets are reported net of related debt. It should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2021

The following schedule summarizes Yap State's net position as of September 30, 2021 with comparative figures for the prior year:

	Governmental Activities		Business Type Activities		Total		Change	%
	2021	2020	2021	2020	2021	2020		
<b>Assets</b>								
Current assets	\$ 29,719,735	\$ 20,700,369	\$ 224,982	\$ 303,400	\$ 29,944,717	\$ 21,003,769	\$ 8,940,948	43%
Other assets	97,699,023	88,379,076	-	-	97,699,023	88,379,076	9,319,947	11%
Capital assets, net	20,767,608	21,206,812	201,631	254,211	20,969,239	21,461,023	(491,784)	-2%
Total assets	<u>\$ 148,186,366</u>	<u>\$ 130,286,257</u>	<u>\$ 426,613</u>	<u>\$ 557,611</u>	<u>\$ 148,612,979</u>	<u>\$ 130,843,868</u>	<u>\$ 17,769,111</u>	<u>14%</u>
<b>Liabilities</b>								
Current liabilities	\$ 7,124,292	\$ 6,689,171	\$ 72,406	\$ 30,789	\$ 7,196,698	\$ 6,719,960	\$ 476,738	7%
Noncurrent liabilities	4,812,578	5,027,080	-	-	4,812,578	5,027,080	(214,502)	-4%
Total liabilities	<u>11,936,870</u>	<u>11,716,251</u>	<u>72,406</u>	<u>30,789</u>	<u>12,009,276</u>	<u>11,747,040</u>	<u>262,236</u>	<u>2%</u>
<b>Net position</b>								
Invested in capital assets, net	20,767,608	21,206,812	201,631	254,211	20,969,239	21,461,023	- 491,784	-2%
Restricted	20,115,298	17,288,495	-	-	20,115,298	17,288,495	2,826,803	16%
Unrestricted	95,366,590	80,074,699	152,576	272,611	95,519,166	80,347,310	15,171,856	19%
Total net position	<u>\$ 136,249,496</u>	<u>\$ 118,570,006</u>	<u>\$ 354,207</u>	<u>\$ 526,822</u>	<u>\$ 136,603,703</u>	<u>\$ 119,096,828</u>	<u>\$ 17,506,875</u>	<u>15%</u>

Yap State's unrestricted net position, at the end of fiscal year 2021, show a surplus of \$95.5 million (70% of total net position). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$78.7 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2020, Yap State's net position increased by 15% or \$17.5 million. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Government Activities		Business-Type Activities		Total		Change	%
	2021	2020	2021	2020	2021	2020		
<b>Revenues:</b>								
Program Revenues								
Charges for services	\$ 1,314,270	\$ 1,064,708	\$440,295	\$ 416,228	\$ 1,754,565	\$ 1,480,936	\$ 273,629	0.18
Operating grants and contributions	18,035,229	18,505,666	-	-	18,035,229	18,505,666	(470,437)	(0.03)
Capital grants and contributions	-	-	30,000	30,000	30,000	30,000	-	-
General Revenue								
Taxes	5,603,971	3,963,251	-	-	5,603,971	3,963,251	1,640,720	0.41
Unrestricted investment (losses) earned	2,184,450	1,361,964	-	-	2,184,450	1,361,964	822,486	0.60
Other	125,735	(1,543,060)	-	-	125,735	(1,543,060)	1,668,795	(1.08)
Total revenue	<u>27,263,655</u>	<u>23,352,529</u>	<u>470,295</u>	<u>446,228</u>	<u>27,733,950</u>	<u>23,798,757</u>	<u>3,935,193</u>	<u>0.17</u>
<b>Expenses</b>								
General Government	4,021,219	4,782,138	642,910	550,487	4,664,129	5,332,625	(668,496)	(0.13)
Health Services	6,803,260	6,926,877	-	-	6,803,260	6,926,877	(123,617)	(0.02)
Education	6,721,351	7,180,957	-	-	6,721,351	7,180,957	(459,606)	(0.06)
Economic Development	965,739	899,802	-	-	965,739	899,802	65,937	0.07
Public Safety	654,515	478,971	-	-	654,515	478,971	175,544	0.37
Public Works and Transportation	3,408,752	4,216,421	-	-	3,408,752	4,216,421	(807,669)	(0.19)
Community affairs	259,819	291,749	-	-	259,819	291,749	(31,930)	(0.11)
Boards and commissions	361,665	258,155	-	-	361,665	258,155	103,510	0.40
Payments to component units	103,619	113,428	-	-	103,619	113,428	(9,809)	(0.09)
Judiciary	182,243	185,011	-	-	182,243	185,011	(2,768)	(0.01)
Public auditor	-	-	-	-	-	-	-	-
Others	1,223,982	1,183,487	-	-	1,223,982	1,183,487	40,495	0.03
Total expenses	<u>24,706,164</u>	<u>26,516,996</u>	<u>642,910</u>	<u>550,487</u>	<u>25,349,074</u>	<u>27,067,483</u>	<u>(1,718,409)</u>	<u>(0.06)</u>
Contributions to permanent funds	15,166,644	9,335,796	-	-	15,166,644	9,335,796	5,830,848	0.62
Receivable written off	-	-	-	-	-	-	-	-
Gain from foreign exchange rate	-	(154,008)	-	-	-	(154,008)	154,008	(1.00)
Loss on impairment of an asset	(44,645)	(288,722)	-	-	(44,645)	(288,722)	288,722	-
Change in net position	17,679,490	5,728,599	(172,615)	(104,259)	17,506,875	5,624,340	11,882,535	2.11
Net position at the beginning of the year	118,570,006	112,841,407	526,822	631,081	119,096,828	113,472,488	5,624,340	0.05
Net position at the end of the year	<u>\$ 136,249,496</u>	<u>\$ 118,570,006</u>	<u>\$354,207</u>	<u>\$ 526,822</u>	<u>\$ 136,603,703</u>	<u>\$ 119,096,828</u>	<u>\$ 17,506,875</u>	<u>0.15</u>

**STATE OF YAP  
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Management's Discussion and Analysis  
Year Ended September 30, 2021

In fiscal year 2021, the negative economic effects of the Pandemic were mitigated by actions taken by the FSM Congress to increase the States' share of national taxes and by increased U.S. federal funding, through the National Government for COVID-19 relief assistance in the form of government grants and financial assistance to individuals and businesses. These actions, in addition to the \$15.16 million in earnings from the Permanent Funds, contributed to the 15% increase in net position for fiscal year 2021. Revenues increased by 17% in fiscal year 2021 as compared to the prior year. Expenditures, on the other hand, decreased by \$1.7 million or 6% possibly due to the FSM border closure which halted all government travel to and from the FSM.

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

**FINANCIAL ANALYSIS OF YAP STATE GOVERNMENTAL FUNDS**

	General Fund		Foreign Asst Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<b>Assets</b>												
Unrestricted assets	\$ 22,821,507	\$ 20,951,628	\$ 7,733,942	\$ 7,786,451	\$ -	\$ -	\$ -	\$ -	\$ 1,842,092	\$ 1,670,204	\$ 32,397,541	\$ 30,408,283
Restricted assets	4,796,172	3,846,057	-	-	78,692,000	66,783,781	17,400,890	14,142,465	-	-	100,889,062	84,772,303
<b>Total Assets</b>	<b>\$ 27,617,679</b>	<b>\$ 24,797,685</b>	<b>\$ 7,733,942</b>	<b>\$ 7,786,451</b>	<b>\$ 78,692,000</b>	<b>\$ 66,783,781</b>	<b>\$ 17,400,890</b>	<b>\$ 14,142,465</b>	<b>\$ 1,842,092</b>	<b>\$ 1,670,204</b>	<b>\$ 133,286,603</b>	<b>\$ 115,180,586</b>
<b>Liabilities</b>	\$ 6,223,545	\$ 6,388,108	\$ 5,586,953	\$ 5,277,447	\$ -	\$ -	\$ 51,221	\$ 51,221	\$ 577,774	\$ 439,006	\$ 12,439,493	\$ 12,155,782
<b>Fund Balances</b>	<b>21,394,134</b>	<b>18,409,577</b>	<b>2,146,989</b>	<b>2,509,004</b>	<b>78,692,000</b>	<b>66,783,781</b>	<b>17,349,669</b>	<b>14,091,244</b>	<b>1,264,318</b>	<b>1,231,198</b>	<b>120,847,110</b>	<b>103,024,804</b>
<b>Total Liab &amp; Fund Bal</b>	<b>\$ 27,617,679</b>	<b>\$ 24,797,685</b>	<b>\$ 7,733,942</b>	<b>\$ 7,786,451</b>	<b>\$ 78,692,000</b>	<b>\$ 66,783,781</b>	<b>\$ 17,400,890</b>	<b>\$ 14,142,465</b>	<b>\$ 1,842,092</b>	<b>\$ 1,670,204</b>	<b>\$ 133,286,603</b>	<b>\$ 115,180,586</b>

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 2021, Yap State's governmental funds reported a combined fund balance of \$120.8 million, which represents an increase of \$17.8 million in comparison with fiscal year 2020. Of the total fund balance, \$110.2 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 (\$103 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$3.1 million); 3) restricted because the funds are already committed (\$1.6 million); and, 4) restricted and intended for a specific purpose (\$2.5 million). The unassigned combined fund balance is \$10.6 million.

The State's governmental fund changes in fund balances for the years ended September 30, 2021 and 2020 are shown below:

	General Fund		Foreign Asst Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>												
Taxes	\$ 5,495,026	\$ 3,875,495	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,945	\$ 87,756	\$ 5,603,971	\$ 3,963,251
Compact	-	-	13,027,816	12,593,565	-	-	-	-	-	-	13,027,816	12,593,565
Others/Transfers In	3,302,968	590,030	2,906,135	2,979,862	11,908,219	8,193,217	3,258,425	1,142,579	2,422,765	3,210,949	23,798,512	16,116,637
<b>Total Revenue</b>	<b>8,797,994</b>	<b>4,465,525</b>	<b>15,933,951</b>	<b>15,573,427</b>	<b>11,908,219</b>	<b>8,193,217</b>	<b>3,258,425</b>	<b>1,142,579</b>	<b>2,531,710</b>	<b>3,298,705</b>	<b>42,430,299</b>	<b>32,673,453</b>
<b>Expenditures/Transfers Out</b>	<b>5,768,792</b>	<b>6,766,101</b>	<b>16,295,966</b>	<b>16,290,609</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,498,590</b>	<b>3,320,358</b>	<b>24,563,348</b>	<b>26,377,068</b>
Special Items	(44,645)	288,722	-	-	-	-	-	-	-	-	(44,645)	288,722
<b>Net Change in Fund Balance</b>	<b>\$ 2,984,557</b>	<b>\$ (2,589,298)</b>	<b>\$ (362,015)</b>	<b>\$ (717,182)</b>	<b>\$ 11,908,219</b>	<b>\$ 8,193,217</b>	<b>\$ 3,258,425</b>	<b>\$ 1,142,579</b>	<b>\$ 33,120</b>	<b>\$ (21,653)</b>	<b>\$ 17,822,306</b>	<b>\$ 6,007,663</b>

**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 \$2,086,360 gain which mitigated the State's economic downturn caused by the Pandemic. In fact, due to the strong earnings in the stock market, the General Fund ended fiscal year 2021 with a positive change in fund balance of \$3 million.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2021

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2021. Activities in this fund was relatively stable during the year.

Yap State Investment Trust and Compact Trust Fund

Revenues for these funds are determined by the results of the State's investments. Those results are primarily based on improvement in the U.S. stock market, which is what transpired during fiscal year 2021.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2021, amounted to \$121.27 million, net of accumulated depreciation of \$105.28 million, leaving a net book value of depreciable assets of \$15.99 million. Combine that with \$4.78 million in non-depreciable assets such as land and construction work in progress equal total net assets of \$20.77 million at September 30, 2021. This represents a net decrease of \$439,204 from fiscal year 2020.

The table below summarizes Yap State's capital assets:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	<u>%</u>
Land	\$ 3,539,402	\$ 3,539,402	\$ -	0%
Buildings	7,410,501	7,727,198	(316,697)	-4%
Equipment	939,803	648,102	291,701	45%
Heavy equipment	347,517	418,964	(71,447)	-17%
Vehicles	380,432	367,187	13,245	4%
Vessels	1,112,680	1,301,462	(188,782)	-15%
Infrastructure	5,800,069	6,051,124	(251,055)	-4%
Construction work in progress	1,237,204	1,153,373	83,831	7%
	<u>\$ 20,767,608</u>	<u>\$ 21,206,812</u>	<u>\$ (439,204)</u>	<u>-2%</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 \$5.4 million as of September 30, 2021. This debt is comprised of the current and non-current portions of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, Basic Social Services Loan and Omnibus Infrastructure Development Loan with all four adding to \$4.5 million, the liability for compensated absences of \$556,495, 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 \$618,640 deposited in a restricted investment account jointly held with the FSM National Government.

Additional information on Yap State's long-term debt obligations can be found in Note 6 and Note 7 to the financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2021

**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 sources. As other economic factors in the local economy remain relatively stagnant, Yap State's recourse was to identify budget items that could be reduced or eliminated through a long-term fiscal framework process.

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 48% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of the Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to support Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2021 and beyond.

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

**COVID-19 ECONOMIC IMPACT**

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

**POLITICAL LANDSCAPE**

The Governor of Yap State was essentially impeached and removed from office pursuant to a Removal Resolution 10-74 adopted by an assenting vote of three-fourths (3/4) of the Yap State Legislature on December 16, 2021. The Lt. Governor was sworn in by the Chief Justice as the new Governor of Yap State on December 29, 2021. In the General Election of November 2022, the citizens of Yap State elected a new Governor and Lt. Governor and replaced 60% of the members of the Yap State Legislature. These matters are not expected to impact the financial statements of the State of Yap.

**VOLATILITY OF GLOBAL MARKETS**

The exceedingly high earnings in the Permanent Funds in fiscal year 2021 which contributed to a \$17 million net change in total net assets for the State as a whole, were virtually wiped out in fiscal year 2022. The largest assets of the permanent funds, the Yap State Investment Trust, ended fiscal year 2021 with a fair market value of \$78 million. As of September 30, 2022, the value of the Fund had declined to \$62 million, which is even lower than its value as of September 30, 2020 of \$66 million.

**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, 2021

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,541,333	\$ 25,371	\$ 1,566,704	\$ 1,561,570
Time certificates of deposit	-	-	-	569,907
Investments	92,352,790	-	92,352,790	1,776,681
Receivables, net of allowance for uncollectibles	4,160,218	10,476	4,170,694	1,633,526
Advances	224,462	-	224,462	-
Inventories	-	176,160	176,160	774,273
Other current assets	-	12,975	12,975	761,925
Restricted assets:				
Cash and cash equivalents	4,177,532	-	4,177,532	-
<b>Total current assets</b>	<b>102,456,335</b>	<b>224,982</b>	<b>102,681,317</b>	<b>7,077,882</b>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	4,321
Investments	18,019,530	-	18,019,530	-
Investments	2,977,700	-	2,977,700	-
Capital assets:				
Construction work-in-progress	1,237,204	-	1,237,204	-
Nondepreciable capital assets	3,539,402	-	3,539,402	40,637
Capital assets, net of accumulated depreciation	15,991,002	201,631	16,192,633	16,470,099
Other assets	3,965,193	-	3,965,193	1,666,154
<b>Total noncurrent assets</b>	<b>45,730,031</b>	<b>201,631</b>	<b>45,931,662</b>	<b>18,181,211</b>
<b>Total assets</b>	<b>\$ 148,186,366</b>	<b>\$ 426,613</b>	<b>\$ 148,612,979</b>	<b>\$ 25,259,093</b>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term obligations	\$ 242,443	\$ -	\$ 242,443	\$ 615,548
Accounts payable	1,784,801	11,263	1,796,064	838,449
Current portion of compensated absences	310,201	-	310,201	-
Other liabilities and accruals	526,275	61,143	587,418	2,516,988
Unearned revenues	4,260,572	-	4,260,572	81,174
<b>Total current liabilities</b>	<b>7,124,292</b>	<b>72,406</b>	<b>7,196,698</b>	<b>4,052,159</b>
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	4,316,676	-	4,316,676	11,171,514
Noncurrent portion of compensated absences	246,294	-	246,294	-
Other noncurrent liabilities	249,608	-	249,608	-
<b>Total noncurrent liabilities</b>	<b>4,812,578</b>	<b>-</b>	<b>4,812,578</b>	<b>11,171,514</b>
<b>Total liabilities</b>	<b>11,936,870</b>	<b>72,406</b>	<b>12,009,276</b>	<b>15,223,673</b>
<b>NET POSITION</b>				
Net investment in capital assets	20,767,608	201,631	20,969,239	7,239,821
Restricted for:				
Nonexpendable:				
Future operations	17,349,669	-	17,349,669	-
Expendable:				
Compact related	2,146,989	-	2,146,989	-
Debt service	618,640	-	618,640	-
Other purposes	-	-	-	4,321
Unrestricted	95,366,590	152,576	95,519,166	2,791,278
<b>Total net position</b>	<b>136,249,496</b>	<b>354,207</b>	<b>136,603,703</b>	<b>10,035,420</b>
<b>Total liabilities and net position</b>	<b>\$ 148,186,366</b>	<b>\$ 426,613</b>	<b>\$ 148,612,979</b>	<b>\$ 25,259,093</b>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Statement of Activities  
Year Ended September 30, 2021

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
<b>Primary government:</b>								
<b>Governmental activities:</b>								
Judiciary	\$ 182,243	\$ -	\$ -	\$ -	\$ (182,243)	\$ -	\$ (182,243)	\$ -
Councils of traditional leaders	126,235	-	-	-	(126,235)	-	(126,235)	-
General government	4,021,219	637,899	2,234,677	-	(1,148,643)	-	(1,148,643)	-
Economic development	965,739	-	503,696	-	(462,043)	-	(462,043)	-
Public safety	654,515	-	-	-	(654,515)	-	(654,515)	-
Community affairs	259,819	-	-	-	(259,819)	-	(259,819)	-
Education	6,721,351	-	6,215,536	-	(505,815)	-	(505,815)	-
Public works and transportation	3,408,752	676,371	1,840,993	-	(891,388)	-	(891,388)	-
Health services	6,803,260	-	7,179,386	-	376,126	-	376,126	-
Boards and commissions	361,665	-	-	-	(361,665)	-	(361,665)	-
Payments to components	103,619	-	-	-	(103,619)	-	(103,619)	-
Other appropriations	1,052,668	-	15,480	-	(1,037,188)	-	(1,037,188)	-
Interest expense	45,079	-	-	-	(45,079)	-	(45,079)	-
<b>Total governmental activities</b>	<b>24,706,164</b>	<b>1,314,270</b>	<b>17,989,768</b>	<b>-</b>	<b>(5,402,126)</b>	<b>-</b>	<b>(5,402,126)</b>	<b>-</b>
<b>Business-type activities:</b>								
Public Transportation System	642,910	440,295	-	-	-	(202,615)	(202,615)	-
<b>Total primary government</b>	<b>\$ 25,349,074</b>	<b>\$ 1,754,565</b>	<b>\$ 17,989,768</b>	<b>\$ -</b>	<b>(5,402,126)</b>	<b>(202,615)</b>	<b>(5,604,741)</b>	<b>-</b>
<b>Component units:</b>								
Yap Visitor's Bureau	\$ 469,625	\$ -	\$ 442,817	\$ 14,791	-	-	-	(12,017)
Yap State Public Service Corporation	5,589,941	5,548,914	-	35,250	-	-	-	(5,777)
The Diving Seagull, Inc.	7,356,474	8,329,907	-	-	-	-	-	973,433
<b>Total component units</b>	<b>\$ 13,416,040</b>	<b>\$ 13,878,821</b>	<b>\$ 442,817</b>	<b>\$ 50,041</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>955,639</b>
<b>General revenues:</b>								
<b>Taxes:</b>								
<b>FSM revenue sharing:</b>								
Gross revenue taxes					945,095	-	945,095	-
Import taxes					1,173,767	-	1,173,767	-
Income taxes					901,092	-	901,092	-
Other taxes					387,829	-	387,829	-
State taxes					2,196,188	-	2,196,188	-
Unrestricted investment earnings					2,184,450	-	2,184,450	382,287
Operating subsidy from primary government					-	30,000	30,000	-
Other					171,196	-	171,196	(2,012,905)
					<u>7,959,617</u>	<u>30,000</u>	<u>7,989,617</u>	<u>(1,630,618)</u>
<b>Special items:</b>								
Loss on impairment of investment in other assets					(44,645)	-	(44,645)	-
Contributions to permanent funds					<u>15,166,644</u>	<u>-</u>	<u>15,166,644</u>	<u>-</u>
					<u>23,081,616</u>	<u>30,000</u>	<u>23,111,616</u>	<u>(1,630,618)</u>
<b>Total general revenues, special items and contributions</b>					<u>23,081,616</u>	<u>30,000</u>	<u>23,111,616</u>	<u>(1,630,618)</u>
<b>Change in net position</b>					<u>17,679,490</u>	<u>(172,615)</u>	<u>17,506,875</u>	<u>(674,979)</u>
<b>Net position at the beginning of the year</b>					<u>118,570,006</u>	<u>526,822</u>	<u>119,096,828</u>	<u>10,710,399</u>
<b>Net position at the end of the year</b>					<u>\$ 136,249,496</u>	<u>\$ 354,207</u>	<u>\$ 136,603,703</u>	<u>\$ 10,035,420</u>

15%

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Balance Sheet  
Governmental Funds  
September 30, 2021

		Special Revenue	Permanent			
	General	Foreign Assistance Grants	Yap State Investment Trust	Compact Trust	Other Governmental Funds	Total
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,520,114	\$ -	\$ -	\$ -	\$ 21,219	\$ 1,541,333
Investments	16,146,105	-	78,692,000	-	492,385	95,330,490
Receivables, net:						
Federal agencies	-	165,704	-	-	-	165,704
FSM National Government	617,194	3,045,362	-	-	285,330	3,947,886
Other	46,028	600	-	-	-	46,628
Due from other funds	429,878	4,394,809	-	-	1,043,158	5,867,845
Advances	96,995	127,467	-	-	-	224,462
Other assets	3,965,193	-	-	-	-	3,965,193
Restricted assets:						
Cash and cash equivalents	4,177,532	-	-	-	-	4,177,532
Investments	618,640	-	-	17,400,890	-	18,019,530
Total assets	<u>\$ 27,617,679</u>	<u>\$ 7,733,942</u>	<u>\$ 78,692,000</u>	<u>\$ 17,400,890</u>	<u>\$ 1,842,092</u>	<u>\$ 133,286,603</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 618,911	\$ 773,267	\$ -	\$ -	\$ 392,623	\$ 1,784,801
Other liabilities and accruals	166,667	341,823	-	-	17,785	526,275
Unearned revenues	-	4,093,206	-	-	167,366	4,260,572
Due to other funds	5,437,967	378,657	-	51,221	-	5,867,845
Total liabilities	<u>6,223,545</u>	<u>5,586,953</u>	<u>-</u>	<u>51,221</u>	<u>577,774</u>	<u>12,439,493</u>
Fund balances:						
Non-spendable	6,959,063	-	78,692,000	17,349,669	-	103,000,732
Restricted	618,640	2,146,989	-	-	349,934	3,115,563
Committed	648,773	-	-	-	914,384	1,563,157
Assigned	2,532,161	-	-	-	-	2,532,161
Unassigned:						
General fund	10,635,497	-	-	-	-	10,635,497
Total fund balances	<u>21,394,134</u>	<u>2,146,989</u>	<u>78,692,000</u>	<u>17,349,669</u>	<u>1,264,318</u>	<u>120,847,110</u>
Total liabilities and fund balances	<u>\$ 27,617,679</u>	<u>\$ 7,733,942</u>	<u>\$ 78,692,000</u>	<u>\$ 17,400,890</u>	<u>\$ 1,842,092</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

20,767,608

Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:

Long-term debt payable	(4,559,119)
Compensated absences payable	(556,495)
Land acquisition claims payable	(249,608)

(5,365,222)

Net position of governmental activities

\$ 136,249,496

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, 2021

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
<b>Revenues:</b>						
Compact funding	\$ -	\$ 13,027,816	\$ -	\$ -	\$ -	\$ 13,027,816
Net change in the fair value of investments	2,086,360	-	11,908,219	3,258,425	98,090	17,351,094
Federal contributions and other grants	-	2,727,640	-	-	-	2,727,640
FSM revenue sharing	3,407,783	-	-	-	-	3,407,783
State taxes	2,087,243	-	-	-	108,945	2,196,188
CFSM grants	-	132,833	-	-	2,101,479	2,234,312
Fees and charges	414,703	-	-	-	223,196	637,899
Departmental charges	676,371	-	-	-	-	676,371
Other	125,534	45,662	-	-	-	171,196
<b>Total revenues</b>	<b>8,797,994</b>	<b>15,933,951</b>	<b>11,908,219</b>	<b>3,258,425</b>	<b>2,531,710</b>	<b>42,430,299</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Judiciary	182,243	-	-	-	-	182,243
Councils of traditional leaders	189,151	-	-	-	-	189,151
General government	1,280,401	308,506	-	-	2,389,645	3,978,552
Resources and development	443,181	503,696	-	-	-	946,877
Public safety	553,060	132,833	-	-	-	685,893
Community affairs	239,212	-	-	-	-	239,212
Education	270,425	6,215,536	-	-	-	6,485,961
Public works and transportation	1,305,569	1,840,993	-	-	-	3,146,562
Health services	136,103	7,179,386	-	-	-	7,315,489
Boards and commissions	248,324	99,536	-	-	-	347,860
Payments to component units	103,619	-	-	-	-	103,619
Other appropriations	473,146	15,480	-	-	108,945	597,571
Dept service	344,358	-	-	-	-	344,358
<b>Total expenditures</b>	<b>5,768,792</b>	<b>16,295,966</b>	<b>-</b>	<b>-</b>	<b>2,498,590</b>	<b>24,563,348</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>3,029,202</b>	<b>(362,015)</b>	<b>11,908,219</b>	<b>3,258,425</b>	<b>33,120</b>	<b>17,866,951</b>
<b>Special item:</b>						
less: Write-off of receivables	(44,645)	-	-	-	-	(44,645)
<b>Net change in fund balances</b>	<b>2,984,557</b>	<b>(362,015)</b>	<b>11,908,219</b>	<b>3,258,425</b>	<b>33,120</b>	<b>17,822,306</b>
<b>Fund balances at the beginning of the year</b>	<b>18,409,577</b>	<b>2,509,004</b>	<b>66,783,781</b>	<b>14,091,244</b>	<b>1,231,198</b>	<b>103,024,804</b>
<b>Fund balances at the end of the year</b>	<b>\$ 21,394,134</b>	<b>\$ 2,146,989</b>	<b>\$ 78,692,000</b>	<b>\$ 17,349,669</b>	<b>\$ 1,264,318</b>	<b>\$ 120,847,110</b>

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, 2021

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	\$ 17,822,306
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$2,324,038) exceeded net capital outlays of \$1,884,834 in the current period.	(439,204)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:

Repayment of ADB loans	299,279
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Net change in compensated absences payable	<u>(2,891)</u>
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Change in net position of governmental activities	\$ <u>17,679,490</u>
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See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Statement of Net Position  
Proprietary Fund  
September 30, 2021

	<u>Public Transportation System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 25,371
Receivables, net of allowance for uncollectibles	10,476
Inventories	176,160
Other current assets	<u>12,975</u>
Total current assets	224,982
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>201,631</u>
Total assets	<u><u>\$ 426,613</u></u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 11,263
Other liabilities and accruals	<u>61,143</u>
Total liabilities	<u>72,406</u>
<u>NET POSITION</u>	
Net investment in capital assets	201,631
Unrestricted	<u>152,576</u>
Total net position	<u>354,207</u>
	<u><u>\$ 426,613</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, 2021

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 167,642
Sales	266,687
Other	<u>5,966</u>
Total operating revenues	<u>440,295</u>
Operating expenses:	
Cost of services	204,304
Administration costs	356,029
Depreciation and amortization	<u>82,577</u>
Total operating expenses	<u>642,910</u>
Loss from operations	(202,615)
Nonoperating revenues:	
Operating subsidy from primary government	<u>30,000</u>
Total nonoperating revenues	<u>30,000</u>
Change in net position	(172,615)
Net position at the beginning of the year	<u>526,822</u>
Net position at the end of the year	<u><u>\$ 354,207</u></u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Statement of Cash Flows  
Proprietary Fund  
Year Ended September 30, 2021

	<u>Public Transportation System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 488,883
Cash payments to employees	(332,904)
Cash payments to suppliers	<u>(215,429)</u>
Net cash provided by operating activities	<u>(59,450)</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>(29,997)</u>
Net cash used in capital and related financing activities	<u>(29,997)</u>
Net change in cash and cash equivalents	(59,447)
Cash and cash equivalents at the beginning of the year	<u>84,818</u>
Cash and cash equivalents at the end of the year	<u>\$ 25,371</u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (202,615)
Adjustments to reconcile loss from operations to net cash provided by operating activities:	
Depreciation expense	82,577
Changes in assets and liabilities:	
Other	(1,139)
Receivables	5,548
Inventories	14,562
Accounts payable	4,778
Other liabilities and accruals	<u>36,839</u>
Net cash used in operating activities	<u>\$ (59,450)</u>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Combining Statement of Net Position  
Component Units  
September 30, 2021

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<b><u>ASSETS</u></b>				
Current assets:				
Cash and cash equivalents	\$ 176,066	\$ 933,613	\$ 451,891	\$ 1,561,570
Time certificate of deposit	-	-	569,907	569,907
Investments	-	-	1,776,681	1,776,681
Receivables, net:				
General	-	838,341	795,185	1,633,526
Inventories	-	466,713	307,560	774,273
Other current assets	-	290,877	471,048	761,925
Total current assets	<u>176,066</u>	<u>2,529,544</u>	<u>4,372,272</u>	<u>7,077,882</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	4,321	4,321
Capital assets:				
Nondepreciable capital assets	-	40,637	-	40,637
Capital assets, net of accumulated depreciation	17,010	14,689,116	1,763,973	16,470,099
Other assets	-	1,415,252	250,902	1,666,154
Total noncurrent assets	<u>17,010</u>	<u>16,145,005</u>	<u>2,019,196</u>	<u>18,181,211</u>
Total assets	<u>\$ 193,076</u>	<u>\$ 18,674,549</u>	<u>\$ 6,391,468</u>	<u>\$ 25,259,093</u>
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 496,605	\$ 118,943	\$ 615,548
Accounts payable	-	361,745	476,704	838,449
Unearned revenues	-	81,174	-	81,174
Other liabilities and accruals	5,387	502,297	2,009,304	2,516,988
Total current liabilities	5,387	1,441,821	2,604,951	4,052,159
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	8,861,876	2,309,638	11,171,514
Total noncurrent liabilities	-	8,861,876	2,309,638	11,171,514
Total liabilities	<u>5,387</u>	<u>10,303,697</u>	<u>4,914,589</u>	<u>15,223,673</u>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	17,010	5,371,272	1,851,539	7,239,821
Restricted, expendable	-	-	4,321	4,321
Unrestricted	170,679	2,999,580	(378,981)	2,791,278
Total net position	<u>187,689</u>	<u>8,370,852</u>	<u>1,476,879</u>	<u>10,035,420</u>
	<u>\$ 193,076</u>	<u>\$ 18,674,549</u>	<u>\$ 6,391,468</u>	<u>\$ 25,259,093</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, 2021

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,548,914	\$ -	\$ 5,548,914
Sales	-	-	8,329,907	8,329,907
Total operating revenues	<u>-</u>	<u>5,548,914</u>	<u>8,329,907</u>	<u>13,878,821</u>
Operating expenses:				
Cost of services	-	2,154,257	7,196,279	9,350,536
Administration costs	455,406	2,370,140	155,140	2,980,686
Depreciation and amortization	14,219	1,065,544	5,055	1,084,818
Total operating expenses	<u>469,625</u>	<u>5,589,941</u>	<u>7,356,474</u>	<u>13,416,040</u>
Operating income (loss)	<u>(469,625)</u>	<u>(41,027)</u>	<u>973,433</u>	<u>462,781</u>
Nonoperating revenues (expenses):				
Donations to Municipal governments	-	(1,659,168)	-	(1,659,168)
Contributions from the primary government	-	-	-	-
Contributions from FSM National Government	442,817	-	-	442,817
Contributions from U.S. Government	14,791	-	-	14,791
Interest income	-	102,328	-	102,328
Interest expense	-	33,617	246,342	279,959
Loss on online fraud	-	(133,272)	(113,460)	(246,732)
Other	-	(98,589)	(8,416)	(107,005)
Total nonoperating revenues (expenses), net	<u>457,608</u>	<u>(1,755,084)</u>	<u>124,466</u>	<u>(1,173,010)</u>
Capital contributions	<u>-</u>	<u>35,250</u>	<u>-</u>	<u>35,250</u>
Change in net position	(12,017)	(1,760,861)	1,097,899	(674,979)
Net position at the beginning of the year	<u>199,706</u>	<u>10,131,713</u>	<u>378,980</u>	<u>10,710,399</u>
Net position at the end of the year	<u>\$ 187,689</u>	<u>\$ 8,370,852</u>	<u>\$ 1,476,879</u>	<u>\$ 10,035,420</u>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(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, 2021

(1) Summary of Significant Accounting Policies

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, 2021

(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, 2021

(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 three preceding categories. Unrestricted net position often is designated (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$20,115,298 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, 2021

(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, 2021

(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, 2021

(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, 2021

(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 (first-in first-out method (FIFO)) or market.

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 \$618,640. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$78,692,000 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$17,400,890 are restricted in that they are not available to be used for current operations.

As of September 30, 2021, 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	\$ 2,587,246
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>1,590,286</u>
	<u>\$ 4,177,532</u>

Discretely Presented Component Units

The Diving Seagull, Inc.:

Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank.	\$ <u>4,321</u>
	<u>\$ 4,321</u>

L. Other Assets

The State holds approximately 14.4% of the outstanding shares of Pacific Islands Development Bank with a carrying amount of \$3,965,193. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying financial statements. Additionally, the bank holds \$3,000,000 for the Yap State's loan program.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(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.

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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

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.

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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards

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

During the year ended September 30, 2021, the State implemented the following pronouncements:

- GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for the fiscal year ending September 30, 2022.

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

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

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

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

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

U. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

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, 2021 from which summarized information was derived.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

**(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, an entity comprised of the FSM National Government and its four component states, has selected investment managers who are given authority to buy and sell securities. These investment managers may invest in stocks, bonds and cash equivalents, for which minimum standards of quality of such investments at the time of purchase shall be as follows:

- i. Cash equivalents - The investment manager may engage in all normally accepted short-term investment practices including, but not limited to U.S. Treasury and government agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. 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 total pooled investments at the time of purchase without prior approval of the Secretary of Finance.

**A. Deposits**

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2021, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$5,718,865 and the corresponding bank balance was \$6,493,987 which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2021, bank deposits in the amount of \$278,987 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, 2021, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$25,371. There were no significant differences between cash balances and bank balances. As of September 30, 2021, all cash is maintained in one financial institution subject to FDIC insurance and is fully FDIC insured.

As of September 30, 2021, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$2,135,798 and the corresponding bank balances were \$2,122,397, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2021, bank deposits in the amount of \$893,117 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government

As of September 30, 2021, the State's investments are as follows:

General Fund:	
Fixed income	\$ 13,168,405
Domestic equities	2,977,700
Private equities	615,083
Cash management account	<u>3,557</u>
	<u>16,764,745</u>
Yap State Investment Fund:	
Fixed income	26,345,388
Common equities	33,935,435
International equities	15,329,308
Real estate	945,740
Cash management account	<u>2,136,129</u>
	<u>78,692,000</u>
Compact Trust Fund:	
Common trust funds:	
Domestic equities	4,735,549
International equities	4,234,052
Global equities	1,597,142
Private equities	1,878,310
Fixed income	2,590,976
Hedge fund	930,472
Real estate	1,391,255
Money market funds	<u>43,134</u>
	<u>17,400,890</u>
Other Governmental Funds:	
Mutual funds	482,449
Cash management account	<u>9,936</u>
	<u>492,385</u>
	<u>\$113,350,020</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

**(2) Deposits and Investments, Continued**

**B. Investments, Continued**

**Primary Government, Continued**

As of September 30, 2021, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

**General Fund:**

<u>Investment Type (no aging schedule)</u>	<u>Average Credit Rating</u>	<u>Fair Value</u>
U.S. Treasury	Aaa	\$ 3,673,985
U.S. Agency	A3	122,466
Securitized:		
Mortgage-Backed	Aa1	3,062,971
Asset Backed	B3	780,886
Corporate Securities:		
Industrial	Baa1	2,041,103
Financial	A3	1,473,545
Yankee Bond	Baa1	293,655
Utilities	A3	352,913
Other	Aa2	<u>1,366,881</u>
		<u>\$13,168,405</u>

**Yap State Investment Trust Fund:**

Investment Type	Credit <u>Ratings</u>	Fair <u>Value</u>	<u>Investment Maturities (In Years)</u>			
			Less <u>than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>
U.S. Treasury Notes and Bonds	Aaa	\$ 11,648,633	\$ 1,002,462	\$ 5,786,592	\$ 4,060,697	\$ 798,882
U.S. Treasury Notes and Bonds	No rating	774,949	774,949	-	-	-
Corporate Bonds	Aaa	100,633	100,633	-	-	-
Corporate Bonds	A1	1,412,969	-	583,464	829,505	-
Corporate Bonds	A2	3,494,599	-	1,449,071	2,045,528	-
Corporate Bonds	A3	1,656,118	70,832	327,544	1,257,742	-
Corporate Bonds	Aa1	136,256	-	-	136,256	-
Corporate Bonds	Aa2	89,837	-	89,837	-	-
Corporate Bonds	Aa3	108,901	-	108,901	-	-
Corporate Bonds	Baa1	573,973	-	498,300	75,673	-
Corporate Bonds	Baa2	1,323,136	-	498,726	824,410	-
Corporate Bonds	Baa3	327,074	-	277,816	49,258	-
Asset-Backed	No rating	<u>4,698,310</u>	-	-	-	<u>4,698,310</u>
		<u>\$ 26,345,388</u>	<u>\$ 1,948,876</u>	<u>\$ 9,620,251</u>	<u>\$ 9,279,069</u>	<u>\$ 5,497,192</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The State has the following recurring fair value measurements as of September 30, 2021:

General Fund:	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		Quoted Prices in Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S Treasury obligation	\$ 3,673,985	\$ -	\$ 3,673,985	\$ -
U.S Government agencies	122,466	-	122,466	-
Municipal obligation	3,843,857	-	3,843,857	-
Corporate notes	<u>5,528,097</u>	<u>-</u>	<u>5,528,097</u>	<u>-</u>
	13,168,405	-	13,168,405	-
 Private securities	 <u>615,083</u>	 <u>-</u>	 <u>-</u>	 <u>615,083</u>
Total investment at fair value	13,783,488	\$ <u>-</u>	\$ <u>13,168,405</u>	\$ <u>615,083</u>
 Investments measured at NAV:				
Equity investment in Bank of the FSM	2,977,700			
 Investment measured amortized cost:				
Cash management account	<u>3,557</u>			
	<u>\$16,764,745</u>			

<u>Yap State Investment Trust Fund:</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		Quoted Prices in Active Markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Unobservable Inputs <u>Level 3</u>
Investments by fair value level:				
Fixed income	\$26,345,388	\$26,345,388	\$ -	\$ -
Common equities	33,935,435	33,935,435	-	-
International equities	<u>15,329,308</u>	<u>15,329,308</u>	<u>-</u>	<u>-</u>
Total investment at fair value	75,610,131	\$ <u>75,610,131</u>	\$ <u>-</u>	\$ <u>-</u>
 Investments measured at NAV:				
Real estate	945,740			
 Investment measured amortized cost:				
Cash management account	<u>2,136,129</u>			
	<u>\$78,692,000</u>			

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The State has the following recurring fair value measurements as of September 30, 2021, Continued:

<u>Compact Trust Fund:</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Unobservable Inputs Level 3</u>
Investments by fair value level:				
Domestic Equity	\$ 4,735,549	\$ 4,735,549	\$ -	\$ -
International Equity	4,234,052	4,234,052	-	-
Global Equity	1,597,142	1,597,142	-	-
Private Equity	1,878,310	-	-	1,878,310
Fixed Income	<u>2,590,976</u>	<u>2,590,976</u>	-	-
Total investment at fair value	15,036,029	<u>\$13,157,719</u>	<u>\$ -</u>	<u>\$1,878,310</u>
Investments measured at NAV:				
Hedge Fund	930,472			
Real Estate	1,391,255			
Investment measured amortized cost:				
Money market funds	<u>43,134</u>			
	<u>\$17,400,890</u>			

<u>Other Governmental Funds:</u>	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Unobservable Inputs Level 3</u>
Investments by fair value level:				
Mutual Funds	\$ 482,449	\$ 482,449	\$ -	\$ -
Total investment at fair value	482,449	<u>\$ 482,449</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money Market Funds	<u>9,936</u>			
	<u>\$ 492,385</u>			

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(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, 2021.

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, 2021, 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 "Ba1" as rated by Moody's as of September 30, 2021. High yield debt receiving a credit rating below "A" comprises approximately 65.5% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM CFI is 7.7 years.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The bonds held by MIM OFI vary in credit quality with an average overall rating of “Aa3” as rated by Moody’s as of September 30, 2021. High yield debt receiving a credit rating below “A” comprises approximately 29.9% of the MIM OFI fixed income portfolio as rated by Moody’s at September 30, 2021. At September 30, 2021, the weighted average maturity of the bonds comprising MIM OFI is 10.23 years.

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

The Trust Fund’s exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2021, the Trust Fund held approximately \$277,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$59,000 was held in securities whose functional currency is the Euro, \$20,000 whose functional currency is the British pound, \$49,000 whose functional currency is the Japanese yen, and \$149,000 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 16.2% of invested assets at September 30, 2021.

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’ equity reported by the investee.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

**(2) Deposits and Investments, Continued**

**B. Investments, Continued**

**Discretely Presented Component Units**

The Diving Seagull, Inc. (DSI):

As of September 30, 2021, DSI's investments are as follows:

Fixed income	\$ 482,850
Common equities	1,239,031
Money market funds	<u>54,800</u>
	<u>\$ 1,776,681</u>

As of September 30, 2021, DSI's fixed income securities, including their S & P credit ratings, had the following maturities:

		<u>Fair</u>	<u>Less than</u>	<u>1 to 5</u>	<u>6 to 10</u>
	<u>Credit Ratings</u>	<u>Value</u>	<u>1 Year</u>	<u>Years</u>	<u>Years</u>
U.S. Treasury obligations	AAA	\$230,417	\$ -	\$ 94,583	\$ 135,835
Corporate Notes	AAA	14,433	-	-	14,433
Corporate Notes	A1	14,998	-	-	14,998
Corporate Notes	A2	44,811	-	-	44,811
Corporate Notes	A3	45,553	-	-	45,553
Corporate Notes	BAA1	28,411	-	-	28,411
Corporate Notes	BAA2	89,758	-	15,068	74,690
Corporate Notes	BAA3	<u>14,469</u>	<u>-</u>	<u>-</u>	<u>14,469</u>
		<u>\$482,850</u>	<u>\$ -</u>	<u>\$109,651</u>	<u>\$373,200</u>

The Diving Seagull has the following recurring fair value measurements as of September 30, 2021:

		<u>Fair Value Measurements Using</u>		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 230,417	\$ -	\$230,417	\$ -
Corporate notes	<u>252,433</u>	<u>-</u>	<u>252,433</u>	<u>-</u>
	482,850	-	482,850	-
U.S. equities	<u>1,239,031</u>	<u>1,239,031</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,721,881	<u>\$1,239,031</u>	<u>\$482,850</u>	<u>\$ -</u>
Investments measured at amortized cost:				
Money market funds	<u>54,800</u>			
	<u>\$1,776,681</u>			

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

**(3) Receivables**

**Primary Government**

Receivables as of September 30, 2021, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	Foreign Assistance <u>Grants</u>	Yap State Investment <u>Trust</u>	Compact <u>Trust</u>	Other Governmental <u>Funds</u>	<u>Total</u>
Receivables:						
Federal agencies	\$ -	\$ 261,084	\$ -	\$ -	\$ -	\$ 261,084
Due from FSM National Government	667,405	4,912,937	-	-	1,257,319	6,837,661
Other	<u>599,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,585</u>	<u>610,368</u>
	1,267,188	5,174,021	-	-	1,267,904	7,709,113
Allowance for uncollectible accounts	<u>(603,966)</u>	<u>(1,962,355)</u>	<u>-</u>	<u>-</u>	<u>(982,574)</u>	<u>(3,548,895)</u>
	<u>\$ 663,222</u>	<u>\$ 3,211,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 285,330</u>	<u>\$ 4,160,218</u>

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

**Discretely Presented Component Units**

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

	<u>Yap Visitor's Bureau</u>	<u>Yap State Public Service Corporation</u>	<u>The Diving Seagull, Inc.</u>	<u>Total</u>
General	\$ -	\$921,536	\$ 1,445,432	\$2,366,968
Less: allowance for uncollectibles	<u>-</u>	<u>(83,195)</u>	<u>(650,247)</u>	<u>(733,442)</u>
	<u>\$ -</u>	<u>\$ 838,341</u>	<u>\$ 795,185</u>	<u>\$ 1,633,526</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, 2021, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Foreign Assistance Grants	General	\$ 4,394,809
General	Foreign Assistance Grants	378,657
Nonmajor governmental funds	General	1,043,158
General	Compact Trust	<u>51,221</u>
		<u>\$ 5,867,845</u>

**STATE OF YAP  
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Notes to Financial Statements  
September 30, 2021

**(5) Capital Assets**

Capital asset activities of the primary government for the year ended September 30, 2021, are as follows:

	Balance October <u>1, 2020</u>	<u>Additions</u>	Transfers/ <u>Retirements</u>	Balance September <u>30, 2021</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 21,195,665	\$ 250,942	\$ 206,190	\$ 21,652,797
Infrastructure	87,605,640	513,018	249,780	88,368,438
Equipment	1,506,259	417,758	-	1,924,017
Vehicles	3,118,232	163,315	(19,395)	3,262,152
Vessels	5,156,463	-	(1,188,000)	3,968,463
Heavy equipment	<u>4,327,378</u>	<u>-</u>	<u>(2,233,695)</u>	<u>2,093,683</u>
	<u>122,909,637</u>	<u>1,345,033</u>	<u>(2,985,120)</u>	<u>121,269,550</u>
Less accumulated depreciation for:				
Buildings	(13,468,467)	(773,829)	-	(14,242,296)
Infrastructure	(81,554,516)	(1,013,853)	-	(82,568,369)
Equipment	(858,157)	(126,057)	-	(984,214)
Vehicles	(2,751,045)	(150,070)	19,395	(2,881,720)
Vessels	(3,855,001)	(188,782)	1,188,000	(2,855,783)
Heavy equipment	<u>(3,908,414)</u>	<u>(71,447)</u>	<u>2,233,695</u>	<u>(1,746,166)</u>
	<u>(106,395,600)</u>	<u>(2,324,038)</u>	<u>3,441,090</u>	<u>(105,278,548)</u>
Total capital assets, being depreciated, net	16,514,037	(979,005)	455,970	15,991,002
Non-depreciable assets:				
Construction work-in-progress	1,153,373	539,801	(455,970)	1,237,204
Land	<u>3,539,402</u>	<u>-</u>	<u>-</u>	<u>3,539,402</u>
Governmental activities capital assets, net	\$ <u>21,206,812</u>	\$ <u>(439,204)</u>	\$ <u>-</u>	\$ <u>20,767,608</u>

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

Traditional Councils	\$ 2,083
General Government	39,776
Resources & Development	18,862
Community Affairs	20,607
Education	351,249
Public Works & Transportation	1,260,984
Health Services	161,575
Boards & Commissions	13,805
Other appropriations	<u>455,097</u>
	<u>\$2,324,038</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(5) Capital Assets, Continued

	Balance October 1, <u>2020</u>	Additions	Retirements	Balance September 30, 2021
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 134,750	\$ -	\$ -	\$ 134,750
Vehicles	1,552,717	20,081	-	1,572,798
Shop equipment	86,092	4,765	-	90,857
Office equipment	125,833	5,151	-	130,984
Land improvement	<u>3,444</u>	<u>-</u>	<u>-</u>	<u>3,444</u>
	1,902,836	29,997	-	1,932,833
Less accumulated depreciation	<u>(1,648,625)</u>	<u>(82,577)</u>	<u>-</u>	<u>(1,731,202)</u>
Total net capital assets	\$ <u>254,211</u>	\$ <u>(52,580)</u>	\$ <u>-</u>	\$ <u>201,631</u>

Discretely Presented Component Units:

	Balance October 1, <u>2020</u>	Additions	Retirements	Balance September 30, 2021
Depreciable assets:				
Utility plants	\$36,176,777	\$ 767,186	\$(1,787,649)	\$35,156,314
Machinery, equipment, and others	<u>11,628,461</u>	<u>208,006</u>	<u>(61,781)</u>	<u>11,774,686</u>
Total capital assets, being depreciated	47,805,238	975,192	(1,849,430)	46,931,000
Less accumulated depreciation	<u>(29,532,073)</u>	<u>(1,298,370)</u>	<u>369,542</u>	<u>(30,460,901)</u>
	18,273,165	(323,178)	(1,479,888)	16,470,099
Non-depreciable assets:				
Construction work-in-progress	<u>40,637</u>	<u>-</u>	<u>-</u>	<u>40,637</u>
	<u>\$18,313,802</u>	<u>\$ (323,178)</u>	<u>\$(1,479,888)</u>	<u>\$16,510,736</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, 2021

(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, 2021. As of September 30, 2021, the amount outstanding against this loan was \$2,263,384 of the required \$3,500,000 identified for future debt service payments, \$688,247 is deposited in an investment account jointly held with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the 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 equal semi-annual payments with the first payment due on May 15, 2010, and the last payment on November 15, 2025, and November 15, 2033, respectively. As of September 30, 2021, the balances payable on these loans amounted to \$107,489 and \$377,492, 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, 2021, the balance of this loan amounted to \$1,810,754.

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

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 242,443	\$ 40,374	\$ 282,817
2023	321,550	38,301	359,851
2024	321,550	35,390	356,940
2025	321,550	32,478	354,028
2026	309,605	29,566	339,171
2027-2031	1,488,318	107,323	1,595,641
2032-2036	1,412,821	41,507	1,454,328
2037	<u>141,282</u>	<u>999</u>	<u>142,281</u>
	<u>\$ 4,559,119</u>	<u>\$ 325,938</u>	<u>\$ 4,885,057</u>

**STATE OF YAP  
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Notes to Financial Statements  
September 30, 2021

(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. \$ 1,575,080

Loan guaranteed by the FSM National Government 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. 4,403,586

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. An SDR adjustment decreased the loan balance by \$81,055 in fiscal year 2019. In fiscal year 2020, an SDR adjustment of \$109,751 increased the loan balance. 3,379,815  
\$ 9,358,481

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

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 496,605	\$ 93,639	\$ 590,244
2023	496,605	88,447	585,052
2024	496,605	83,255	579,860
2025	496,605	78,063	574,668
2026	590,206	72,336	662,542
2027 – 2031	2,951,028	273,106	3,224,134
2032 – 2036	2,713,153	125,482	2,838,635
2037 – 2039	<u>1,117,674</u>	<u>13,336</u>	<u>1,131,010</u>
	<u>\$ 9,358,481</u>	<u>\$ 827,664</u>	<u>\$ 10,186,145</u>

The Diving Seagull, Inc. (DSI):

Bank loan in the amount of \$2,608,523, with a maturity date March 25, 2025, was granted by the FSM Development Bank, with interest at 4% per annum, to fund the dry dock of the fishing vessel, Yap Seagull. Interest and principal are payable in monthly installments of \$19,294, commencing November 25, 2020. This loan is collateralized by the vessel and DSI's investments with Raymond James worth \$1,000,000. \$ 2,428,581

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(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>
2022	\$ 134,819	\$ 96,720	\$ 231,539
2023	140,312	91,227	231,539
2024	146,028	85,511	231,539
2025	151,633	79,906	231,539
2026	<u>1,855,789</u>	<u>13,680</u>	<u>1,869,469</u>
	<u>\$ 2,428,581</u>	<u>\$ 367,044</u>	<u>\$ 2,795,625</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, 2021, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2021, the State recognized a foreign exchange loss of \$26,225 of the financial statements, and which results in a reduction in ADB loans payable.

	<u>Balance October 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2020</u>	<u>Due within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 2,392,751	\$ 11,900	\$ (141,267)	\$ 2,263,384	\$ 141,474
Loan 1873	130,817	765	(24,093)	107,489	23,887
Loan 1874	416,556	2,800	(41,864)	377,492	30,199
Loan 2099	<u>1,918,274</u>	<u>10,760</u>	<u>(118,280)</u>	<u>1,810,754</u>	<u>46,883</u>
	4,858,398	26,225	(325,504)	4,559,119	242,443
Other:					
Compensated absences	553,604	305,618	(302,727)	556,495	310,201
Land acquisition claims	<u>249,608</u>	<u>-</u>	<u>-</u>	<u>249,608</u>	<u>-</u>
	<u>\$ 5,661,610</u>	<u>\$ 331,843</u>	<u>\$(628,231)</u>	<u>\$ 5,365,222</u>	<u>\$ 552,644</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

**(7) Change in Long-Term Obligations, Continued**

**Primary Government, Continued**

As of September 30, 2021, \$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, 2021, 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>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2021</u>	Due Within <u>One Year</u>
Loans payable:					
YSPSC	\$ 9,744,693	\$ -	\$ (386,212)	\$ 9,358,481	\$ 496,605
DSI	<u>2,598,288</u>	<u>-</u>	<u>(169,707)</u>	<u>2,428,581</u>	<u>118,943</u>
	<u>\$ 12,342,981</u>	<u>\$ -</u>	<u>\$ (555,919)</u>	<u>\$ 11,787,062</u>	<u>\$ 615,548</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	\$ -	\$ -	\$ 78,692,000	\$ 17,349,669	\$ -	\$ 96,041,669
Pacific Islands						
Development Bank	3,965,193	-	-	-	-	3,965,193
Bank of the FSM	2,993,870	-	-	-	-	2,993,870
Restricted:						
Debt service	618,640	-	-	-	-	618,640
Infrastructure	-	2,146,989	-	-	-	2,146,989
Public works and transportation	-	-	-	-	349,934	349,934
Committed:						
General government	13,558	-	-	-	914,384	927,942
Infrastructure	635,215	-	-	-	-	635,215
Assigned:						
Public works and transportation	253,955	-	-	-	-	253,955
Health services	1,967,574	-	-	-	-	1,967,574
Education	298,599	-	-	-	-	298,599
Community affairs	12,033	-	-	-	-	12,033
Unassigned	<u>10,635,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,635,497</u>
	<u>\$ 21,394,134</u>	<u>\$ 2,146,989</u>	<u>\$ 78,692,000</u>	<u>\$ 17,349,669</u>	<u>\$ 1,264,318</u>	<u>\$ 120,847,110</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2021

(9) Commitments and Contingencies

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. As of September 30, 2021, the State's significant encumbrances are summarized as follows:

	<u>General Fund</u>	<u>Foreign Assistance Grants</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	<u>\$447,937</u>	<u>\$4,303,904</u>	<u>\$2,419,533</u>	<u>\$7,171,374</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, 2021. 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, 2021. 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, 2021

(9) Commitments and Contingencies, Continued

Continuing Appropriations

As of September 30, 2021, 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)	212,038
FY21 IMF Matching (YSL 10-43)	<u>212,268</u>
	\$ <u>648,773</u>

Fines and Penalties

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

(10) Budgetary Compliance

For the year ended September 30, 2021, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ <u>344,358</u>
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These over-expenditures of the General Fund have not been funded by legislative authorization.

(11) COVID-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The State has determined that the pandemic 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.

(12) Subsequent Event

YSPSC has advised that commencing in December 2022, it will not be able to pay its obligations under and ADB loan for which the State is a guarantor.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2021**

**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, 2021

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget
	Original	Final	Basis (see Note 1)	
Revenues	\$ 6,307,644	\$ 6,525,613	\$ 8,797,994	\$ 2,272,381
Total revenues	<u>6,307,644</u>	<u>6,525,613</u>	<u>8,797,994</u>	<u>2,272,381</u>
Expenditures:				
Current:				
Judiciary	219,926	218,744	187,529	31,215
Council of traditional leaders	227,067	226,181	210,179	16,002
General government	1,444,104	1,513,984	1,420,924	93,060
Economic development	518,695	491,770	480,766	11,004
Public safety	556,109	633,022	596,307	36,715
Community affairs	239,485	255,764	250,555	5,209
Education	266,001	282,374	272,960	9,414
Public works and transportation	1,690,634	1,704,748	1,616,925	87,823
Health services	214,400	214,400	185,433	28,967
Boards and commissions	304,542	314,365	276,064	38,301
Payments to component units	132,384	132,384	123,206	9,178
Other appropriations	936,070	979,670	675,737	303,933
Debt service	-	-	344,358	(344,358)
Total expenditures	<u>6,749,417</u>	<u>6,967,406</u>	<u>6,640,943</u>	<u>326,463</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(441,773)</u>	<u>(441,793)</u>	<u>2,157,051</u>	<u>2,598,844</u>
Special item:				
less: Write-off of receivables	-	-	(44,645)	(44,645)
Total special item	<u>-</u>	<u>-</u>	<u>(44,645)</u>	<u>(44,645)</u>
Net change in fund balance	(441,773)	(441,793)	2,112,406	2,554,199
Encumbrances	654,041	654,041	872,151	218,110
Adjustment to encumbrances	-	-	(424,214)	(424,214)
Fund balance at the beginning of the year	<u>18,409,577</u>	<u>18,409,577</u>	<u>18,409,577</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 18,621,845</u>	<u>\$ 18,621,825</u>	<u>\$ 20,969,920</u>	<u>\$ 2,348,095</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, 2021

(1) Budgetary Information

An annual appropriated budget is adopted by the State's Legislature for the General Fund and Compact Programs through an Appropriations Act. However, additional appropriations and budget modifications occur throughout the year. The majority of unencumbered appropriations lapse as of year end unless specifically extended by the State's Legislature. Budgets for special revenue funds, except the Compact Program Fund, are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for special revenue funds, except the Compact Program Fund, is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain as reservations of fund balance until becoming expended or canceled. If an encumbrance is subsequently canceled, the funds revert to the applicable unreserved fund balance unless otherwise required by law.

Budgetary expenditures, which are on a basis other than GAAP, represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are therefore determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year. When reviewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship. Amounts included on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Combined Balance Sheet within the other charges in unreserved fund balance section of that statement.

(2) Reconciliation to Expenditures on the GAAP basis

Budgetary expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund are presented on a non-GAAP budgetary basis recognized on a GAAP basis:

Expenditures on a non-GAAP budgetary basis	\$ 6,640,943
Change in encumbrances	<u>(872,151)</u>
Expenditures on a GAAP basis	<u>\$ 5,768,792</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2021**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2021

	General	Special	Permanent		Other Governmental Funds	Total
		Revenue	Yap	Compact		
		Foreign	Investment	Trust		
		Assistance	Trust	Trust		
		Grants				
Expenditures:						
Salaries and wages	\$ 3,040,249	\$ 6,586,679	\$ -	\$ -	\$ -	\$ 9,626,928
Contractual services	150,343	2,295,649	-	-	1,672,142	4,118,134
Medical supplies	-	2,137,185	-	-	8,624	2,145,809
Utilities	719,632	850,434	-	-	-	1,570,066
Capital outlay	48,933	1,317,887	-	-	113,279	1,480,099
Supplies and materials	173,081	1,045,719	-	-	29,358	1,248,158
POL	349,954	171,301	-	-	111,394	632,649
Scholarship and training	171,362	232,832	-	-	149,000	553,194
Repairs and maintenance	82,709	443,684	-	-	-	526,393
Travel	10,800	359,279	-	-	9,570	379,649
Grants and subsidies	25,441	-	-	-	349,433	374,874
Food stuffs	59,802	217,356	-	-	21,973	299,131
Communications	124,446	165,270	-	-	-	289,716
Principal repayment	268,110	-	-	-	-	268,110
Professional services	4,683	246,885	-	-	-	251,568
Allowances	126,500	2,610	-	-	-	129,110
Interest payments	76,247	-	-	-	-	76,247
Freight	3,577	38,782	-	-	-	42,359
Rentals	6,389	26,766	-	-	-	33,155
Printing and reproduction	-	27,419	-	-	-	27,419
Leased housing and land	21,386	-	-	-	-	21,386
Other	305,148	130,229	-	-	33,817	469,194
	<u>\$ 5,768,792</u>	<u>\$ 16,295,966</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,498,590</u>	<u>\$ 24,563,348</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2021

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, 2021  
(with comparative totals for the year ended September 30, 2020)

	<u>2021</u>	<u>2020</u>
Revenues:		
Revenue sharing:		
Import tax	\$ 1,173,767	\$ 712,127
Fuel tax	387,829	220,622
Income tax	901,092	657,558
Business gross receipts tax	945,095	597,237
	<u>3,407,783</u>	<u>2,187,544</u>
Excise taxes:		
Alcoholic beverages	561,737	460,389
Gasoline and diesel	102,911	72,631
Tobacco	900,941	664,235
Other excise taxes	521,654	490,696
	<u>2,087,243</u>	<u>1,687,951</u>
Fees and charges:		
Licenses and permits	95,019	94,487
Fines/sale of confiscated property	60,161	25,557
Leases and other rentals	259,523	142,225
	<u>414,703</u>	<u>262,269</u>
Departmental charges:		
Sea transportation	199,243	287,139
Air transportation	30,697	102,286
Hospital services	436,793	173,763
Other	9,638	8,118
	<u>676,371</u>	<u>571,306</u>
Net change in the fair value of investments	<u>2,086,360</u>	<u>1,328,919</u>
Other revenues	<u>125,534</u>	<u>(1,572,464)</u>
Total revenues	<u>8,797,994</u>	<u>4,465,525</u>
Expenditures:		
Current:		
Judiciary	<u>182,243</u>	<u>185,011</u>
Councils of Traditional Leaders:		
Council of Pilung	79,294	84,929
Council of Tamol	109,857	114,218
	<u>189,151</u>	<u>199,147</u>
General government:		
Office of the Governor	161,599	175,333
State Legislature	417,363	437,155
Office of Administrative Services	434,834	482,640
Office of Public Auditor	129,739	151,476
Office of Planning, Budget and Statistics	136,866	116,840
	<u>1,280,401</u>	<u>1,363,444</u>
Resources and Development:		
Department of Resources and Development	<u>443,181</u>	<u>638,900</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, 2021  
(with comparative totals for the year ended September 30, 2020)

	<u>2021</u>	<u>2020</u>
Expenditures, continued:		
Current, continued:		
Public Safety:		
Department of Public Safety/Attorney General	553,060	593,290
Community Affairs:		
Department of Public Affairs	239,212	265,030
Public Works and Transportation:		
Department of Public Works and Transportation	1,305,569	1,692,494
Education Services:		
Department of Education	270,425	276,220
Health Services:		
Department of Health Services	136,103	571,811
Boards and Commissions:		
Historic Preservation Office	57,460	54,338
EPA Administration Board	72,624	83,399
Election Commissioner	28,652	13,302
Small Business Development Center	76,077	77,657
Yap Investment Trust	13,511	15,654
	<u>248,324</u>	<u>244,350</u>
Payments to component units:		
Yap Visitor's Bureau	103,619	113,428
	<u>103,619</u>	<u>113,428</u>
Other appropriations:		
Micronesia Legal Services Corporation	24,991	25,000
Japan Overseas Cooperation Volunteers	-	2,118
Yap Public Library	-	2,703
Yap Community Action Program	94,858	109,165
Scholarship	171,362	-
Medical Referral Program	21,764	-
Airport Operations and Maintenance	115,505	-
Yap Sport Awards Program	43,600	-
Other	1,066	-
	<u>473,146</u>	<u>138,986</u>
Debt service:		
Principal repayments	268,111	390,750
Interest payments	76,247	93,240
	<u>344,358</u>	<u>483,990</u>
Total expenditures	<u>5,768,792</u>	<u>6,766,101</u>
Excess of revenues over expenditures	<u>3,029,202</u>	<u>(2,300,576)</u>
Special item:		
Less: Write-off of receivables	(44,645)	-
Less: Loss on impairment of Other assets	-	(288,722)
Total special item	<u>(44,645)</u>	<u>(288,722)</u>
Net change in fund balance	2,984,557	(2,589,298)
Fund balance at the beginning of the year	18,409,577	20,998,875
Fund balance at the end of the year	<u>\$ 21,394,134</u>	<u>\$ 18,409,577</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual - General Fund  
Year Ended September 30, 2021

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	
Revenues	\$ 6,307,644	\$ 6,525,613	\$ 8,797,994	\$ 2,272,381
Total revenues	<u>6,307,644</u>	<u>6,525,613</u>	<u>8,797,994</u>	<u>2,272,381</u>
Expenditures:				
Current:				
Judiciary	<u>219,926</u>	<u>218,744</u>	<u>187,529</u>	<u>31,215</u>
Councils of Traditional Leaders:				
Council of Pilung	98,405	97,519	83,744	13,775
Council of Tamol	<u>128,662</u>	<u>128,662</u>	<u>126,435</u>	<u>2,227</u>
	<u>227,067</u>	<u>226,181</u>	<u>210,179</u>	<u>16,002</u>
General government:				
Office of the Governor	184,241	180,135	173,569	6,566
State Legislature	432,311	430,019	423,484	6,535
Office of Administrative Services	533,170	532,632	511,362	21,270
Office of Public Auditor	153,137	151,049	133,499	17,550
Office of Planning, Budget and Statistics	<u>141,245</u>	<u>220,149</u>	<u>179,010</u>	<u>41,139</u>
	<u>1,444,104</u>	<u>1,513,984</u>	<u>1,420,924</u>	<u>93,060</u>
Economic Development:				
Department of Resources and Development	<u>518,695</u>	<u>491,770</u>	<u>480,766</u>	<u>11,004</u>
Public Safety:				
Department of Public Safety/Attorney General	<u>556,109</u>	<u>633,022</u>	<u>596,307</u>	<u>36,715</u>
Community Affairs:				
Department of Public Affairs	<u>239,485</u>	<u>255,764</u>	<u>250,555</u>	<u>5,209</u>
Education:				
Department of Education	<u>266,001</u>	<u>282,374</u>	<u>272,960</u>	<u>9,414</u>
Public Works and Transportation:				
Department of Public Works and Transportation	<u>1,690,634</u>	<u>1,704,748</u>	<u>1,616,925</u>	<u>87,823</u>
Health services:				
Department of Health Services	<u>214,400</u>	<u>214,400</u>	<u>185,433</u>	<u>28,967</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, 2021

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts Budgetary Basis	
Expenditures, continued:				
Boards and Commissions:				
Historic Preservation Office	90,506	90,506	81,178	9,328
Environment Protection Agency	84,413	84,413	73,138	11,275
Yap State Election Commission	40,684	40,684	30,232	10,452
Small Business Development Center	75,589	83,139	77,259	5,880
Yap Investment Trust	13,350	15,623	14,257	1,366
	<u>304,542</u>	<u>314,365</u>	<u>276,064</u>	<u>38,301</u>
Payments to component units:				
Yap Visitor's Bureau	127,392	127,392	118,214	9,178
Public Transportation System	4,992	4,992	4,992	-
	<u>132,384</u>	<u>132,384</u>	<u>123,206</u>	<u>9,178</u>
Other appropriations:				
Micronesian Legal Services Corporation	25,000	25,000	24,991	9
Japan Overseas Cooperation Volunteers	1,800	1,800	1,800	-
Yap CAP	114,808	114,808	97,551	17,257
Micro Games/Yap Sports Awards Program	26,181	69,781	69,781	-
Scholarship	175,000	175,000	171,362	3,638
Medical Referral Program	335,095	335,095	51,355	283,740
Airport Operations and Maintenance	237,694	237,694	237,339	355
Sports Complex	1,600	1,600	1,600	-
Yap Catholic High School	18,892	18,892	-	18,892
Others	-	-	19,958	(19,958)
	<u>936,070</u>	<u>979,670</u>	<u>675,737</u>	<u>303,933</u>
Debt service:				
Principal repayments	-	-	268,111	(268,111)
Interest payments	-	-	76,247	(76,247)
	<u>-</u>	<u>-</u>	<u>344,358</u>	<u>(344,358)</u>
 Total expenditures	 <u>6,749,417</u>	 <u>6,967,406</u>	 <u>6,640,943</u>	 <u>326,463</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>(441,773)</u>	 <u>(441,793)</u>	 <u>2,157,051</u>	 <u>2,598,844</u>
Special item:				
less: Write-off of receivables	-	-	(44,645)	(44,645)
 Total special item	 <u>-</u>	 <u>-</u>	 <u>(44,645)</u>	 <u>(44,645)</u>
 Net change in fund balance	 <u>(441,773)</u>	 <u>(441,793)</u>	 <u>2,112,406</u>	 <u>2,554,199</u>
 Encumbrances	 654,041	 654,041	 872,151	 218,110
Adjustments to encumbrances	-	-	(424,214)	(424,214)
 Fund balance at the beginning of the year	 <u>18,409,577</u>	 <u>18,409,577</u>	 <u>18,409,577</u>	 <u>-</u>
 Fund balance at the end of the year	 <u>\$ 18,621,845</u>	 <u>\$ 18,621,825</u>	 <u>\$ 20,969,920</u>	 <u>\$ 2,348,095</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2021

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 21,219	\$ -	\$ 21,219
Investments	492,385	-	492,385
Receivables, net	-	285,330	285,330
Due from other funds	441,955	601,203	1,043,158
	<u>441,955</u>	<u>601,203</u>	<u>1,043,158</u>
Total assets	<u>\$ 955,559</u>	<u>\$ 886,533</u>	<u>\$ 1,842,092</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 41,175	\$ 351,448	\$ 392,623
Other liabilities and accruals	-	17,785	17,785
Deferred revenues	-	167,366	167,366
	<u>41,175</u>	<u>536,599</u>	<u>577,774</u>
Fund balances:			
Restricted	-	349,934	349,934
Committed	914,384	-	914,384
	<u>914,384</u>	<u>349,934</u>	<u>1,264,318</u>
Total fund balances	<u>914,384</u>	<u>349,934</u>	<u>1,264,318</u>
Total liabilities and fund balances	<u>\$ 955,559</u>	<u>\$ 886,533</u>	<u>\$ 1,842,092</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, 2021

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,101,479	\$ 2,101,479
Excise taxes	108,945	-	108,945
Fees and charges	223,196	-	223,196
Net change in the fair value of investments	<u>98,090</u>	<u>-</u>	<u>98,090</u>
Total revenues	<u>430,231</u>	<u>2,101,479</u>	<u>2,531,710</u>
Expenditures by function:			
Current:			
General government	288,161	2,101,484	2,389,645
Other appropriations	<u>108,945</u>	<u>-</u>	<u>108,945</u>
Total expenditures	<u>397,106</u>	<u>2,101,484</u>	<u>2,498,590</u>
Net change in fund balances	33,125	(5)	33,120
Fund balances at the beginning of the year	<u>881,259</u>	<u>349,939</u>	<u>1,231,198</u>
Fund balances at the end of the year	<u>\$ 914,384</u>	<u>\$ 349,934</u>	<u>\$ 1,264,318</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, 2021

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 2,101,479	\$ 2,101,479
Excise taxes	108,945	-	108,945
Fees and charges	223,196	-	223,196
Net change in the fair value of investments	<u>98,090</u>	<u>-</u>	<u>98,090</u>
Total revenues	<u>430,231</u>	<u>2,101,479</u>	<u>2,531,710</u>
Expenditures by account:			
Contractual services	-	1,672,142	1,672,142
Grants and subsidies	349,433	-	349,433
Scholarships	-	149,000	149,000
Capital outlay	44,239	69,040	113,279
POL	-	111,394	111,394
Supplies and materials	-	29,358	29,358
Food stuffs	-	21,973	21,973
Travel	-	9,570	9,570
Medical supplies	-	8,624	8,624
Other	<u>3,434</u>	<u>30,383</u>	<u>33,817</u>
Total expenditures	<u>397,106</u>	<u>2,101,484</u>	<u>2,498,590</u>
Net change in fund balances	33,125	(5)	33,120
Fund balances at the beginning of the year	<u>881,259</u>	<u>349,939</u>	<u>1,231,198</u>
Fund balances at the end of the year	<u>\$ 914,384</u>	<u>\$ 349,934</u>	<u>\$ 1,264,318</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2021

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, 2021, 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, 2021

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 21,219	\$ 21,219
Investments	-	-	-	492,385	492,385
Due from other funds	30,512	22,403	379,521	9,519	441,955
Total assets	\$ 30,512	\$ 22,403	\$ 379,521	\$ 523,123	\$ 955,559
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 30,512	\$ 2,490	\$ 8,173	\$ -	\$ 41,175
Total liabilities	30,512	2,490	8,173	-	41,175
Fund balances:					
Committed	-	19,913	371,348	523,123	914,384
Total fund balances	-	19,913	371,348	523,123	914,384
Total liabilities and fund balances	\$ 30,512	\$ 22,403	\$ 379,521	\$ 523,123	\$ 955,559

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, 2021

	<b>F39</b>	<b>F76</b>	<b>F85</b>	<b>F86</b>	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 108,945	\$ -	\$ -	\$ -	\$ 108,945
Fees and charges	-	10,389	212,807	-	223,196
Net change in the fair value of investments	-	-	-	98,090	98,090
<b>Total revenues</b>	<b>108,945</b>	<b>10,389</b>	<b>212,807</b>	<b>98,090</b>	<b>430,231</b>
Expenditures by function:					
Current:					
General government	-	29,220	258,941	-	288,161
Other appropriations	108,945	-	-	-	108,945
<b>Total expenditures</b>	<b>108,945</b>	<b>29,220</b>	<b>258,941</b>	<b>-</b>	<b>397,106</b>
Net change in fund balances	-	(18,831)	(46,134)	98,090	33,125
Fund balances at the beginning of the year	-	38,744	417,482	425,033	881,259
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 19,913</u>	<u>\$ 371,348</u>	<u>\$ 523,123</u>	<u>\$ 914,384</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, 2021

	<b>F39</b>	<b>F76</b>	<b>F85</b>	<b>F86</b>	
	Sports Development	Housing Maintenance	Enterprise	Expendable Trust	Total
Revenues:					
Excise taxes	\$ 108,945	\$ -	\$ -	\$ -	\$ 108,945
Fees and charges	-	10,389	212,807	-	223,196
Net change in the fair value of investments	-	-	-	98,090	98,090
<b>Total revenues</b>	<b>108,945</b>	<b>10,389</b>	<b>212,807</b>	<b>98,090</b>	<b>430,231</b>
Expenditures by account:					
Grants and subsidies	108,945	-	240,488	-	349,433
Capital outlay	-	28,980	15,259	-	44,239
Other	-	240	3,194	-	3,434
<b>Total expenditures</b>	<b>108,945</b>	<b>29,220</b>	<b>258,941</b>	<b>-</b>	<b>397,106</b>
Excess (deficiency) of revenues over (under) expenditures	-	(18,831)	(46,134)	98,090	33,125
Fund balances at the beginning of the year	-	38,744	417,482	425,033	881,259
Fund balances at the end of the year	\$ -	\$ 19,913	\$ 371,348	\$ 523,123	\$ 914,384

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Foreign Assistance Grants Fund

Combining Balance Sheet  
September 30, 2021

	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F23	F25	
	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	Non U.S. Grants	CFSM Grants	Total
<b>ASSETS</b>														
Receivables:														
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,704	\$ -	\$ -	\$ 165,704
FSM National Government	560,705	697,641	63,055	31,209	50,098	216,425	161,798	-	1,002,608	257,101	-	-	4,722	3,045,362
Other	-	-	-	-	-	-	-	-	-	-	-	-	600	600
Due from other funds	-	1,051,441	-	-	42,668	26,277	-	2,217,413	181,792	-	334,204	456,606	84,408	4,394,809
Advances	110,045	2,126	-	-	-	15,296	-	-	-	-	-	-	-	127,467
	<u>\$ 670,750</u>	<u>\$ 1,751,208</u>	<u>\$ 63,055</u>	<u>\$ 31,209</u>	<u>\$ 92,766</u>	<u>\$ 257,998</u>	<u>\$ 161,798</u>	<u>\$ 2,217,413</u>	<u>\$ 1,184,400</u>	<u>\$ 257,101</u>	<u>\$ 499,908</u>	<u>\$ 456,606</u>	<u>\$ 89,730</u>	<u>\$ 7,733,942</u>
<b>LIABILITIES AND FUND BALANCES</b>														
Liabilities:														
Accounts payable	\$ 166,002	\$ 307,091	\$ (144)	\$ 2,000	\$ 18,420	\$ 34,757	\$ 2,087	\$ 70,424	\$ 22,165	\$ 22,845	\$ 97,216	\$ -	\$ 30,404	\$ 773,267
Other liabilities and accruals	107,646	84,076	-	-	2,880	43,727	7,490	-	11,328	47,744	34,045	1,179	1,708	341,823
Unearned revenues	355,944	1,360,041	48,373	29,022	71,466	179,514	16,247	-	1,150,907	-	368,647	455,427	57,618	4,093,206
Due to other funds	41,158	-	14,826	187	-	-	135,974	-	-	186,512	-	-	-	378,657
Total liabilities	<u>670,750</u>	<u>1,751,208</u>	<u>63,055</u>	<u>31,209</u>	<u>92,766</u>	<u>257,998</u>	<u>161,798</u>	<u>70,424</u>	<u>1,184,400</u>	<u>257,101</u>	<u>499,908</u>	<u>456,606</u>	<u>89,730</u>	<u>5,586,953</u>
Fund balances:														
Restricted	-	-	-	-	-	-	-	2,146,989	-	-	-	-	-	2,146,989
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,146,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,146,989</u>
Total liabilities and fund balances	<u>\$ 670,750</u>	<u>\$ 1,751,208</u>	<u>\$ 63,055</u>	<u>\$ 31,209</u>	<u>\$ 92,766</u>	<u>\$ 257,998</u>	<u>\$ 161,798</u>	<u>\$ 2,217,413</u>	<u>\$ 1,184,400</u>	<u>\$ 257,101</u>	<u>\$ 499,908</u>	<u>\$ 456,606</u>	<u>\$ 89,730</u>	<u>\$ 7,733,942</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, 2021

	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F23	F25	
	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	Non U.S. Grants	CFSM Grants	Total
Revenues:														
Compact funding	\$ 4,090,685	\$ 5,238,543	\$ -	\$ 339,198	\$ 85,127	\$ 1,581,069	\$ 214,417	\$ -	\$ 1,478,777	\$ -	\$ -	\$ -	\$ -	\$ 13,027,816
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	1,266,986	1,376,619	84,035	-	2,727,640
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	132,833	132,833
Other	-	-	-	-	-	-	-	201	-	-	-	45,461	-	45,662
	<u>4,090,685</u>	<u>5,238,543</u>	<u>-</u>	<u>339,198</u>	<u>85,127</u>	<u>1,581,069</u>	<u>214,417</u>	<u>201</u>	<u>1,478,777</u>	<u>1,266,986</u>	<u>1,376,619</u>	<u>129,496</u>	<u>132,833</u>	<u>15,933,951</u>
Expenditures by function:														
Current:														
General government	-	-	-	-	85,127	-	214,417	-	-	-	8,962	-	-	308,506
Public safety	-	-	-	-	-	-	-	-	-	-	-	-	132,833	132,833
Resources and development	-	-	-	339,198	-	-	-	-	-	-	160,070	4,428	-	503,696
Education	4,090,685	-	-	-	-	1,581,069	-	-	-	543,782	-	-	-	6,215,536
Public works and transportation	-	-	-	-	-	-	-	362,216	1,478,777	-	-	-	-	1,840,993
Health services	-	5,238,543	-	-	-	-	-	-	-	660,083	1,174,561	106,199	-	7,179,386
Boards and commissions	-	-	-	-	-	-	-	-	-	63,121	33,026	3,389	-	99,536
Other appropriations	-	-	-	-	-	-	-	-	-	-	-	15,480	-	15,480
Total expenditures	<u>4,090,685</u>	<u>5,238,543</u>	<u>-</u>	<u>339,198</u>	<u>85,127</u>	<u>1,581,069</u>	<u>214,417</u>	<u>362,216</u>	<u>1,478,777</u>	<u>1,266,986</u>	<u>1,376,619</u>	<u>129,496</u>	<u>132,833</u>	<u>16,295,966</u>
Net change in fund balances	-	-	-	-	-	-	-	(362,015)	-	-	-	-	-	(362,015)
Fund balances at the beginning of the year	-	-	-	-	-	-	-	2,509,004	-	-	-	-	-	2,509,004
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,146,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,146,989</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, 2021

	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F23	F25	
	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	Non U.S. Grants	CFSM Grants	Total
<b>Revenues:</b>														
Compact funding	\$ 4,090,685	\$ 5,238,543	\$ -	\$ 339,198	\$ 85,127	\$ 1,581,069	\$ 214,417	\$ -	\$ 1,478,777	\$ -	\$ -	\$ -	\$ -	\$ 13,027,816
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	1,266,986	1,376,619	84,035	-	2,727,640
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	132,833	132,833
Other	-	-	-	-	-	-	-	201	-	-	-	45,461	-	45,662
	<u>4,090,685</u>	<u>5,238,543</u>	<u>-</u>	<u>339,198</u>	<u>85,127</u>	<u>1,581,069</u>	<u>214,417</u>	<u>201</u>	<u>1,478,777</u>	<u>1,266,986</u>	<u>1,376,619</u>	<u>129,496</u>	<u>132,833</u>	<u>15,933,951</u>
<b>Expenditures by account:</b>														
Salaries and wages	2,089,968	1,689,102	-	-	81,399	798,180	138,896	-	214,799	878,143	663,726	24,897	7,569	6,586,679
Medical supplies	-	1,926,465	-	-	-	-	-	-	-	10,801	199,919	-	-	2,137,185
Contractual services	229,202	364,443	-	339,198	2,400	32,000	-	309,382	150,201	27,036	50,482	99,689	19,022	1,623,055
Capital outlay	230,030	618,367	-	-	-	87,037	3,844	-	299,638	800	16,189	-	61,982	1,317,887
Supplies and materials	382,798	81,254	-	-	1,328	225,112	23,882	-	4,500	70,672	225,966	-	30,207	1,045,719
Utilities	339,479	402,887	-	-	-	16,824	-	-	4,684	34,259	52,301	-	-	850,434
Construction	-	-	-	-	-	-	-	-	619,760	-	-	-	-	619,760
Repairs and maintenance	251,760	37,773	-	-	-	45,024	467	-	292	4,937	100,495	-	2,936	443,684
Travel	30,293	7,255	-	-	-	165,078	-	-	-	155,306	1,347	-	-	359,279
Professional services	-	-	-	-	-	36,480	40,000	-	166,700	-	3,705	-	-	246,885
Scholarship and training	232,832	-	-	-	-	-	-	-	-	-	-	-	-	232,832
Food stuffs	58,670	44,320	-	-	-	105,561	-	-	-	8,805	-	-	-	217,356
POL	74,518	14,747	-	-	-	37,366	-	-	2,313	16,968	18,332	-	7,057	171,301
Communications	66,942	17,454	-	-	-	11,918	7,328	-	12,565	23,200	25,395	-	468	165,270
Construction maintenance	-	-	-	-	-	-	-	52,834	-	-	-	-	-	52,834
Freight	16,630	15,950	-	-	-	5,627	-	-	-	504	71	-	-	38,782
Printing and reproduction	-	7,325	-	-	-	-	-	-	-	9,388	10,706	-	-	27,419
Rentals	-	9,856	-	-	-	-	-	-	1,464	12,209	3,237	-	-	26,766
Allowances	-	-	-	-	-	1,320	-	-	-	250	1,040	-	-	2,610
Other	87,563	1,345	-	-	-	13,542	-	-	1,861	13,708	3,708	4,910	3,592	130,229
	<u>4,090,685</u>	<u>5,238,543</u>	<u>-</u>	<u>339,198</u>	<u>85,127</u>	<u>1,581,069</u>	<u>214,417</u>	<u>362,216</u>	<u>1,478,777</u>	<u>1,266,986</u>	<u>1,376,619</u>	<u>129,496</u>	<u>132,833</u>	<u>16,295,966</u>
Net change in fund balances (deficit)	-	-	-	-	-	-	-	(362,015)	-	-	-	-	-	(362,015)
Fund balances at the beginning of year	-	-	-	-	-	-	-	2,509,004	-	-	-	-	-	2,509,004
Fund balances at the end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,146,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,146,989</u>

See Accompanying Independent Auditors' Report.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 31, 2022. Our report includes an adverse opinion for the omission of a certain component unit, and includes explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. Our report includes a reference to other auditors who audited the financial statements of the Public Transportation System, as described in our report on the State's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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

### **Internal Control Over Financial Reporting**

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

## Internal Control Over Financial Reporting, Continued

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2020-001 that we consider to be material weaknesses.

## Compliance and Other Matters

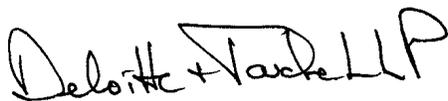
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

## The State's Response to Findings

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

## Purpose of this Report

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



December 31, 2022

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the State of Yap's (the State's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended September 30, 2021. 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, 2021. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

## ***Opinion on Each Major Federal Program***

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

## **Report on Internal Control Over Compliance**

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

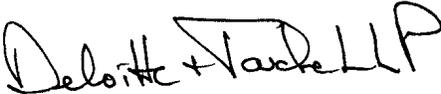
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the State’s basic financial statements. We issued our report thereon dated December 31, 2022, which contained an adverse opinion for the omission of a certain component unit, and included explanatory paragraphs concerning collectability of receivables and the impact of COVID-19. We did not audit the financial statements of the Public Transportation System, which represent 100% of the assets, net position, and operating revenues of the State’s business-type activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



December 31, 2022

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor  
Year Ended September 30, 2021

Agency/Program	Expenditures
U.S. Department of Agriculture	\$ 15,843
U.S. Department of the Interior	13,606,157
U.S. Small Business Administration	33,026
U.S. Department of Education	543,782
U.S. Department of Health and Human Services	<u>1,834,644</u>
GRAND TOTAL	<u>\$ 16,033,452</u>
Reconciliation to the basic financial statements:	
Foreign Assistance Grants Fund expenditures	\$ 16,295,966
Less: Non-U.S. Grants Fund expenditures	(129,496)
Less: CFSM Grants Fund expenditures	(132,833)
Variance	<u>(185)</u>
	<u>\$ 16,033,452</u>

See accompanying notes to schedule of expenditures of federal awards.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal AL Number	Identifying Number Assigned by Pass- Through Entity	Federal Expenditures
<u>U.S. Department of Agriculture:</u>			
Direct Program:			
Cooperative Forestry Assistance	10.664		\$ 15,843
Total U.S. Department of Agriculture			<u>15,843</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		8,961
CF Asst. Consolidated Grants			109,745
Yap LFA Control Effort			34,482
Subtotal Direct Programs			<u>153,188</u>
Pass-Through Grants from the FSM National Government: A5			
Economic, Social and Political Development of the Territories:			
Compact of Free Association, As Amended, Sector Grants			
Compact II Education Sector	15.875	00050-2016-COFA-FSM	4,090,685
Compact II Health Sector			5,238,543
Compact II Private Sector Development			339,198
Compact II Capacity Building Sector			84,947
Supplemental Education Grant			1,581,066
Compact II ERA			214,417
Compact II Infrastructure Sector			1,478,777
Compact II Infrastructure Maintenance Sector			362,215
Historic Preservation Fund Grant-In-Aid	15.904		63,121
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>13,452,969</u>
Total U.S. Department of the Interior			<u>13,606,157</u>
<u>U.S. Small Business Administration:</u>			
Direct Programs:			
8(a) Business Development Program	59.006		33,026
Total U.S. Small Business Administration			<u>33,026</u>
<u>U.S. Department of Education:</u>			
Pass-Through Grants from the FSM National Government: A5			
Special Education Cluster (IDEA):			
Special Education - Grants to States (IDEA, Part B)	84.027		543,782
Special Education Cluster (IDEA) Subtotal			<u>543,782</u>
Total U.S. Department of Education			<u>543,782</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal AL Number	Identifying Number Assigned by Pass- Through Entity	Federal Expenditures
<u>U.S. Department of Health and Human Services:</u>			
Direct Programs:			
Health Center Program Cluster:			
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224		1,174,561
Health Center Cluster Subtotal and Subtotal Direct Programs			<u>1,174,561</u>
Pass-Through Grants from the FSM National Government		A5	
Public Health Emergency Preparedness	93.069		13,027
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		32,380
Maternal and Child Health Federal Consolidated Program	93.110		11,132
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		60,808
Family Planning Services	93.217		41,041
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		58,805
Immunization Cooperative Agreements	93.268		156,786
Prevention and Control of Chronic Disease and Associated Risk Factors in the U.S. Affiliated Pacific Islands, U.S. Virgin Islands, and P. R.	93.377		17,570
OPIOID STR	93.788		30,253
National Bioterrorism Hospital Preparedness Program	93.889		9,186
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898		66,170
Block Grants for Community Mental Health Services	93.958		12,411
Block Grants for Prevention and Treatment of Substance Abuse	93.959		67,173
Block Grants for Preventive Health and Health Services	93.991		14,308
Maternal and Child Health Services Block Grant to the States	93.994		69,033
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			<u>660,083</u>
Total U.S. Department of Health and Human Services			<u>1,834,644</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 16,033,452</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, 2021

1. Scope

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Yap under programs of the federal government for the year ended September 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Yap, it is not intended to and does not present the financial position or changes in financial position of State of Yap.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Yap maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Yap's reporting entity is defined in Note 1A to its September 30, 2021 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, 2021.

C. Matching Costs

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

D. Indirect Cost Allocation

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2021

3. Summary of Significant Accounting Policies, Continued

E. ALN#15.875

ALN #15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact 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 ALN #15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2021

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |   |                        |
|---|------------------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Adverse and Unmodified |
| Internal control over financial reporting:  |                        |
| 2. Material weakness(es) identified?  | Yes                    |
| 3. Significant deficiency(ies) identified?  | No                     |
| 4. Noncompliance material to financial statements noted?  | No                     |

*Federal Awards*

Internal control over major federal programs:

- |   |            |
|---|------------|
| 5. Material weakness(es) identified?  | No         |
| 6. Significant deficiency(ies) identified?  | No         |
| 7. Type of auditors' report issued on compliance for major federal programs:                          | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No         |
| 9. Identification of major federal programs:  |            |

ALN Numbers

Name of Federal Program or Cluster

- |        |   |
|--------|---|
| 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:<br>Health Center Program (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        |

**Section II – Financial Statements Findings**

Finding #  
2021-001

Finding  
External Financial Reporting

**Section III - Federal Award Findings and Questioned Costs**

No matters were reported

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2021

Finding No.: 2021-001  
Area: External Financial Reporting

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

Condition: The fiscal year 2021 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, 2021.

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

Identification as a Repeat Finding: Finding No. 2020-001 and 2019-003

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



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**PROPERTY: 350-2271/2370**  
**PERSONNEL: 350-2145**  
**REVENUE: 350-2472**

**Summary Schedule of Prior Audit Findings and Questioned Costs**  
**Year Ended September 30, 2021**

<u>Questioned Finding Number</u>	<u>ALN Number</u>	<u>Costs</u>	<u>Status</u>
2017-001	15.875	\$ 76,540	Resolved. See corrective action taken-Finding 2017-001
2017-002	93.224	18,515	Resolved. See corrective action taken-Finding 2017-002
2018-001	15.875	263,177	Resolved. See corrective action taken-Finding 2018-001
2018-002	15.875	112,703	Resolved. See corrective action taken-Finding 2018-002
2019-001	15.875	164,760	On-going. See corrective action taken – Finding 2019-001
2019-002	93.224	9,998	On-going. See corrective action taken – Finding 2019-002
2019-003	-	-	On-going. See corrective action taken – Finding 2019-003
2020-001	-	-	On-going. See corrective action taken – Finding 2020-001
		<u>\$645,693</u>	



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**Corrective Action Plan**  
**2 CFR § 200.511©**  
**Year Ended September 30, 2021**

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2017-001	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. Two training/workshop sessions have been provided by the two divisions to explain and address the issue. Also, the finding was addressed via virtual consultations with US GAO and we were informed that the finding is resolved with the 3-year rule.	Completed on July 1, 2022	Chief, Division of Procurement & Property Management and also Chief, Division of Finance & Treasury  (691) 350-2142 ppm.oas@gmail.com
2017-002	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. Two training/workshop sessions have been provided by the two divisions to explain and address the issue. Also, the finding was addressed via virtual consultations with US GAO and we were informed that the finding is resolved with the 3-year rule.	Completed on July 1, 2022	Chief, Division of Procurement & Property Management and also Chief, Division of Finance & Treasury  (691) 350-2142 ppm.oas@gmail.com
2018-001	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. Two training/workshop sessions have been provided by the two divisions to explain and address the issue. Also, the finding was addressed via virtual consultations with US GAO and we were informed that the finding is resolved with the 3-year rule.	Completed on July 1, 2022	Chief, Division of Procurement & Property Management and also Chief, Division of Finance & Treasury  (691) 350-2142 ppm.oas@gmail.com
2018-002	The Division of Finance & Treasury is working closely with all Departments, Offices, and Agencies of the Yap State Government to ensure that all applicable Laws, Rules, Regulations, Policies and Procedures are properly being followed. Finding was addressed via virtual consultations with US GAO and we were informed that the finding is resolved with the 3-year rule.	Completed June 30, 2021	Director, OAS and Chief, Division of Finance & Treasury  691-350-2142 yapoaservdir@gmail.com



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Corrective Action Plan, CONTINUED  
2 CFR § 200.511©  
Year Ended September 30, 2021

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2019-001	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. Two training/workshop sessions have been provided by the two divisions to explain and address the issue.	On-going	Chief, Division of Procurement & Property Management and also Chief, Division of Finance & Treasury  (691) 350-2142 ppm.oas@gmail.com
2019-002	The Division of Procurement & Property Management and The Division of Finance & Treasury 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. Two training/workshop sessions have been provided by the two divisions to explain and address the issue.	On-going	Chief, Division of Procurement & Property Management and also Chief, Division of Finance & Treasury  (691) 350-2142 ppm.oas@gmail.com
2019-003 2020-001 2021-001	OAS and Yap OPA met with YFA and agreed on two options to resolve the finding. First option – Yap OPA has already compiled financial statements for the year 2011-2014 and confirming the accounts balances. Second option – transfer of YFA assets to YSG if 1 <sup>st</sup> option is deemed to take too long and will not be done by end of June 30, 2023.	On-going	Director, OAS 691-350-2142 yapoaservdir@gmail.com