

June 30, 2019

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

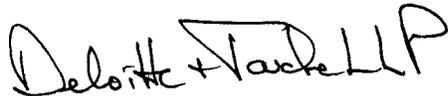
Dear Governor Falan:

We have performed an audit of 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, 2018, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 30, 2019.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the State is responsible.

This report is intended solely for the information and use of management, the Office of the Governor, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

Cc: The Management of the State of Yap



OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE

Our responsibility under (1) generally accepted auditing standards, (2) the standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards") (generally accepted auditing standards and generally accepted government auditing standards are collectively referred to herein as the "Auditing Standards") and (3) the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) has been described in our engagement letter dated October 5, 2018. As described in that letter, the objectives of an audit conducted in accordance with the Auditing Standards and the Uniform Guidance are:

- To express an opinion on the fairness of the State's financial statements and the accompanying supplementary information, in relation to the financial statements as a whole, for the year ended September 30, 2018 (the "financial statements"), in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") in all material respects, and to perform specified procedures on the required supplementary information for the year ended September 30, 2018;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements, including the Schedule of Expenditures of Federal Awards, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report on the State's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2018 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To express an opinion on the State's compliance with requirements applicable to each major program and report on the State's internal control over compliance in accordance with the Uniform Guidance.

Our responsibilities under the Auditing Standards and the Uniform Guidance include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.



OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GUIDANCE, CONTINUED

We also considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance. Our audit does not, however, provide a legal determination of the State's compliance with those requirements.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the State's 2018 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2018, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in aggregate, would have a significant effect on the State's financial reporting process. Such adjustments, listed in Appendix A to Attachment I, have been recorded in the accounting records and are reflected in the 2018 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The State's significant accounting policies are set forth in Note 1 to the State's 2018 financial statements. During the year ended September 30, 2018, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the State:

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

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

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

We have evaluated the significant qualitative aspects of the State's accounting practices, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE STATE

When audited financial statements are included in documents containing other information such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the State issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the State's 2018 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Office of the Governor.



DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the State's 2018 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2018.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Office of the Governor.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the State's management and staff and had unrestricted access to the State's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the State's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the State is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

MODIFICATIONS TO OUR OPINION

The financial statements do not include financial data for Yap Fishing Authority. Accounting principles generally accepted in the United States of America require the financial data for that component unit to be presented as a component unit and financial information about Yap Fishing Authority to be part of the discretely presented component units' column, thus increasing the assets, liabilities, net position, revenues, expenses, and changes in net position of the component units. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the discretely presented component units' column is not reasonably determinable. Our opinion is modified with respect to this matter and the proposed wording of the modification follows:

"In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2018, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America."

EMPHASIS-OF-MATTER PARAGRAPH

As discussed in Note 3 to the financial statements, the State is in discussion with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with the grantor agency arising from Compact sector grant transactions. Our opinion is not modified with respect to this matter.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 30, 2019, concerning certain matters involving the State's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated June 30, 2019, concerning the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Uniform Guidance. Although we have included management's written response to our findings, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We have communicated to management, in a separate letter dated June 30, 2019, certain deficiencies and other matters related to State's internal control over financial reporting that we identified during our audit.

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June 30, 2019

Deloitte & Touche LLP
 361 South Marine Corps Drive
 Tamuning GU 96913

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the "State"), as of and for the year ended September 30, 2018, which collectively comprise the State's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances of the State in accordance with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the basic financial statements of financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in accordance with GAAP.
- b. 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.
 - To prevent and detect fraud.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for general purpose financial statements obtained from the Government Finance Officers Association. Additionally, we agree with the adjusting entries included in Appendix A.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. Except as discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph described in your Independent Auditors' Report, the basic financial statements referred to above are fairly presented in accordance with GAAP. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 - b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - c. Deposits and investment securities are properly classified in the category of custodial credit risk.
 - d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - e. Required supplementary information is measured and presented within prescribed guidelines.
 - f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
 - g. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - h. All funds that meet the quantitative criteria in the Governmental Accounting Standards Board (GASB) Codification of Government Accounting and Financial Reporting Standards ("GASB Codification) Section 2200.159 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
 - i. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - j. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 - k. The State's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.

8. There are no unasserted claims or assessments that we are aware of or that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 10 to the financial statements.
9. Significant assumptions used by us in making accounting estimates are reasonable.
10. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards 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* ("OMB Uniform Guidance"). We have identified and disclosed all of the States' government programs and related activities subject to the OMB Uniform Guidance compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
11. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance, and provisions of grants and contracts relating to the State's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The State is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
12. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards that could have a material effect on its federal programs.
13. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
14. No events have occurred subsequent to September 30, 2018 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
15. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2018.
16. No changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective actions taken by the State with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to September 30, 2018.
17. Federal awards expenditures have been charged in accordance with applicable cost principles.
18. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the OMB Uniform Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.

19. We have disclosed all contracts or other agreements with service organizations.
20. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.
21. We have:
 - a. Identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program under audit.
 - b. Complied, in all material respects, with the direct and material compliance requirements identified above in connection with federal awards.
 - c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
 - d. Made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
 - e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits, program reviews, or any communications from federal awarding agencies and pass-through entities concerning possible noncompliance related to the objectives of the audit.
 - f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
 - g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
 - h. Monitored subrecipients to determine that they have expended subawards in compliance with federal statutes, regulations, and terms and conditions of the subaward and have met the other pass-through entity requirements of OMB Uniform Guidance.

- i. Issued management decisions for audit findings that relate to federal awards made to subrecipients. Such management decisions were issued within six months of acceptance of the audit report by the FAC. Additionally, we have followed up to determine whether the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient from the State.
 - j. Considered the results of the subrecipient's audits and made any necessary adjustments to the States's own books and records.
- 22. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings by federal awarding agency and pass-through entity, including all management decisions, to report the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Uniform Guidance.
- 23. We are responsible for taking corrective action plan on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
- 24. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
- 25. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified, reported, and classified each component unit of the State and each organization that meets the criteria established in GASB Codification Section 2100.

Except where otherwise stated below, matters less than \$168,000 collectively for the governmental activities, \$48,000 collectively for the General Fund, \$85,000 collectively for the Foreign Assistance Grants Fund, \$340,000 collectively for the Yap State Investment Trust Fund, \$75,000 collectively for the Compact Trust Fund, and \$16,000 collectively for the nonmajor governmental funds are not considered to be exceptions that require disclosure for the purpose of the following representations. These amounts are not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

- 26. There are no transactions that have not been recorded and reflected in the financial statements.
- 27. The State has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
- 28. Regarding related parties:
 - a. We have disclosed to you the identity of the State's related parties and all the related-party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.

29. In preparing the financial statements in accordance with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
30. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the State vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
31. There are no:
 - a. Instances of identified or suspected noncompliance with laws or regulations whose effects should be considered when preparing the financial statements.
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as discussed in Note 10 to the financial statements.
32. The State has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as discussed in Notes 1K and 6 to the financial statements.
33. The State has complied with aspects of contractual agreements that may affect the financial statements.
34. No department or agency of the State has reported a material instance of noncompliance to us.
35. The State has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
36. No events have occurred after September 30, 2018, but before June 30, 2019, the date the financial statements were available to be issued that requires consideration as adjustments to or disclosures in the financial statements.

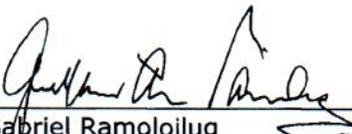
37. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
38. Regarding supplementary information:
- a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
39. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2018 and have been appropriately reduced to their estimated net realizable value.
40. During the year ended September 30, 2018, the State implemented the following pronouncements, which did not have a material effect on the State's financial statements:
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments.
 - GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
 - GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
 - GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

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

41. In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
42. In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
43. In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.
44. In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
45. In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
46. In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
47. Management of the State believes that it is in compliance with all significant limitations and restrictions of Asian Development Bank loan covenants as of September 30, 2018.
48. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
49. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.

50. Management is in discussion with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government. Management believes that the recorded balances are correct.
51. 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, the 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. No losses have occurred as a result of these risks in any of the past three fiscal years.
52. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
53. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the State has been discovered.

Very truly yours,



Gabriel Ramoloilug
Director of Administrative Services
Yap State Government

**Appendix A
Corrected Misstatements**

General Fund

#	Name	Debit	Credit
	1 AJE		
01-00-00-00000-00-1111	BOFSM Stock-YEDA	75,020.00	
01-10-21-01020-00-7820	Investment Income		75,020.00
		<u>75,020.00</u>	<u>75,020.00</u>
	To pick up YSG's share of current year profit.		
	9 AJE		
01-00-00-00000-00-1090	BOH Early Retirement Fund 135065308	71,216.00	
01-10-21-01020-00-7810	Interest Income		71,216.00
		<u>71,216.00</u>	<u>71,216.00</u>
	To reconcile to the confirmation from FSM National Government.		
	10 AJE		
02-10-29-01091-00-7820	Investment income	1,799.00	
02-00-00-00000-00-1110	Investments - BOH Cash Management 140387150		1,799.00
		<u>1,799.00</u>	<u>1,799.00</u>
	To reconcile to the confirmation from the FSM National Government.		
	11 AJE		
01-00-00-00000-00-1110	Investments - Wilshire	1,786.00	
01-10-21-01020-00-7820	Investment Income		1,786.00
		<u>1,786.00</u>	<u>1,786.00</u>
	To reconcile to the confirmation from the FSM National Government.		

**Appendix A, Continued
Corrected Misstatements**

General Fund

#	Name	Debit	Credit
	12 AJE Sector closeout		
99-00-00-00000-10-1999	Due To/Due From		670,692.00
99-00-00-00000-01-1999	Due To/Due From	670,692.00	
01-00-00-00000-99-1999	Due To/Due From		670,692.00
01-10-21-01020-00-7999	Other Misc Revenue	670,692.00	
99-00-00-00000-11-1999	Due To/Due From		16,155.00
99-00-00-00000-01-1999	Due To/Due From	16,155.00	
01-00-00-00000-99-1999	Due To/Due From		16,155.00
01-10-21-01020-00-7999	Other Misc Revenue	16,155.00	
99-00-00-00000-14-1999	Due To/Due From		25,006.00
99-00-00-00000-01-1999	Due To/Due From	25,006.00	
01-00-00-00000-99-1999	Due To/Due From		25,006.00
01-10-21-01020-00-7999	Other Misc Revenue	25,006.00	
99-00-00-00000-15-1999	Due To/Due From	2,589.00	
99-00-00-00000-01-1999	Due To/Due From		2,589.00
01-00-00-00000-99-1999	Due To/Due From	2,589.00	
01-10-21-01020-00-7999	Other Misc Revenue		2,589.00
99-00-00-00000-16-1999	Due To/Due From	1,002.00	
99-00-00-00000-01-1999	Due To/Due From		1,002.00
01-00-00-00000-99-1999	Due To/Due From	1,002.00	
01-10-21-01020-00-7999	Other Misc Revenue		1,002.00
99-00-00-00000-12-1999	Due To/Due From		101,834.00
99-00-00-00000-01-1999	Due To/Due From	101,834.00	
01-00-00-00000-99-1999	Due To/Due From		101,834.00
01-10-21-01020-00-7999	Other Misc Revenue	101,834.00	
		<u>1,634,556.00</u>	<u>1,634,556.00</u>
	To record sector closeout		
	13 AJE Fund balances		
99-00-00-00000-11-1999	Due To/Due From	375,623.00	
99-00-00-00000-01-1999	Due To/Due From		375,623.00
01-00-00-00000-99-1999	Due To/Due From	375,623.00	
01-10-21-01020-00-7999	Other Misc Revenue		375,623.00
99-00-00-00000-14-1999	Due To/Due From	773,741.00	
99-00-00-00000-01-1999	Due To/Due From		773,741.00
01-00-00-00000-99-1999	Due To/Due From	773,741.00	
01-10-21-01020-00-7999	Other Misc Revenue		773,741.00
99-00-00-00000-15-1999	Due To/Due From	389,735.00	
99-00-00-00000-01-1999	Due To/Due From		389,735.00
01-00-00-00000-99-1999	Due To/Due From	389,735.00	
01-10-21-01020-00-7999	Other Misc Revenue		389,735.00
		<u>3,078,198.00</u>	<u>3,078,198.00</u>
	To correct fund balances		

**Appendix A, Continued
Corrected Misstatements**

Grant Assistance Fund

10 AJE Closeout

10-00-00-00000-99-1999	Due To/Due From	670,692.00	
10-00-00-00000-00-1410	US Federal Grants thru FSM		61,082.00
10-00-00-00000-00-3710	Deferred Revenue		609,610.00
11-00-00-00000-99-1999	Due To/Due From	16,155.00	
11-00-00-00000-00-3710	Deferred Revenue		16,155.00
12-00-00-00000-99-1999	Due To/Due From	101,834.00	
12-00-00-00000-00-1410	US Federal Grants thru FSM		101,834.00
14-00-00-00000-99-1999	Due To/Due From	25,006.00	
14-00-00-00000-00-1410	US Federal Grants thru FSM		25,006.00
15-00-00-00000-00-3710	Deferred Revenue	2,828.00	
15-00-00-00000-00-1410	US Federal Grants thru FSM		239.00
15-00-00-00000-99-1999	Due To/Due From		2,589.00
16-00-00-00000-00-3710	Deferred Revenue	1,002.00	
16-00-00-00000-99-1999	Due To/Due From		1,002.00
		<u>817,517.00</u>	<u>817,517.00</u>

To record sector closeout for FY2016 and FY2017.

11 AJE Fund balances

11-10-21-11000-00-7111	Federal Grants-Accrued	375,623.00	
11-00-00-00000-99-1999	Due To/Due From		375,623.00
14-10-21-14000-00-7111	Federal Grants-Accrued	773,741.00	
14-00-00-00000-99-1999	Due To/Due From		773,741.00
15-10-21-15000-00-7111	Federal Grants-Accrued	389,735.00	
15-00-00-00000-99-1999	Due To/Due From		389,735.00
		<u>1,539,099.00</u>	<u>1,539,099.00</u>

To correct fund balances