

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM AND 3005-FSM)**

**STATEMENTS OF PROJECT ACCOUNT,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2018 AND SEPTEMBER 30, 2017

**YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM and 3005-FSM)**

Years Ended December 31, 2018 and September 30, 2017
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INDEPENDENT AUDITORS' REPORT

Hon. Henry Falan
Governor
Yap State Government:

Report on the Financial Statements

We have audited the accompanying financial statements of the Yap State Government Yap Renewable Energy Development Project (the "Project") Financed by ADB Loan No.'s 3004-FSM and 3005-FSM, which comprises the statements of project account for the fifteen months ended December 31, 2018 and the year ended September 30, 2017, and the related notes to the financial statements. The Project is administered by the Yap State Public Service Corporation (YSPSC), which is a component unit of the State of Yap.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the statements of project account for the fifteen months ended December 31, 2018 and the year ended September 30, 2017, in accordance with the cash basis of accounting. Further, in our opinion, the loan proceeds have been used, in all material respects, for purposes of the project and in accordance with the conditions of the loan agreements.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Reporting Entity

As discussed in Note 1 to the financial statement, the financial statements referred to above present only the loan proceeds and disbursements of the Project and are not intended to present fairly the financial position and results of operations of the Yap State Public Service Corporation in conformity with accounting principles generally accepted in the United States of America.

Other Matters

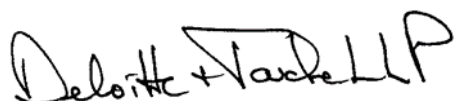
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprises the Project's basic financial statements. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of YSPSC's management and was derived from and relates 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 Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2019 on our consideration of the YSPSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to 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 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 Project management's internal control over financial reporting and compliance.



February 21, 2019

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM AND 3005-FSM)**

Statements of Project Account
Fifteen Months Ended December 31, 2018 and Year Ended September 30, 2017

	2018		2017	
	Loan 3004	Loan 3005	Loan 3004	Loan 3005
Receipts:				
Loan proceeds - Direct	\$ 713,084	\$ 246,086	\$ 1,914,493	\$ 2,401,579
Disbursements:				
Consultants	29,226	-	390,712	-
Diesel generators and switchgears	-	75,121	402,380	2,112,498
Wind turbines	409,441	152,907	993,656	248,414
Power system integration and control system	274,417	18,058	127,745	31,936
Finance charges	-	-	-	8,731
Total disbursements	713,084	246,086	1,914,493	2,401,579
Net change in cash	-	-	-	-
Cash at beginning of year	-	-	-	-
Cash at end of year	\$ -	\$ -	\$ -	\$ -

See accompanying notes to statements of project account.

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM and 3005-FSM)**

Notes to Statements of Project Account
December 31, 2018 and September 30, 2017

(1) Organization

On June 24, 2013, the Asian Development Bank (“ADB”) approved two loans to the Yap State Government, Loan Nos. 3004-FSM and 3005-FSM. Loan No. 3004-FSM provides for loans to the State of Yap of up to \$4,680,000 from ADB’s ordinary capital resources and Loan No. 3005-FSM provides for loans to the State of Yap of SDR 2,896,000, a Special Drawing Rights from ADB’s Special Fund. The purpose of the loans is to fund the Yap Renewable Energy Development Project (the “Project”) that will reduce dependency on imported diesel, expansion of renewable power generation, and improve the supply side efficiencies of power delivery. The loans are guaranteed by the Federated States of Micronesia. The loans have a principal repayment period of 20 years and a grace period as defined in the loan agreement.

The Yap State Public Service Corporation (YSPSC) is the Executing Agency and administers funds drawn down against the loans.

The accumulated funds drawn from the loans are \$8,294,008 as of December 31, 2018. The accompanying statements of project account are prepared for the fifteen months ended December 31, 2018 and the year ended September 30, 2017 and include only the activities of the Project.

(2) Summary of Significant Accounting Principles

Basis of Accounting

The Project uses the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts (revenues) are recognized when received rather than when earned and disbursements (expenses) are recognized when paid rather than when the obligation is incurred. Commitments are recorded separately from the accounting records and are not recorded in these financial statements. Payments for project expenditures have been made using the Direct Payments method following ADB’s withdrawal application method.

Cash

Cash is stated at nominal values.

Foreign Currencies

Transactions involving foreign currencies have been recorded in United States dollars using the rates of exchange ruling on the date of the transaction.

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM and 3005-FSM)**

Notes to Statements of Project Account
December 31, 2018 and September 30, 2017

(3) Description of the Project

The impact of the Project will be improved energy security for Yap State. The outcome of the Project will be an increased supply of clean, renewable energy by YSPSC to Yap State.

In particular, the Project will consist of:

- (i) The construction of Yap Wind Farm, consisting of approximately 1.4 MW comprising of Phase 1 approximately 0.5 MW and Phase 2 approximately 0.9 MW;
- (ii) The installation of a solar power system, consisting approximately 300kW grid-connected solar installations on government building roofs (approximately 21 buildings at 4 sites dispersed across Yap);
- (iii) The installation of a diesel generator, consisting of new high-efficiency medium-speed diesel engine of 1.85 MW capacity (9.9 GWh/annum); and
- (iv) The formation of efficient project management services, consisting of an established Project Management Unit (PMU) which will provide efficient technical design, management and construction supervision services.

The project was completed as of December 31, 2018, and the targets to be achieved are:

- (i) Renewable energy generation increased as a percentage of the Yap power generation by 22.2%;
- (ii) Diesel generation efficiencies improve from 13.8 kWh/gallon to 14.6 kWh/gallon;
- (iii) CO₂ emissions reduced by 588 tCO₂e annually.

(4) Compliance with Debt Covenants

Management is of the opinion that compliance with the applicable debt covenants has occurred.

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM and 3005-FSM)**

Notes to Statements of Project Account
December 31, 2018 and September 30, 2017

(5) Project Financing Status

The cumulative schedule of project financing as of December 31, 2018 is as follows:

<u>Components</u>	<u>Funded by ADB</u>		<u>Total ADB</u>	<u>Funded by YSPSC</u>	<u>Grand Total</u>
	<u>Loan 3004</u>	<u>Loan 3005</u>			
Solar energy project contractor	\$ 417,997	\$ -	\$ 417,997	\$ 184,683	\$ 602,680
Consultants	748,438	-	748,438	-	748,438
Diesel generators and switchgears	568,277	3,066,007	3,634,284	46,835	3,681,119
Wind turbines	2,259,770	564,945	2,824,715	467,414	3,292,129
Power system integration and control system	527,247	131,810	659,057	-	659,057
Finance charges	-	9,517	9,517	-	9,517
Total	\$ <u>4,521,729</u>	\$ <u>3,772,279</u>	\$ <u>8,294,008</u>	\$ <u>698,932</u>	\$ <u>8,992,940</u>

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM AND 3005-FSM)**

Cumulative Statement of Project Account
December 31, 2018

	<u>Cumulative</u>
Receipts:	
Loan proceeds - Direct	\$ 8,294,008
Disbursements:	
Solar energy project contractor	417,997
Consultants	748,438
Diesel generators and switchgears	3,634,284
Wind turbines	2,824,715
Power system integration and control system	659,057
Finance charges	9,517
Total disbursements	8,294,008
Net change in cash	
Cash at beginning of period	-
Cash at end of period	\$ -

See Accompanying Independent Auditors' Report.

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM AND 3005-FSM)**

Cumulative Withdrawal Applications Submitted to Asian Development Bank
December 31, 2018

Loan 3004-FSM

<u>W.A. No.</u>	<u>Process Date</u>	<u>Application Details</u>	<u>Amount</u>
1	08/01/2014	LN3004-FSM - Consultant - Progress payment 1	\$ 80,073
2	07/29/2014	LN3004-FSM - Consultant - Progress payment 2	120,416
3	12/02/2014	LN3004-FSM - Consultant - Progress payment 3	128,011
4	09/15/2015	LN3004-FSM - Solar Panels and Inverters - 10% of advance payment	41,800
5	01/20/2016	LN3004-FSM - Solar Panels and Inverters - 80% of advance payment	334,397
6	02/22/2016	LN3004-FSM - Solar Panels and Inverters - 10% of full payment	41,800
7	02/29/2016	LN3004-FSM - Diesel Generators & Switchgear Claim 1	13,115
8	03/02/2016	LN3004-FSM - Diesel Generators & Switchgear Claim 1	21,964
9	07/13/2016	LN3004-FSM - Diesel Generators & Switchgear - GRT	3,592
10	07/11/2016	LN3004-FSM - Diesel Generators & Switchgear Claim 2 & GRT	15,861
13	08/11/2016	LN3004-FSM - Diesel Generators & Switchgear - Custom duties	1,568
14	08/04/2016	LN3004-FSM - Diesel Generators & Switchgear Claim 3	31,360
15	08/24/2016	LN3004-FSM - Wind Turbine - 10% advance payment	50,024
16	08/26/2016	LN3004-FSM - Wind Turbine & Integration and Control System - 10% advance payment	226,066
17	09/15/2016	LN3004-FSM - Diesel Generators & Switchgears - GRT	86
18	09/13/2016	LN3004-FSM - Diesel Generators & Switchgear Claim 4	74,577
19	09/15/2016	LN3004-FSM - Wind Turbine - 80% of FOB	667,823
20	09/28/2016	LN3004-FSM - Diesel Generators & Switchgear - Custom duties	3,773
21	09/30/2016	LN3004-FSM - Wind Turbine - Custom duties	37,846
22	10/13/2016	LN3004-FSM - Wind Turbine - 80% CIF	98,672
23	10/31/2016	LN3004-FSM - Diesel Generators & Switchgear Claim4	170,418
24	11/14/2016	LN3004-FSM - Diesel Generators & Switchgear - Custom duties	6,820
25	12/05/2016	LN3004-FSM - Diesel Generators & Switchgear Claim5	2,556
26	12/05/2016	LN3004-FSM - Consultant - Progress payment 4	390,712
27	12/22/2016	LN3004-FSM - Diesel Generators & Switchgear Claim6A	10,973
28	12/22/2016	LN3004-FSM - Diesel Generators & Switchgear Claim6A	68,211
29	03/01/2017	LN3004-FSM - Diesel Generators & Switchgear Claim 8	40,306
30	03/01/2017	LN3004-FSM - Diesel Generators & Switchgears - GRT	3,164
31	03/03/2017	LN3004-FSM - Diesel Generators & Switchgear Claim 8	11,760
32	03/03/2017	LN3004-FSM - Diesel Generators & Switchgears - GRT	5,566
33	03/01/2017	LN3004-FSM - Diesel Generators & Switchgears - GRT	2,046
34	03/22/2017	LN3004-FSM - Diesel Generators & Switchgear Claim 10	7,201
35	03/24/2017	LN3004-FSM - Diesel Generators & Switchgear Claim 10	14,217
36	04/03/2017	LN3004-FSM - Wind Turbine - 2nd shipment schedule/80% of FOB	248,010
37	04/17/2017	LN3004-FSM - Diesel Generators & Switchgear Claim 11	22,060
38	04/19/2017	LN3004-FSM - Diesel Generators & Switchgear Claim 11	14,303
39	05/05/2017	LN3004-FSM - Diesel Generators & Switchgears - GRT	2,087
40	05/05/2017	LN3004-FSM - Diesel Generators & Switchgears - GRT	1,170
41	05/23/2017	LN3004-FSM - Wind Turbine - 3rd shipment schedule/80% of FOB	132,034
42	07/03/2017	LN3004-FSM - Wind Turbine - 2nd & 3rd shipment schedule/80% of FOB	30,053
43	07/24/2017	LN3004-FSM - Diesel Generators & Switchgear Claim 13	18,538
44	07/20/2017	LN3004-FSM - Wind Turbine - installation and other services - 30%-USD	128,877
45	07/24/2017	LN3004-FSM - Wind Turbine - installation and other services - 30%-EURO	63,315
46	07/24/2017	LN3004-FSM - Int. & Control - installation and other services - 30%-euro	24,231
47	07/24/2017	LN3004-FSM - Int. & Control - - 1st shpt. 80% FOB	94,678
48	07/24/2017	LN3004-FSM - Int. & Control - - recommended spares	1,745
49	08/10/2017	LN3004-FSM - Wind Turbine - 90% design services-euro	34,488
50	08/08/2017	LN3004-FSM - Wind Turbine - 90% design services-usd	63,590

See Accompanying Independent Auditors' Report.

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM AND 3005-FSM)**

Cumulative Withdrawal Applications Submitted to Asian Development Bank, Continued
December 31, 2018

Loan 3004-FSM, Continued

<u>W.A. No.</u>	<u>Process Date</u>	<u>Application Details</u>	<u>Amount</u>
51	09/22/2017	LN3004-FSM - Wind Turbine - installation and other services - 30%-usd	128,877
52	09/26/2017	LN3004-FSM - Wind Turbine - installation and other services - 30%-euro	65,740
53	09/26/2017	LN3004-FSM - Int. & Control - -1st shpt.80% of CIF-80%FOB	7,091
54	09/26/2017	LN3004-FSM - Diesel Generators & Switchgears - GRT	555
55	09/22/2017	LN3004-FSM - Diesel Generators & Switchgears - GRT	429
56	10/31/2017	LN3004-FSM - Integration & Control - 90% Design services	274,417
58	11/30/2017	LN3004-FSM -Wind Turbine - 20% installation and other services(EURO contract)	42,778
57	11/30/2017	LN3004-FSM -Wind Turbine - 20% installation and other services(USD contract)	85,918
59	02/28/2018	LN3004-FSM -Wind Turbine - 60% installation and other services(euro contract)	72,234
61	11/07/2018	LN3004-FSM - Wind Turbine I -5% Installtion and other services	42,959
62	11/09/2018	LN3004-FSM - Wind Turbine I -5% Installtion and other services	165,552
63	12/24/2018	LN3004-FSM - Consultancy services	29,226
			\$ 4,521,729

See Accompanying Independent Auditors' Report.

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM AND 3005-FSM)**

Cumulative Withdrawal Applications Submitted to Asian Development Bank, Continued
December 31, 2018

Loan 3005-FSM

<u>W.A. No.</u>	<u>Process Date</u>	<u>Application Details</u>	<u>Amount</u>
0	06/01/2016	ADB Finance Charges	\$ 785
1	03/16/2016	LN3005-FSM - Diesel Generators & Switchgear Claim 1	122,740
2	03/21/2016	LN3005-FSM - Diesel Generators & Switchgear Claim 1	68,855
3	07/13/2016	LN3005-FSM - Diesel Generators & Switchgear - GRT	18,857
4	07/11/2016	LN3005-FSM - Diesel Generators & Switchgear Claim 2	83,268
7	08/11/2016	LN3005-FSM - Diesel Generators & Switchgear - Custom duties	8,232
8	08/04/2016	LN3005-FSM - Diesel Generators & Switchgear Claim 3	164,640
9	08/24/2016	LN3005-FSM - Wind Turbine - 10% advance payment	12,506
10.1	08/26/2016	LN3005-FSM - Wind Turbine - 10% advance payment	43,304
10.2	08/26/2016	LN3005-FSM - Power System Integration and Control System App.10	13,213
11	09/15/2016	LN3005-FSM - Diesel Generators & Switchgear - GRT	455
12	09/13/2016	LN3005-FSM - Diesel Generators & Switchgear Claim 4	391,530
13	09/15/2016	LN3005-FSM - Wind Turbine - 80% of FOB	166,956
14	09/28/2016	LN3005-FSM - Diesel Generators & Switchgear - Custom duties	19,812
15	09/30/2016	LN3005-FSM - Wind Turbine - Custom duties	9,461
16	10/13/2016	LN3005-FSM - Wind Turbine - 80% CIF	24,668
17	10/31/2016	LN3005-FSM - Diesel Generators & Switchgear Claim4	894,694
18	11/14/2016	LN3005-FSM - Diesel Generators & Switchgear - Custom duties	35,803
	12/01/2016	LN3005-FSM -CAP finance charge	8,106
19	12/05/2016	LN3005-FSM - Diesel Generators & Switchgear Claim5	13,421
20	12/22/2016	LN3005-FSM - Diesel Generators & Switchgear Claim6A	57,610
21	12/22/2016	LN3005-FSM - Diesel Generators & Switchgear Claim6A	358,105
22	03/01/2017	LN3005-FSM - Diesel Generators & Switchgear Claim 8	211,608
23	03/01/2017	LN3005-FSM - Diesel Generators & Switchgears - GRT	16,612
24	03/03/2017	LN3005-FSM - Diesel Generators & Switchgear Claim 8	61,742
25	03/03/2017	LN3005-FSM - Diesel Generators & Switchgears - GRT	29,220
26	03/01/2017	LN3005-FSM - Diesel Generators & Switchgears - GRT	10,743
27	03/22/2017	LN3005-FSM - Diesel Generators & Switchgear Claim 10	37,804
28	03/24/2017	LN3005-FSM - Diesel Generators & Switchgear Claim 10	74,641
29	04/03/2017	LN3005-FSM - Wind Turbine - 2nd shipment schedule/80% of FOB	62,002
30	04/17/2017	LN3005-FSM - Diesel Generators & Switchgear Claim 11	115,815
31	04/19/2017	LN3005-FSM - Diesel Generators & Switchgear Claim 11	75,089
32	05/05/2017	LN3005-FSM - Diesel Generators & Switchgears - GRT	10,957
33	05/05/2017	LN3005-FSM - Diesel Generators & Switchgears - GRT	6,141
34	05/23/2017	LN3005-FSM - Wind Turbine - 3rd shipment schedule/80% of FOB	33,009
	06/01/2017	LN3005-FSM -CAP finance charge	625
36	07/03/2017	LN3005-FSM - Wind Turbine - 2nd & 3rd shipment schedule/80% of FOB	7,513
37	07/24/2017	LN3005-FSM - Diesel Generators & Switchgear Claim 13	97,324
38	07/20/2017	LN3005-FSM - Wind Turbine - installation and other services - 30%-USD	32,219
39	07/24/2017	LN3005-FSM - Wind Turbine - installation and other services - 30%-EURO	15,829
40	07/24/2017	LN3005-FSM - Int. & Control - installation and other services - 30%-euro	6,058
41	07/24/2017	LN3005-FSM - Int. & Control - - 1st shpt. 80% FOB	23,669
41	07/24/2017	LN3005-FSM - Int. & Control - - recommended spares	436
42	08/10/2017	LN3005-FSM - Wind Turbine - 90% design services-euro	8,622
43	08/08/2017	LN3005-FSM - Wind Turbine - 90% design services-usd	15,897
44	09/22/2017	LN3005-FSM - Wind Turbine - installation and other services - 30%-usd	32,219

See Accompanying Independent Auditors' Report.

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM AND 3005-FSM)**

Cumulative Withdrawal Applications Submitted to Asian Development Bank, Continued
December 31, 2018

Loan 3005-FSM, Continued

<u>W.A. No.</u>	<u>Process Date</u>	<u>Application Details</u>	<u>Amount</u>
45	09/26/2017	LN3005-FSM - Wind Turbine - installation and other services - 30%-euro	16,435
46	09/26/2017	LN3005-FSM - Int. & Control - -1st shpt.80% of CIF-80%FOB	1,773
47	09/26/2017	LN3005-FSM - Diesel Generators & Switchgears - GRT	2,916
48	09/22/2017	LN3005-FSM - Diesel Generators & Switchgears - GRT	2,254
36	10/31/2017	LN3005-FSM - Diesel Generators & Switchgears -claim No. 13	75,121
49	10/31/2017	LN3005-FSM - Wind Turbine - 90% design services - EURO	68,604
50	11/30/2017	LN3005-FSM - Wind Turbine - 20% installation & other services -USD	21,480
51	11/30/2017	LN3005-FSM - Wind Turbine - 20% installation & other services -euro	10,695
52	02/28/2018	LN3005-FSM - Int. & Control -60% installation & other services	18,058
53	11/09/2018	LN3005-FSM - Wind Turbine - 5% installation & other services -euro	41,388
54	11/07/2018	LN3005-FSM - Wind Turbine -5% installation & other services-usd	10,740
			3,772,279
			\$ 8,294,008

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

Hon. Henry Falan
Governor
Yap State Government:

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 statement of the Yap Renewable Energy Development Project (the "Project") Financed by ADB Loan No. 3004-FSM and 3005-FSM, which comprises the statements of project account for the fifteen months ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2019.

Internal Control Over Financial Reporting

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

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

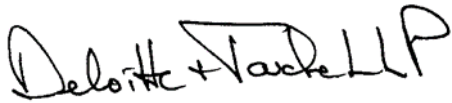
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

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

February 21, 2019

**YAP STATE GOVERNMENT
YAP RENEWABLE ENERGY DEVELOPMENT PROJECT
(FINANCED BY ADB LOAN NO. 3004-FSM and 3005-FSM)**

Unresolved Prior Year Findings
Year Ended December 31, 2018

There were no unresolved audit findings from prior year audits of the Project.