

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133**

YEAR ENDED SEPTEMBER 30, 2013

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

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**STATE OF YAP
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**INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2013

INDEPENDENT AUDITORS' REPORT

Honorable Sebastian Anafel
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, 2013, 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 revenues of the State's business-type activities and which represents 53%, 58% and 25%, respectively, of the assets, net position/fund balances and revenues of the State's aggregate remaining fund information. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-type Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
Grants Assistance Fund	Unmodified
Compact Trust Fund	Unmodified
Public Transportation System	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for Yap Fishing Authority and Gagil-Tomil Water Authority. Accounting principles generally accepted in the United States of America require the financial data for those component units to be presented as component units and financial information about Yap Fishing Authority and Gagil-Tomil Water 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.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2013, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, 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, 2013, 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.

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 4 through 8 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Deficit – Budget and Actual – General Fund and notes thereto, on pages 49 and 50, 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.

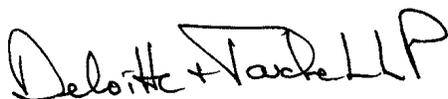
Other Information

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 June 29, 2014, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to 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 the State's internal control over financial reporting and compliance.

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

June 29, 2014

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion And Analysis
Year Ending September 30, 2013

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, 2013. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2012 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, 2013, Yap State's total net position increased by \$4.9 million (or 5.7%) from \$85.9 million in the prior year to \$90.8 million.
- In comparison to fiscal year 2012, revenues increased by \$1.7 million (or 52.1%), and total expenditures increased by \$0.4 million (or 1.7%). The increase in revenue was due to unrealized gains of \$8.4 million in the fair value of investments; \$5.5 million of which was attributed to the Yap Trust Fund and \$2.9 million were investment gains in other invested funds.
- Fiscal year 2013 revenues available for appropriation were \$3.7 million more than budgeted for the general fund. Actual expenditures were \$250,548 less than the final budgeted amount.
- At the end of fiscal year 2013, the Yap State Trust Fund reported a balance of \$49 million, which was an increase of \$5.5 million from the prior year, due to unrealized gains in the fair value of the investments.
- At the end of the fiscal year, the unassigned balance of the general fund was \$14.5 million. Beginning with fiscal year 2011, GASB 54 changed the classifications of fund balance, so as to more consistently apply and clarify fund balance definitions.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Yap State's basic financial statements. Yap State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds 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.

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.

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

FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2013, Yap State's assets exceeded liabilities by \$90.8 million. Of its total net position, \$37.5 million is restricted for specific uses. Included in the restricted amount, \$23.3 million is invested in capital assets (buildings, roads, etc.). Yap State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Yap State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following schedule summarizes Yap State's net position as of September 30, 2013 with comparative figures for the prior year:

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**Management's Discussion And Analysis
Year Ending September 30, 2013**

	Governmental Activities		Business Type Activities		Total		Change	%
	2013	2012	2013	2012	2013	2012		
Assets								
Current assets	\$ 25,788,328	\$ 24,470,740	\$ 165,553	\$ 142,892	\$ 25,953,881	\$ 24,613,632	\$ 1,340,249	5.4%
Other assets	52,735,728	47,280,781	-	-	52,735,728	47,280,781	5,454,947	11.5%
Capital assets, net	22,756,340	24,961,581	521,707	641,332	23,278,047	25,602,913	(2,324,866)	-9.1%
Total assets	101,280,396	96,713,102	687,260	784,224	101,967,656	97,497,326	4,470,330	4.6%
Liabilities								
Current liabilities	5,883,952	6,076,310	13,727	20,482	5,897,679	6,096,792	(199,113)	-3.3%
Noncurrent liabilities	5,291,853	5,544,920	-	-	5,291,853	5,544,920	(253,067)	-4.6%
Total liabilities	11,175,805	180,576,694	13,727	20,482	11,189,532	11,641,712	(452,180)	-3.9%
Net Position								
Net investment in capital assets	22,756,340	24,961,581	521,707	641,332	23,278,047	25,602,913	(2,324,866)	-9.1%
Restricted	14,201,006	12,564,177	-	-	14,201,006	12,564,177	1,636,829	13.0%
Unrestricted	53,147,245	47,566,114	151,826	122,410	53,299,071	47,688,524	5,610,547	11.8%
Total net position	\$ 90,104,591	\$ 85,091,872	\$ 673,533	\$ 763,742	\$ 90,778,124	\$ 85,855,614	\$ 4,922,510	5.7%

At the end of fiscal year 2013, Yap State's unrestricted assets show a surplus of \$53.3 million (59% of total net position). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$40.0 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2012, Yap State's net position increased by \$4.9 million. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Governmental Activities		Business Type Activities		Total		Change	%
	2013	2012	2013	2012	2013	2012		
Revenues:								
Program revenues:								
Charges for services	\$ 1,254,398	\$ 1,201,736	\$ 483,640	\$ 321,936	\$ 1,738,038	\$ 1,523,672	\$ 214,366	14.1%
Operating grants and contributions	15,025,795	14,264,910	-	241,048	15,025,795	14,505,958	519,837	3.6%
General revenues:								
Taxes	3,392,508	3,375,900	-	-	3,392,508	3,375,900	16,608	0.5%
Unrestricted investment earnings	2,938,846	2,396,278	-	-	2,938,846	2,396,278	542,568	22.6%
Other	2,264,666	758,599	-	28,726	2,264,666	787,325	1,477,341	187.6%
Total revenues	24,876,213	21,997,423	483,640	591,710	25,359,853	22,589,133	2,770,720	12.3%
Expenses:								
General government	4,374,299	5,031,043	573,849	562,458	4,948,148	5,593,501	(645,353)	-11.5%
Health services	5,676,253	4,006,597	-	-	5,676,253	4,006,597	1,669,656	41.7%
Education	5,471,456	5,755,249	-	-	5,471,456	5,755,249	(283,793)	-4.9%
Economic development	1,446,890	1,072,932	-	-	1,446,890	1,072,932	373,958	34.9%
Public safety	657,968	644,053	-	-	657,968	644,053	13,915	2.2%
Public works and transportation	5,896,447	3,760,872	-	-	5,896,447	3,760,872	2,135,575	56.8%
Community affairs	275,714	278,374	-	-	275,714	278,374	(2,660)	-1.0%
Boards and commissions	229,251	593,218	-	-	229,251	593,218	(363,967)	-61.4%
Payments to components	58,230	301,949	-	-	58,230	301,949	(243,719)	-80.7%
Judiciary	197,309	217,992	-	-	197,309	217,992	(20,683)	-9.5%
Public auditor	2,301	6,958	-	-	2,301	6,958	(4,657)	-66.9%
Other	977,126	3,448,615	-	-	977,126	3,448,615	(2,471,489)	-71.7%
Total expenses	25,263,244	25,117,852	573,849	562,458	25,837,093	25,680,310	156,783	0.6%
Change in net position	(387,031)	(3,120,429)	(90,209)	29,252	(477,240)	(3,091,177)	2,613,937	-84.6%
Net position at the beginning of year	85,091,872	87,414,842	763,742	734,490	85,855,614	88,149,332	(2,293,718)	-2.6%
Contributions to permanent funds	5,472,228	6,657,898	-	-	5,472,228	6,657,898	(1,185,670)	-17.8%
Receivable write-off	(72,478)	(2,826,281)	-	-	(72,478)	(2,826,281)	2,753,803	-97.4%
Prior period adjustment	-	(3,034,158)	-	-	-	(3,034,158)	3,034,158	-100.0%
Net position at the end of year	\$ 90,104,591	\$ 85,091,872	\$ 673,533	\$ 763,742	\$ 90,778,124	\$ 85,855,614	\$ 4,922,510	5.7%

Total revenues in fiscal year 2013 increased by \$2.2 million over prior year's \$23.2 million primarily due to gains on the fair value of investments. Most of the unrealized gains were in the Yap State Trust investments. Total expenses of \$25.26 million in fiscal year 2013 is at the same level as that of fiscal year 2012's expenses of \$25.68 million. An amount of \$72,478 was written off the Accounts Receivables adding to the expenses for the year.

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

FINANCIAL ANALYSIS OF YAP STATE GOVERNMENTAL FUNDS

As noted earlier, Yap State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2013, Yap State's governmental funds reported a combined fund balance of \$73.3 million, which represents an increase of \$7.0 million in comparison with fiscal year 2012. Of the total fund balance, \$60.1 million is nonspendable, restricted, committed, or assigned. These classifications indicate that the funds are not available for new spending because it is: 1) nonspendable because it is already committed to assets or is restricted by law or other stipulation (\$42.0 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$15.5 million); 3) restricted because the funds are already committed (\$1.3 million); and, 4) restricted and intended for a specific purpose (\$1.3 million). The unassigned combined fund balance is \$13.1 million. As mentioned above, GASB 54 was implemented in fiscal year 2011, which changed the classification definitions in the State's fund balance.

The State's governmental fund changes in fund balances for the years ended September 20, 2013 and 2012 are shown below:

	General Fund		Foreign Assistance Grant Fund		Yap State Investment Trust		Other Funds	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues:								
Taxes	\$3,282,571	\$3,258,473	\$ 0	\$ 0	\$ 0	\$ 0	\$ 109,937	\$117,427
Compact	0	0	10,589,520	\$11,188,414	0	0	0	0
Other/Transfers in	6,830,739	4,066,577	4,082,014	2,801,830	4,279,294	5,205,303	1,870,445	888,186
Total revenues	10,113,310	7,325,050	14,671,534	13,990,244	4,279,294	5,205,303	1,980,382	1,005,613
Expenditures/transfers out	9,594,913	11,112,561	14,210,358	13,944,075	0	0	1,417,717	959,624
Prior period adjustment	0	1,434,439	0	(2,495,564)	0	0	0	0
Net change in fund balances	\$ 518,397	(\$2,353,072)	\$ 461,176	(\$2,449,395)	\$4,279,294	\$5,205,303	\$ 562,665	\$45,989

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 \$2.9 million unrealized gain which contributed to the state's increase in revenues as compared to prior year. Actual expenditures for the fiscal year were \$1.6 million more than the total revenues.

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2013. Activities in this fund were relatively stable during the year.

Yap State Investment Trust and Compact Trust Fund

Revenues for these funds are determined by the results of the State's investments. Those results are primarily based on improvement in the U.S. Stock market, which is what transpired during fiscal year 2013.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2013, amounted to \$109.7 million, net of accumulated depreciation of \$86.9 million, leaving a net book value of \$22.8 million. This represents a net decrease of \$2.2 million from fiscal year 2012. The table below summarizes Yap State's capital assets:

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	2013	2012	Change	%
Land	\$ 3,170,610	\$ 3,170,610	\$ -	0.0%
Buildings	3,849,783	3,948,265	(98,482)	-2.5%
Equipment	392,559	473,163	(80,604)	-17.0%
Heavy Equipment	351,821	488,407	(136,586)	-28.0%
Vehicles	221,785	339,257	(117,472)	-34.6%
Boats	2,646,579	2,848,543	(201,964)	-7.1%
Infrastructure	12,123,203	13,693,336	(1,570,133)	-11.5%
Total	<u>\$ 22,756,340</u>	<u>\$ 24,961,581</u>	(2,205,241)	-8.8%

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 \$5.04 million at September 30, 2013. This debt is comprised of the non-current portion of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, and the Basic Social Services Loan with all three adding to \$5.04 million, liability for compensated absences of \$0.61 million, and long-term payments due under land purchase agreements of \$0.25 million. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by \$1.7 million deposited in a restricted investment account jointly held with the FSM National Government.

Additional information on Yap States long-term debt obligations can be found in note 7 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

As with the rest of the FSM, Yap State had to address the financial constraints from the Amended Compact annual decrements, increased costs of providing basic public services, and lack of new revenue source. As other economic factors in the local economy remain relatively stagnant, Yap State's recourse was to identify budget items that could be reduced or eliminated through a long term fiscal framework process.

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 29% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2014 and beyond.

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

CONTACTING YAP STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors, a general overview of Yap State's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Office of Administrative Services, P.O Box 610, Yap, FM 96943.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Position
September 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 500,758	\$ 24,560	\$ 525,318	\$ 8,786,211
Time certificates of deposit	-	-	-	1,566,000
Investments	22,935,091	-	22,935,091	556,426
Receivables, net of allowance for uncollectibles	1,555,644	8,029	1,563,673	1,568,179
Advances	322,128	-	322,128	-
Inventories	-	122,355	122,355	953,085
Other current assets	-	10,609	10,609	192,536
Restricted assets:				
Cash and cash equivalents	474,707	-	474,707	-
Total current assets	<u>25,788,328</u>	<u>165,553</u>	<u>25,953,881</u>	<u>13,622,437</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	206,806
Time certificates of deposit	-	-	-	2,023,901
Investments	50,735,728	-	50,735,728	-
Investments	2,000,000	-	2,000,000	-
Capital assets:				
Nondepreciable capital assets	3,170,610	-	3,170,610	1,048,391
Capital assets, net of accumulated depreciation	19,585,730	521,707	20,107,437	12,590,799
Other non-current assets	-	-	-	304,034
Total noncurrent assets	<u>75,492,068</u>	<u>521,707</u>	<u>76,013,775</u>	<u>16,173,931</u>
Total assets	<u>\$ 101,280,396</u>	<u>\$ 687,260</u>	<u>\$ 101,967,656</u>	<u>\$ 29,796,368</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term obligations	\$ 164,919	\$ -	\$ 164,919	\$ 712,932
Accounts payable	1,881,230	5,202	1,886,432	1,436,931
Compensated absences payable, net of current portion	450,961	-	450,961	-
Accrued interest payable	14,872	-	14,872	-
Other liabilities and accruals	329,155	7,381	336,536	1,246,645
Unearned revenue	3,042,815	1,144	3,043,959	180,431
Total current liabilities	<u>5,883,952</u>	<u>13,727</u>	<u>5,897,679</u>	<u>3,576,939</u>
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	4,878,895	-	4,878,895	4,562,310
Compensated absences payable	163,350	-	163,350	-
Other noncurrent liabilities	249,608	-	249,608	-
Total noncurrent liabilities	<u>5,291,853</u>	<u>-</u>	<u>5,291,853</u>	<u>4,562,310</u>
Total liabilities	<u>11,175,805</u>	<u>13,727</u>	<u>11,189,532</u>	<u>8,139,249</u>
<u>NET POSITION</u>				
Net investment in capital assets	22,756,340	521,707	23,278,047	8,363,948
Restricted for:				
Nonexpendable:				
Future operations	9,018,666	-	9,018,666	-
Expendable:				
Compact related	2,897,743	-	2,897,743	-
Debt service	1,714,557	-	1,714,557	-
Other purposes	570,040	-	570,040	3,929,635
Unrestricted	<u>53,147,245</u>	<u>151,826</u>	<u>53,299,071</u>	<u>9,363,536</u>
Total net position	<u>90,104,591</u>	<u>673,533</u>	<u>90,778,124</u>	<u>21,657,119</u>
Total liabilities and net position	<u>\$ 101,280,396</u>	<u>\$ 687,260</u>	<u>\$ 101,967,656</u>	<u>\$ 29,796,368</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2013

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
Judiciary	\$ 197,309	\$ -	\$ -	\$ -	\$ (197,309)	\$ -	\$ (197,309)	\$ -
Councils of traditional leaders	187,993	-	-	-	(187,993)	-	(187,993)	-
Public auditor	2,301	-	-	-	(2,301)	-	(2,301)	-
General government	4,374,299	1,254,398	2,917,513	-	(202,388)	-	(202,388)	-
Resources and development	1,446,890	-	1,142,806	-	(304,084)	-	(304,084)	-
Public safety	657,968	-	-	-	(657,968)	-	(657,968)	-
Community affairs	275,714	-	-	-	(275,714)	-	(275,714)	-
Education	5,471,456	-	5,651,436	-	179,980	-	179,980	-
Public works and transportation	5,896,447	-	708,307	-	(5,188,140)	-	(5,188,140)	-
Health services	5,676,253	-	4,547,503	-	(1,128,750)	-	(1,128,750)	-
Boards and commissions	229,251	-	-	-	(229,251)	-	(229,251)	-
Payments to components	58,230	-	58,230	-	-	-	-	-
Other appropriations	475,761	-	-	-	(475,761)	-	(475,761)	-
Interest expense	313,372	-	-	-	(313,372)	-	(313,372)	-
Total governmental activities	25,263,244	1,254,398	15,025,795	-	(8,983,051)	-	(8,983,051)	-
Business-type activities:								
Public Transportation System	573,849	483,640	-	-	-	(90,209)	(90,209)	-
Total primary government	\$ 25,837,093	\$ 1,738,038	\$ 15,025,795	\$ -	(8,983,051)	(90,209)	(9,073,260)	-
Component units:								
Yap Visitor's Bureau	\$ 291,589	\$ -	\$ -	\$ -	-	-	-	(291,589)
Yap State Public Service Corporation	6,979,316	6,291,565	-	618,431	-	-	-	(69,320)
The Diving Seagull, Inc.	11,229,444	13,185,070	-	-	-	-	-	1,955,626
Total component units	\$ 18,500,349	\$ 19,476,635	\$ -	\$ 618,431	-	-	-	1,594,717
General revenues:								
Taxes:								
FSM revenue sharing:								
Gross revenue taxes					732,597	-	732,597	-
Import taxes					628,912	-	628,912	-
Income taxes					605,604	-	605,604	-
Other taxes					379,261	-	379,261	-
State taxes					1,046,134	-	1,046,134	-
Unrestricted investment earnings					2,938,846	-	2,938,846	6,027
Contributions from primary government					-	-	-	2,396,642
Other					2,264,666	-	2,264,666	102,799
					8,596,020	-	8,596,020	2,505,468
Special item:								
Write-off of receivables					(72,478)	-	(72,478)	-
Contributions to permanent funds					5,472,228	-	5,472,228	-
Total general revenues, special items and contributions					13,995,770	-	13,995,770	2,505,468
Change in net position					5,012,719	(90,209)	4,922,510	4,100,185
Net position at the beginning of the year					85,091,872	763,742	85,855,614	17,556,934
Net position at the end of the year					\$ 90,104,591	\$ 673,533	\$ 90,778,124	\$ 21,657,119

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2013

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
ASSETS						
Cash and cash equivalents	\$ 226,346	\$ -	\$ -	\$ -	\$ 274,412	\$ 500,758
Investments	21,056,875	3,878,216	-	-	-	24,935,091
Receivables, net:						
Federal agencies	-	748,280	-	-	-	748,280
FSM National Government	502,183	-	-	-	192,987	695,170
Other	111,594	600	-	-	-	112,194
Due from other funds	3,622,117	6,375,514	-	-	142,294	10,139,925
Advances	138,436	183,692	-	-	-	322,128
Restricted assets:						
Cash and cash equivalents	474,707	-	-	-	-	474,707
Investments	1,714,557	-	40,002,505	9,018,666	-	50,735,728
Total assets	<u>\$ 27,846,815</u>	<u>\$ 11,186,302</u>	<u>\$ 40,002,505</u>	<u>\$ 9,018,666</u>	<u>\$ 609,693</u>	<u>\$ 88,663,981</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 771,874	\$ 1,004,869	\$ -	\$ -	\$ 104,487	\$ 1,881,230
Other liabilities and accruals	171,936	152,424	-	-	4,795	329,155
Unearned revenue	85,579	2,957,236	-	-	-	3,042,815
Due to other funds	6,517,808	3,603,990	-	-	18,127	10,139,925
Total liabilities	<u>7,547,197</u>	<u>7,718,519</u>	<u>-</u>	<u>-</u>	<u>127,409</u>	<u>15,393,125</u>
Fund balances:						
Non-spendable	2,000,000	-	40,002,505	9,018,666	-	51,021,171
Restricted	1,714,557	4,707,972	-	-	98,878	6,521,407
Committed	754,074	150,000	-	-	393,562	1,297,636
Assigned	1,311,138	-	-	-	-	1,311,138
Unassigned:						
General fund	14,519,849	-	-	-	-	14,519,849
Special revenue funds	-	(1,390,189)	-	-	(10,156)	(1,400,345)
Total fund balances	<u>20,299,618</u>	<u>3,467,783</u>	<u>40,002,505</u>	<u>9,018,666</u>	<u>482,284</u>	<u>73,270,856</u>
Total liabilities and fund balances	<u>\$ 27,846,815</u>	<u>\$ 11,186,302</u>	<u>\$ 40,002,505</u>	<u>\$ 9,018,666</u>	<u>\$ 609,693</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

22,756,340

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

 Long-term debt payable (5,043,814)
 Compensated absences payable (614,311)
 Accrued interest payable (14,872)
 Land acquisition claims payable (249,608)

(5,922,605)

Net position of governmental activities

\$ 90,104,591

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2013

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
Revenues:						
Compact funding	\$ -	\$ 10,589,520	\$ -	\$ -	\$ -	\$ 10,589,520
Net change in the fair value of investments	2,938,846	-	4,279,294	1,192,934	-	8,411,074
Federal contributions and other grants	-	3,198,244	-	-	-	3,198,244
FSM revenue sharing	2,346,374	-	-	-	-	2,346,374
State taxes	936,197	-	-	-	109,937	1,046,134
CFSM grants	-	83,220	-	-	1,154,811	1,238,031
Fees and charges	314,862	-	-	-	167,384	482,246
Departmental charges	750,883	21,269	-	-	-	772,152
Other	2,197,367	45,126	-	-	22,173	2,264,666
Total revenues	9,484,529	13,937,379	4,279,294	1,192,934	1,454,305	30,348,441
Expenditures:						
Current:						
Judiciary	197,309	-	-	-	-	197,309
Councils of traditional leaders	183,818	-	-	-	-	183,818
General government	1,535,664	1,474,697	-	-	1,417,717	4,428,078
Resources and development	268,068	1,142,806	-	-	-	1,410,874
Public safety	592,928	-	-	-	-	592,928
Community affairs	261,628	-	-	-	-	261,628
Education	49,872	5,651,436	-	-	-	5,701,308
Public works and transportation	3,330,615	708,307	-	-	-	4,038,922
Health services	1,014,917	4,547,503	-	-	-	5,562,420
Boards and commissions	145,077	-	-	-	-	145,077
Payments to component units	58,230	-	-	-	-	58,230
Other appropriations	122,089	56,828	-	-	-	178,917
Debt service	501,988	-	-	-	-	501,988
Total expenditures	8,262,203	13,581,577	-	-	1,417,717	23,261,497
Excess of revenues over expenditures	1,222,326	355,802	4,279,294	1,192,934	36,588	7,086,944
Other financing sources (uses):						
Operating transfers in	628,781	734,155	-	-	526,077	1,889,013
Operating transfers out	(1,260,232)	(628,781)	-	-	-	(1,889,013)
Total other financing sources (uses), net	(631,451)	105,374	-	-	526,077	-
Special item:						
Write-off of receivables	(72,478)	-	-	-	-	(72,478)
Net change in fund balances (deficit)	518,397	461,176	4,279,294	1,192,934	562,665	7,014,466
Fund balances (deficit) at the beginning	19,781,221	3,006,607	35,723,211	7,825,732	(80,381)	66,256,390
Fund balances at the end of the year	\$ 20,299,618	\$ 3,467,783	\$ 40,002,505	\$ 9,018,666	\$ 482,284	\$ 73,270,856

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, 2013

Amounts reported for governmental activities in the statement of activities on page 10 are different from the fund balances because:

Net change in fund balances - total governmental funds from page 12	\$ 7,014,466
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 expense exceeded capital outlays in the current period, including increases to construction in progress	(2,205,241)
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. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds	14,878
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. This amount is the net effect of these differences in the treatment of long - term debt and related items	<u>188,616</u>
Change in net position of governmental activities as presented on page 10.	\$ <u>5,012,719</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Position
Proprietary Funds
September 30, 2013

	<u>Public Transportation System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 24,560
Receivables, net of allowance for uncollectibles	8,029
Inventories	122,355
Other current assets	10,609
Total current assets	<u>165,553</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>521,707</u>
Total assets	<u>\$ 687,260</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 5,202
Other liabilities and accruals	7,381
Deferred revenue	1,144
Total liabilities	<u>13,727</u>
<u>NET POSITION</u>	
Net investment in capital assets	521,707
Unrestricted	<u>151,826</u>
Total net position	<u>673,533</u>
	<u>\$ 687,260</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended September 30, 2013

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 253,935
Sales	133,266
Other	<u>96,439</u>
Total operating revenues	<u>483,640</u>
Operating expenses:	
Cost of services	346,708
Administration costs	214,182
Depreciation and amortization	<u>12,959</u>
Total operating expenses	<u>573,849</u>
Change in net position	(90,209)
Net position at the beginning of the year	<u>763,742</u>
Net position at the end of the year	<u><u>\$ 673,533</u></u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2013

	Public Transportation System
Cash flows from operating activities:	
Cash received from customers	\$ 381,292
Cash payments to employees	(146,535)
Cash payments to suppliers	(304,784)
Net cash used in operating activities	(70,027)
Cash flows from noncapital financing activities:	
Contributions from the primary government	96,439
Cash flows from capital and related financing activities:	
Purchases of capital assets	(13,666)
Net change in cash and cash equivalents	12,746
Cash and cash equivalents at the beginning of the year	11,814
Cash and cash equivalents at the end of the year	\$ 24,560
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (90,209)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	133,289
Changes in assets and liabilities:	
Other	(96,439)
Receivables	(5,413)
Inventory	(6,693)
Other current assets	2,193
Accounts payable	(6,707)
Accrued expenses	356
Unearned revenue	(404)
Net cash used in operating activities	\$ (70,027)

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Position
Component Units
September 30, 2013

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 83,221	\$ 1,228,876	\$ 7,474,114	\$ 8,786,211
Time certificate of deposit	-	-	1,566,000	1,566,000
Investments	-	-	556,426	556,426
Receivables, net:				
General	101,701	1,130,131	-	1,231,832
Other	-	284,144	52,203	336,347
Inventories	-	791,085	162,000	953,085
Other current assets	-	21,775	170,761	192,536
Total current assets	<u>184,922</u>	<u>3,456,011</u>	<u>9,981,504</u>	<u>13,622,437</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	206,806	206,806
Time certificate of deposit	-	-	2,023,901	2,023,901
Capital assets:				
Nondepreciable capital assets	-	1,048,391	-	1,048,391
Capital assets, net of accumulated depreciation	6,031	7,830,122	4,754,646	12,590,799
Other non-current assets	-	-	304,034	304,034
Total noncurrent assets	<u>6,031</u>	<u>8,878,513</u>	<u>7,289,387</u>	<u>16,173,931</u>
Total assets	<u>\$ 190,953</u>	<u>\$ 12,334,524</u>	<u>\$ 17,270,891</u>	<u>\$ 29,796,368</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 45,417	\$ 667,515	\$ 712,932
Accounts payable	130	530,029	906,772	1,436,931
Unearned revenue	-	180,431	-	180,431
Other liabilities and accruals	8,097	438,561	799,987	1,246,645
Total current liabilities	8,227	1,194,438	2,374,274	3,576,939
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	2,555,141	2,007,169	4,562,310
Total liabilities	<u>8,227</u>	<u>3,749,579</u>	<u>4,381,443</u>	<u>8,139,249</u>
<u>NET POSITION</u>				
Net investment in capital assets	6,031	6,277,955	2,079,962	8,363,948
Restricted, expendable	-	1,698,928	2,230,707	3,929,635
Unrestricted	176,695	608,062	8,578,779	9,363,536
Total net position	<u>182,726</u>	<u>8,584,945</u>	<u>12,889,448</u>	<u>21,657,119</u>
	<u>\$ 190,953</u>	<u>\$ 12,334,524</u>	<u>\$ 17,270,891</u>	<u>\$ 29,796,368</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, 2013

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,796,010	\$ 13,166,650	\$ 18,962,660
Sales	-	495,555	18,420	513,975
Total operating revenues	<u>-</u>	<u>6,291,565</u>	<u>13,185,070</u>	<u>19,476,635</u>
Operating expenses:				
Cost of services	-	4,542,079	10,764,100	15,306,179
Administration costs	289,547	1,145,613	234,750	1,669,910
Depreciation and amortization	2,042	851,561	966	854,569
Total operating expenses	<u>291,589</u>	<u>6,539,253</u>	<u>10,999,816</u>	<u>17,830,658</u>
Operating income (loss)	<u>(291,589)</u>	<u>(247,688)</u>	<u>2,185,254</u>	<u>1,645,977</u>
Nonoperating revenues (expenses):				
Contributions from the primary government	283,561	2,113,081	-	2,396,642
Interest income	3,803	2,224	-	6,027
Interest expense	-	(1,693)	(229,628)	(231,321)
Other	1,506	(438,370)	101,293	(335,571)
Total nonoperating revenues (expenses), net	<u>288,870</u>	<u>1,675,242</u>	<u>(128,335)</u>	<u>1,835,777</u>
Capital contributions	<u>-</u>	<u>618,431</u>	<u>-</u>	<u>618,431</u>
Change in net position	<u>(2,719)</u>	<u>2,045,985</u>	<u>2,056,919</u>	<u>4,100,185</u>
Net position at the beginning of the year	<u>185,445</u>	<u>6,538,960</u>	<u>10,832,529</u>	<u>17,556,934</u>
Net position at the end of the year	<u>\$ 182,726</u>	<u>\$ 8,584,945</u>	<u>\$ 12,889,448</u>	<u>\$ 21,657,119</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2013

(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, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The net position and results of operations of the following legally separate entities are presented as part of the State's operations:

Proprietary Fund:

Public Transportation System (PTS) PTS was created by Yap State Law (YSL) No. 1-170 and is responsible for the provision of reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to PTS through legislative appropriations.

Discretely Presented Component Units:

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

Yap Visitor's Bureau (YVB): YVB was created by YSL No. 4-25 and is responsible for the promotion of Yap as a tourist destination. YVB is governed by a seven-member Board of Directors, of which five members are appointed by the Governor subject to the advice and consent of the Legislature, one member is appointed by the Speaker of the Legislature, and one member is elected by the six appointed members. The State provides financial support to YVB through legislative appropriations.

Yap State Public Service Corporation (YSPSC): YSPSC was created by YSL No. 4-4 and is responsible for the delivery of electricity, water and sewer in the State. YSPSC is governed by a seven-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to YSPSC through legislative appropriations.

The Diving Seagull, Inc. (DSI): DSI was incorporated in the State on March 17, 1997 and was organized primarily to pursue fishing and other fishing related activities by operating fishing vessels, marketing and selling fish, and developing cold storage and/or transshipment facilities. DSI is governed by a five-member Board of Directors. The State has the ability to impose its will on DSI.

The State's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities or obtaining them directly from the Office of the Public Auditor at the following address:

P.O. Box 927
Colonia, Yap, FSM 96943

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Omitted Component Units

The following component units have been omitted from the basic 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 considered material to the basic financial statements.

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 basic financial statements.

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 basic financial statements.

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 basic financial statements.

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, 2013

(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 liabilities, with the difference reported as net position. Net position is reported in three categories:

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

The government-wide Statement of Net Position reports \$14,201,006 of restricted net position, of which \$570,040 is restricted by enabling legislation.

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, 2013

(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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued:

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.

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.

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.

Grants 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Section 215 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.

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. When market prices of equity investments in companies are not readily determinable, the investments are carried at cost if less than twenty percent of the companies' total equity is owned, on the equity method if greater than twenty percent and less than fifty percent is owned, and on a consolidated basis if greater than fifty percent is owned.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

H. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items 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.

J. Inventories

Inventories of the discretely presented component units are determined by physical count and are valued at the lower of cost or market by the first-in first-out method (FIFO).

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Yap State Early Retirement Scheme with investments recorded in the General Fund of \$1,714,557. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$40,002,505 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$9,018,666 are restricted in that they are not available to be used for current operations.

As of September 30, 2013, cash and cash equivalents of the primary government and the discretely presented component units were restricted for the following uses:

Primary Government

Savings accounts established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	\$ 1,510
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>473,197</u>
	\$ <u>474,707</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets, Continued

Discretely Presented Component Units

The Diving Seagull, Inc.:

Time certificate of deposit restricted as collateral for long-term debt with a bank.	\$ 2,023,901
Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank.	<u>206,806</u>
	\$ <u>2,230,707</u>

L. 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

M. 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, deferred outflows of resources 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

N. Unearned Revenue

In the government-wide financial statements, unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements unearned revenue represents 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.

O. 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.

P. 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, deferred inflows of resources 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.

Q. 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

Q. Fund Balance, Continued

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.

R. 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.

S. New Accounting Standards

During fiscal year 2013, the State implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position.

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

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the State.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the State.

T. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

U. 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, 2012 from which summarized information was derived.

(2) Deposits and Investments

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

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

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

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

A. Deposits

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

As of September 30, 2013, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$975,465 and the corresponding bank balance was \$1,219,734, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013, bank deposits in the amount of \$520,163 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2013, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$24,560. There were no significant differences between cash balances per book and per bank. As of September 30, 2013, \$24,560 of cash is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and which is fully FDIC insured.

As of September 30, 2013, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$12,582,918 and the corresponding bank balances were \$12,840,233, of which \$11,004,114 were maintained in financial institutions subject to FDIC insurance. As of September 30, 2013, bank deposits in the amount of \$891,125 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

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

As of September 30, 2013, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 5,832,740
Other investments:	
Domestic equities	66,123,522
Cash management account	<u>1,714,557</u>
	\$ <u>73,670,819</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2013, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Ratings</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
U.S. Treasury Notes and Bonds	\$ 1,270,775	\$ 70,617	\$ 693,211	\$ 433,350	\$ 73,597	AAA
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation						
	108,954	26,146	4,407	845	77,556	AAA
Government National Mortgage Association						
	427,147	-	-	-	427,147	AAA
Federal National Mortgage Association	971,491	-	65,907	-	905,584	AAA
Tennessee Valley Authority	11,886	-	-	6,446	5,440	AAA
Small Business Administration	19,227	-	-	-	19,227	No rating
National Credit Union Admin	235,209	-	32,961	202,248	-	AAA
Housing Urban Development	4,612	4,612	-	-	-	No rating
FISCO DEBENTURES	17,869	-	17,869	-	-	AAA /NO
AID-TUNISIA	19,378	-	19,378	-	-	RATING
Financing Corporation	28,066	-	28,066	-	-	No rating
Municipal Obligations	83,944	-	-	-	83,944	A1
Municipal Obligations	44,933	-	11,556	4,077	29,300	A2
Municipal Obligations	49,458	14,303	-	11,768	23,387	Aa1
Municipal Obligations	4,753	-	-	-	4,753	Aa2
Municipal Obligations	15,945	15,945	-	-	-	Aa3
Municipal Obligations	57,315	31,601	-	25,714	-	No rating
Municipal Obligations	3,420	-	3,420	-	-	WR
Corporate Bonds	167,221	16,144	50,983	-	100,094	A1
Corporate Bonds	241,138	-	203,505	37,633	-	A2
Corporate Bonds	400,005	28,426	173,843	97,478	100,258	A3
Corporate Bonds	24,967	-	21,977	2,990	-	Aa1
Corporate Bonds	33,855	-	17,006	14,429	2,420	Aa2
Corporate Bonds	90,276	-	63,979	26,297	-	Aa3
Corporate Bonds	19,926	-	-	16,816	3,110	Aaa
Corporate Bonds	26,928	-	26,928	-	-	Ba1
Corporate Bonds	13,177	-	-	13,177	-	Ba2/Ba3
Corporate Bonds	313,321	-	175,590	88,238	49,493	Baa1
Corporate Bonds	649,780	10,028	328,285	80,127	231,340	Baa2
Corporate Bonds	347,055	-	126,183	111,758	109,114	Baa3
Corporate Bonds	<u>130,709</u>	<u>-</u>	<u>63,234</u>	<u>32,694</u>	<u>34,781</u>	No rating
	<u>\$ 5,832,740</u>	<u>\$ 217,822</u>	<u>\$ 2,128,288</u>	<u>\$ 1,206,085</u>	<u>\$ 2,280,545</u>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2013, the General Fund holds 10.7% of the shares of the Bank of the Federated States of Micronesia in the amount of \$1,000,000, 24.5% of the shares of the Pacific Islands Development Bank in the amount of \$1,000,000, and an equity investment in Palau Micronesia Air (PMA) in the amount of \$500,000. As the fair market value of these investments, except for PMA, is not readily available, such have been recorded at cost. The shares in Palau Micronesia Air have been fully reserved for through an impairment loss.

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, 2013.

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, 2013, 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.

Discretely Presented Component Units

The Diving Seagull, Inc.:

As of September 30, 2013, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>179,107</u>
Other investments:	
Equities	349,430
Money market funds	<u>27,889</u>
	<u>377,319</u>
	\$ <u>556,426</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

The Diving Seagull, Inc., Continued

As of September 30, 2013, the Diving Seagull's fixed income securities, including their Moody's Investor Service and/ or S & P credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Rating Type</u>	<u>Maturity (in years)</u>				<u>Total</u>
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over</u>	
U.S. Treasury Notes	AAA	\$ 12,261	\$ 19,051	\$ 32,544	\$ -	\$ 63,856
U.S. Government agencies	AAA	-	28,027	-	-	28,027
Corporate Notes	A1	-	25,820	-	-	25,820
Corporate Notes	A2	-	30,678	4,912	-	35,590
Corporate Notes	A3	10,591	-	9,825	-	20,416
Corporate Notes	AA2	-	5,398	-	-	5,398
		\$ <u>22,852</u>	\$ <u>108,974</u>	\$ <u>47,281</u>	\$ <u>-</u>	\$ <u>179,107</u>

(3) Receivables

Receivables as of September 30, 2013, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Foreign Assistance Grants</u>	<u>Compact Trust</u>	<u>Nonmajor And Other Funds</u>	<u>Totals</u>
Receivables:					
Loans	\$ 8,224,102	\$ -	\$ -	\$2,000,000	\$10,224,102
Federal agencies	-	2,900,660	-	1,041,974	3,942,634
FSM National Government	502,183	-	-	-	502,183
Other	<u>213,521</u>	<u>600</u>	<u>-</u>	<u>17,285</u>	<u>231,406</u>
	8,939,806	2,901,260	-	3,059,259	14,900,325
Less: allowance for uncollectible accounts	<u>(8,326,029)</u>	<u>(2,152,380)</u>	<u>-</u>	<u>(2,866,272)</u>	<u>(13,344,681)</u>
Net receivables	\$ <u>613,777</u>	\$ <u>748,880</u>	\$ <u>-</u>	\$ <u>192,987</u>	\$ <u>1,555,644</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(3) Receivables, Continued

Loans receivable of the primary government as of September 30, 2013 are as follows:

Major Governmental Funds

General Fund:

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 2-96, uncollateralized, non-interest bearing, due and payable on or before June 11, 2004. This note has been fully provided for in the allowance for uncollectible accounts. \$ 6,400,000

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 3-8, uncollateralized, due September 30, 2004, interest at 6% per annum. This note has been fully provided for in the allowance for uncollectible accounts. 1,000,000

Note receivable from the Yap Investment Trust, appropriated under YSL No. 4-85, uncollateralized, due September 30, 2000, interest at 1% per annum. This note has been fully provided for in the allowance for uncollectible accounts. 824,102

8,224,102

Nonmajor Governmental Funds

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 3-67, uncollateralized, non-interest bearing and payable on demand. This note has been fully provided for in the allowance for uncollectible accounts. 2,000,000

\$ 10,224,102

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(3) Receivables, Continued

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

	Yap Visitors <u>Bureau</u>	Yap State Public Service <u>Corporation</u>	The Diving <u>Seagull, Inc.</u>	<u>Totals</u>
Receivables:				
General	\$ 101,701	\$ 1,357,534	\$ -	\$ 1,459,235
Other	<u>-</u>	<u>284,144</u>	<u>666,356</u>	<u>950,500</u>
	101,701	1,641,678	666,356	2,409,735
Less: allowance for uncollectible accounts	<u>-</u>	<u>(227,403)</u>	<u>(614,153)</u>	<u>(841,556)</u>
Net receivables	\$ <u>101,701</u>	\$ <u>1,414,275</u>	\$ <u>52,203</u>	\$ <u>1,568,179</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, 2013, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Foreign Assistance Grants	\$ 3,603,990
General	Nonmajor governmental funds	18,127
Foreign Assistance Grants	General	6,375,514
Nonmajor governmental funds	General	<u>142,294</u>
		\$ <u>10,139,925</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2013, are as follows:

	Balance October 1 <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2013
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 12,275,902	\$ 349,303	\$ -	\$ 12,625,205
Infrastructure	82,316,716	-	-	82,316,716
Equipment	765,030	-	-	765,030
Vehicles	2,030,184	49,365	-	2,079,549
Vessels	5,156,463	-	-	5,156,463
Heavy equipment	<u>3,621,122</u>	<u>-</u>	<u>-</u>	<u>3,621,122</u>
	<u>106,165,417</u>	<u>398,668</u>	<u>-</u>	<u>106,564,085</u>
Less accumulated depreciation for:				
Buildings	(8,327,636)	(447,786)	-	(8,775,422)
Infrastructure	(68,623,380)	(1,570,133)	-	(70,193,513)
Equipment	(291,867)	(80,604)	-	(372,471)
Vehicles	(1,690,928)	(166,836)	-	(1,857,764)
Vessels	(2,307,920)	(201,964)	-	(2,509,884)
Heavy equipment	<u>(3,132,715)</u>	<u>(136,586)</u>	<u>-</u>	<u>(3,269,301)</u>
	<u>(84,374,446)</u>	<u>(2,603,909)</u>	<u>-</u>	<u>(86,978,355)</u>
Total capital assets, being depreciated, net	<u>21,790,971</u>	<u>(2,205,241)</u>	<u>-</u>	<u>19,585,730</u>
Non-depreciable Assets				
Land	<u>3,170,610</u>	<u>-</u>	<u>-</u>	<u>3,170,610</u>
Governmental activities capital assets, net	\$ <u>24,961,581</u>	\$ <u>(2,205,241)</u>	\$ <u>-</u>	\$ <u>22,756,340</u>

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

Councils of Traditional leaders	\$ 4,175
Public auditor	2,301
General government	10,465
Economic development	36,016
Public safety	65,040
Community affairs	14,086
Education	119,451
Public works and transportation	1,857,525
Health services	113,833
Boards and commissions	84,174
Other appropriations	<u>296,843</u>
	<u>\$ 2,603,909</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(5) Capital Assets, Continued

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2013</u>
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 111,892	\$ 4,300	\$ -	\$ 116,192
Vehicles	1,521,867	2,885	(434,253)	1,090,499
Shop equipment	58,402	2,227	-	60,629
Office equipment	<u>91,383</u>	<u>4,252</u>	<u>-</u>	<u>95,635</u>
	1,783,544	13,664	(434,253)	1,362,955
Less accumulated depreciation	<u>(1,142,212)</u>	<u>(133,289)</u>	<u>434,253</u>	<u>(841,248)</u>
Total net capital assets	\$ <u>641,332</u>	\$ <u>(119,625)</u>	\$ <u>-</u>	\$ <u>521,707</u>

Discretely Presented Component Units:

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2013</u>
Depreciable assets:				
Utility plant	\$ 20,850,093	\$ 825,573	\$ (255,030)	\$ 21,420,636
Machinery, equipment and others	<u>17,095,914</u>	<u>824,005</u>	<u>-</u>	<u>17,919,919</u>
	37,946,007	1,649,578	(255,030)	39,340,555
Less accumulated depreciation	<u>(25,281,306)</u>	<u>(1,683,812)</u>	<u>215,362</u>	<u>(26,749,756)</u>
	12,664,701	(34,234)	(39,6668)	12,590,799
Nondepreciable assets:				
Construction work-in-progress	<u>116,519</u>	<u>1,048,057</u>	<u>(116,185)</u>	<u>1,048,391</u>
	\$ <u>12,781,220</u>	\$ <u>1,013,823</u>	\$ <u>(155,853)</u>	\$ <u>13,639,190</u>

(6) Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2013, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	Foreign Assistance Grants	\$ 734,155	\$ 734,155
General Fund	Other Governmental Funds	526,077	526,077
Foreign Assistance Grants	General Fund	<u>628,781</u>	<u>628,781</u>
		\$ <u>1,889,013</u>	\$ <u>1,889,013</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(6) Operating Transfers In/Out, Continued

Transfers are used to: 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and U.S. federal matching requirements, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

(7) 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.

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, 2013. As of September 30, 2013, the amount outstanding against this loan was \$3,565,635. Of the required \$3,500,000 identified for future debt service payments, \$1,714,557 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 to borrow a portion of the proceeds of the Basic Social Services Program Loan with ADB (Loan Number 1816 FSM (SF)), for the purpose of promoting basic social services in Yap, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semiannually commencing February 1, 2009, at which time the service charge increases to 1.5% per annum, with a maturity date of August 1, 2032. As of September 30, 2013, the outstanding balance is \$313,047.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(7) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued:

The State entered into an agreement with the Federated States of Micronesia National Government (FSM) to borrow a portion of the proceeds of the FSM Program Loan with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)), for the purpose of promoting private sector development in Yap, with interest at 1% - 1.5% per annum. The principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2011 and the last payment on November 15, 2026. As of September 30, 2013, the balances payable on these loans amounted to \$342,306 and \$822,826, respectively.

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>
2014	\$ 164,919	\$ 57,772	\$ 222,691
2015	164,919	55,703	220,622
2016	164,919	53,634	218,553
2017	164,919	51,565	216,484
2018	245,887	47,877	293,764
2019-2023	1,229,437	204,303	1,433,740
2024-2028	1,160,715	133,161	1,293,876
2029-2033	1,075,642	69,649	1,145,291
2034-2037	<u>672,457</u>	<u>16,483</u>	<u>688,940</u>
	<u>\$ 5,043,814</u>	<u>\$ 690,147</u>	<u>\$ 5,733,961</u>

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC):

Loan of original principal of \$2,270,837 payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) for construction of certain water projects. YSPSC was to repay Yap State for interest at 6.82% per annum on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan repayment in Special Drawing Rights commenced August 2007 with the final payment due in February 2032. The loan is collateralized by the guarantee of the FSM National Government.

\$ 2,600,558

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(7) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Yap State Public Service Corporation (YSPSC), 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>
2014	\$ 45,417	\$ -	\$ 45,417
2015	45,417	-	45,417
2016	45,417	-	45,417
2017	83,272	-	83,272
2018	121,126	-	121,126
2019 through 2023	605,632	-	605,632
2024 through 2028	605,632	-	605,632
2029 through 2033	605,405	-	605,405
2034 through 2036	<u>443,240</u>	<u>-</u>	<u>443,240</u>
	<u>\$ 2,600,558</u>	<u>\$ -</u>	<u>\$ 2,600,558</u>

The Diving Seagull, Inc. (DSI):

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

\$ 2,269,591

Bank loan in the amount of \$2,000,000 granted by a local bank, with interest at 2.12% per annum, to assist in the purchase of a new vessel. Interest and principal are payable in monthly installments of \$35,778, commencing October 29, 2010. The loan is collateralized by a time certificate of deposit.

405,092

\$ 2,674,683

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(7) 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>
2014	\$ 667,515	\$ 198,113	\$ 865,628
2015	287,040	168,996	456,036
2016	313,966	142,070	456,036
2017	343,418	112,618	456,036
2018	375,633	80,403	456,036
2019-2020	<u>687,111</u>	<u>54,082</u>	<u>741,193</u>
	<u>\$ 2,674,683</u>	<u>\$ 756,281</u>	<u>\$ 3,430,964</u>

(8) 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, 2013, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 3,640,920	\$ -	\$ (75,285)	\$ 3,565,635	\$ 80,968
Loan 1816	351,939	-	(38,892)	313,047	16,349
Loan 1873	369,690	-	(27,384)	342,306	27,489
Loan 1874	869,881	-	(47,055)	822,826	40,113
	<u>5,232,430</u>	<u>-</u>	<u>(188,616)</u>	<u>5,043,814</u>	<u>164,919</u>
Other:					
Compensated absences	629,189	457,100	(471,978)	614,311	450,961
Land acquisition claims	<u>249,608</u>	<u>-</u>	<u>-</u>	<u>249,608</u>	<u>-</u>
	<u>878,797</u>	<u>457,100</u>	<u>(471,978)</u>	<u>863,919</u>	<u>450,961</u>
	<u>\$ 6,111,227</u>	<u>\$ 457,100</u>	<u>\$ (660,594)</u>	<u>\$ 5,907,733</u>	<u>\$ 615,880</u>

As of September 30, 2013, \$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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(8) Change in Long-Term Obligations, Continued

Discretely Presented Component Units

During the year ended September 30, 2013, 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>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2013</u>	Due Within <u>One Year</u>
Loan payable:					
YSPSC	\$ 4,337,702	\$ -	\$ (1,737,144)	\$ 2,600,558	\$ 45,417
DSI	<u>3,343,864</u>	<u>-</u>	<u>(669,181)</u>	<u>2,674,683</u>	<u>667,515</u>
	<u>\$ 7,681,566</u>	<u>\$ -</u>	<u>\$ (2,406,325)</u>	<u>\$ 5,275,241</u>	<u>\$ 712,932</u>

(9) 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	\$ -	\$ -	\$ 40,002,505	\$ 9,018,666	\$ -	\$ 49,021,171
Pacific Islands Development Bank	1,000,000	-	-	-	-	1,000,000
Bank of the FSM	1,000,000	-	-	-	-	1,000,000
Restricted for:						
Debt service	1,714,557	-	-	-	-	1,714,557
General government	-	1,343,781	-	-	-	1,343,781
Education	-	2,030,875	-	-	-	2,030,875
Health services	-	375,623	-	-	-	375,623
Infrastructure	-	957,693	-	-	-	957,693
Public works and transportation	-	-	-	-	98,878	98,878
Committed for:						
General government	3,301	-	-	-	393,562	396,863
Debt service	200,000	-	-	-	-	200,000
Infrastructure	539,322	150,000	-	-	-	689,322
Education	11,451	-	-	-	-	11,451
Assigned	1,311,138	-	-	-	-	1,311,138
Unassigned	<u>14,519,849</u>	<u>(1,390,189)</u>	<u>-</u>	<u>-</u>	<u>(10,156)</u>	<u>13,119,504</u>
	<u>\$20,299,618</u>	<u>\$ 3,467,783</u>	<u>\$ 40,002,505</u>	<u>\$ 9,018,666</u>	<u>\$ 482,284</u>	<u>\$73,270,856</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2013

(10) Commitments and Contingencies

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2013, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>1,311,138</u>	\$ <u>2,246,219</u>	\$ <u>317,902</u>	\$ <u>3,875,259</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 of \$864,259 relating to fiscal years 2008 through 2012 have been set forth in the State's Single Audit Report for the year ended September 30, 2013. 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, 2013. 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, 2013

(10) Commitments and Contingencies, Continued

Continuing Appropriations

As of September 30, 2013, the State has significant continuing appropriations summarized as follows:

General Fund:

YWA Daycare Bldg Matching (YSL No. 6-48)	\$ 2,479
Disaster/Search and Rescue (YSL No. 5-84)	822
Yap State Scholarship (YSL No. 6-48)	11,451
Yap State Development Investment Loan (YSL No. 5-1)	200,000
Mobil Fuel Farm Retaining Wall (YSL No. 6-81)	397,465
Infrastructure Maintenance Fund (YSL No. 7-59)	<u>141,857</u>
	<u>754,074</u>

Foreign Assistance Grants

Yap Community Development Program Matching (YSL No. 5-34)	<u>150,000</u>
Total Continuing Appropriations	\$ <u>904,074</u>

(11) Budgetary Compliance

For the year ended September 30, 2013, significant over-expenditures exceeded appropriations within the General Fund for the following:

Department of Health Services	\$ 514,161
Sports Development Fund	\$ 168,372
Yap State Public Projects Fund	\$ 64,369
Yap Water Development Projects Fund	\$ 293,336
Infrastructure Maintenance Fund	\$ 169,308
Non-U.S. Grants Fund	\$ 564,847

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

(12) Special Item

During the year ended September 30, 2013, management of the State determined that certain receivable balances in the General Fund of \$72,478 were considered uncollectible. Accordingly, these amounts were provided for within the allowance for uncollectible accounts and recognized as a special item.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2013

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2013

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget
	Original	Final	Basis (see Note 1)	
Revenues:				
Net decrease in the fair value of investments	\$ -	\$ -	\$ 2,934,239	\$ 2,934,239
Other	4,677,911	6,270,428	6,550,290	279,862
Total revenues	<u>4,677,911</u>	<u>6,270,428</u>	<u>9,484,529</u>	<u>3,214,101</u>
Expenditures:				
Current:				
Judiciary	226,435	225,435	210,889	14,546
Council of traditional leaders	202,180	204,729	191,330	13,399
General government	1,342,494	1,342,148	1,302,359	39,789
Economic development	172,840	185,743	173,561	12,182
Public safety	642,511	653,503	615,270	38,233
Community affairs	346,718	354,875	337,874	17,002
Education	-	144,078	105,000	39,078
Public works and transportation	4,419,804	4,478,906	4,222,344	256,563
Health services	48,800	537,204	1,051,364	(514,161)
Boards and commissions	296,137	296,316	272,505	23,811
Payments to component units	63,222	63,222	63,222	-
Other appropriations	152,481	170,329	136,498	33,832
Debt service	-	501,988	501,988	-
Others	-	849,652	-	849,652
Total expenditures	<u>7,913,624</u>	<u>10,008,129</u>	<u>9,184,204</u>	<u>823,925</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,235,713)</u>	<u>(3,737,701)</u>	<u>300,325</u>	<u>4,038,026</u>
Special item:				
Write-off of receivables	-	-	(72,478)	(72,478)
	-	-	(72,478)	(72,478)
Other financing sources (uses):				
Operating transfers in	-	-	628,781	628,781
Operating transfers out	-	-	(1,260,232)	(1,260,232)
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>(631,451)</u>	<u>(631,451)</u>
Net change in fund balance	(3,235,713)	(3,737,701)	(403,604)	3,334,097
Other changes in fund balance:				
Encumbrances	3,235,713	3,235,713	922,001	(2,313,712)
Fund balance at the beginning of the year	<u>19,781,221</u>	<u>19,781,221</u>	<u>19,781,221</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 19,781,221</u>	<u>\$ 19,279,233</u>	<u>\$ 20,299,618</u>	<u>\$ 1,020,385</u>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2013

(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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2013

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2013

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Foreign Assistance Grants	Yap Investment Trust	Compact Trust		
Expenditures:						
Salaries and wages	\$ 2,587,797	\$ 6,326,172	\$ -	\$ -	\$ 8,581	\$ 8,922,550
Grants and subsidies	49,911	38,568	-	-	314,167	402,646
Utilities	1,017,555	1,074,996	-	-	-	2,092,551
Contractual services	113,337	711,296	-	-	220,669	1,045,302
Books and supplies		20,408				20,408
Supplies and materials	104,442	765,095	-	-	7,337	876,874
Construction	1,719,953	346,234	-	-	-	2,066,187
Construction Maintenance		289,231				289,231
Scholarship and training	117,100	374,073	-	-		491,173
Travel	128,494	732,549	-	-	60	861,103
Capital outlay	79,900	369,699	-	-	24,880	474,479
Non-capital outlay	-	6,068			-	6,068
Rentals	9,575	9,238	-	-	-	18,813
Food stuffs	48,078	234,623	-	-	-	282,701
Communications	95,183	162,787	-	-	-	257,970
Printing and reproduction	-	79,745	-	-	-	79,745
Medical supplies	222	910,276	-	-	-	910,498
Medical referral		48,359				48,359
Repairs and maintenance	170,702	229,550	-	-	152,969	553,221
Freight	2,287	10,166	-	-	-	12,453
Professional services	43,441	236,094	-	-	-	279,535
POL	472,562	399,040	-	-	105,641	977,243
Allowances	17,750	10,288	-	-	-	28,038
Leased housing and land	7,200	5,500	-	-	-	12,700
Payment to component units	14,402	-	-	-	-	14,402
Principal repayment	188,616	-	-	-	-	188,616
Interest payments	313,372	-	-	-	-	313,372
Other	960,324	191,522	-	-	583,413	1,735,259
	<u>\$ 8,262,203</u>	<u>\$ 13,581,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,417,717</u>	<u>\$ 23,261,497</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2013

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, 2013
(with comparative totals for the year ended September 30, 2012)

	2013	2012
Revenues:		
Revenue sharing:		
Import tax	\$ 628,912	\$ 570,383
Fuel tax	379,261	235,234
Income tax	605,604	563,821
Business gross receipts tax	732,597	767,416
	2,346,374	2,136,854
Excise taxes:		
Alcoholic beverages	323,742	410,826
Gasoline and diesel	81,115	93,824
Tobacco	103,176	138,508
Other excise taxes	428,164	478,461
	936,197	1,121,619
Fees and charges:		
Licenses and permits	92,685	93,801
Fines/sale of confiscated property	22,524	6,435
Leases and other rentals	199,653	164,555
	314,862	264,791
Departmental charges:		
Sea transportation	237,481	189,994
Air transportation	168,801	61,347
Hospital services	333,210	-
Other	11,391	429,785
	750,883	681,126
Interest and dividends	(4,607)	323,158
Net change in the fair value of investments	2,938,846	2,396,278
Other revenues	2,201,974	401,224
Total revenues	9,484,529	7,325,050
Expenditures:		
Current:		
Judiciary	197,309	205,068
Councils of Traditional Leaders:		
Council of Pilung	90,809	101,633
Council of Tamol	93,009	96,271
	183,818	197,904
General government:		
Office of the Governor	188,274	157,850
State Legislature	426,327	413,940
Office of Administrative Services	820,543	694,284
Office of Planning, Budget and Statistics	100,520	157,473
	1,535,664	1,423,547

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, 2013
(with comparative totals for the year ended September 30, 2012)

	2013	2012
Expenditures, continued:		
Current, continued:		
Resources and Development:		
Department of Resources and Development	268,068	138,920
Public Safety:		
Department of Public Safety/Attorney General	592,928	565,707
Community Affairs		
Department of Public Affairs	261,628	252,046
Public Works and Transportation:		
Department of Public Works and Transportation	3,330,615	1,582,040
Education Services:		
Department of Education	49,872	-
Health Services:		
Department of Health Services	1,014,917	278,179
Boards and Commissions:		
EPA Administration Board	-	12,800
Rural Development	12,352	11,944
Historic Preservation Office	69,218	68,270
Election Commissioner	44,351	38,852
Yap Investment Trust	19,156	18,955
	145,077	150,821
Payments to component units:		
Yap Visitor's Bureau	-	1,077
Public Transportation System	58,230	300,872
	58,230	301,949
Other appropriations:		
Micronesian Legal Services Corporation	41,280	41,280
Japan Overseas Cooperation Volunteers	4,500	6,570
Peace Corps Program	300	4,950
Yap Community Action Program	72,957	135,186
Northern Road Improvement Projects	-	2,190,282
Small Business Development	252	23,933
Other	2,800	107,236
	122,089	2,509,437
Debt service:		
Principal repayments	188,616	202,741
Interest payments	313,372	154,437
	501,988	357,178
Total expenditures	8,262,203	7,962,796
Excess (deficiency) of revenues over (under) expenditures	1,222,326	(637,746)
Special item:		
Write-off of receivables	(72,478)	(2,826,281)
Other financing uses:		
Operating transfers in	628,781	-
Operating transfers out	(1,260,232)	(323,484)
Net change in fund balance	518,397	(3,787,511)
Fund balance at the beginning of the year	19,781,221	23,568,732
Fund balance at the end of the year	\$ 20,299,618	\$ 19,781,221

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, 2013

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Net increase in the fair value of investments	\$ -	\$ -	\$ 2,934,239	\$ 2,934,239
Other revenues	4,677,911	6,270,428	6,550,290	279,862
Total revenues	4,677,911	6,270,428	9,484,529	3,214,101
Expenditures:				
Current:				
Judiciary	226,435	225,435	210,889	14,546
Councils of Traditional Leaders:				
Council of Pilung	100,093	102,642	95,258	7,383
Council of Tamol	102,088	102,088	96,072	6,016
	202,180	204,729	191,330	13,399
General government:				
Office of the Governor	239,084	239,083	249,158	(10,075)
State Legislature	485,418	485,417	467,208	18,209
Office of Administrative Services	497,435	497,435	482,215	15,220
Office of Planning, Budget and Statistics	120,557	120,213	103,779	16,434
	1,342,494	1,342,148	1,302,359	39,789
Economic Development:				
Department of Resources and Development	172,840	185,743	173,561	12,182
Public Safety:				
Department of Public Safety/Attorney General	642,511	653,503	615,270	38,233
Community Affairs:				
Department of Public Affairs	346,718	354,875	337,874	17,002
Education:				
Department of Education	-	144,078	105,000	39,078
Public Works and Transportation:				
Department of Public Works and Transportation	4,419,804	4,478,906	4,222,344	256,563
Health services:				
Department of Health Services	48,800	537,204	1,051,364	(514,161)

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, 2013

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Boards and Commissions:				
Historic Preservation Office	109,617	109,617	86,973	22,644
Yap State Scholarship	117,100	117,100	117,100	-
Yap State Election commission	48,010	48,189	47,660	529
Yap Investment Trust	21,410	21,410	20,773	638
	<u>296,137</u>	<u>296,316</u>	<u>272,505</u>	<u>23,811</u>
Payments to component units:				
Public Transportation System	63,222	63,222	63,222	-
	<u>63,222</u>	<u>63,222</u>	<u>63,222</u>	<u>-</u>
Other appropriations:				
Micronesian Legal Services Corporation	41,280	41,280	41,280	-
Small Business Dev. Center	252	31,003	3,911	27,092
Rural and Urban Serv. (RUS)	12,385	12,385	12,394	(9)
Japan Overseas Cooperation Volunteers	9,094	9,094	4,594	4,500
Peace Corps Program	14,635	1,732	935	797
Yap CAP	74,835	74,835	73,383	1,452
	<u>152,481</u>	<u>170,329</u>	<u>136,498</u>	<u>33,832</u>
Debt service:				
Principal repayments	-	188,616	188,616	-
Interest payments	-	313,372	313,372	-
	<u>-</u>	<u>501,988</u>	<u>501,988</u>	<u>-</u>
Others:				
2013 Yap Day	-	6,000	-	6,000
2012 Utility Shortfall Cooperation Volunteers	-	392,000	-	392,000
PIDB Additional Equity Capital	-	438,852	-	438,852
Milew Community House	-	12,800	-	12,800
	<u>-</u>	<u>849,652</u>	<u>-</u>	<u>849,652</u>
Total expenditures	<u>7,913,624</u>	<u>10,008,129</u>	<u>9,184,204</u>	<u>823,925</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,235,713)</u>	<u>(3,737,701)</u>	<u>300,325</u>	<u>4,038,026</u>
Special item:				
Write-off of receivables	-	-	(72,478)	(72,478)
Other financing sources (uses):				
Operating transfers in	-	-	628,781	628,781
Operating transfers out	-	-	(1,260,232)	(1,260,232)
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>(631,451)</u>	<u>(631,451)</u>
Net change in fund balance	<u>(3,235,713)</u>	<u>(3,737,701)</u>	<u>(403,604)</u>	<u>3,334,097</u>
Other changes in fund balance:				
Encumbrances	3,235,713	3,235,713	922,001	(2,313,712)
Fund balance at the beginning of the year	<u>19,781,221</u>	<u>19,781,221</u>	<u>19,781,221</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 19,781,221</u>	<u>\$ 19,279,233</u>	<u>\$ 20,299,618</u>	<u>\$ 1,020,385</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2013

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 274,412	\$ -	\$ 274,412
Receivables, net:			
CFSM	-	192,987	192,987
Due from other funds	<u>142,294</u>	<u>-</u>	<u>142,294</u>
Total assets	<u>\$ 416,706</u>	<u>\$ 192,987</u>	<u>\$ 609,693</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 23,144	\$ 81,343	\$ 104,487
Other liabilities and accruals	4,454	341	4,795
Due to other funds	<u>4,912</u>	<u>13,215</u>	<u>18,127</u>
Total liabilities	<u>32,510</u>	<u>94,899</u>	<u>127,409</u>
Fund balances:			
Restricted	-	98,878	98,878
Committed	393,562	-	393,562
Unassigned	<u>(9,366)</u>	<u>(790)</u>	<u>(10,156)</u>
Total fund balances	<u>384,196</u>	<u>98,088</u>	<u>482,284</u>
Total liabilities and fund balances	<u>\$ 416,706</u>	<u>\$ 192,987</u>	<u>\$ 609,693</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 (Deficit)
Nonmajor Governmental Funds
Year Ended September 30, 2013

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 1,154,811	\$ 1,154,811
Excise taxes	109,937	-	109,937
Fees and charges	167,384	-	167,384
Other	22,173	-	22,173
	<u>299,494</u>	<u>1,154,811</u>	<u>1,454,305</u>
Total revenues			
Expenditures by function:			
Current:			
General government	262,906	1,154,811	1,417,717
	<u>262,906</u>	<u>1,154,811</u>	<u>1,417,717</u>
Total expenditures			
Excess of revenues over expenditures	<u>36,588</u>	<u>-</u>	<u>36,588</u>
Other financing sources:			
Transfers in	168,372	357,705	526,077
Net change in fund balances (deficit)	204,960	357,705	562,665
Fund balances (deficit) at the beginning of the year	179,236	(259,617)	(80,381)
Fund balances at the end of the year	<u>\$ 384,196</u>	<u>\$ 98,088</u>	<u>\$ 482,284</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 (Deficit)
Nonmajor Governmental Funds
Year Ended September 30, 2013

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFMSM grants	\$ -	\$ 1,154,811	\$ 1,154,811
Excise taxes	109,937	-	109,937
Fees and charges	167,384	-	167,384
Other	22,173	-	22,173
Total revenues	<u>299,494</u>	<u>1,154,811</u>	<u>1,454,305</u>
Expenditures by account:			
Salaries and wages	-	8,581	8,581
Grants and subsidies	109,937	204,230	314,167
Contractual services	-	220,669	220,669
Supplies and materials	-	7,337	7,337
Travel	-	60	60
Capital outlay	-	24,880	24,880
Repairs and maintenance	152,969	-	152,969
POL	-	105,641	105,641
Other	-	583,413	583,413
Total expenditures	<u>262,906</u>	<u>1,154,811</u>	<u>1,417,717</u>
Excess of revenues over expenditures	<u>36,588</u>	<u>-</u>	<u>36,588</u>
Other financing sources:			
Transfers in	<u>168,372</u>	<u>357,705</u>	<u>526,077</u>
Net change in fund balances (deficit)	204,960	357,705	562,665
Fund balances (deficit) at the beginning of the year	<u>179,236</u>	<u>(259,617)</u>	<u>(80,381)</u>
Fund balances at the end of the year	<u>\$ 384,196</u>	<u>\$ 98,088</u>	<u>\$ 482,284</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2013

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, 2013, 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 funds dedicated to recycling and other special purposes.

Yap Seed Trust Fund

This fund accounts for interest income from savings and certificates of deposit and other special purposes.

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS

Combining Balance Sheet
 September 30, 2013

	F39	F76	F85	F86	
	<u>Sports Development</u>	<u>Housing Maintenance</u>	<u>Enterprise</u>	<u>Yap Seed Trust</u>	<u>Total</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 274,412	\$ 274,412
Due from other funds	<u>21,682</u>	<u>-</u>	<u>110,814</u>	<u>9,798</u>	<u>142,294</u>
Total assets	<u>\$ 21,682</u>	<u>\$ -</u>	<u>\$ 110,814</u>	<u>\$ 284,210</u>	<u>\$ 416,706</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Liabilities:					
Accounts payable	\$ 21,682	\$ -	\$ 1,462	\$ -	\$ 23,144
Other liabilities and accruals	-	4,454	-	-	4,454
Due to other funds	<u>-</u>	<u>4,912</u>	<u>-</u>	<u>-</u>	<u>4,912</u>
Total liabilities	<u>21,682</u>	<u>9,366</u>	<u>1,462</u>	<u>-</u>	<u>32,510</u>
Fund balances (deficit):					
Committed	-	-	109,352	284,210	393,562
Unassigned	<u>-</u>	<u>(9,366)</u>	<u>-</u>	<u>-</u>	<u>(9,366)</u>
Total fund balances (deficit)	<u>-</u>	<u>(9,366)</u>	<u>109,352</u>	<u>284,210</u>	<u>384,196</u>
Total liabilities and fund balances	<u>\$ 21,682</u>	<u>\$ -</u>	<u>\$ 110,814</u>	<u>\$ 284,210</u>	<u>\$ 416,706</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Function,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2013

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 109,937	\$ -	\$ -	\$ -	\$ 109,937
Fees and charges	-	16,227	151,157	-	167,384
Other	-	-	-	22,173	22,173
	<u>109,937</u>	<u>16,227</u>	<u>151,157</u>	<u>22,173</u>	<u>299,494</u>
Total revenues					
Expenditures by function:					
Current:					
General government	109,937	2,166	150,803	-	262,906
Economic development	-	-	-	-	-
	<u>109,937</u>	<u>2,166</u>	<u>150,803</u>	<u>-</u>	<u>262,906</u>
Total expenditures					
Excess of revenues over expenditures	<u>-</u>	<u>14,061</u>	<u>354</u>	<u>22,173</u>	<u>36,588</u>
Other financing sources:					
Operating transfers in	<u>168,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,372</u>
Net change in fund balances (deficit)	168,372	14,061	354	22,173	204,960
Fund balances (deficit) at the beginning of the year	<u>(168,372)</u>	<u>(23,427)</u>	<u>108,998</u>	<u>262,037</u>	<u>179,236</u>
Fund balances (deficit) at the end of the year	<u>\$ -</u>	<u>\$ (9,366)</u>	<u>\$ 109,352</u>	<u>\$ 284,210</u>	<u>\$ 384,196</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 (Deficit)
 Year Ended September 30, 2013

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 109,937	\$ -	\$ -	\$ -	\$ 109,937
Fees and charges	-	16,227	151,157	-	167,384
Others	-	-	-	22,173	22,173
Total revenues	<u>109,937</u>	<u>16,227</u>	<u>151,157</u>	<u>22,173</u>	<u>299,494</u>
Expenditures by account:					
Grants and subsidies	109,937	-	-	-	109,937
Repairs and maintenance	-	2,166	150,803	-	152,969
Total expenditures	<u>109,937</u>	<u>2,166</u>	<u>150,803</u>	<u>-</u>	<u>262,906</u>
Excess of revenues over expenditures	<u>-</u>	<u>14,061</u>	<u>354</u>	<u>22,173</u>	<u>36,588</u>
Other financing sources:					
Operating transfers in	<u>168,372</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,372</u>
Net change in fund balances (deficit)	168,372	14,061	354	22,173	204,960
Fund balances (deficit) at the beginning of the year	<u>(168,372)</u>	<u>(23,427)</u>	<u>108,998</u>	<u>262,037</u>	<u>179,236</u>
Fund balances (deficit) at the end of the year	<u>\$ -</u>	<u>\$ (9,366)</u>	<u>\$ 109,352</u>	<u>\$ 284,210</u>	<u>\$ 384,196</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2013

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. A brief discussion of the State's Nonmajor Governmental Funds - Capital Projects Funds as of September 30, 2013, follows:

Public Infrastructure Development Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(d) and approved by the FSM Congress.

CFSM Capital Projects Fund

This fund is used to account for grants awarded by the Congress of the Federated States of Micronesia (CFSM) for improvement and betterment projects within the State.

Yap State Public Projects Fund

This fund is used to account for an appropriation from the FSM National Government which initially has been loaned to the Yap Fishing Corporation (through YEDA) and after repayment will be used to fund certain capital projects. Appropriations by the State's Legislature for capital improvement projects funded by the General Fund are also accounted for within this fund.

Yap Water Development Projects Revolving Fund

This fund was established pursuant to YSL No. 4-69 to account for loan proceeds and other funds designated for State Water Development Projects.

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Balance Sheet
 September 30, 2013

	F51	F53	F60	F61	
	Compact Capital Projects	CFSM Capital Projects	Yap State Public Projects	Yap Water Development Projects Revolving	Total
<u>ASSETS</u>					
Receivables, net:					
CFSM	\$ -	\$ 192,987	\$ -	\$ -	\$ 192,987
Total assets	<u>\$ -</u>	<u>\$ 192,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,987</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>					
Liabilities:					
Accounts payable	\$ -	\$ 81,343	\$ -	\$ -	\$ 81,343
Other liabilities and accruals	-	341	-	-	341
Due to other funds	790	12,425	-	-	13,215
Total liabilities	<u>790</u>	<u>94,109</u>	<u>-</u>	<u>-</u>	<u>94,899</u>
Fund balances (deficit):					
Restricted	-	98,878	-	-	98,878
Unassigned	(790)	-	-	-	(790)
Total fund balances (deficit)	<u>(790)</u>	<u>98,878</u>	<u>-</u>	<u>-</u>	<u>98,088</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 192,987</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,987</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures By Function,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2013

	F51	F53	F60	F61	
	Compact Capital Projects	CFSM Capital Projects	Yap State Public Projects	Yap Water Development Projects Revolving	Total
Revenues:					
CFSM grants	\$ -	\$ 1,154,811	\$ -	\$ -	\$ 1,154,811
Total revenues	<u>-</u>	<u>1,154,811</u>	<u>-</u>	<u>-</u>	<u>1,154,811</u>
Expenditures by function:					
Current:					
General government	-	1,154,811	-	-	1,154,811
Total expenditures	<u>-</u>	<u>1,154,811</u>	<u>-</u>	<u>-</u>	<u>1,154,811</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:					
Operating transfers in	-	-	64,369	293,336	357,705
Net change in fund balances (deficit)	-	-	64,369	293,336	357,705
Fund balances (deficit) at the beginning of the year	<u>(790)</u>	<u>98,878</u>	<u>(64,369)</u>	<u>(293,336)</u>	<u>(259,617)</u>
Fund balances (deficit) at the end of the year	<u>\$ (790)</u>	<u>\$ 98,878</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,088</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures By Account,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2013

	F51	F53	F60	F61	
	Compact Capital Projects	CFSM Capital Projects	Yap State Public Projects	Yap Water Development Projects Revolving	Total
Revenues:					
CFSM grants	\$ -	\$ 1,154,811	\$ -	\$ -	\$ 1,154,811
Total revenues	<u>-</u>	<u>1,154,811</u>	<u>-</u>	<u>-</u>	<u>1,154,811</u>
Expenditures by account:					
Salaries and wages	-	8,581	-	-	8,581
Grants and subsidies	-	204,230	-	-	204,230
Contractual services	-	220,669	-	-	220,669
Supplies and materials	-	7,337	-	-	7,337
Travel	-	60	-	-	60
Capital outlay	-	24,880	-	-	24,880
POL	-	105,641	-	-	105,641
Other	-	583,413	-	-	583,413
Total expenditures	<u>-</u>	<u>1,154,811</u>	<u>-</u>	<u>-</u>	<u>1,154,811</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources:					
Transfers in	-	-	64,369	293,336	357,705
Net change in fund balances (deficit)	<u>-</u>	<u>-</u>	<u>64,369</u>	<u>293,336</u>	<u>357,705</u>
Fund balances (deficit) at the beginning of the year	<u>(790)</u>	<u>98,878</u>	<u>(64,369)</u>	<u>(293,336)</u>	<u>(259,617)</u>
Fund balances (deficit) at the end of the year	<u>\$ (790)</u>	<u>\$ 98,878</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,088</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Balance Sheet
September 30, 2013

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
ASSETS																
Investment pool	\$ 3,878,216	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,878,216
Receivables:																
Federal agencies	-	272,221	154	-	13,838	-	-	-	289,350	-	146,524	-	-	-	26,193	748,280
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	600	600
Due from other funds	-	-	845,804	94,369	-	944,373	884,310	22,967	451,022	1,117,808	408,565	155,533	1,177,318	230,276	43,169	6,375,514
Advances	-	122,731	18,219	88	159	2,728	37,827	1,940	-	-	-	-	-	-	-	183,692
	<u>\$ 3,878,216</u>	<u>\$ 394,952</u>	<u>\$ 864,177</u>	<u>\$ 94,457</u>	<u>\$ 13,997</u>	<u>\$ 947,101</u>	<u>\$ 922,137</u>	<u>\$ 24,907</u>	<u>\$ 740,372</u>	<u>\$ 1,117,808</u>	<u>\$ 555,089</u>	<u>\$ 155,533</u>	<u>\$ 1,177,318</u>	<u>\$ 230,276</u>	<u>\$ 69,962</u>	<u>\$ 11,186,302</u>
LIABILITIES AND FUND BALANCES (DEFICIT)																
Liabilities:																
Accounts payable	\$ 1,098	\$ 126,998	\$ 239,573	\$ 15,056	\$ 42,491	\$ 37,398	\$ 140,711	\$ 3,516	\$ 18,619	\$ 185,464	\$ 64,207	\$ 46,837	\$ 12,928	\$ 62,492	\$ 7,481	\$ 1,004,869
Other liabilities and accruals	12,636	44,843	1,462	4,605	6,720	3,890	18,931	1,723	8,945	12,805	25,108	8,560	228	-	1,968	152,424
Deferred revenue	-	-	247,519	122,233	1	132,072	372,760	19,668	-	674,654	-	56,655	1,163,890	167,784	-	2,957,236
Due to other funds	2,073,342	1,375,741	-	-	154,907	-	-	-	-	-	-	-	-	-	-	3,603,990
Total liabilities	<u>2,087,076</u>	<u>1,547,582</u>	<u>488,554</u>	<u>141,894</u>	<u>204,119</u>	<u>173,360</u>	<u>532,402</u>	<u>24,907</u>	<u>27,564</u>	<u>872,923</u>	<u>89,315</u>	<u>112,052</u>	<u>1,177,046</u>	<u>230,276</u>	<u>9,449</u>	<u>7,718,519</u>
Fund balances (deficit):																
Restricted	1,641,140	-	375,623	-	-	773,741	389,735	-	712,808	244,885	465,774	43,481	272	-	60,513	4,707,972
Committed	150,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150,000
Unassigned	-	(1,152,630)	-	(47,437)	(190,122)	-	-	-	-	-	-	-	-	-	-	(1,390,189)
Total fund balances (deficit)	<u>1,791,140</u>	<u>(1,152,630)</u>	<u>375,623</u>	<u>(47,437)</u>	<u>(190,122)</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>712,808</u>	<u>244,885</u>	<u>465,774</u>	<u>43,481</u>	<u>272</u>	<u>-</u>	<u>60,513</u>	<u>3,467,783</u>
Total liabilities and fund balances	<u>\$ 3,878,216</u>	<u>\$ 394,952</u>	<u>\$ 864,177</u>	<u>\$ 94,457</u>	<u>\$ 13,997</u>	<u>\$ 947,101</u>	<u>\$ 922,137</u>	<u>\$ 24,907</u>	<u>\$ 740,372</u>	<u>\$ 1,117,808</u>	<u>\$ 555,089</u>	<u>\$ 155,533</u>	<u>\$ 1,177,318</u>	<u>\$ 230,276</u>	<u>\$ 69,962</u>	<u>\$ 11,186,302</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 (Deficit)
Year Ended September 30, 2013

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	Total
Section 221(b)	Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	
Revenues:																
Compact funding	\$ -	\$ 3,713,702	\$ 3,052,201	\$ 339,388	\$ 751,696	\$ 439,186	\$ 1,605,984	\$ 166,403	\$ 169,308	\$ 351,652	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,589,520
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,390,158	1,011,326	663,414	133,346	-	3,198,244
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	83,220	83,220
Departmental charges	-	-	-	-	-	-	-	-	-	-	-	21,269	-	-	-	21,269
Other	-	4,300	9,988	-	-	640	21,615	-	-	-	-	-	8,583	-	-	45,126
	-	<u>3,718,002</u>	<u>3,062,189</u>	<u>339,388</u>	<u>751,696</u>	<u>439,826</u>	<u>1,627,599</u>	<u>166,403</u>	<u>169,308</u>	<u>351,652</u>	<u>1,390,158</u>	<u>1,032,595</u>	<u>671,997</u>	<u>133,346</u>	<u>83,220</u>	<u>13,937,379</u>
Expenditures by function:																
Current:																
General government	-	(53,278)	(26,199)	339,388	-	439,826	-	166,403	-	-	270,410	127,051	43,216	102,083	65,797	1,474,697
Resources and development	-	391,110	-	-	751,696	-	-	-	-	-	-	-	-	-	-	1,142,806
Education	1,576	3,323,342	-	-	-	-	1,627,599	-	-	-	691,187	-	-	7,732	-	5,651,436
Public Works and transportation	-	-	-	-	-	-	-	-	356,655	351,652	-	-	-	-	-	708,307
Health services	-	-	3,088,388	-	-	-	-	-	-	-	463,160	904,979	-	68,150	22,826	4,547,503
Other appropriations	-	56,828	-	-	-	-	-	-	-	-	-	-	-	-	-	56,828
	-	<u>3,718,002</u>	<u>3,062,189</u>	<u>339,388</u>	<u>751,696</u>	<u>439,826</u>	<u>1,627,599</u>	<u>166,403</u>	<u>356,655</u>	<u>351,652</u>	<u>1,424,757</u>	<u>1,032,030</u>	<u>43,216</u>	<u>177,965</u>	<u>88,623</u>	<u>13,581,577</u>
Total expenditures	1,576	3,718,002	3,062,189	339,388	751,696	439,826	1,627,599	166,403	356,655	351,652	1,424,757	1,032,030	43,216	177,965	88,623	13,581,577
Other financing sources (uses):																
Transfer in	-	-	-	-	-	-	-	-	169,308	-	-	-	-	564,847	-	734,155
Transfer out	-	-	-	-	-	-	-	-	-	-	-	-	(628,781)	-	(628,781)	
	-	-	-	-	-	-	-	-	169,308	-	-	-	(628,781)	564,847	-	105,374
Total other financing sources (uses)	-	-	-	-	-	-	-	-	169,308	-	-	-	(628,781)	564,847	-	105,374
Net change in fund balances (deficit)	(1,576)	-	-	-	-	-	-	-	(18,039)	-	(34,599)	565	-	520,228	(5,403)	461,176
Fund balances (deficit) at the beginning of the year	1,792,716	(1,152,630)	375,623	(47,437)	(190,122)	773,741	389,735	-	730,847	244,885	500,373	42,916	272	(520,228)	65,916	3,006,607
Fund balances (deficit) at the end of the year	<u>\$ 1,791,140</u>	<u>\$ (1,152,630)</u>	<u>\$ 375,623</u>	<u>\$ (47,437)</u>	<u>\$ (190,122)</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 712,808</u>	<u>\$ 244,885</u>	<u>\$ 465,774</u>	<u>\$ 43,481</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ 60,513</u>	<u>\$ 3,467,783</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 (Deficit)
Year Ended September 30, 2013

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	Total	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants		
Revenues:																	
Compact funding	\$ -	\$ 3,713,702	\$ 3,052,201	\$ 339,388	\$ 751,696	\$ 439,186	\$ 1,605,984	\$ 166,403	\$ 169,308	\$ 351,652	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,589,520
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,390,158	1,011,326	663,414	133,346	-	-	3,198,244
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	83,220	-	83,220
Department charges	-	-	-	-	-	-	-	-	-	-	-	21,269	-	-	-	-	21,269
Other	-	4,300	9,988	-	-	640	21,615	-	-	-	-	-	8,583	-	-	-	45,126
	<u>-</u>	<u>3,718,002</u>	<u>3,062,189</u>	<u>339,388</u>	<u>751,696</u>	<u>439,826</u>	<u>1,627,599</u>	<u>166,403</u>	<u>169,308</u>	<u>351,652</u>	<u>1,390,158</u>	<u>1,032,595</u>	<u>671,997</u>	<u>133,346</u>	<u>83,220</u>	<u>-</u>	<u>13,937,379</u>
Expenditures by account:																	
Salaries and wages	-	1,970,484	1,244,438	208,849	310,113	181,197	832,765	63,676	1,998	72	961,034	547,656	-	514	3,376	6,326,172	
Grants and subsidies	-	-	-	-	568	-	-	-	-	-	-	-	-	38,000	-	38,568	
Utilities	-	433,138	400,000	22,672	79,338	10,917	43,833	-	-	-	13,476	58,035	-	-	13,587	1,074,996	
Contractual services	-	115,473	106,354	16,235	94,752	6,124	-	-	210,806	5,637	79,227	42,764	-	32,560	1,364	711,296	
Books and educational materials	-	-	-	-	-	-	-	-	-	-	-	20,408	-	-	-	20,408	
Supplies and materials	-	297,619	91,795	31,460	37,376	23,363	148,371	20,939	-	-	48,037	51,532	-	4,353	10,250	765,095	
Construction	-	-	-	-	-	-	-	-	-	93,325	208,290	-	-	44,619	-	346,234	
Construction maintenance	-	-	-	-	-	-	-	-	54,537	137,393	-	-	62,301	35,000	-	289,231	
Scholarship and training	-	372,268	-	-	-	-	-	-	-	-	-	1,805	-	-	-	374,073	
Travel	1,576	38,931	75,672	8,181	84,277	126,464	108,580	24,413	-	260	187,471	65,119	-	11,215	390	732,549	
Capital outlay	-	9,125	36,168	3,019	10,904	13,914	141,623	11,611	-	-	52,761	55,026	-	17,445	18,103	369,699	
Non-capital outlay	-	249	-	-	195	169	3,949	1,081	-	-	425	-	-	-	-	6,068	
Rentals	-	2,323	-	333	1,169	1,853	13	-	-	-	1,927	250	-	1,350	20	9,238	
Food stuffs	-	82,078	33,994	-	-	-	115,726	-	-	-	-	-	-	2,825	-	234,623	
Communications	-	49,661	15,739	20,166	25,961	17,732	10,211	10,843	-	-	3,097	9,362	-	15	-	162,787	
Printing and reproduction	-	50	-	-	38,448	2,524	-	-	-	-	19,023	7,597	-	12,103	-	79,745	
Medical supplies	-	-	866,271	-	-	-	-	-	-	-	3,402	17,777	-	-	22,826	910,276	
Medical referrals	-	-	48,359	-	-	-	-	-	-	-	-	-	-	-	-	48,359	
Repairs and maintenance	-	112,552	52,672	10,418	13,821	1,105	11,312	722	4,489	-	4,378	17,989	-	-	92	229,550	
Freight	-	6,756	(175)	-	601	-	2,123	-	-	-	861	-	-	-	-	10,166	
Professional services	-	-	20,000	1,440	10,800	452	147,152	28,765	-	-	-	22,335	-	5,150	-	236,094	
POL	-	186,919	62,111	14,441	11,189	8,746	34,999	301	-	-	22,829	39,065	8,216	507	9,717	399,040	
Allowances	-	-	-	-	-	1,470	-	-	-	-	2,918	5,900	-	-	-	10,288	
Leased housing	-	-	-	-	-	-	-	-	-	-	5,500	-	-	-	-	5,500	
Other	-	40,376	8,791	2,174	32,184	45,266	25,472	4,052	(8,500)	-	18,391	7,109	-	7,309	8,898	191,522	
Total expenditures	1,576	3,718,002	3,062,189	339,388	751,696	439,826	1,627,599	166,403	356,655	351,652	1,424,757	1,032,030	43,216	177,965	88,623	13,581,577	
Other financing sources (uses):																	
Transfer in	-	-	-	-	-	-	-	-	169,308	-	-	-	-	564,847	-	734,155	
Transfer out	-	-	-	-	-	-	-	-	-	-	-	-	(628,781)	-	-	(628,781)	
Total other financing sources (uses)	-	-	-	-	-	-	-	-	169,308	-	-	-	(628,781)	564,847	-	105,374	
Net change in fund balances (deficit)	(1,576)	-	-	-	-	-	-	-	(18,039)	-	(34,599)	565	-	520,228	(5,403)	461,176	
Fund balances (deficit) at the beginning of year, as previously reported	1,792,716	(1,152,630)	375,623	(47,437)	(190,122)	773,741	389,735	-	730,847	244,885	500,373	42,916	272	(520,228)	65,916	3,006,607	
Fund balances (deficit) at the end of year	\$ 1,791,140	\$ (1,152,630)	\$ 375,623	\$ (47,437)	\$ (190,122)	\$ 773,741	\$ 389,735	\$ -	\$ 712,808	\$ 244,885	\$ 465,774	\$ 43,481	\$ 272	\$ -	\$ 60,513	\$ 3,467,783	

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 Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia:

We have audited, in accordance with the 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 as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise State of Yap's basic financial statements, and have issued our report thereon dated June 29, 2014. Our report includes a reference to other auditors and a modification for the omission of certain component units. Other auditors audited the financial statements of the Public Transportation System, as described in our report on the State of Yap's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the discretely presented component units, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors issued a separate report on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Public Transportation System. The findings, if any, included in that report are not included herein.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2013-004 to be material weaknesses.

Compliance and Other Matters

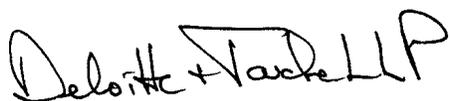
As part of obtaining reasonable assurance about whether the State of Yap's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

State of Yap's Response to Findings

The State of Yap's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The State of Yap's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



June 29, 2014

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 OMB CIRCULAR A-133

Honorable Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited the State of Yap's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Yap's major federal programs for the year ended September 30, 2013. The State of Yap's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 2B to the Schedule of Expenditures of Federal Awards, the State of Yap's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2013. Our audit, described below, did not include the operations of the entities identified in Note 2B as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State of Yap's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 of Yap's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on CFDA 15.875 and CFDA 93.224

As described in the accompanying Schedule of Findings and Questioned Costs, the State of Yap did not comply with requirements regarding CFDA 15.875 Economic, Social and Political Development of the Territories – Compact Sector Grants as described in item 2013-001 for Procurement and Suspension and Debarment and regarding CFDA 93.244 Consolidated Health Centers as described in item 2013-002 for Procurement and Suspension and Debarment and in item 2013-003 for Cash Management. Compliance with such requirements is necessary, in our opinion, for the State of Yap to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 15.875 and CFDA 93.224

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State of Yap complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social and Political Development of the Territories – Compact Sector Grants and on CFDA 93.224 Consolidated Health Centers for the year ended September 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State of Yap complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2013.

Other Matters

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

Report on Internal Control Over Compliance

Management of the State of Yap is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of Yap's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 of Yap's internal control over compliance.

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

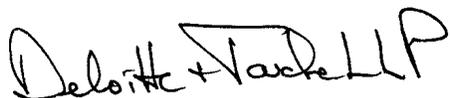
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 through 2013-003 to be material weaknesses.

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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 of Yap as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the State of Yap's basic financial statements. We issued our report thereon dated June 29, 2014, which contained a modified opinion on those financial statements due to the omission of certain component units and which report included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We did not audit the financial statements of the Public Transportation System which represents 100% of the assets, net position, and revenues of the business-type activities, and 53%, 58%, and 25%, respectively, of the assets, net position/fund balances, and revenues of the State's aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System is based on the report of the other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 29, 2014

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

Grantor/CFDA Grantor's Program Title	CFDA No./ Grant No.	2013 Fiscal Year Expenditures
<u>U. S. Department of Agriculture:</u>		
Direct Programs:		
Cooperative Forestry Assistance	10.664	\$ 18,371
Forest Stewardship Program	10.678	13,207
Community Facilities Loans and Grants	10.766	62,301
Subtotal Direct Programs		<u>93,879</u>
Pass-Through Federated States of Micronesia National Government:		
Cooperative Forestry Assistance - Yap Urban & Community Forests	10.664	15,800
Cooperative Forestry Assistance - Yap Forest Health Project	10.664	10,674
Forest Stewardship Program	10.678	7,029
Subtotal Pass-Through Federated States of Micronesia National Government		<u>33,503</u>
Total U. S. Department of Agriculture		<u>127,382</u>
<u>U. S. Department of the Interior:</u>		
Direct Programs:		
Economic, Social and Political Development of the Territories: Technical Assistance	15.875	8,158
Pass-Through Federated States of Micronesia National Government:		
Historic Prevention Fund Grant-In-Aid	15.904	88,146
Economic, Social and Political Development of the Territories: Technical Assistance	15.875	148,586
Compact of Free Association, Sector Grants		10,814,987
Subtotal Pass-Through Federated States of Micronesia National Government		<u>11,051,719</u>
Total U. S. Department of the Interior		<u>11,059,877</u>
<u>U. S. Department of State:</u>		
Direct Programs:		
Preservation of Chants/Dance/Stories	19.S-FM200-11-GR-003	300
Total U. S. Department of State		<u>300</u>
<u>U. S. Small Business Administration</u>		
Direct Programs:		
8(a) Business Development Program	59.006	24,714
Total U. S. Small Business Administration		<u>24,714</u>
<u>U. S. Department of Education:</u>		
Pass-Through Federated States of Micronesia National Government:		
Special Education-Grants to States	84.027A	691,187
Total U. S. Department of Education		<u>691,187</u>
<u>U. S. Department of Health and Human Services:</u>		
Direct Programs:		
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	904,979
Pass-Through Federated States of Micronesia National Government:		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	28,921
Family Planning-Services	93.217	27,838
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	78,615
Universal Newborn Hearing Screening	93.251	1,627
Immunization Cooperative Grants	93.268	65,446
Tobacco Prevention		9,754
CDC and Prevention - Investigation and Technical Assistance	93.283	86,369
HIV Prevention Activities - Health Department Based	93.940	22,930
Block Grants for Prevention and Treatment of Substance Abuse	93.959	59,800
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	16,292
Maternal and Child Health Services Block Grant to the States	93.994	65,569
Subtotal Pass-Through Federated States of Micronesia National Government		<u>463,161</u>
Total U. S. Department of Health and Human Services		<u>1,368,140</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

Grantor/CFDA Grantor's Program Title	CFDA No./ Grant No.	2013 Fiscal Year Expenditures
<u>U. S. Department of Homeland Security:</u>		
Pass-Through Federated States of Micronesia National Government:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	35,000
Hazard Mitigation Grant	97.039	8,216
Total U. S. Department of Homeland Security		<u>43,216</u>
Total Federal Awards		<u>\$ 13,314,816</u>
Reconciliation to financial statements - Expenditures of the Foreign Assistance Grant Fund		\$ 13,581,577
Adjustment for FY12 variance		(173)
Less Non-U.S. Grants Fund		(177,965)
Less: CFSM Grants Fund		<u>(88,623)</u>
		<u>\$ 13,314,816</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, 2013

1. Scope

The State of Yap is one of the four States of the Federated States of Micronesia. All significant operations of the State of Yap are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State of Yap's cognizant agency for Single Audit.

• Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents federal programs related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of the Interior
- U.S. Department of State
- U.S. Small Business Administration

2. Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures on the accrual basis of accounting.

B. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the State of Yap's reporting entity is defined in Note 1A to its September 30, 2013 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the State of Yap, as defined above, for the year ended September 30, 2013.

C. Subgrantees

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

D. Indirect Cost Allocation

The State of Yap did not receive any indirect cost allocation and did not charge indirect costs against federal programs.

**STATE OF YAP
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Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2013

2. Summary of Significant Accounting Policies, Continued

E. CFDA #15.875

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

F. Component Units

The Yap State Public Service Corporation (YSPSC), a discretely presented component unit of the State of Yap, separately satisfies the requirements of OMB Circular A-133. YSPSC expended \$231,610 in federal grants during the year ended September 30, 2013.

**STATE OF YAP
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------------------|
| 1. Type of auditors' report issued: | Adverse and
Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major programs:

- | | |
|---|--------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | Non reported |
| 7. Type of auditors' report issued on compliance for major programs: | |
| CFDA Program 15.875 | Qualified |
| CFDA Program 93.224 | Qualified |
| CFDA Program 84.027 | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |

9. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association Compact Sector Grants
84.027	Special Education – Grants to States
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$399,444 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2013-004	External Financial Reporting

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2013-001	15.875	Procurement and Suspension and Debarment	\$ 33,896
2013-002	93.224	Procurement and Suspension and Debarment	11,880
2013-003	93.224	Cash Management	-
			\$ <u>45,776</u>

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant Number: Compact Sector Grants
 Requirement: Procurement and Suspension and Debarment
 Questioned Cost: \$33,896

Criteria: Pursuant to the provisions set forth in paragraph 1-(j)-(10), Article VI of Fiscal Procedures Agreement, the State of Yap should obtain price or rate quotations from an adequate number of qualified sources if small purchase procedures are used for items less than \$100,000.

Condition 1: For two (or 4.1%) fixed asset transactions tested, we were not able to obtain sufficient evidence that support the State of Yap's technical compliance with the procurement requirement. The documentation of review and approval of purchase requisitions and purchase orders, including compliance with the procurement method, were not on file.

<u>GL</u>	<u>Description</u>	<u>Department</u>
Buildings (8620)	Mogmog Elem School	DOE, Mogmog
Buildings (8620)	Flalop Ulithi Elem School	DOE, Flalop Ulithi

Condition 2: For five (or 10.2%) of forty-nine non-payroll transactions tested for federal compliance, we were not able to obtain sufficient evidence that support the State of Yap's compliance with procurement requirements.

The documentation of review and approval of purchase requisitions and purchase orders, including compliance with the applicable procurement method, were not on file.

<u>Sel'n #</u>	<u>Fund</u>	<u>Account</u>	<u>Amount</u>	<u>Tran. Code</u>
5	10	R&M	\$25,217	115825T-0000007
27	11	R&M	<u>8,679</u>	125861T-0000000
			<u>\$33,896</u>	

Cause: This appears to be a weakness in internal control over compliance with applicable procurement requirements.

Effect: The effect of this condition is potential noncompliance with applicable procurement requirements. Questioned costs of \$33,896 result from Condition 2. No questioned costs result from Condition 1 because adequate competition occurred even though technical compliance with procurement requirements was not met.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-001, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact Sector Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$33,896

Recommendation: We recommend that the State of Yap strengthen internal control over compliance with applicable procurement requirements.

Auditee Response and Corrective Action Plan: We agree with the finding. The Division of Finance will work with the Procurement Office and the departments and agencies to ensure future compliance with the procurement requirements.

In Condition 1, the related contracts were certified and processed in fiscal year 2011 and were completed in fiscal year 2012. The projects were completed as of this finding, however, there remains the issue of the noncompliance with the procurement requirements. The Division of Finance & Treasury in collaboration with the Procurement Office will initiate discussion with the department in July 2014 to improve future procurement of goods and services. In addition, the two offices will further develop and provide clear procurement guidelines for distribution to the departments and agencies before the end of fiscal year 2014.

In Condition 2, refer to our response to Condition 1, where we commented that the Division of Finance & Treasury and the Procurement Office will initiate discussion with the departments and agencies in improving future procurement of goods and services as well as develop and provide clear procurement guidelines to the departments and agencies before the end of fiscal year 2014.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: H80CS06653
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$11,880

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

Condition: For 2 (or 8%) of 24 transactions tested, the sole source procurement method was used and the selection criteria was not evident. The State requirement to obtain three price comparisons was waived by WCHC or the State Governor, who does not have the authority to waive such requirement.

<u>Check No.</u>	<u>Check Date</u>	<u>For</u>	<u>Amount</u>
68509	09/03/2013	Local Food Demonstration	\$ 6,000
63815	11/22/2011	Termite Prevention	<u>5,880</u>
			<u>\$11,880</u>

Cause: The cause of the condition appears to be inconsistencies in recordkeeping.

Effect: The effect of this condition is questioned costs and potential noncompliance with the criteria.

Recommendation: We recommend that the State of Yap follow and document full and open competition procedures in accordance with applicable procurement requirements.

Auditee Response and Corrective Action Plan: We partially agree with the finding. The fund used for the "local food demonstration" is sourced out from the program income as explained in the supporting documents. The program income is mainly from collection of fees charged at the WCHC 5 sites. It is our understanding that program income generated from each site can be used for the program as long as expenses are directly related to approved objectives and activities of the program. The Division of Finance and Treasury will work with the WCHC program and their grantor in resolving the finding. In addition, we will also work with the Procurement Office and the departments and agencies receiving US Federal Grants in ensuring that compliance with the applicable procurement requirements are met. In these two instances, we believe the requirements could have been fulfilled if appropriate justifications from the department or agency were in place to justify for the "area catchment" vendor selection and the sole source vendor. The Division of Finance & Treasury will initiate discussion by the 1st week of July 2014 with the agency implementing the grant and the grantor to improve future procurement of goods and services.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-003
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Consolidated Health Centers
 Grant Number: H80CS06653
 Requirement: Cash Management
 Questioned Costs: \$0
 Interest liability: \$639

Criteria: In accordance with applicable cash management requirements (31 CFR section 205), a grantee must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. The timing and amount of funds transfers must be as close as is administratively feasible to a grantee's actual cash needs for direct program operation.

Condition: The State of Yap made a drawdown for expenditures that had not been paid and as such does not represent a valid drawdown. The estimated interest liability for the period between the drawdown receipt and check clearance, or September 30, 2013, is \$639. As this amount is below the \$10,000 threshold, such is not reported as a questioned cost. It does not appear that a subsequent disbursement for the retention has occurred.

Transaction No.	Check No.	[A] Check Clear Date	[B] Drawdown Receipt Date	Days Between [A] - [B]	Drawdown Amount
117334T-0000005	64234	12/28/12	12/24/12	4	\$ 100.00
119191T-0000069	65135	02/21/13	02/04/13	17	8,223.69
120142T-0000005	65098	06/10/13	02/04/13	126	1,127.14
124111T-0000087	67299	07/04/13	05/20/13	45	7,148.70
124865T-0000061	66745	07/02/13	06/17/13	15	110.70
129146T-0000005	68509	10/24/13	09/19/13	11	3,700.00
131259T-0000157	69312	10/31/13	09/19/13	11	17,384.22
Employ # 701534	267686	02/07/13	02/04/13	3	288.46
Employ # 701534	273861	05/02/13	05/01/13	1	288.46
Employ # 69311	279798	07/31/13	07/18/13	13	1,131.33

Cause: The cause of the condition appears to be due to inconsistencies in recordkeeping.

Effect: The effect of this condition is potential noncompliance with the criteria.

Recommendation: We recommend that the State of Yap comply with the criteria and monitor controls over cash management.

Auditee Response and Corrective Action Plan: We agree with the finding. We have established and implemented procedures as of this response where unpaid expenditures are not included with request for drawdown. The Chief Accountant is charged with the responsibility of ensuring that the newly established procedure is being implemented properly. Periodic monitoring of the internal controls to ensure compliance with the applicable cash management requirements is included in a draft cash management plan targeted for implementation before the end of fiscal year 2014.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-004
Area: External Financial Reporting

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

Condition: Fiscal year 2013 financial audits of the following component units were not completed in a timely manner due to delayed reconciliations and year-end closings:

Yap Fishing Authority
Gagil-Tomil Water Authority

Cause: The cause of the above condition is the lack of policies and procedures requiring regular monitoring of component units financial statements and of the audit progress for the respective entities.

Effect: The effect of the above condition is noncompliance with GASB Statement No. 14, as amended, and lack of audited financial statements for inclusion in the State's general purpose financial statements.

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

Auditee Response and Corrective Action Plan: We agree with the finding. The Division of Finance & Treasury does not have the authority to carry out the recommendation; however, we will certainly bring it to the attention of the proper authorities.

**STATE OF YAP
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Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2013

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

	Questioned Costs Set Forth in Prior Audit Report <u>2012</u>	Questioned Costs Resolved in Fiscal Year <u>2013</u>	Questioned Costs at <u>September 30, 2013</u>
Unresolved Questioned Costs FY 08	\$ 69,590	\$ -	\$ 69,590
Unresolved Questioned Costs FY 09	376,295	-	376,295
Unresolved Questioned Costs FY 10	150,534	-	150,534
Unresolved Questioned Costs FY 11	222,064	-	222,064
Unresolved Questioned Costs FY 12	<u>3,660</u>	<u>3,660</u>	<u>-</u>
	\$ <u>822,143</u>	\$ <u>3,660</u>	818,483
Questioned Costs FY 13			<u>45,776</u>
Total Questioned Costs			\$ <u>864,259</u>

The \$3,660 was resolved during fiscal year 2013 based on a May 30, 2014 letter from the grantor agency.