

**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, 2014

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2014

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

YEAR ENDED SEPTEMBER 30, 2014

INDEPENDENT AUDITORS' REPORT

Honorable Tony Ganngiyan
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, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Transportation System, which represents 100% of the assets, net position, and operating revenues of the State's business-type activities and which represents 40%, 42% and 26%, 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, 2014, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Restatement for Correction of Error

As discussed in Note 12 to the financial statements, the beginning net position of governmental activities has been restated for the correction of an error. Our opinion is not modified with respect to this matter.

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 10 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Deficit – Budget and Actual – General Fund and notes thereto, on pages 50 and 51, 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.

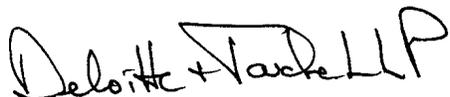
Other Information

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 26, 2015, 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.



June 26, 2015

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2014

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, 2014. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2013 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, 2014, Yap State's total net position increased by \$4.1 million (or 4.4%) from \$94.8 million in the prior year, as restated, to \$98.9 million.
- In comparison to fiscal year 2013, revenues decreased by \$0.7 million (or 2.9%) from \$25.3 million in 2013 to \$24.6 in 2014, and total expenses increased by \$2.4 million (or 11%) from \$21.8 million in 2013 to \$24.2 million in 2014. The decrease in revenue was due mainly to a reduction in investment earnings, \$1.2 million of which was attributed to the Yap State Investment Trust Fund.
- Fiscal year 2014 revenues available for appropriation were \$2.2 million more than budgeted for the general fund. Actual expenditures were \$2.1 million more than the final budgeted amount.
- At the end of fiscal year 2014, the Yap State Investment Trust Fund reported a balance of \$43 million, which was an increase of \$3.0 million from the prior year, due to investment earnings.
- At the end of the fiscal year, the unassigned balance of the general fund was \$11.8 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.

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Management's Discussion and Analysis
Year Ended September 30, 2014

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 of measuring the State's financial position.

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

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

- **Governmental activities** - Most of Yap State's basic services are included here, such as education, health, special appropriations, finance, judiciary, and general administration. Federal grants finance most of these activities.
- **Business-type activities** - Yap State reports the operations of its Public Transportation System, which charges tariffs to help cover the costs of the transportation services it provides.
- **Component Units** - Yap State includes the operating results of the Yap Visitor's Bureau, the Yap State Public Service Corporation 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 fund 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
Year Ended September 30, 2014

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 2014, Yap State's assets exceeded liabilities by \$98.9 million. Of its total net position, \$43.1 million is restricted for specific uses. Included in the restricted amount, \$27.2 million is net investment 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, 2014 with comparative figures for the prior year:

	Governmental Activities		Business Type Activities		Total		Change	%
	2014	2013 As Restated	2014	2013	2014	2013 As Restated		
Assets								
Current assets	\$ 26,385,374	\$ 25,788,328	\$ 169,896	\$ 165,553	\$ 26,555,270	\$ 25,953,881	\$ 601,389	2.3
Other assets	56,941,209	52,735,728	-	-	56,941,209	52,735,728	4,205,481	8.0
Capital assets, net	26,748,186	26,738,815	404,841	521,707	27,153,027	27,260,522	(107,495)	-0.4
Total assets	110,074,769	105,262,871	574,737	687,260	110,649,506	105,950,131	4,699,375	4.4
Liabilities								
Current liabilities	6,628,995	5,883,952	21,099	13,727	6,650,094	5,897,679	752,415	12.8
Non-current liabilities	5,099,275	5,291,853	-	-	5,099,275	5,291,853	(192,578)	-3.6
Total liabilities	11,728,270	11,175,805	21,099	13,727	11,749,369	11,189,532	559,837	5.0
Net Position								
Net investment in capital assets	26,748,186	26,738,815	404,841	521,707	27,153,027	27,260,522	(107,495)	-0.4
Restricted	16,369,737	14,201,006	-	-	16,369,737	14,201,006	2,168,731	15.3
Unrestricted	55,228,576	53,147,245	148,797	151,826	55,377,373	53,299,071	2,078,302	3.9
Total net position	\$ 98,346,499	\$ 94,087,066	\$ 553,638	\$ 673,533	\$ 98,900,137	\$ 94,760,599	\$ 4,139,538	4.4

The 2013 financial statements were restated for the correction of an error. Additional information on this restatement can be found in Note 12 to the financial statements.

At the end of fiscal year 2014, Yap State's unrestricted net position show a surplus of \$55.2 million (56% of total net position). Included in this amount is the Yap State Investment Trust Fund with a fiscal year end value of \$43.0 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2013, Yap State's net position increased by \$4.1 million. Key elements of the increase and the differences from the prior year are shown in the following schedule:

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**Management's Discussion and Analysis
Year Ended September 30, 2014**

	Governmental Activities		Business Type Activities		Total		Change	%
	2013		2014	2013	2013			
	2014	As Restated			2014	As Restated		
Revenues:								
Program Revenues:								
Charges for services	\$ 1,280,814	\$ 1,254,398	\$ 447,431	\$ 483,640	\$ 1,728,245	\$ 1,738,038	\$ (9,793)	-0.6
Operating grants and contributions	14,471,532	15,025,795	-	-	14,471,532	15,025,795	(554,263)	-3.7
Capital grants and contributions	2,264,815	-	-	-	2,264,815	-	2,264,815	0.0
General Revenues:								
Taxes	3,259,853	3,392,508	-	-	3,259,853	3,392,508	(132,655)	-3.9
Unrestricted investment earnings	2,510,647	2,938,846	-	-	2,510,647	2,938,846	(428,199)	-14.6
Other	399,339	2,264,666	-	-	399,339	2,264,666	(1,865,327)	-82.4
Total revenues	24,187,000	24,876,213	447,431	483,640	24,634,431	25,359,853	(725,422)	-2.9
Expenses:								
General government	4,539,479	4,374,299	567,326	573,849	5,106,805	4,948,148	158,657	3.2
Health Services	5,461,071	5,676,253	-	-	5,461,071	5,676,253	(215,182)	-3.8
Education	6,126,760	5,471,456	-	-	6,126,760	5,471,456	655,304	12.0
Resources and development	1,075,979	1,446,890	-	-	1,075,979	1,446,890	(370,911)	-25.6
Public safety	575,667	657,968	-	-	575,667	657,968	(82,301)	-12.5
Public works and transportation	3,839,818	1,913,972	-	-	3,839,818	1,913,972	1,925,846	100.6
Community affairs	254,359	275,714	-	-	254,359	275,714	(21,355)	-7.7
Boards and commissions	269,210	229,251	-	-	269,210	229,251	39,959	17.4
Payments to components	29,844	58,230	-	-	29,844	58,230	(28,386)	-48.7
Judiciary	200,840	197,309	-	-	200,840	197,309	3,531	1.8
Public auditor	2,302	2,301	-	-	2,302	2,301	1	0.0
Other	1,309,147	977,126	-	-	1,309,147	977,126	332,021	34.0
Total expenses	23,684,476	21,280,769	567,326	573,849	24,251,802	21,854,618	2,397,184	11.0
Contributions to permanent funds	3,756,909	5,472,228	-	-	3,756,909	5,472,228	(1,715,319)	-31.3
Receivable written off	-	(72,478)	-	-	-	(72,478)	72,478	-100.0
Change in net position	4,259,433	8,995,194	(119,895)	(90,209)	4,139,538	8,904,985	(4,765,447)	-53.5
Net position at the beginning of the year	94,087,066	85,091,872	673,533	763,742	94,760,599	85,855,614	8,904,985	10.4
Net position at the end of the year	\$ 98,346,499	\$ 94,087,066	\$ 553,638	\$ 673,533	\$ 98,900,137	\$ 94,760,599	\$ 4,139,538	4.4

Total revenues in fiscal year 2014 decreased by \$0.7 million over prior year's \$25.4 million primarily due to reduction in investment earnings for Yap State Investment Trust investments.

Total expenses of \$24.2 million in fiscal year 2014 is 11% more than that of fiscal year 2013's expenses of \$21.8 million.

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 2014, Yap State's governmental funds reported a combined fund balance of \$77.3 million, which represents an increase of \$4.0 million in comparison with fiscal year 2013. Of the total fund balance, \$65.5 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 (\$55.2 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$6.6 million); and 3) restricted because the funds are already committed (\$1.2 million). The unassigned combined fund balance is \$11.8 million. As mentioned above, GASB 54 was implemented in fiscal year 2011, which changed the classification definitions in the State's fund balance.

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Management's Discussion and Analysis
Year Ended September 30, 2014

The State's governmental fund changes in fund balances for the years ended September 30, 2014 and 2013 are shown below:

	General Fund		Foreign Assistance Grant Fund		Yap State Investment Trust		Compact Trust		Other Funds	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenues:										
Taxes	\$ 3,161,040	\$ 3,282,571	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,813	\$ 109,937
Compact	-	-	11,079,782	10,589,520	-	-	-	-	-	-
Other/Transfers in	3,989,166	6,830,739	3,849,349	4,082,014	3,014,830	4,279,294	742,079	1,192,934	1,301,160	1,870,445
Total revenues	7,150,206	10,113,310	14,929,131	14,671,534	3,014,830	4,279,294	742,079	1,192,934	1,399,973	1,980,382
Expenditures/transfers out	8,215,028	9,594,913	13,828,007	14,210,358	-	-	-	-	1,123,255	1,417,717
Net change in fund balances	<u>\$ (1,064,822)</u>	<u>\$ 518,397</u>	<u>\$ 1,101,124</u>	<u>\$ 461,176</u>	<u>\$ 3,014,830</u>	<u>\$ 4,279,294</u>	<u>\$ 742,079</u>	<u>\$ 1,192,934</u>	<u>\$ 276,718</u>	<u>\$ 562,665</u>

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2014. Activities in this fund was relatively stable during the year.

Yap State Investment Trust and Compact Trust Fund

Revenues for these funds are determined by the results of the State's investments. Those results are primarily based on improvement in the U.S. Stock market, which is what transpired during fiscal year 2014.

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 \$2.5 million investment earnings, which contributed to the State's increase in revenues as compared to prior year. Actual expenditures for the fiscal year were \$366,587 less than the total revenues resulting in an overall positive change of \$91,786 compared with budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2014, amounted to \$116.6 million, net of accumulated depreciation of \$89.9 million, leaving a net book value of \$26.7 million. This represents no change from fiscal year 2013. The table below summarizes Yap State's capital assets:

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	2014	2013	Change	%
Land	\$ 3,170,610	\$ 3,170,610	\$ -	-
Construction work in progress	-	3,982,475	(3,982,475)	-100.0
Buildings	5,553,571	3,849,783	1,703,788	44.3
Equipment	319,380	392,559	(73,179)	-18.6
Heavy Equipment	224,134	351,821	(127,687)	-36.3
Vehicles	216,381	221,785	(5,404)	-2.4
Vessels	2,444,602	2,646,579	(201,977)	-7.6
Infrastructure	14,819,508	12,123,203	2,696,305	22.2
Total	<u>\$ 26,748,186</u>	<u>\$ 26,738,815</u>	<u>\$ 9,371</u>	-

Major additions in capital assets during the year were the transfer of the Tomilang Elementary School in the amount of \$2.3 million from the FSM National Government to the State.

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 \$4.9 million at September 30, 2014. This debt is comprised of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, the Basic Social Services Program Loan and the FSM National Government Program Loans with all four adding to \$4.9 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 57% 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 2015 and beyond.

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Management's Discussion and Analysis
Year Ended September 30, 2014

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

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, 2014

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 294,863	\$ 27,144	\$ 322,007	\$ 3,015,956
Time certificates of deposit	-	-	-	1,566,000
Investments	23,449,151	-	23,449,151	599,059
Receivables, net of allowance for uncollectibles	1,515,323	12,346	1,527,669	1,803,213
Advances	470,487	-	470,487	-
Inventories	-	118,637	118,637	712,024
Other current assets	-	11,769	11,769	1,026,689
Restricted assets:				
Cash and cash equivalents	655,550	-	655,550	-
Total current assets	<u>26,385,374</u>	<u>169,896</u>	<u>26,555,270</u>	<u>8,722,941</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	207,126
Time certificates of deposit	-	-	-	2,044,165
Investments	54,502,343	-	54,502,343	-
Investments	2,438,866	-	2,438,866	-
Capital assets:				
Nondepreciable capital assets	3,170,610	-	3,170,610	2,100,431
Capital assets, net of accumulated depreciation	23,577,576	404,841	23,982,417	12,158,340
Other non-current assets	-	-	-	1,166,896
Total noncurrent assets	<u>83,689,395</u>	<u>404,841</u>	<u>84,094,236</u>	<u>17,676,958</u>
Total assets	<u>\$ 110,074,769</u>	<u>\$ 574,737</u>	<u>\$ 110,649,506</u>	<u>\$ 26,399,899</u>
LIABILITIES				
Current liabilities:				
Bank overdraft	\$ 109,181	\$ -	\$ 109,181	\$ -
Current portion of long-term obligations	162,703	-	162,703	332,332
Accounts payable	1,957,522	8,600	1,966,122	2,643,359
Compensated absences payable, net of current portion	465,622	-	465,622	-
Accrued interest payable	14,872	-	14,872	-
Other liabilities and accruals	307,938	7,563	315,501	1,066,227
Unearned revenues	3,611,157	4,936	3,616,093	148,578
Total current liabilities	<u>6,628,995</u>	<u>21,099</u>	<u>6,650,094</u>	<u>4,190,496</u>
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	4,700,978	-	4,700,978	4,431,724
Compensated absences payable	148,689	-	148,689	-
Other noncurrent liabilities	249,608	-	249,608	-
Total noncurrent liabilities	<u>5,099,275</u>	<u>-</u>	<u>5,099,275</u>	<u>4,431,724</u>
Total liabilities	<u>11,728,270</u>	<u>21,099</u>	<u>11,749,369</u>	<u>8,622,220</u>
NET POSITION				
Net investment in capital assets	26,748,186	404,841	27,153,027	9,494,715
Restricted for:				
Nonexpendable:				
Future operations	9,760,745	-	9,760,745	-
Expendable:				
Compact related	3,500,096	-	3,500,096	-
Debt service	1,724,263	-	1,724,263	-
Other purposes	1,384,633	-	1,384,633	3,998,588
Unrestricted	<u>55,228,576</u>	<u>148,797</u>	<u>55,377,373</u>	<u>4,284,376</u>
Total net position	<u>98,346,499</u>	<u>553,638</u>	<u>98,900,137</u>	<u>17,777,679</u>
Total liabilities and net position	<u>\$ 110,074,769</u>	<u>\$ 574,737</u>	<u>\$ 110,649,506</u>	<u>\$ 26,399,899</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2014

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
Judiciary	\$ 200,840	\$ -	\$ -	\$ -	\$ (200,840)	\$ -	\$ (200,840)
Councils of traditional leaders	171,384	-	-	-	(171,384)	-	(171,384)
Public auditor	2,302	-	-	-	(2,302)	-	(2,302)
General government	4,539,479	1,280,814	2,206,756	-	(1,051,909)	-	(1,051,909)
Resources and development	1,075,979	-	660,647	-	(415,332)	-	(415,332)
Public safety	575,667	-	-	-	(575,667)	-	(575,667)
Community affairs	254,359	-	-	-	(254,359)	-	(254,359)
Education	6,126,760	-	5,939,125	2,264,815	2,077,180	-	2,077,180
Public works and transportation	3,839,818	-	942,851	-	(2,896,967)	-	(2,896,967)
Health services	5,461,071	-	4,692,309	-	(768,762)	-	(768,762)
Boards and commissions	269,210	-	-	-	(269,210)	-	(269,210)
Payments to components	29,844	-	29,844	-	-	-	-
Other appropriations	850,357	-	-	-	(850,357)	-	(850,357)
Interest expense	287,406	-	-	-	(287,406)	-	(287,406)
Total governmental activities	<u>23,684,476</u>	<u>1,280,814</u>	<u>14,471,532</u>	<u>2,264,815</u>	<u>(5,667,315)</u>	<u>-</u>	<u>(5,667,315)</u>
Business-type activities:							
Public Transportation System	567,326	447,431	-	-	-	(119,895)	(119,895)
Total primary government	<u>\$ 24,251,802</u>	<u>\$ 1,728,245</u>	<u>\$ 14,471,532</u>	<u>\$ 2,264,815</u>	<u>(5,667,315)</u>	<u>(119,895)</u>	<u>(5,787,210)</u>
Component units:							
Yap Visitor's Bureau	\$ 370,468	\$ -	\$ -	\$ -	-	-	(370,468)
Yap State Public Service Corporation	6,676,568	6,003,204	-	939,232	-	-	265,868
The Diving Seagull, Inc.	10,067,364	5,864,964	-	-	-	-	(4,202,400)
Total component units	<u>\$ 17,114,400</u>	<u>\$ 11,868,168</u>	<u>\$ -</u>	<u>\$ 939,232</u>	<u>-</u>	<u>-</u>	<u>(4,307,000)</u>
General revenues:							
Taxes:							
FSM revenue sharing:							
Gross revenue taxes					649,430	-	649,430
Import taxes					633,985	-	633,985
Income taxes					522,079	-	522,079
Other taxes					365,317	-	365,317
State taxes					1,089,042	-	1,089,042
Unrestricted investment earnings					2,510,647	-	2,510,647
Contributions from primary government					-	-	269,067
Other					399,339	-	399,339
					<u>6,169,839</u>	<u>-</u>	<u>6,169,839</u>
Contributions to permanent funds					<u>3,756,909</u>	<u>-</u>	<u>3,756,909</u>
					<u>9,926,748</u>	<u>-</u>	<u>9,926,748</u>
Total general revenues and contributions					<u>9,926,748</u>	<u>-</u>	<u>9,926,748</u>
Change in net position					<u>4,259,433</u>	<u>(119,895)</u>	<u>4,139,538</u>
Net position at the beginning of the year, as previously reported					90,104,591	673,533	90,778,124
Prior-period adjustment (Note 12)					3,982,475	-	3,982,475
Net position at the beginning of the year, as restated					<u>94,087,066</u>	<u>673,533</u>	<u>94,760,599</u>
Net position at the end of the year					<u>\$ 98,346,499</u>	<u>\$ 553,638</u>	<u>\$ 98,900,137</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2014

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 294,863	\$ 294,863
Investments	22,785,938	3,102,079	-	-	-	25,888,017
Receivables, net:						
Federal agencies	-	1,039,969	-	-	-	1,039,969
FSM National Government	331,724	-	-	-	20,553	352,277
Other	122,477	600	-	-	-	123,077
Due from other funds	1,768,071	6,703,735	-	-	556,813	9,028,619
Advances	304,916	165,571	-	-	-	470,487
Restricted assets:						
Cash and cash equivalents	655,550	-	-	-	-	655,550
Investments	1,724,263	-	43,017,335	9,760,745	-	54,502,343
Total assets	<u>\$ 27,692,939</u>	<u>\$ 11,011,954</u>	<u>\$ 43,017,335</u>	<u>\$ 9,760,745</u>	<u>\$ 872,229</u>	<u>\$ 92,355,202</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Bank overdraft	\$ 109,181	\$ -	\$ -	\$ -	\$ -	\$ 109,181
Accounts payable	1,007,651	911,949	-	-	37,922	1,957,522
Other liabilities and accruals	80,763	151,870	-	-	75,305	307,938
Unearned revenues	-	3,611,157	-	-	-	3,611,157
Due to other funds	7,260,548	1,768,071	-	-	-	9,028,619
Total liabilities	<u>8,458,143</u>	<u>6,443,047</u>	<u>-</u>	<u>-</u>	<u>113,227</u>	<u>15,014,417</u>
Fund balances:						
Non-spendable	2,438,866	-	43,017,335	9,760,745	-	55,216,946
Restricted	1,724,263	4,568,907	-	-	349,939	6,643,109
Committed	754,074	-	-	-	409,853	1,163,927
Assigned	2,510,243	-	-	-	-	2,510,243
Unassigned:						
General fund	11,807,350	-	-	-	-	11,807,350
Capital projects funds	-	-	-	-	(790)	(790)
Total fund balances	<u>19,234,796</u>	<u>4,568,907</u>	<u>43,017,335</u>	<u>9,760,745</u>	<u>759,002</u>	<u>77,340,785</u>
Total liabilities and fund balances	<u>\$ 27,692,939</u>	<u>\$ 11,011,954</u>	<u>\$ 43,017,335</u>	<u>\$ 9,760,745</u>	<u>\$ 872,229</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

26,748,186

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

Long-term debt payable	(4,863,681)
Compensated absences payable	(614,311)
Accrued interest payable	(14,872)
Land acquisition claims payable	(249,608)

(5,742,472)

Net position of governmental activities

\$ 98,346,499

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2014

	General	Special	Permanent		Other Governmental Funds	Total
		Revenue Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
Revenues:						
Compact funding	\$ -	\$ 11,079,782	\$ -	\$ -	\$ -	\$ 11,079,782
Net change in the fair value of investments	2,510,647	-	3,014,830	742,079	-	6,267,556
Federal contributions and other grants	-	2,206,990	-	-	1,022,435	3,229,425
FSM revenue sharing	2,170,811	-	-	-	-	2,170,811
State taxes	990,229	-	-	-	98,813	1,089,042
CFSM grants	-	162,325	-	-	-	162,325
Fees and charges	290,311	-	-	-	159,399	449,710
Departmental charges	809,320	21,784	-	-	-	831,104
Other	378,888	-	-	-	20,451	399,339
Total revenues	7,150,206	13,470,881	3,014,830	742,079	1,301,098	25,679,094
Expenditures:						
Current:						
Judiciary	200,840	-	-	-	-	200,840
Councils of traditional leaders	167,897	-	-	-	-	167,897
General government	1,810,415	1,550,171	-	-	1,123,255	4,483,841
Resources and development	388,737	660,647	-	-	-	1,049,384
Public safety	580,167	-	-	-	-	580,167
Community affairs	240,273	-	-	-	-	240,273
Education	62,384	5,939,125	-	-	-	6,001,509
Public works and transportation	1,333,614	942,851	-	-	-	2,276,465
Health services	680,547	4,692,309	-	-	-	5,372,856
Boards and commissions	185,036	-	-	-	-	185,036
Payments to component units	29,844	-	-	-	-	29,844
Other appropriations	510,610	42,904	-	-	-	553,514
Debt service	467,539	-	-	-	-	467,539
Total expenditures	6,657,903	13,828,007	-	-	1,123,255	21,609,165
Excess (deficiency) of revenues over (under) expenditures	492,303	(357,126)	3,014,830	742,079	177,843	4,069,929
Other financing sources (uses):						
Operating transfers in	-	1,458,250	-	-	98,875	1,557,125
Operating transfers out	(1,557,125)	-	-	-	-	(1,557,125)
Total other financing sources (uses), net	(1,557,125)	1,458,250	-	-	98,875	-
Net change in fund balances	(1,064,822)	1,101,124	3,014,830	742,079	276,718	4,069,929
Fund balances at the beginning	20,299,618	3,467,783	40,002,505	9,018,666	482,284	73,270,856
Fund balances at the end of the year	\$ 19,234,796	\$ 4,568,907	\$ 43,017,335	\$ 9,760,745	\$ 759,002	\$ 77,340,785

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, 2014

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

Net change in fund balances - total governmental funds	\$ 4,069,929
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period, including increases to construction in progress.	9,371
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long - term debt and related items.	<u>180,133</u>
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Change in net position of governmental activities	\$ <u><u>4,259,433</u></u>
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See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Position
Proprietary Funds
September 30, 2014

	<u>Public Transportation System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 27,144
Receivables, net of allowance for uncollectibles	12,346
Inventories	118,637
Other current assets	<u>11,769</u>
Total current assets	<u>169,896</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>404,841</u>
Total assets	<u>\$ 574,737</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 8,600
Other liabilities and accruals	7,563
Unearned revenues	<u>4,936</u>
Total liabilities	<u>21,099</u>
<u>NET POSITION</u>	
Net investment in capital assets	404,841
Unrestricted	<u>148,797</u>
Total net position	<u>553,638</u>
	<u>\$ 574,737</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, 2014

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 240,293
Sales	113,433
Other	<u>93,705</u>
Total operating revenues	<u>447,431</u>
Operating expenses:	
Cost of services	336,338
Administration costs	219,574
Depreciation and amortization	<u>11,414</u>
Total operating expenses	<u>567,326</u>
Change in net position	(119,895)
Net position at the beginning of the year	<u>673,533</u>
Net position at the end of the year	<u>\$ 553,638</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2014

	<u>Public Transportation System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 353,294
Cash payments to employees	(287,289)
Cash payments to suppliers	<u>(139,329)</u>
Net cash used in operating activities	<u>(73,324)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>93,705</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(17,797)</u>
Net change in cash and cash equivalents	2,584
Cash and cash equivalents at the beginning of the year	<u>24,560</u>
Cash and cash equivalents at the end of the year	<u>\$ 27,144</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (119,895)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	134,070
Changes in assets and liabilities:	
Other	(93,017)
Receivables	(4,317)
Inventories	3,716
Other current assets	(1,253)
Accounts payable	3,398
Other liabilities and accruals	182
Unearned revenues	<u>3,792</u>
Net cash used in operating activities	<u>\$ (73,324)</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Position
Component Units
September 30, 2014

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 82,899	\$ 1,023,778	\$ 1,909,279	\$ 3,015,956
Time certificate of deposit	-	-	1,566,000	1,566,000
Investments	-	-	599,059	599,059
Receivables, net:				
General	-	1,320,903	130,992	1,451,895
Other	2,407	293,638	55,273	351,318
Inventories	-	694,139	17,885	712,024
Other current assets	-	13,780	1,012,909	1,026,689
Total current assets	<u>85,306</u>	<u>3,346,238</u>	<u>5,291,397</u>	<u>8,722,941</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	207,126	207,126
Time certificate of deposit	-	-	2,044,165	2,044,165
Capital assets:				
Nondepreciable capital assets	-	2,100,431	-	2,100,431
Capital assets, net of accumulated depreciation	6,031	7,299,700	4,852,609	12,158,340
Other non-current assets	-	-	1,166,896	1,166,896
Total noncurrent assets	<u>6,031</u>	<u>9,400,131</u>	<u>8,270,796</u>	<u>17,676,958</u>
Total assets	<u>\$ 91,337</u>	<u>\$ 12,746,369</u>	<u>\$ 13,562,193</u>	<u>\$ 26,399,899</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 45,417	\$ 286,915	\$ 332,332
Accounts payable	-	440,557	2,202,802	2,643,359
Unearned revenues	-	148,578	-	148,578
Other liabilities and accruals	7,692	453,260	605,275	1,066,227
Total current liabilities	7,692	1,087,812	3,094,992	4,190,496
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	2,710,143	1,721,581	4,431,724
Total liabilities	<u>7,692</u>	<u>3,797,955</u>	<u>4,816,573</u>	<u>8,622,220</u>
<u>NET POSITION</u>				
Net investment in capital assets	6,031	6,644,571	2,844,113	9,494,715
Restricted, expendable	-	1,747,297	2,251,291	3,998,588
Unrestricted	77,614	556,546	3,650,216	4,284,376
Total net position	<u>83,645</u>	<u>8,948,414</u>	<u>8,745,620</u>	<u>17,777,679</u>
	<u>\$ 91,337</u>	<u>\$ 12,746,369</u>	<u>\$ 13,562,193</u>	<u>\$ 26,399,899</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, 2014

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,549,838	\$ 5,863,899	\$ 11,413,737
Sales	-	453,366	1,065	454,431
Total operating revenues	<u>-</u>	<u>6,003,204</u>	<u>5,864,964</u>	<u>11,868,168</u>
Operating expenses:				
Cost of services	-	5,359,617	9,817,981	15,177,598
Administration costs	370,468	316,117	247,160	933,745
Depreciation and amortization	-	1,000,834	2,223	1,003,057
Total operating expenses	<u>370,468</u>	<u>6,676,568</u>	<u>10,067,364</u>	<u>17,114,400</u>
Operating loss	<u>(370,468)</u>	<u>(673,364)</u>	<u>(4,202,400)</u>	<u>(5,246,232)</u>
Nonoperating revenues (expenses):				
Contributions from the primary government	269,067	-	-	269,067
Interest income	2,100	2,096	63,584	67,780
Interest expense	-	(5,421)	(198,125)	(203,546)
Other	220	100,926	193,113	294,259
Total nonoperating revenues (expenses)	<u>271,387</u>	<u>97,601</u>	<u>58,572</u>	<u>427,560</u>
Capital contributions	-	939,232	-	939,232
Change in net position	<u>(99,081)</u>	<u>363,469</u>	<u>(4,143,828)</u>	<u>(3,879,440)</u>
Net position at the beginning of the year	<u>182,726</u>	<u>8,584,945</u>	<u>12,889,448</u>	<u>21,657,119</u>
Net position at the end of the year	<u>\$ 83,645</u>	<u>\$ 8,948,414</u>	<u>\$ 8,745,620</u>	<u>\$ 17,777,679</u>

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(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, 2014

(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, 2014

(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, 2014

(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 the following categories:

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

The government-wide Statement of Net Position reports \$16,369,737 of restricted net position, of which \$756,041 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, 2014

(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, 2014

(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, 2014

(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, 2014

(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 \$1,724,263. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$43,017,335 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$9,760,745 are restricted in that they are not available to be used for current operations.

As of September 30, 2014, 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	\$ 1,513
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>654,037</u>
	\$ <u>655,550</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(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.	\$ 2,044,165
Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank.	<u>207,126</u>
	\$ <u>2,251,291</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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

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.

N. Unearned Revenues

In the government-wide financial statements, unearned revenues are recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements unearned revenues represent monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The unearned revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

Q. Fund Balance, Continued

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

The State has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the State is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction. A formal minimum fund balance policy has not been adopted.

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 2014, the State implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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 this statement on the financial statements of the State.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

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, 2013 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:

- 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

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, 2014, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$950,413 and the corresponding bank balance was \$1,109,170, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, bank deposits in the amount of \$520,183 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2014, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$27,144. There were no significant differences between cash balances and bank balances. As of September 30, 2014, \$27,144 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, 2014, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$6,833,247 and the corresponding bank balances were \$6,807,380, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2014, bank deposits in the amount of \$1,051,201 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2014, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 22,803,842
Other investments:	
Domestic equities	53,911,491
Cash management account	<u>1,236,161</u>
	\$ <u>77,951,494</u>

As of September 30, 2014, 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	\$ 7,734,996	\$ 983,301	\$ 3,719,969	\$ 2,831,045	\$ 200,681	AAA
U.S. Government Agencies Obligations:						
Federal Home Loan Banks	958,632	200,887	757,745	-	-	AAA
Federal Home Loan Banks	649,341	-	649,341	-	-	A2
Federal Home Loan Mortgage Corporation	384,544	-	312,813	12,177	59,554	AAA
Government National Mortgage Association	770,714	-	46,679	24,751	699,284	AAA
Federal National Mortgage Association	2,007,401	539,399	933,921	-	534,081	AAA
Federal National Mortgage Association	1,166,198	-	-	-	1,166,198	No rating
Tennessee Valley Authority	24,300	-	-	18,700	5,600	AAA
Small Business Administration	24,871	-	-	-	24,871	No rating
National Credit Union Admin	186,057	-	23,482	162,575	-	AAA
Housing Urban Development	3,068	-	-	3,068	-	No rating
FISCO DEBENTURES	26,732	-	26,732	-	-	AAA /NO
AID-TUNISIA	18,561	-	18,561	-	-	RATING
Financing Corporation	42,053	-	42,053	-	-	No rating
Municipal Obligations	128,168	-	17,396	-	110,772	A1
Municipal Obligations	21,782	-	-	-	21,782	A2
Municipal Obligations	40,667	-	6,863	4,293	29,511	Aa1
Municipal Obligations	4,611	-	-	4,611	-	Aa2
Municipal Obligations	40,025	14,272	25,753	-	-	Aa3
Municipal Obligations	51,975	17,586	34,389	-	-	No rating
Corporate Bonds	910,880	7,377	244,103	574,948	84,452	A1
Corporate Bonds	764,111	22,290	407,245	334,576	-	A2
Corporate Bonds	1,796,832	-	321,528	1,307,080	168,224	A3
Corporate Bonds	234,465	-	118,896	115,569	-	Aa1
Corporate Bonds	336,687	-	135,149	157,705	43,833	Aa2
Corporate Bonds	213,642	15,224	34,855	163,563	-	Aa3
Corporate Bonds	51,491	12,294	15,983	22,992	222	Aaa
Corporate Bonds	58,490	-	-	58,490	-	Ba1
Corporate Bonds	87,525	-	32,131	55,394	-	Ba2/Ba3
Corporate Bonds	1,507,714	41,008	605,331	717,191	144,184	Baa1
Corporate Bonds	1,584,429	75,450	589,912	609,801	309,266	Baa2
Corporate Bonds	635,894	-	76,413	548,805	10,676	Baa3
Corporate Bonds	100,275	-	-	-	100,275	A2e
Corporate Bonds	<u>236,711</u>	<u>-</u>	<u>109,927</u>	<u>111,589</u>	<u>15,195</u>	No rating
	\$ <u>22,803,842</u>	\$ <u>1,929,088</u>	\$ <u>9,307,170</u>	\$ <u>7,838,923</u>	\$ <u>3,728,661</u>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2014, the General Fund holds 11% of the shares of the Bank of the Federated States of Micronesia in the amount of \$1,000,000, 19% of the shares of the Pacific Islands Development Bank in the amount of \$1,438,866, 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, 2014.

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, 2014, 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, 2014, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>183,084</u>
Other investments:	
Equities	388,032
Cash management account	<u>27,943</u>
	<u>415,975</u>
	\$ <u>599,059</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

The Diving Seagull, Inc., Continued

As of September 30, 2014, 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	\$ 30,359	\$ 25,670	\$ 22,661	\$ -	\$ 78,690
U.S. Government agencies	AAA	17,315	10,216	-	-	27,531
Corporate Notes	A1	-	15,637	-	-	15,637
Corporate Notes	A2	-	30,713	15,203	-	45,916
Corporate Notes	A3	-	10,095	-	-	10,095
Corporate Notes	AA2	5,215	-	-	-	5,215
		<u>\$ 52,889</u>	<u>\$ 92,331</u>	<u>\$ 37,864</u>	<u>\$ -</u>	<u>\$ 183,084</u>

(3) Receivables

Receivables as of September 30, 2014, 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>Yap State Investment Trust</u>	<u>Compact Trust</u>	<u>Nonmajor and Other Funds</u>	<u>Public Transportation System</u>	<u>Total</u>
Receivables:							
Loans	\$ 8,224,102	\$ -	\$ -	\$ -	\$ 2,000,000	\$ -	\$ 10,224,102
Federal agencies	-	1,380,571	-	-	615,000	-	1,995,571
FSM National Government	331,724	-	-	-	-	-	331,724
Other	<u>224,404</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>17,285</u>	<u>33,481</u>	<u>275,770</u>
	8,780,230	1,381,171	-	-	2,632,285	33,481	12,827,167
Less: allowance for uncollectible accounts	<u>(8,326,029)</u>	<u>(340,602)</u>	<u>-</u>	<u>-</u>	<u>(2,611,732)</u>	<u>(21,135)</u>	<u>(11,299,498)</u>
Net receivables	<u>\$ 454,201</u>	<u>\$ 1,040,569</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,553</u>	<u>\$ 12,346</u>	<u>\$ 1,527,669</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(3) Receivables, Continued

Loans receivable of the primary government as of September 30, 2014 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, 2014

(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	\$ 1,397,256	\$ 130,992	\$ 1,629,949
Other	<u>-</u>	<u>293,638</u>	<u>636,413</u>	<u>930,051</u>
	101,701	1,690,894	767,405	2,560,000
Less: allowance for uncollectible accounts	<u>(99,294)</u>	<u>(76,353)</u>	<u>(581,140)</u>	<u>(756,787)</u>
Net receivables	\$ <u>2,407</u>	\$ <u>1,614,541</u>	\$ <u>186,265</u>	\$ <u>1,803,213</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, 2014, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Foreign Assistance Grants	\$ 1,768,071
Foreign Assistance Grants	General	6,703,735
Nonmajor governmental funds	General	<u>556,813</u>
		<u>\$ 9,028,619</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2014, are as follows:

	Balance October 1 <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2014
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 12,625,205	\$ 2,264,815	-	\$ 14,890,020
Infrastructure	82,316,716	4,490,987	-	86,807,703
Equipment	765,030	-	-	765,030
Vehicles	2,079,549	159,322	-	2,238,871
Vessels	5,156,463	-	-	5,156,463
Heavy equipment	<u>3,621,122</u>	<u>-</u>	<u>-</u>	<u>3,621,122</u>
	<u>106,564,085</u>	<u>6,915,124</u>	<u>-</u>	<u>113,479,209</u>
Less accumulated depreciation for:				
Buildings	(8,775,422)	(561,027)	-	(9,336,449)
Infrastructure	(70,193,513)	(1,794,682)	-	(71,988,195)
Equipment	(372,471)	(73,179)	-	(445,650)
Vehicles	(1,857,764)	(164,726)	-	(2,022,490)
Vessels	(2,509,884)	(201,977)	-	(2,711,861)
Heavy equipment	<u>(3,269,301)</u>	<u>(127,687)</u>	<u>-</u>	<u>(3,396,988)</u>
	<u>(86,978,355)</u>	<u>(2,923,278)</u>	<u>-</u>	<u>(89,901,633)</u>
Total capital assets, being depreciated, net	<u>19,585,730</u>	<u>3,991,846</u>	<u>-</u>	<u>23,577,576</u>
Non-depreciable Assets				
Land	3,170,610	-	-	3,170,610
Construction work in progress	<u>3,982,475</u>	<u>508,512</u>	<u>(4,490,987)</u>	<u>-</u>
	<u>7,153,085</u>	<u>508,512</u>	<u>(4,490,987)</u>	<u>3,170,610</u>
Governmental activities capital assets, net	\$ <u>26,738,815</u>	\$ <u>4,500,358</u>	\$ <u>(4,490,987)</u>	\$ <u>26,748,186</u>

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

Councils of Traditional leaders	\$ 3,487
Public auditor	2,302
General government	81,597
Economic development	26,595
Community affairs	14,086
Education	240,751
Public works and transportation	2,071,865
Health services	101,578
Boards and commissions	87,174
Other appropriations	<u>296,843</u>
	<u>\$ 2,923,278</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(5) Capital Assets, Continued

	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2014</u>
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 116,192	\$ 3,700	\$ -	\$ 119,892
Vehicles	1,090,499	-	(593)	1,089,906
Shop equipment	60,629	5,032	-	65,661
Office equipment	<u>95,635</u>	<u>9,065</u>	<u>(1,100)</u>	<u>103,600</u>
	1,362,955	17,797	(1,693)	1,379,059
Less accumulated depreciation	<u>(841,248)</u>	<u>(134,070)</u>	<u>1,100</u>	<u>(974,218)</u>
Total net capital assets	<u>\$ 521,707</u>	<u>\$ (116,273)</u>	<u>\$ (593)</u>	<u>\$ 404,841</u>
Discretely Presented Component Units:				
	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2014</u>
Depreciable assets:				
Utility plant	\$ 21,420,636	\$ 470,412	\$ (138,150)	\$ 21,752,898
Machinery, equipment and others	<u>17,919,919</u>	<u>1,380,785</u>	<u>(3,800,988)</u>	<u>15,499,716</u>
	39,340,555	1,851,197	(3,939,138)	37,252,614
Less accumulated depreciation	<u>(26,749,756)</u>	<u>(1,990,276)</u>	<u>3,645,758</u>	<u>(25,094,274)</u>
	12,590,799	(139,079)	(293,380)	12,158,340
Nondepreciable assets:				
Construction work-in-progress	<u>1,048,391</u>	<u>1,068,677</u>	<u>(16,637)</u>	<u>2,100,431</u>
	<u>\$ 13,639,190</u>	<u>\$ 929,598</u>	<u>\$ (310,017)</u>	<u>\$ 14,258,771</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, 2014, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	Foreign Assistance Grants	\$ 1,458,250	\$ 1,458,250
General Fund	Other Governmental Funds	<u>98,875</u>	<u>98,875</u>
		<u>\$ 1,557,125</u>	<u>\$ 1,557,125</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(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, 2014. As of September 30, 2014, the amount outstanding against this loan was \$3,492,510. Of the required \$3,500,000 identified for future debt service payments, \$1,724,263 is deposited in an investment account jointly held with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the Basic Social Services Program Loan with 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, 2014, the outstanding balance is \$276,971.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(7) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued:

The State entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with 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, 2014, the balances payable on these loans amounted to \$316,398 and \$777,802, 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>
2015	\$ 162,703	\$ 55,214	\$ 217,917
2016	162,703	53,181	215,884
2017	162,703	51,147	213,850
2018	244,078	47,486	291,564
2019	244,078	46,266	290,344
2020 through 2024	1,220,392	188,617	1,409,009
2025 through 2029	1,126,734	119,238	1,245,972
2030 through 2034	1,035,830	57,519	1,093,349
2035 through 2037	<u>504,460</u>	<u>9,758</u>	<u>514,218</u>
	<u>\$ 4,863,681</u>	<u>\$ 628,426</u>	<u>\$ 5,492,107</u>

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC):

Uncollateralized loan of original principal of \$2,270,837 payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable semiannually in Special Drawing Rights (SDR) commencing August 2007. An SDR adjustment and additional consulting fees increased the loan balance by \$639,957 in fiscal year 2009.

\$ 2,555,072

Guaranteed loan with a maximum amount in various currencies equivalent to 2,896,000 SDR payable to ADB borrowed through FSM and Yap State for the Yap Renewable Energy Development Project. YSPSC is liable to Yap State for interest at .7619% which includes a .20% maturity premium, net of a .16% rebate.

200,488

\$ 2,755,560

**STATE OF YAP
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Notes to Financial Statements
September 30, 2014

(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>
2015	\$ 45,417	\$ -	\$ 45,417
2016	45,417	-	45,417
2017	83,272	-	83,272
2018	121,126	-	121,126
2019	125,136	1,505	126,641
2020 through 2024	637,710	6,904	644,614
2025 through 2029	661,769	5,148	666,917
2030 through 2034	665,552	2,864	668,416
2035 through 2037	<u>370,161</u>	<u>642</u>	<u>370,803</u>
	<u>\$ 2,755,560</u>	<u>\$ 17,063</u>	<u>\$ 2,772,623</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.

\$ 2,008,496

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>
2015	\$ 286,915	\$ 169,121	\$ 456,036
2016	313,830	142,206	456,036
2017	343,269	112,767	456,036
2018	375,470	80,566	456,036
2019	410,692	45,344	456,036
2020	<u>278,320</u>	<u>9,043</u>	<u>287,363</u>
	<u>\$ 2,008,496</u>	<u>\$ 559,047</u>	<u>\$ 2,567,543</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(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, 2014, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2014</u>	Due Within <u>One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 3,565,635	\$ -	\$ (73,125)	\$ 3,492,510	\$ 81,375
Loan 1816	313,047	-	(36,076)	276,971	15,653
Loan 1873	342,306	-	(25,908)	316,398	26,759
Loan 1874	<u>822,826</u>	-	<u>(45,024)</u>	<u>777,802</u>	<u>38,916</u>
	<u>5,043,814</u>	-	<u>(180,133)</u>	<u>4,863,681</u>	<u>162,703</u>
Other:					
Compensated absences	614,311	136,614	(136,614)	614,311	465,622
Land acquisition claims	<u>249,608</u>	-	-	<u>249,608</u>	-
	<u>863,919</u>	<u>136,614</u>	<u>(136,614)</u>	<u>863,919</u>	<u>465,622</u>
	<u>\$ 5,907,733</u>	<u>\$ 136,614</u>	<u>\$ (316,747)</u>	<u>\$ 5,727,600</u>	<u>\$ 628,325</u>

As of September 30, 2014, \$249,608 in land acquisition claims payable due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

Discretely Presented Component Units

During the year ended September 30, 2014, 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>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2014</u>	Due Within <u>One Year</u>
Loans payable:					
YSPSC	\$ 2,600,558	\$ 200,488	\$ (45,486)	\$ 2,755,560	\$ 45,417
DSI	<u>2,674,683</u>	-	(666,187)	<u>2,008,496</u>	<u>286,915</u>
	<u>\$ 5,275,241</u>	<u>\$ 200,488</u>	<u>\$ (711,673)</u>	<u>\$ 4,764,056</u>	<u>\$ 332,332</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(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	\$ -	\$ -	\$43,017,335	\$9,760,745	\$ -	\$ 52,778,080
Pacific Islands Development Bank	1,438,866	-	-	-	-	1,438,866
Bank of the FSM	1,000,000	-	-	-	-	1,000,000
Restricted for:						
Debt service	1,724,263	-	-	-	-	1,724,263
General government	-	2,845,856	-	-	-	2,845,856
Education	-	389,735	-	-	-	389,735
Health services	-	375,623	-	-	-	375,623
Infrastructure	-	957,693	-	-	-	895,402
Public works and transportation	-	-	-	-	349,939	349,939
Committed for:						
General government	3,301	-	-	-	409,853	413,154
Debt service	200,000	-	-	-	-	200,000
Infrastructure	539,322	-	-	-	-	539,322
Education	11,451	-	-	-	-	11,451
Assigned	2,510,243	-	-	-	-	2,510,243
Unassigned	<u>11,807,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(790)</u>	<u>11,806,560</u>
	<u>\$19,234,796</u>	<u>\$4,568,907</u>	<u>\$43,017,335</u>	<u>\$9,760,745</u>	<u>\$ 759,002</u>	<u>\$ 77,340,785</u>

(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, 2014, 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>2,510,243</u>	\$ <u>1,990,233</u>	\$ <u>320,379</u>	\$ <u>4,820,855</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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(10) Commitments and Contingencies, Continued

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 have been set forth in the State's Single Audit Report for the year ended September 30, 2014. 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, 2014. 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.

Continuing Appropriations

As of September 30, 2014, 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. 7-44)	19,213
Infrastructure Maintenance Fund (YSL No. 7-47)	173,378
Infrastructure Maintenance Fund (YSL No. 7-59)	<u>192,113</u>
	<u>996,921</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2014

(10) Commitments and Contingencies, Continued

Foreign Assistance Grants

Yap Community Development Program Matching (YSL No. 5-34)	<u>150,000</u>
Total Continuing Appropriations	<u>\$ 1,146,921</u>

(11) Budgetary Compliance

For the year ended September 30, 2014, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt Service	\$ 467,539
Office of Planning, Budget and Statistics	1,191,763
Department of Resources and Development	114,727

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

(12) Restatement

Subsequent to the issuance of the State's 2013 financial statements, the State's management determined that capital assets of the governmental activities were understated by \$3,982,475. As a result of this determination, capital assets and related expenses have been restated from the amount previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
At September 30:		
Noncurrent Assets:		
Capital assets:		
Nondepreciable capital assets	\$ <u>3,170,610</u>	\$ <u>7,153,085</u>
Net Position:		
Net investment in capital assets	\$ <u>22,756,340</u>	\$ <u>26,738,815</u>
Total Net Position	\$ <u>90,104,591</u>	\$ <u>94,087,066</u>
For the year ended September 30:		
Public works and transportation:		
Expenses	\$ <u>5,896,447</u>	\$ <u>1,913,972</u>
Net expenses	\$ <u>5,188,140</u>	\$ <u>1,205,665</u>
Change in net position	\$ <u>5,012,179</u>	\$ <u>8,994,654</u>
Net position at the end of the year	\$ <u>90,104,591</u>	\$ <u>94,087,066</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2014

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, 2014

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget
	Original	Final	Basis (see Note 1)	
Revenues:				
Net change in the fair value of investments	\$ -	\$ -	\$ 2,510,647	\$ 2,510,647
Other	4,971,437	4,971,437	4,639,559	(331,878)
Total revenues	<u>4,971,437</u>	<u>4,971,437</u>	<u>7,150,206</u>	<u>2,178,769</u>
Expenditures:				
Current:				
Judiciary	202,393	202,393	191,989	10,404
Council of traditional leaders	179,917	179,917	177,028	2,889
General government	1,162,878	1,183,149	2,303,439	(1,120,290)
Economic development	142,633	155,199	269,926	(114,727)
Public safety	557,793	652,793	616,181	36,612
Community affairs	259,957	374,313	181,375	192,938
Education	90,000	90,000	90,000	-
Public works and transportation	1,562,525	1,570,025	1,194,972	375,053
Health services	518,715	1,219,471	665,417	554,054
Boards and commissions	170,113	170,113	162,053	8,060
Payments to component units	29,844	29,844	29,844	-
Other appropriations	142,511	142,511	155,041	(12,530)
Debt service	-	-	467,539	(467,539)
Others	114,758	284,033	278,815	5,218
Total expenditures	<u>5,134,037</u>	<u>6,253,761</u>	<u>6,783,619</u>	<u>(529,858)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(162,600)</u>	<u>(1,282,324)</u>	<u>366,587</u>	<u>1,648,911</u>
Other financing uses:				
Operating transfers out	-	-	(1,557,125)	(1,557,125)
Net change in fund balance	(162,600)	(1,282,324)	(1,190,538)	91,786
Other changes in fund balance:				
Encumbrances	162,600	162,600	125,716	(36,884)
Fund balance at the beginning of the year	<u>20,299,618</u>	<u>20,299,618</u>	<u>20,299,618</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 20,299,618</u>	<u>\$ 19,179,894</u>	<u>\$ 19,234,796</u>	<u>\$ 54,902</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, 2014

(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, 2014

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2014

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Foreign Assistance Grants	Yap Investment Trust	Compact Trust		
Expenditures:						
Salaries and wages	\$ 2,490,847	\$ 6,407,519	\$ -	\$ -	\$ 43,102	\$ 8,941,468
Grants and subsidies	224,080	588,289	-	-	585,067	1,397,436
Utilities	754,489	1,157,475	-	-	-	1,911,964
Contractual services	136,019	519,269	-	-	200,697	855,985
Supplies and materials	102,384	845,499	-	-	4,943	952,826
Construction	521,311	147,454	-	-	-	668,765
Construction Maintenance	-	94,123	-	-	-	94,123
Scholarship and training	114,758	345,989	-	-	-	460,747
Travel	207,104	725,608	-	-	33,402	966,114
Capital outlay	55,307	404,178	-	-	4,357	463,842
Rentals	7,352	9,840	-	-	-	17,192
Food stuffs	79,267	185,756	-	-	-	265,023
Communications	79,404	161,643	-	-	-	241,047
Printing and reproduction	-	115,792	-	-	-	115,792
Medical supplies	-	1,082,476	-	-	-	1,082,476
Repairs and maintenance	132,444	199,570	-	-	-	332,014
Freight	704	20,925	-	-	-	21,629
Professional services	1,453	205,292	-	-	-	206,745
POL	465,704	362,721	-	-	4,765	833,190
Allowances	80,750	4,870	-	-	-	85,620
Leased housing and land	1,913	2,116	-	-	-	4,029
Principal repayment	180,133	-	-	-	-	180,133
Interest payments	257,406	-	-	-	-	257,406
Other	765,074	241,603	-	-	246,922	1,253,599
	\$ 6,657,903	\$ 13,828,007	\$ -	\$ -	\$ 1,123,255	\$ 21,609,165

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2014

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, 2014
(with comparative totals for the year ended September 30, 2013)

	2014	2013
Revenues:		
Revenue sharing:		
Import tax	\$ 633,985	\$ 628,912
Fuel tax	365,317	379,261
Income tax	522,079	605,604
Business gross receipts tax	649,430	732,597
	2,170,811	2,346,374
Excise taxes:		
Alcoholic beverages	343,413	323,742
Gasoline and diesel	82,427	81,115
Tobacco	136,609	103,176
Other excise taxes	427,780	428,164
	990,229	936,197
Fees and charges:		
Licenses and permits	91,186	92,685
Fines/sale of confiscated property	57,769	22,524
Leases and other rentals	141,356	199,653
	290,311	314,862
Departmental charges:		
Sea transportation	291,496	237,481
Air transportation	160,973	168,801
Hospital services	346,600	333,210
Other	10,251	11,391
	809,320	750,883
Interest and dividends	-	(4,607)
Net change in the fair value of investments	2,510,647	2,938,846
Other revenues	378,888	2,201,974
Total revenues	7,150,206	9,484,529
Expenditures:		
Current:		
Judiciary	200,840	197,309
Councils of Traditional Leaders:		
Council of Pilung	84,605	90,809
Council of Tamol	83,292	93,009
	167,897	183,818
General government:		
Office of the Governor	179,522	188,274
State Legislature	431,668	426,327
Office of Administrative Services	574,503	820,543
Office of Planning, Budget and Statistics	624,722	100,520
	1,810,415	1,535,664
Resources and Development:		
Department of Resources and Development	388,737	268,068
Public Safety:		
Department of Public Safety/Attorney General	580,167	592,928

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, 2014
(with comparative totals for the year ended September 30, 2013)

	2014	2013
Expenditures, continued:		
Current, continued:		
Community Affairs		
Department of Public Affairs	240,273	261,628
Public Works and Transportation:		
Department of Public Works and Transportation	1,333,614	3,330,615
Education Services:		
Department of Education	62,384	49,872
Health Services:		
Department of Health Services	680,547	1,014,917
Boards and Commissions:		
EPA Administration Board	67	-
Rural Development	11,763	12,352
Historic Preservation Office	100,210	69,218
Election Commissioner	51,843	44,351
Yap Investment Trust	21,153	19,156
	185,036	145,077
Payments to component units:		
Public Transportation System	29,844	58,230
	29,844	58,230
Other appropriations:		
Micronesia Legal Services Corporation	41,280	41,280
Japan Overseas Cooperation Volunteers	6,985	4,500
Peace Corps Program	5,600	300
Yap Community Action Program	80,773	72,957
Small Business Development	3,653	252
Other	372,319	2,800
	510,610	122,089
Debt service:		
Principal repayments	180,133	188,616
Interest payments	287,406	313,372
	467,539	501,988
Total expenditures	6,657,903	8,262,203
Excess of revenues over expenditures	492,303	1,222,326
Special item:		
Write-off of receivables	-	(72,478)
Other financing sources (uses):		
Operating transfers in	-	628,781
Operating transfers out	(1,557,125)	(1,260,232)
Total other financing sources (uses), net	(1,557,125)	(631,451)
Net change in fund balance	(1,064,822)	518,397
Fund balance at the beginning of the year	20,299,618	19,781,221
Fund balance at the end of the year	\$ 19,234,796	\$ 20,299,618

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, 2014

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Net change in the fair value of investments	\$ -	\$ -	\$ 2,510,647	\$ 2,510,647
Other revenues	4,971,437	4,971,437	4,639,559	(331,878)
Total revenues	<u>4,971,437</u>	<u>4,971,437</u>	<u>7,150,206</u>	<u>2,178,769</u>
Expenditures:				
Current:				
Judiciary	202,393	202,393	191,989	10,404
Councils of Traditional Leaders:				
Council of Pilung	86,348	86,348	83,287	3,061
Council of Tamol	93,569	93,569	93,741	(172)
	<u>179,917</u>	<u>179,917</u>	<u>177,028</u>	<u>2,889</u>
General government:				
Office of the Governor	153,590	162,236	129,410	32,826
State Legislature	458,051	458,051	439,950	18,101
Office of Administrative Services	480,509	480,509	459,963	20,546
Office of Planning, Budget and Statistics	70,728	82,353	1,274,116	(1,191,763)
	<u>1,162,878</u>	<u>1,183,149</u>	<u>2,303,439</u>	<u>(1,120,290)</u>
Economic Development:				
Department of Resources and Development	142,633	155,199	269,926	(114,727)
Public Safety:				
Department of Public Safety/Attorney General	557,793	652,793	616,181	36,612
Community Affairs:				
Department of Public Affairs	259,957	374,313	181,375	192,938
Education:				
Department of Education	90,000	90,000	90,000	-
Public Works and Transportation:				
Department of Public Works and Transportation	1,562,525	1,570,025	1,194,972	375,053
Health services:				
Department of Health Services	518,715	1,219,471	665,417	554,054

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, 2014

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Boards and Commissions:				
Historic Preservation Office	95,749	95,749	88,452	7,297
Yap State Scholarship				-
Yap State Election commission	53,659	53,659	53,636	23
Yap Investment Trust	20,705	20,705	19,965	740
	<u>170,113</u>	<u>170,113</u>	<u>162,053</u>	<u>8,060</u>
Payments to component units:				
Public Transportation System	29,844	29,844	29,844	-
	<u>29,844</u>	<u>29,844</u>	<u>29,844</u>	<u>-</u>
Other appropriations:				
Micronesia Legal Services Corporation	41,280	41,280	41,280	-
Small Business Dev. Center	-	-	6,933	(6,933)
Rural and Urban Serv. (RUS)	12,165	12,165	12,114	51
Japan Overseas Cooperation Volunteers	9,000	9,000	6,891	2,109
Peace Corps Program	-	-	4,965	(4,965)
Yap CAP	80,066	80,066	82,858	(2,792)
	<u>142,511</u>	<u>142,511</u>	<u>155,041</u>	<u>(12,530)</u>
Debt service:				
Principal repayments	-	-	374,377	(374,377)
Interest payments	-	-	93,162	(93,162)
	<u>-</u>	<u>-</u>	<u>467,539</u>	<u>(467,539)</u>
Others:				
2013 Yap Day	-	8,540	8,195	345
2012 Utility Shortfall Cooperation Volunteers	114,758	114,758	-	114,758
Scholarship	-	-	114,758	(114,758)
Typhoon Haiyan	-	28,980	25,633	3,347
Yap Catholic School	-	20,600	19,648	952
EPA	-	500	-	500
Micro Games	-	110,655	110,581	74
	<u>114,758</u>	<u>284,033</u>	<u>278,815</u>	<u>5,218</u>
Total expenditures	<u>5,134,037</u>	<u>6,253,761</u>	<u>6,783,619</u>	<u>(529,858)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(162,600)</u>	<u>(1,282,324)</u>	<u>366,587</u>	<u>1,648,911</u>
Other financing uses:				
Operating transfers out	-	-	(1,557,125)	(1,557,125)
Net change in fund balance	(162,600)	(1,282,324)	(1,190,538)	91,786
Other changes in fund balance:				
Encumbrances	162,600	162,600	125,716	(36,884)
Fund balance at the beginning of the year	<u>20,299,618</u>	<u>20,299,618</u>	<u>20,299,618</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 20,299,618</u>	<u>\$ 19,179,894</u>	<u>\$ 19,234,796</u>	<u>\$ 54,902</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2014

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 294,863	\$ -	\$ 294,863
Receivables, net:			
CFSM	-	20,553	20,553
Due from other funds	<u>174,153</u>	<u>382,660</u>	<u>556,813</u>
Total assets	<u>\$ 469,016</u>	<u>\$ 403,213</u>	<u>\$ 872,229</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 2,602	\$ 35,320	\$ 37,922
Other liabilities and accruals	<u>56,561</u>	<u>18,744</u>	<u>75,305</u>
Total liabilities	<u>59,163</u>	<u>54,064</u>	<u>113,227</u>
Fund balances:			
Restricted	-	349,939	349,939
Committed	409,853	-	409,853
Unassigned	<u>-</u>	<u>(790)</u>	<u>(790)</u>
Total fund balances	<u>409,853</u>	<u>349,149</u>	<u>759,002</u>
Total liabilities and fund balances	<u>\$ 469,016</u>	<u>\$ 403,213</u>	<u>\$ 872,229</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2014

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 1,022,435	\$ 1,022,435
Excise taxes	98,813	-	98,813
Fees and charges	159,399	-	159,399
Other	20,451	-	20,451
	<hr/>	<hr/>	<hr/>
Total revenues	278,663	1,022,435	1,301,098
Expenditures by function:			
Current:			
General government	253,006	870,249	1,123,255
	<hr/>	<hr/>	<hr/>
Total expenditures	253,006	870,249	1,123,255
	<hr/>	<hr/>	<hr/>
Excess of revenues over expenditures	25,657	152,186	177,843
Other financing sources:			
Operating transfers in	-	98,875	98,875
	<hr/>	<hr/>	<hr/>
Net change in fund balances	25,657	251,061	276,718
Fund balances at the beginning of the year	384,196	98,088	482,284
	<hr/>	<hr/>	<hr/>
Fund balances at the end of the year	<u>\$ 409,853</u>	<u>\$ 349,149</u>	<u>\$ 759,002</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2014

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 1,022,435	\$ 1,022,435
Excise taxes	98,813	-	98,813
Fees and charges	159,399	-	159,399
Other	20,451	-	20,451
Total revenues	<u>278,663</u>	<u>1,022,435</u>	<u>1,301,098</u>
Expenditures by account:			
Salaries and wages	-	43,102	43,102
Grants and subsidies	253,006	332,061	585,067
Contractual services	-	200,697	200,697
Supplies and materials	-	4,943	4,943
Travel	-	33,402	33,402
Capital outlay	-	4,357	4,357
POL	-	4,765	4,765
Other	-	246,922	246,922
Total expenditures	<u>253,006</u>	<u>870,249</u>	<u>1,123,255</u>
Excess of revenues over expenditures	<u>25,657</u>	<u>152,186</u>	<u>177,843</u>
Other financing sources:			
Operating transfers in	-	98,875	98,875
Net change in fund balances	25,657	251,061	276,718
Fund balances at the beginning of the year	<u>384,196</u>	<u>98,088</u>	<u>482,284</u>
Fund balances at the end of the year	<u>\$ 409,853</u>	<u>\$ 349,149</u>	<u>\$ 759,002</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2014

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, 2014, 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, 2014

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 294,863	\$ 294,863
Due from other funds	<u>52,108</u>	<u>10,932</u>	<u>101,315</u>	<u>9,798</u>	<u>174,153</u>
Total assets	<u>\$ 52,108</u>	<u>\$ 10,932</u>	<u>\$ 101,315</u>	<u>\$ 304,661</u>	<u>\$ 469,016</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable		\$ -	\$ 2,602	\$ -	\$ 2,602
Other liabilities and accruals	<u>52,108</u>	<u>4,453</u>	<u>-</u>	<u>-</u>	<u>56,561</u>
Total liabilities	<u>52,108</u>	<u>4,453</u>	<u>2,602</u>	<u>-</u>	<u>59,163</u>
Fund balances:					
Committed	<u>-</u>	<u>6,479</u>	<u>98,713</u>	<u>304,661</u>	<u>409,853</u>
Total fund balances	<u>-</u>	<u>6,479</u>	<u>98,713</u>	<u>304,661</u>	<u>409,853</u>
Total liabilities and fund balances	<u>\$ 52,108</u>	<u>\$ 10,932</u>	<u>\$ 101,315</u>	<u>\$ 304,661</u>	<u>\$ 469,016</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, 2014

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 98,813	\$ -	\$ -	\$ -	\$ 98,813
Fees and charges	-	15,845	143,554	-	159,399
Other	-	-	-	20,451	20,451
Total revenues	<u>98,813</u>	<u>15,845</u>	<u>143,554</u>	<u>20,451</u>	<u>278,663</u>
Expenditures by function:					
Current:					
General government	<u>98,813</u>	<u>-</u>	<u>154,193</u>	<u>-</u>	<u>253,006</u>
Total expenditures	<u>98,813</u>	<u>-</u>	<u>154,193</u>	<u>-</u>	<u>253,006</u>
Net change in fund balances (deficit)	-	15,845	(10,639)	20,451	25,657
Fund balances (deficit) at the beginning of the year	<u>-</u>	<u>(9,366)</u>	<u>109,352</u>	<u>284,210</u>	<u>384,196</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 6,479</u>	<u>\$ 98,713</u>	<u>\$ 304,661</u>	<u>\$ 409,853</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, 2014

	F39	F76	F85	F86	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 98,813	\$ -	\$ -	\$ -	\$ 98,813
Fees and charges	-	15,845	143,554	-	159,399
Others	-	-	-	20,451	20,451
Total revenues	<u>98,813</u>	<u>15,845</u>	<u>143,554</u>	<u>20,451</u>	<u>278,663</u>
Expenditures by account:					
Grants and subsidies	<u>98,813</u>	<u>-</u>	<u>154,193</u>	<u>-</u>	<u>253,006</u>
Total expenditures	<u>98,813</u>	<u>-</u>	<u>154,193</u>	<u>-</u>	<u>253,006</u>
Net change in fund balances (deficit)	-	15,845	(10,639)	20,451	25,657
Fund balances (deficit) at the beginning of the year	<u>-</u>	<u>(9,366)</u>	<u>109,352</u>	<u>284,210</u>	<u>384,196</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 6,479</u>	<u>\$ 98,713</u>	<u>\$ 304,661</u>	<u>\$ 409,853</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2014

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, 2014, follows:

Compact Capital Projects 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.

See Accompanying Independent Auditors' Report.

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

Combining Balance Sheet
 September 30, 2014

	F51	F53	
	Compact Capital Projects	CFSM Capital Projects	Total
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Receivables, net:			
CFSM	\$ -	\$ 20,553	\$ 20,553
Due from other funds	-	382,660	382,660
Total assets	<u>\$ -</u>	<u>\$ 403,213</u>	<u>\$ 403,213</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>			
Liabilities:			
Accounts payable	\$ -	\$ 35,320	\$ 35,320
Other liabilities and accruals	790	17,954	18,744
Total liabilities	<u>790</u>	<u>53,274</u>	<u>54,064</u>
 Fund balances (deficit):			
Restricted	-	349,939	349,939
Unassigned	(790)	-	(790)
Total fund balances (deficit)	<u>(790)</u>	<u>349,939</u>	<u>349,149</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 403,213</u>	<u>\$ 403,213</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, 2014

	F51	F53	
	Compact Capital Projects	CFSM Capital Projects	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
CFSM grants	\$ -	\$ 1,022,435	\$ 1,022,435
Total revenues	<u>-</u>	<u>1,022,435</u>	<u>1,022,435</u>
Expenditures by function:			
Current:			
General government	<u>-</u>	<u>870,249</u>	<u>870,249</u>
Total expenditures	<u>-</u>	<u>870,249</u>	<u>870,249</u>
Excess of revenues over expenditures	<u>-</u>	<u>152,186</u>	<u>152,186</u>
Other financing sources:			
Operating transfers in	<u>-</u>	<u>98,875</u>	<u>98,875</u>
Net change in fund balances (deficit)	-	251,061	251,061
Fund balances (deficit) at the beginning of the year	<u>(790)</u>	<u>98,878</u>	<u>98,088</u>
Fund balances (deficit) at the end of the year	<u>\$ (790)</u>	<u>\$ 349,939</u>	<u>\$ 349,149</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, 2014

	F51	F53	
	Compact Capital Projects	CFSM Capital Projects	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
CFSM grants	\$ -	\$ 1,022,435	\$ 1,022,435
Total revenues	<u>-</u>	<u>1,022,435</u>	<u>1,022,435</u>
Expenditures by account:			
Salaries and wages	-	43,102	43,102
Grants and subsidies	-	332,061	332,061
Contractual services	-	200,697	200,697
Supplies and materials	-	4,943	4,943
Travel	-	33,402	33,402
Capital outlay	-	4,357	4,357
POL	-	4,765	4,765
Other	<u>-</u>	<u>246,922</u>	<u>246,922</u>
Total expenditures	<u>-</u>	<u>870,249</u>	<u>870,249</u>
Excess of revenues over expenditures	<u>-</u>	<u>152,186</u>	<u>152,186</u>
Other financing sources:			
Operating transfers in	<u>-</u>	<u>98,875</u>	<u>98,875</u>
Net change in fund balances (deficit)	-	251,061	251,061
Fund balances (deficit) at the beginning of the year	<u>(790)</u>	<u>98,878</u>	<u>98,088</u>
Fund balances (deficit) at the end of the year	<u>\$ (790)</u>	<u>\$ 349,939</u>	<u>\$ 349,149</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Balance Sheet
September 30, 2014

	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		
ASSETS																	
Investment pool	\$ 3,102,079	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,102,079
Receivables:																	
Federal agencies	-	370,819	154	-	61,720	-	-	-	457,684	-	99,399	50,193	-	-	-	-	1,039,969
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	600	600
Due from other funds	-	-	1,072,698	117,426	-	910,498	986,810	11,184	257,880	1,162,342	456,902	122,940	1,177,318	296,353	131,384	6,703,735	
Advances	-	57,156	9,522	2,581	9,576	1,586	81,220	3,930	-	-	-	-	-	-	-	165,571	
	<u>\$ 3,102,079</u>	<u>\$ 427,975</u>	<u>\$ 1,082,374</u>	<u>\$ 120,007</u>	<u>\$ 71,296</u>	<u>\$ 912,084</u>	<u>\$ 1,068,030</u>	<u>\$ 15,114</u>	<u>\$ 715,564</u>	<u>\$ 1,162,342</u>	<u>\$ 556,301</u>	<u>\$ 173,133</u>	<u>\$ 1,177,318</u>	<u>\$ 296,353</u>	<u>\$ 131,984</u>	<u>\$ 11,011,954</u>	
LIABILITIES AND FUND BALANCES																	
Liabilities:																	
Accounts payable	\$ 174,738	\$ 92,531	\$ 201,748	\$ 17,589	\$ 53,488	\$ 31,980	\$ 183,041	\$ 12,281	\$ -	\$ 168	\$ 61,599	\$ 40,364	\$ 12,928	\$ 17,295	\$ 12,199	\$ 911,949	
Other liabilities and accruals	12,636	51,970	5,782	6,077	4,393	4,266	22,650	1,043	2,756	-	28,928	8,994	228	192	1,955	151,870	
Unearned revenues	-	-	499,221	96,341	-	102,097	472,604	1,790	-	917,289	-	21,742	1,163,890	278,866	57,317	3,611,157	
Due to other funds	1,471,182	283,474	-	-	13,415	-	-	-	-	-	-	-	-	-	-	1,768,071	
Total liabilities	<u>1,658,556</u>	<u>427,975</u>	<u>706,751</u>	<u>120,007</u>	<u>71,296</u>	<u>138,343</u>	<u>678,295</u>	<u>15,114</u>	<u>2,756</u>	<u>917,457</u>	<u>90,527</u>	<u>71,100</u>	<u>1,177,046</u>	<u>296,353</u>	<u>71,471</u>	<u>6,443,047</u>	
Fund balances:																	
Restricted	<u>1,443,523</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>712,808</u>	<u>244,885</u>	<u>465,774</u>	<u>102,033</u>	<u>272</u>	<u>-</u>	<u>60,513</u>	<u>4,568,907</u>	
Total fund balances	<u>1,443,523</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>712,808</u>	<u>244,885</u>	<u>465,774</u>	<u>102,033</u>	<u>272</u>	<u>-</u>	<u>60,513</u>	<u>4,568,907</u>	
Total liabilities and fund balances	<u>\$ 3,102,079</u>	<u>\$ 427,975</u>	<u>\$ 1,082,374</u>	<u>\$ 120,007</u>	<u>\$ 71,296</u>	<u>\$ 912,084</u>	<u>\$ 1,068,030</u>	<u>\$ 15,114</u>	<u>\$ 715,564</u>	<u>\$ 1,162,342</u>	<u>\$ 556,301</u>	<u>\$ 173,133</u>	<u>\$ 1,177,318</u>	<u>\$ 296,353</u>	<u>\$ 131,984</u>	<u>\$ 11,011,954</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, 2014

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
Revenues:																
Compact funding	\$ -	\$ 3,666,598	\$ 3,382,298	\$ 316,892	\$ 592,035	\$ 397,976	\$ 1,656,254	\$ 124,878	\$ 168,334	\$ 774,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,079,782
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,206,079	980,215	-	20,696	-	2,206,990
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	162,325	162,325
Departmental charges	-	-	-	-	-	-	-	-	-	-	-	21,784	-	-	-	21,784
	<u>-</u>	<u>3,666,598</u>	<u>3,382,298</u>	<u>316,892</u>	<u>592,035</u>	<u>397,976</u>	<u>1,656,254</u>	<u>124,878</u>	<u>168,334</u>	<u>774,517</u>	<u>1,206,079</u>	<u>1,001,999</u>	<u>-</u>	<u>20,696</u>	<u>162,325</u>	<u>13,470,881</u>
Expenditures by function:																
Current:																
General government	347,617	-	-	316,892	-	397,976	-	124,878	-	-	84,647	69,983	-	88,757	119,421	1,550,171
Resources and development	-	-	-	-	592,035	-	-	-	-	-	2,149	66,463	-	-	-	660,647
Education	-	3,666,598	-	-	-	-	1,656,254	-	-	-	616,273	-	-	-	-	5,939,125
Public Works and transportation	-	-	-	-	-	-	-	-	168,334	774,517	-	-	-	-	-	942,851
Health services	-	-	3,382,298	-	-	-	-	-	-	-	503,010	807,001	-	-	-	4,692,309
Other appropriations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42,904	42,904
Total expenditures	<u>347,617</u>	<u>3,666,598</u>	<u>3,382,298</u>	<u>316,892</u>	<u>592,035</u>	<u>397,976</u>	<u>1,656,254</u>	<u>124,878</u>	<u>168,334</u>	<u>774,517</u>	<u>1,206,079</u>	<u>943,447</u>	<u>-</u>	<u>88,757</u>	<u>162,325</u>	<u>13,828,007</u>
Other financing sources:																
Operating transfers in	-	1,152,630	-	47,437	190,122	-	-	-	-	-	-	-	-	68,061	-	1,458,250
Net change in fund balances (deficit)	(347,617)	1,152,630	-	47,437	190,122	-	-	-	-	-	-	58,552	-	-	-	1,101,124
Fund balances (deficit) at the beginning of the 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
Fund balances at the end of the year	<u>\$ 1,443,523</u>	<u>\$ -</u>	<u>\$ 375,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 712,808</u>	<u>\$ 244,885</u>	<u>\$ 465,774</u>	<u>\$ 102,033</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ 60,513</u>	<u>\$ 4,568,907</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, 2014

	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	Total
Revenues:																
Compact funding	\$ -	\$ 3,666,598	\$ 3,382,298	\$ 316,892	\$ 592,035	\$ 397,976	\$ 1,656,254	\$ 124,878	\$ 168,334	\$ 774,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,079,782
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,206,079	980,215	-	20,696	-	2,206,990
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	162,325	162,325
Department charges	-	-	-	-	-	-	-	-	-	-	-	21,784	-	-	-	21,784
	<u>-</u>	<u>3,666,598</u>	<u>3,382,298</u>	<u>316,892</u>	<u>592,035</u>	<u>397,976</u>	<u>1,656,254</u>	<u>124,878</u>	<u>168,334</u>	<u>774,517</u>	<u>1,206,079</u>	<u>1,001,999</u>	<u>-</u>	<u>20,696</u>	<u>162,325</u>	<u>13,470,881</u>
Expenditures by account:																
Salaries and wages	101,831	1,956,671	1,395,118	206,535	230,161	178,771	843,306	44,293	-	354	841,863	604,530	-	674	3,412	6,407,519
Grants and subsidies	-	-	-	-	-	-	-	-	-	950	-	-	-	-	500	588,289
Utilities	245,786	312,277	400,000	22,687	53,931	6,965	33,412	-	-	586,839	25,172	57,245	-	-	-	1,157,475
Contractual services	-	52,509	121,800	28,921	84,078	60	-	2,131	168,334	13,790	26,891	18,022	-	1,603	1,130	519,269
Supplies and materials	-	294,171	72,813	17,450	49,431	34,867	203,747	24,434	-	-	75,117	58,909	-	6,732	7,828	845,499
Construction	-	-	-	-	-	-	-	-	-	92,266	-	-	-	55,188	-	147,454
Construction maintenance	-	-	-	-	-	-	-	-	-	80,000	-	14,123	-	-	-	94,123
Scholarship and training	-	345,989	-	-	-	-	-	-	-	-	-	-	-	-	-	345,989
Travel	-	72,889	52,947	3,760	43,394	39,974	158,328	7,875	-	1,268	139,790	70,872	-	17,988	116,523	725,608
Capital outlay	-	137,610	9,235	1,267	20,691	20,184	118,343	18,645	-	-	40,777	30,509	-	-	6,917	404,178
Rentals	-	2,795	-	175	-	34	1,440	-	-	-	1,721	-	-	-	3,675	9,840
Food stuffs	-	58,539	39,881	-	-	-	66,120	-	-	-	-	-	-	4,496	16,720	185,756
Communications	-	38,035	14,146	15,170	25,614	30,674	10,177	9,567	-	-	6,401	11,859	-	-	-	161,643
Printing and reproduction	-	53,534	-	658	42,487	1,103	-	-	-	-	14,804	2,986	-	-	220	115,792
Medical supplies	-	-	1,055,204	-	-	-	-	-	-	-	5,113	22,159	-	-	-	1,082,476
Repairs and maintenance	-	33,944	61,980	12,467	17,183	5,270	41,845	617	-	-	5,461	18,072	-	575	2,156	199,570
Freight	-	14,648	-	-	342	-	4,084	-	-	-	-	227	-	-	1,624	20,925
Professional services	-	35,957	10,000	960	2,000	31,394	114,259	10,722	-	-	-	-	-	-	-	205,292
POL	-	189,797	95,698	3,420	5,004	1,369	29,859	201	-	-	17,733	19,640	-	-	-	362,721
Allowances	-	630	-	100	-	-	960	-	-	-	-	3,180	-	-	-	4,870
Leased housing	-	-	-	-	-	2,116	-	-	-	-	-	-	-	-	-	2,116
Other	-	66,603	53,476	3,322	17,719	45,195	30,374	6,393	-	-	4,059	11,341	-	1,501	1,620	241,603
Total expenditures	<u>347,617</u>	<u>3,666,598</u>	<u>3,382,298</u>	<u>316,892</u>	<u>592,035</u>	<u>397,976</u>	<u>1,656,254</u>	<u>124,878</u>	<u>168,334</u>	<u>774,517</u>	<u>1,206,079</u>	<u>943,447</u>	<u>-</u>	<u>88,757</u>	<u>162,325</u>	<u>13,828,007</u>
Other financing sources:																
Operating transfers in	-	1,152,630	-	47,437	190,122	-	-	-	-	-	-	-	-	68,061	-	1,458,250
Net change in fund balances (deficit)	<u>(347,617)</u>	<u>1,152,630</u>	<u>-</u>	<u>47,437</u>	<u>190,122</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,101,124</u>
Fund balances (deficit) at the beginning of 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>
Fund balances at the end of year	<u>\$ 1,443,523</u>	<u>\$ -</u>	<u>\$ 375,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 712,808</u>	<u>\$ 244,885</u>	<u>\$ 465,774</u>	<u>\$ 102,033</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ 60,513</u>	<u>\$ 4,568,907</u>

See Accompanying Independent Auditors' Report.

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

Honorable Tony Ganngiyan
Governor, State of Yap
Federated States of Micronesia:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Yap's basic financial statements, and have issued our report thereon dated June 26, 2015. Our report includes a reference to other auditors, a modification for the omission of certain component units, and an emphasis-of-matter paragraph regarding restatement for correction of an error. 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2014-006, which we consider to be a material weakness.

Compliance and Other Matters

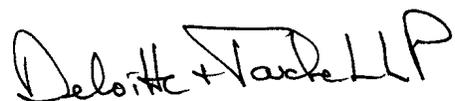
As part of obtaining reasonable assurance about whether the State of Yap's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 26, 2015

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 Tony Ganngiyan
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, 2014. 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, 2014. 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 Compact Sector Grants and CFDA 93.224 Consolidated Health Centers

As described in items 2014-001 through 2014-005 in the accompanying Schedule of Findings and Questioned Costs, the State of Yap did not comply with requirements regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2014-004	15.875	Economic, Social and Political Development of the Territories	Procurement and Suspension and Debarment
2014-005	15.875	Economic, Social and Political Development of the Territories	Allowable Costs/Cost Principles
2014-001	93.224	Community Health Centers	Cash Management
2014-002	93.224	Community Health Centers	Allowable Costs/Cost Principles
2014-003	93.224	Community Health Centers	Program Income

Compliance with such requirements is necessary, in our opinion, for the State of Yap to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 15.875 Compact Sector Grants and CFDA 93.224 Consolidated Health Centers

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, 2014.

Unmodified Opinion on CFDA 84.027 Special Education - Grants to States

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 CFDA 84.027 Special Education - Grants to States for the year ended September 30, 2014.

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.

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 2014-001 through 2014-005 to be material weaknesses.

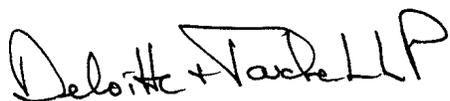
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies.

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, 2014, 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 26, 2015, 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, and an emphasis-of-matter paragraph regarding restatement for correction of an error. 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 operating revenues of the State's business-type activities, and 40%, 42%, and 26%, 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 26, 2015

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Grantor/CFDA Grantor's Program Title	CFDA No./ Grant No.	2014 Fiscal Year Expenditures
<u>U. S. Department of Agriculture:</u>		
Direct Programs:		
Cooperative Forestry Assistance	10.664	\$ 27,754
Forest Stewardship Program	10.678	40,534
Community Facilities Loans and Grants	10.766	14,123
Subtotal Direct Programs		<u>82,411</u>
Pass-Through Federated States of Micronesia National Government:		
Cooperative Forestry Assistance	10.664	2,149
Subtotal Pass-Through Federated States of Micronesia National Government		<u>2,149</u>
Total U. S. Department of Agriculture		<u>84,560</u>
<u>U. S. Department of the Interior:</u>		
Pass-Through Federated States of Micronesia National Government:		
Economic, Social and Political Development of the Territories:		
Compact of Free Association, Sector Grants	15.875	11,427,399
Historic Prevention Fund Grant-In-Aid	15.904	49,415
Total U. S. Department of the Interior		<u>11,476,814</u>
<u>U. S. Small Business Administration</u>		
Direct Programs:		
8(a) Business Development Program	59.006	10,628
Total U. S. Small Business Administration		<u>10,628</u>
<u>U. S. Department of Education:</u>		
Pass-Through Federated States of Micronesia National Government:		
Special Education-Grants to States	84.027A	616,273
Total U. S. Department of Education		<u>616,273</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	850,407
Pass-Through Federated States of Micronesia National Government:		
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	26,651
Maternal and Child Health Federal Consolidated Programs	93.110	6,272
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	54,365
Family Planning-Services	93.217	27,860
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	84,938
Universal Newborn Hearing Screening	93.251	11,053
Immunization Cooperative Grants	93.268	78,305
CDC and Prevention - Investigation and Technical Assistance	93.283	112,084
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes		
Coordinated Chronic Disease prevention and Health Promotion Program	93.544	12,000
Assistance Programs for Chronic Disease Prevention and Control	93.945	2,254
Block Grants for Prevention and Treatment of Substance Abuse	93.959	60,688
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	497
Maternal and Child Health Services Block Grant to the States	93.994	61,276
Subtotal Pass-Through Federated States of Micronesia National Government		<u>538,243</u>
Total U. S. Department of Health and Human Services		<u>1,388,650</u>
Total Federal Awards		<u>\$ 13,576,925</u>
Reconciliation to financial statements - Expenditures of the Foreign Assistance Grant Fund		\$ 13,828,007
Less Non-U.S. Grants Fund		(88,757)
Less CFSM Grants Fund		<u>(162,325)</u>
		<u>\$ 13,576,925</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, 2014

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 the Interior
- 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, 2014 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, 2014.

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
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2014

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 \$258,522 in federal grants during the year ended September 30, 2014.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

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 federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal 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 federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association 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: | \$407,308 |
| 11. Auditee qualified as low-risk auditee? | No |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2014-006	External Financial Reporting

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2014-001	93.224	Cash Management	\$ -
2014-002	93.224	Allowable Costs/Cost Principles	13,413
2014-003	93.224	Program Income	-
2014-004	15.875	Procurement and Suspension and Debarment	105,432
2014-005	15.875	Allowable Costs/Cost Principles	<u>10,540</u>
			\$ <u>129,385</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Consolidated Health Centers
 Grant Number:
 Requirement: Cash Management
 Interest Liability: \$221
 Questioned Costs: \$0

Criteria: In accordance with applicable cash management requirements (31 CFR 205), a grantee must minimize the time between the drawdown of Federal funds and the 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, 2014, is \$321 of which \$221 represents the reported interest liability. 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
Employ # 21070	291727	01/09/14	01/03/14	6	\$1,826.54
Employ # 44743	302973	06/12/14	06/09/14	3	1,592.25
Employ # 57478	308737	09/09/14	09/03/14	6	648.77
Employ # 69311	309784	09/19/14	09/18/14	1	1,845.24
Employ # 701523	286679	11/01/13	10/31/13	1	288.46
Employ # 710723	304005	06/30/14	06/24/14	6	178.00
Employ # 33072	291730	01/09/14	01/03/14	6	646.15
Employ # 33173	295815	03/10/14	03/06/14	4	932.37
Employ # 57478	304964	07/14/14	07/08/14	6	648.77
135110T-0000003	70749	02/03/14	01/27/14	7	3,044.53
144993T-0000107	74318	09/08/14	08/25/14	14	1,913.73
135756T-0000009	70908	02/24/14	01/27/14	28	6,000.00
145286T-0000047	74412	09/05/14	09/03/14	2	1,880.00
137010T-0000041	71421	03/07/14	03/06/14	1	1,826.00
138214T-0000003	72041	04/14/14	04/08/14	6	7,426.69

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, and an interest liability of \$221 exists.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.:	2014-001
Federal Agency:	U.S. Department of Health and Human Services
CFDA Program:	93.224 Consolidated Health Centers
Grant Number:	
Requirement:	Cash Management
Interest Liability:	\$221
Questioned Costs:	\$0

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 this finding. However, Yap Finance had calculated and established a six (6) days check clearance pattern for Yap State Government payments during FY2014. Of the 15 checks listed in this particular finding, only three cleared after the six days' average. A copy of the calculation undertaken to establish check clearance average is attached for the auditor's reference.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-002
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number:
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$13,413

Criteria: In accordance with applicable allowable costs/cost principles requirements, expenditures should be necessary and reasonable for program needs and should be in accordance with program objectives.

Condition: For 1 (or 4%) of 25 transactions tested, annual leave exceeding 360 hours was cashed out. This is not a standard Yap State practice and this practice appears to be exclusively utilized by the Waab Community Health Center. The estimated total cash out during FY2014 is \$13,413.

<u>Check #</u>	<u>Issued</u>	<u>Leave Payout</u>
291727	12/28/13	\$1,103

Cause: The cause of the condition appears to be the lack of understanding of allowable costs/cost principles and the acceptance of a non-standard policy that appears to discriminate against this federal program.

Effect: The effect of this condition is potential noncompliance with the criteria, and questioned costs of \$13,413 exist.

Recommendation: We recommend that program expenditures conform to standard Yap State policies.

Auditee Response and Corrective Action Plan: We agree in part with this particular finding. Our review of the employment contracts for WCHC employees who are in question revealed that cashing out of excess annual leave is permitted under the terms of their contract. Under the Public Service System Regulation (PSSR), all YSG employees who fall under the PSSR category are prohibited from cashing out annual leave in excess of 240 hours. WCHC employees in question do not fall under the PSSR and thus, no direct authority over what is permitted or prohibited from their contracts. That determination is made by WCHC, DHS and their respective grantor. Yap Finance will work with DHS and WCHC to ensure that treatment of excess annual leave is in compliance with the grantor's terms and policies.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number:
Requirement: Program Income
Questioned Costs: \$0

Criteria: Adequate controls should be in place to so that program income is properly recorded as earned and collected in a timely manner.

Condition: Tests of program income collections at the Waab Community Health Center indicate delays in deposits to Yap State Treasury. The following transaction is an example of collections held for almost five months.

<u>Collection Date</u>	<u>Cash Receipt Number</u>	<u>Deposit Date</u>	<u>Amount</u>
07/08/13 - 07/12/13	T006281 - T1006339	12/05/13	\$8,527

Cause: It appears that there are no formalized procedures for the timely submission of cash collections.

Effect: There is a potential for the incomplete recording and reporting of program income.

Recommendation: Procedures for collecting cash should be formalized and implemented to verify that all cash collections are timely submitted to Yap State Treasury.

Auditee Response and Corrective Action Plan: We agree with this finding. Yap Finance is not aware of any existing policy in place that regulates the timely cash collection and deposit into Yap State Treasury for WCHC. However, we will work with WCHC and its Program Manager to develop a timely and feasible schedule for the program's cash collection and deposits. Additionally, Yap Finance will incorporate the schedule into the Cash Management Handbook to be distributed to all departments to provide guidance on such protocols.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No: 2014-004
 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: \$105,432

Criteria: Pursuant to the provision 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: For 5 (or 20%) of 25 transactions tested, procurement requirements (price comparisons) for the following transactions were waived by management:

<u>Fund</u>	<u>Transaction #</u>	<u>Amount</u>
Education	141434T-0000005	\$ 28,957
Health Services	139122T-0000003	10,000
Capacity Building	137592T-0000003	15,500
SEG	144762T-0000007	43,975
SEG	143452T-0000005	<u>7,000</u>
		<u>\$ 105,432</u>

Cause: There appears to be a lack of controls over compliance with applicable procurement requirements.

Effect: The effect of this condition is potential noncompliance with applicable procurement requirements, and questioned costs of \$105,432 exist.

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

Auditee Response and Corrective Action Plan: Price comparison waived by management: We agree with this finding. Because the procurement process have been decentralized down to the department level, Yap Finance is not in an ideal position to ensure all procurement requirements are being properly implemented. However, we will work collectively with the various departments to train and ensure that all procurement officers have a thorough understanding of procurement regulations and are properly enforcing them.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-005
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: Allowable Costs/Cost Principles
Questioned Costs: \$10,540

Criteria: In accordance with applicable allowable costs/cost principles requirements, expenditures should be necessary and reasonable for program needs and should be in accordance with program requirements.

Condition: For 1 (or 4%) of 25 transactions tested, payment was made to a contractor for damaged and missing construction materials. This payment does not appear to be an allowable cost.

<u>Fund</u>	<u>Transaction #</u>	<u>Amount</u>
Health Services	142831T-0000005	\$10,540

Cause: The cause of the condition appears to be the lack of understanding of allowable costs/cost principles and the acceptance of a non-standard policy that appears to discriminate against this federal program.

Effect: The effect of this condition is potential noncompliance with the criteria, and questioned costs of \$10,540 exist.

Recommendation: We recommend that program expenditures conform to standard Yap State policies.

Auditee Response and Corrective Action Plan: We partially agree with this finding. The project or contract included building and renovating health centers in the outer islands of Yap. As such, the only mode of transportation to and from the islands was/is the state owned vessel, Hapilmohol. Based on our understanding, YSG through the Hapilmohol was responsible for the transportation of project materials as well as workforce to and from the islands. Mechanical issues of the Hapilmohol compounded with the lapse in funding caused a delay in the project, ultimately leading to the damaged materials. To prevent further delays in the project, it was decided that DHS would use their sector grant funding to replace the damaged materials and allow the same contractor to resume work on the project without additional delays.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-006
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 2014 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.

Prior Year Status: The lack of inclusion of component units in the State's financial statements was reported as a finding in the Single Audit for fiscal year 2013.

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 this finding. The Division of Finance & Treasury does not have the authority to carry out the recommendation; however we will 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, 2014

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

	Questioned Costs Set Forth in Prior Audit Report <u>2013</u>	Questioned Costs Resolved in Fiscal Year <u>2014</u>	Questioned Costs at <u>September 30, 2014</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 13	<u>45,776</u>	<u>-</u>	<u>45,776</u>
	\$ <u>864,259</u>	\$ <u>-</u>	864,259
Questioned Costs FY 14			<u>129,385</u>
Total Questioned Costs			\$ <u>993,644</u>