

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2015**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2015

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

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**YEAR ENDED SEPTEMBER 30, 2015**

## **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, 2015, 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 38%, 38% and 31%, 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, 2015, 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

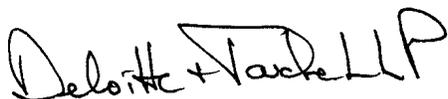
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 51 and 52, 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 21, 2016 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 21, 2016

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2015

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, 2015. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2014 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, 2015, Yap State's total net position decreased by \$5 million (or 5.1%) from \$98.9 million in the prior year to \$93.9 million.
- In comparison to fiscal year 2014, revenues decreased by \$4.93 million (or 20%), and total expenses decreased by \$156,667 (or 0.6%). The decrease in revenue was due mainly to significant losses in the fair value of investments; (\$215,098) was attributed to unrestricted investments and (\$551,591) was attributed to the Yap State Investment Trust Fund.
- Fiscal year 2015 revenues available for appropriation were \$668,768 less than budgeted for the General Fund. Actual expenditures were \$376,052 less than the final budgeted amount.
- At the end of fiscal year 2015, the Yap State Investment Trust Fund reported a balance of \$42.5 million, which was a decrease of \$551,591 from the prior year, due to losses in the fair value of investments.
- At the end of the fiscal year, the unassigned balance of the General Fund was \$11.6 million. Beginning with fiscal year 2011, GASB 54 changed the classifications of fund balance, so as to more consistently apply and clarify fund balance definitions.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

Government-Wide Financial Statements

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

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

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Management's Discussion and Analysis  
Year Ended September 30, 2015

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

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

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

Fund Financial Statements

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

Yap State has two types of funds:

- Governmental funds. Most of Yap State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps 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.

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Management's Discussion and Analysis  
Year Ended September 30, 2015

**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 2015, Yap State's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$93.9 million. Of its total net position, \$39.2 million is restricted for specific uses. Included in the restricted amount, \$24.4 million is invested in capital assets (buildings, roads, etc.). Yap State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Yap State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following schedule summarizes Yap State's net position as of September 30, 2015 with comparative figures for the prior year:

|                               | Governmental Activities |              | Business Type Activities |           | Total        |              | Change        | %     |
|-------------------------------|-------------------------|--------------|--------------------------|-----------|--------------|--------------|---------------|-------|
|                               | 2015                    | 2014         | 2015                     | 2014      | 2015         | 2014         |               |       |
| <u>Assets</u>                 |                         |              |                          |           |              |              |               |       |
| Current and other assets      | \$79,274,892            | \$83,326,583 | \$226,903                | \$169,896 | \$79,501,795 | \$83,496,479 | (\$3,994,684) | -4.8  |
| Capital assets, net           | 24,130,200              | 26,748,186   | 281,470                  | 404,841   | 24,411,670   | 27,153,027   | (2,741,357)   | -10.1 |
| Total assets                  | 103,405,092             | 110,074,769  | 508,373                  | 574,737   | 103,913,465  | 110,649,506  | (6,736,041)   | -6.1  |
| <u>Liabilities</u>            |                         |              |                          |           |              |              |               |       |
| Current and other liabilities | 6,019,094               | 6,864,589    | 40,755                   | 21,099    | 6,059,849    | 6,885,688    | (825,839)     | -12.0 |
| Long-term obligations         | 3,967,329               | 4,863,681    | 0                        | 0         | 3,967,329    | 4,863,681    | (896,352)     | -18.4 |
| Total liabilities             | 9,986,423               | 11,728,270   | 40,755                   | 21,099    | 10,027,178   | 11,749,369   | (1,722,191)   | -14.7 |
| <u>Net position</u>           |                         |              |                          |           |              |              |               |       |
| Net invest in capital assets  | 24,130,200              | 26,748,186   | 281,470                  | 404,841   | 24,411,670   | 27,153,027   | (2,741,357)   | -10.1 |
| Restricted                    | 14,806,102              | 16,369,737   | 0                        | 0         | 14,806,102   | 16,369,737   | (1,563,635)   | -9.6  |
| Unrestricted                  | 54,482,367              | 55,228,576   | 186,148                  | 148,797   | 54,668,515   | 55,377,373   | (708,858)     | -1.3  |
| Total net position            | \$93,418,669            | \$98,346,499 | \$467,618                | \$553,638 | \$93,886,287 | \$98,900,137 | (\$5,013,850) | -5.1  |

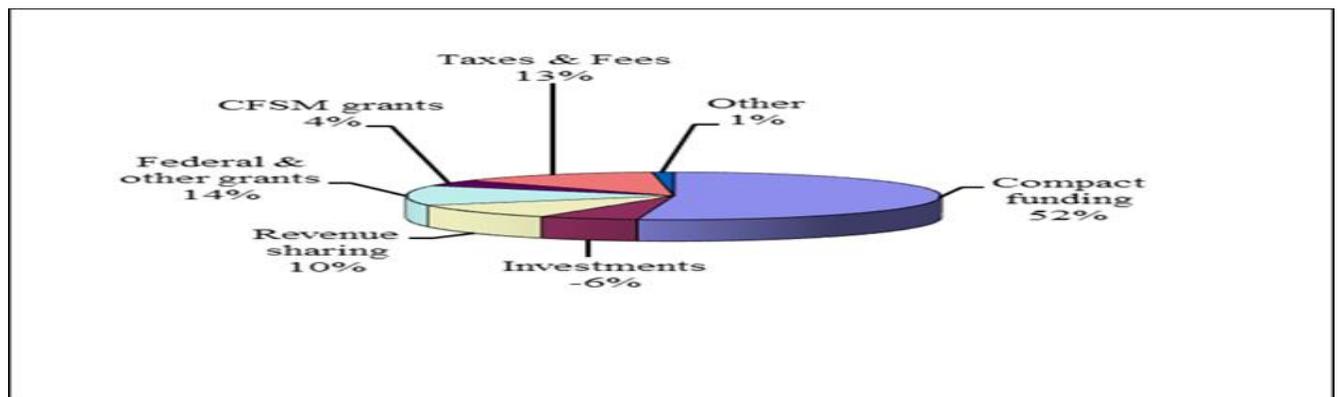
At the end of fiscal year 2015, Yap State's unrestricted net position show a surplus of \$54.7 million (58% of total net position). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$42.5 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2014, Yap State's net position decreased by \$5.01 million. Key elements of the decrease and the differences from the prior year are shown in the following schedule:

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Year Ended September 30, 2015

|   | Governmental Activities |                   | Business Type Activities |                  | Total              |                   | Change             | %            |
|---|-------------------------|-------------------|--------------------------|------------------|--------------------|-------------------|--------------------|--------------|
|   | 2015                    | 2014              | 2015                     | 2014             | 2015               | 2014              |                    |              |
| <b>Revenues:</b>                          |                         |                   |                          |                  |                    |                   |                    |              |
| <b>Program Revenues:</b>                  |                         |                   |                          |                  |                    |                   |                    |              |
| Charges for services                      | \$1,425,822             | \$1,280,814       | \$370,841                | \$447,431        | \$1,796,663        | \$1,728,245       | \$68,418           | 4.0          |
| Operating grants and contributions        | 14,471,260              | 14,471,532        | 0                        | 0                | 14,471,260         | 14,471,532        | (272)              | 0.0          |
| Capital grants and contributions          | 0                       | 2,264,815         |                          |                  |                    |                   |                    |              |
| <b>General Revenues:</b>                  |                         |                   |                          |                  |                    |                   |                    |              |
| Taxes                                     | 3,295,127               | 3,259,853         | 0                        | 0                | 3,295,127          | 3,259,853         | 35,274             | 1.1          |
| Unrestricted investment (losses) ea       | (215,098)               | 2,510,647         | 0                        | 0                | (215,098)          | 2,510,647         | (2,725,745)        | -108.6       |
| Other                                     | 268,199                 | 399,339           | 92,676                   | 0                | 360,875            | 399,339           | (38,464)           | -9.6         |
| <b>Total revenues</b>                     | <b>19,245,310</b>       | <b>24,187,000</b> | <b>463,517</b>           | <b>447,431</b>   | <b>19,708,827</b>  | <b>24,634,431</b> | <b>(4,925,604)</b> | <b>-20.0</b> |
| <b>Expenses:</b>                          |                         |                   |                          |                  |                    |                   |                    |              |
| General government                        | 3,810,459               | 4,539,479         | 549,537                  | 567,326          | 4,359,996          | 5,106,805         | (746,809)          | -14.6        |
| Health Services                           | 5,990,857               | 5,461,071         | 0                        | 0                | 5,990,857          | 5,461,071         | 529,786            | 9.7          |
| Education                                 | 6,289,197               | 6,126,760         | 0                        | 0                | 6,289,197          | 6,126,760         | 162,437            | 2.7          |
| Economic development                      | 1,218,667               | 1,075,979         | 0                        | 0                | 1,218,667          | 1,075,979         | 142,688            | 13.3         |
| Public Safety                             | 593,290                 | 575,667           | 0                        | 0                | 593,290            | 575,667           | 17,623             | 3.1          |
| Public works and transportation           | 3,622,611               | 3,839,818         | 0                        | 0                | 3,622,611          | 3,839,818         | (217,207)          | -5.7         |
| Community affairs                         | 375,422                 | 254,359           | 0                        | 0                | 375,422            | 254,359           | 121,063            | 47.6         |
| Boards and commissions                    | 284,516                 | 269,210           | 0                        | 0                | 284,516            | 269,210           | 15,306             | 5.7          |
| Other appropriations                      | 1,096,879               | 232,986           | 0                        | 0                | 1,096,879          | 232,986           | 863,893            | 370.8        |
| Unallocated interest expense              | 263,700                 | 1,309,147         | 0                        | 0                | 263,700            | 1,309,147         | (1,045,447)        | -79.9        |
| <b>Total expenses</b>                     | <b>23,545,598</b>       | <b>23,684,476</b> | <b>549,537</b>           | <b>567,326</b>   | <b>24,095,135</b>  | <b>24,251,802</b> | <b>(156,667)</b>   | <b>-0.6</b>  |
| Contributions to permanent funds          | (1,033,441)             | 3,756,909         | 0                        | 0                | (1,033,441)        | 3,756,909         | (4,790,350)        | -127.5       |
| Receivable written off                    | (321,353)               | 0                 | 0                        | 0                | (321,353)          | 0                 | (321,353)          | -            |
| Gain on SDR foreign exchange              | 727,252                 | 0                 | 0                        | 0                | 727,252            | 0                 | 727,252            | -            |
| <b>Change in net position</b>             | <b>(4,927,830)</b>      | <b>4,259,433</b>  | <b>(86,020)</b>          | <b>(119,895)</b> | <b>(5,013,850)</b> | <b>4,139,538</b>  | <b>(9,153,388)</b> |              |
| Net position at the beginning of the year | 98,346,499              | 94,087,066        | 553,638                  | 673,533          | 98,900,137         | 94,760,599        | 4,139,538          | 4.4          |
| Net position at the end of the year       | \$93,418,669            | \$98,346,499      | \$467,618                | \$553,638        | \$93,886,287       | \$98,900,137      | (\$5,013,850)      | -5.1         |

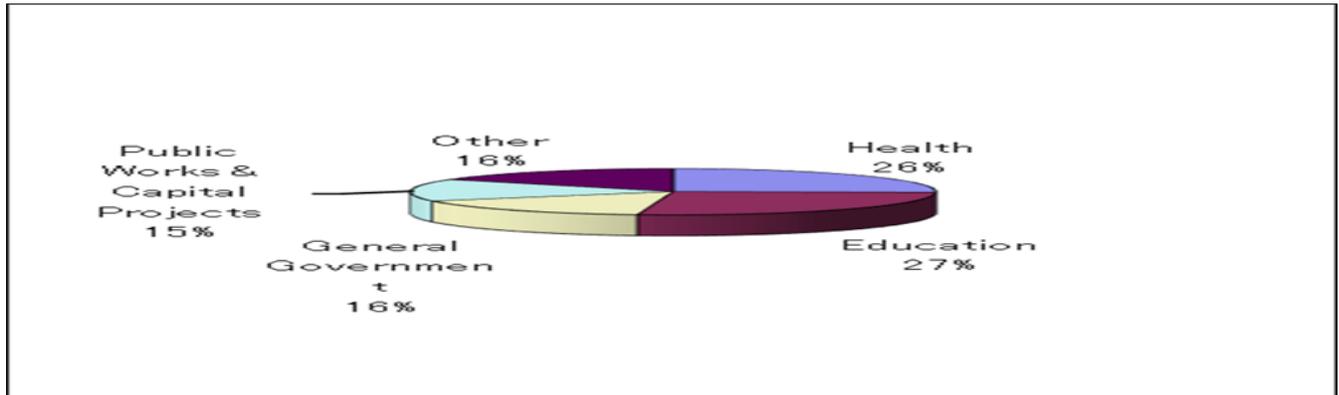
Total revenues in fiscal year 2015 decreased by \$4.93 million over prior year's \$24.6 million primarily due to significant losses on the fair value of investments. Most of the losses were in the Yap State Trust investments. A summary of 2015 revenues is as follows:



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Management's Discussion and Analysis  
Year Ended September 30, 2015

Total expenses of \$24.1 million in fiscal year 2015 is 1% less than that of fiscal year 2014's expenses of \$24.3 million. A summary of 2015 expenses is as follows:



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 2015, Yap State's governmental funds reported a combined fund balance of \$74.1 million, which represents a decrease of \$3.2 million in comparison with fiscal year 2014. Of the total fund balance, \$62.5 million is non-spendable, restricted, committed, or assigned. These classifications indicate that the funds are not available for new spending because it is: 1) non-spendable because it is already committed to assets or is restricted by law or other stipulation (\$54.2 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$5.9 million); 3) restricted because the funds are already committed (\$1.5 million); and, 4) restricted and intended for a specific purpose (\$0.9 million). The unassigned combined fund balance is \$11.5 million. As mentioned above, GASB 54 was implemented in fiscal year 2011, which changed the classification definitions in the State's fund balance.

The State's governmental fund changes in fund balances for the years ended September 30, 2015 and 2014 are shown below:

|                                    | General Fund         |                      | Foreign Assistance Grant Fund |                    | Yap State Investment Trust |                    | Compact Trust      |                  | Other Funds      |                  |
|------------------------------------|----------------------|----------------------|-------------------------------|--------------------|----------------------------|--------------------|--------------------|------------------|------------------|------------------|
|                                    | 2015                 | 2014                 | 2015                          | 2014               | 2015                       | 2014               | 2015               | 2014             | 2015             | 2014             |
| <b>Revenues:</b>                   |                      |                      |                               |                    |                            |                    |                    |                  |                  |                  |
| Taxes                              | \$3,199,092          | \$3,161,040          | \$0                           | \$0                | \$0                        | \$0                | \$0                | \$0              | \$96,035         | \$98,813         |
| Compact                            | 0                    | 0                    | 10,804,548                    | 11,079,782         | 0                          | 0                  | 0                  | 0                | 0                | 0                |
| Other/Transfers in                 | 1,274,669            | 3,989,166            | 2,931,654                     | 3,849,349          | (551,591)                  | 3,014,830          | (481,850)          | 742,079          | 939,312          | 1,301,160        |
| <b>Total revenues</b>              | <b>4,473,761</b>     | <b>7,150,206</b>     | <b>13,736,202</b>             | <b>14,929,131</b>  | <b>(551,591)</b>           | <b>3,014,830</b>   | <b>(481,850)</b>   | <b>742,079</b>   | <b>1,035,347</b> | <b>1,399,973</b> |
| Expenditures/transfers out         | 6,126,578            | 8,215,028            | 14,254,680                    | 13,828,007         | 0                          | 0                  | 0                  | 0                | 1,026,225        | 1,123,255        |
| Prior period adjustment            | 0                    | 0                    | 0                             | 0                  | 0                          | 0                  | 0                  | 0                | 0                | 0                |
| <b>Net change in fund balances</b> | <b>(\$1,652,817)</b> | <b>(\$1,064,822)</b> | <b>(\$518,478)</b>            | <b>\$1,101,124</b> | <b>(\$551,591)</b>         | <b>\$3,014,830</b> | <b>(\$481,850)</b> | <b>\$742,079</b> | <b>\$9,122</b>   | <b>\$276,718</b> |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2015

**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 \$215,098 loss which contributed to the State's decrease in revenues as compared to prior year. Actual expenditures for the fiscal year were \$1.3 million more than the total revenues.

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2015. 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 2015.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2015, amounted to \$116.8 million, net of accumulated depreciation of \$92.7 million, leaving a net book value of \$24.1 million. This represents a net decrease of \$2.6 million from fiscal year 2014. The table below summarizes Yap State's capital assets:

|                 | 2015                 | 2014                 | Change                | %      |
|-----------------|----------------------|----------------------|-----------------------|--------|
| Land            | \$ 3,170,610         | \$ 3,170,610         | \$ -                  | -      |
| Buildings       | 4,992,544            | 5,553,571            | (561,027)             | -10.10 |
| Equipment       | 253,339              | 319,380              | (66,041)              | -20.68 |
| Heavy Equipment | 216,041              | 224,134              | (8,093)               | -3.61  |
| Vehicles        | 225,083              | 216,381              | 8,702                 | 4.02   |
| Boats           | 2,247,758            | 2,444,602            | (196,844)             | -8.05  |
| Infrastructure  | 13,024,825           | 14,819,508           | (1,794,683)           | -12.11 |
| Total           | <u>\$ 24,130,200</u> | <u>\$ 26,748,186</u> | <u>\$ (2,617,986)</u> | -9.8   |

Additional information on Yap State's capital assets can be found in Note 5 to the financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2015

Long-Term Debt

Long-term debt obligations of the Yap State primary government totaled \$3.97 million at September 30, 2015. This debt is comprised of outstanding obligations under the following ADB Loan programs: Early Retirement Program Loan, Private Sector Development Program Loans, and the Basic Social Services Program Loan. 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 6 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 sources. As other economic factors in the local economy remain relatively stagnant, Yap State's recourse was to identify budget items that could be reduced or eliminated through a long-term fiscal framework process.

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 52% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of the Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2016 and beyond.

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, 2015

|  | Primary Government         |                             |                       | Component<br>Units   |
|--|----------------------------|-----------------------------|-----------------------|----------------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Total                 |                      |
| <b>ASSETS</b>                                    |                            |                             |                       |                      |
| Current assets:                                  |                            |                             |                       |                      |
| Cash and cash equivalents                        | \$ 459,410                 | \$ 86,485                   | \$ 545,895            | \$ 2,556,509         |
| Time certificates of deposit                     | -                          | -                           | -                     | 1,566,000            |
| Investments                                      | 16,907,988                 | -                           | 16,907,988            | 1,142,421            |
| Receivables, net of allowance for uncollectibles | 2,353,458                  | 10,852                      | 2,364,310             | 1,370,018            |
| Advances   | 513,603                    | -                           | 513,603               | -                    |
| Inventories                                      | -                          | 116,490                     | 116,490               | 1,254,371            |
| Other current assets                             | -                          | 13,076                      | 13,076                | 1,263,741            |
| Restricted assets:                               |                            |                             |                       |                      |
| Cash and cash equivalents                        | 880,771                    | -                           | 880,771               | -                    |
| Total current assets                             | <u>21,115,230</u>          | <u>226,903</u>              | <u>21,342,133</u>     | <u>9,153,060</u>     |
| Noncurrent assets:                               |                            |                             |                       |                      |
| Restricted assets:                               |                            |                             |                       |                      |
| Cash and cash equivalents                        | -                          | -                           | -                     | 207,475              |
| Time certificates of deposit                     | -                          | -                           | -                     | 2,031,271            |
| Investments                                      | 53,281,930                 | -                           | 53,281,930            | -                    |
| Investments                                      | 4,877,732                  | -                           | 4,877,732             | -                    |
| Capital assets:                                  |                            |                             |                       |                      |
| Nondepreciable capital assets                    | 3,170,610                  | -                           | 3,170,610             | 2,941,757            |
| Capital assets, net of accumulated depreciation  | 20,959,590                 | 281,470                     | 21,241,060            | 10,461,166           |
| Other non-current assets                         | -                          | -                           | -                     | 625,509              |
| Total noncurrent assets                          | <u>82,289,862</u>          | <u>281,470</u>              | <u>82,571,332</u>     | <u>16,267,178</u>    |
| Total assets                                     | <u>\$ 103,405,092</u>      | <u>\$ 508,373</u>           | <u>\$ 103,913,465</u> | <u>\$ 25,420,238</u> |
| <b>LIABILITIES</b>                               |                            |                             |                       |                      |
| Current liabilities:                             |                            |                             |                       |                      |
| Current portion of long-term obligations         | 136,446                    | -                           | 136,446               | 552,215              |
| Accounts payable                                 | 1,386,218                  | 9,368                       | 1,395,586             | 1,199,055            |
| Current portion of compensated absences          | 459,325                    | -                           | 459,325               | -                    |
| Accrued interest payable                         | 14,872                     | -                           | 14,872                | -                    |
| Other liabilities and accruals                   | 341,230                    | 31,387                      | 372,617               | 1,947,444            |
| Unearned revenues                                | 3,402,273                  | -                           | 3,402,273             | 176,595              |
| Total current liabilities                        | <u>5,740,364</u>           | <u>40,755</u>               | <u>5,781,119</u>      | <u>3,875,309</u>     |
| Noncurrent liabilities:                          |                            |                             |                       |                      |
| Noncurrent portion of long-term obligations      | 3,830,883                  | -                           | 3,830,883             | 4,635,502            |
| Noncurrent portion of compensated absences       | 165,568                    | -                           | 165,568               | -                    |
| Other noncurrent liabilities                     | 249,608                    | -                           | 249,608               | -                    |
| Total noncurrent liabilities                     | <u>4,246,059</u>           | <u>-</u>                    | <u>4,246,059</u>      | <u>4,635,502</u>     |
| Total liabilities                                | <u>9,986,423</u>           | <u>40,755</u>               | <u>10,027,178</u>     | <u>8,510,811</u>     |
| <b>NET POSITION</b>                              |                            |                             |                       |                      |
| Net investment in capital assets                 | 24,130,200                 | 281,470                     | 24,411,670            | 8,215,206            |
| Restricted for:                                  |                            |                             |                       |                      |
| Nonexpendable:                                   |                            |                             |                       |                      |
| Future operations                                | 9,278,895                  | -                           | 9,278,895             | -                    |
| Expendable:                                      |                            |                             |                       |                      |
| Compact related                                  | 3,989,916                  | -                           | 3,989,916             | -                    |
| Debt service                                     | 1,537,291                  | -                           | 1,537,291             | -                    |
| Other purposes                                   | -                          | -                           | -                     | 1,214,616            |
| Unrestricted                                     | 54,482,367                 | 186,148                     | 54,668,515            | 7,479,605            |
| Total net position                               | <u>93,418,669</u>          | <u>467,618</u>              | <u>93,886,287</u>     | <u>16,909,427</u>    |
| Total liabilities and net position               | <u>\$ 103,405,092</u>      | <u>\$ 508,373</u>           | <u>\$ 103,913,465</u> | <u>\$ 25,420,238</u> |

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Activities  
Year Ended September 30, 2015

| 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 | Total                |                      |
| Primary government:                                     |                      |                      |                                    |                                  |   |                          |                      |                      |
| Governmental activities:                                |                      |                      |                                    |                                  |   |                          |                      |                      |
| Judiciary   | \$ 196,792           | \$ -                 | \$ -                               | \$ -                             | \$ (196,792)  | \$ -                     | \$ (196,792)         | \$ -                 |
| Councils of traditional leaders                         | 163,645              | -                    | -                                  | -                                | (163,645)   | -                        | (163,645)            | -                    |
| General government                                      | 3,810,459            | 1,425,822            | 1,879,032                          | -                                | (505,605)   | -                        | (505,605)            | -                    |
| Resources and development                               | 1,218,667            | -                    | 744,040                            | -                                | (474,627)   | -                        | (474,627)            | -                    |
| Public safety   | 593,290              | -                    | -                                  | -                                | (593,290)   | -                        | (593,290)            | -                    |
| Community affairs                                       | 375,422              | -                    | -                                  | -                                | (375,422)   | -                        | (375,422)            | -                    |
| Education   | 6,289,197            | -                    | 6,072,314                          | -                                | (216,883)   | -                        | (216,883)            | -                    |
| Public works and transportation                         | 3,622,611            | -                    | 206,526                            | -                                | (3,416,085)   | -                        | (3,416,085)          | -                    |
| Health services   | 5,990,857            | -                    | 5,539,792                          | -                                | (451,065)   | -                        | (451,065)            | -                    |
| Boards and commissions                                  | 284,516              | -                    | -                                  | -                                | (284,516)   | -                        | (284,516)            | -                    |
| Payments to components                                  | 29,556               | -                    | 29,556                             | -                                | -   | -                        | -                    | -                    |
| Other appropriations                                    | 706,886              | -                    | -                                  | -                                | (706,886)   | -                        | (706,886)            | -                    |
| Interest expense  | 263,700              | -                    | -                                  | -                                | (263,700)   | -                        | (263,700)            | -                    |
| Total governmental activities                           | <u>23,545,598</u>    | <u>1,425,822</u>     | <u>14,471,260</u>                  | <u>-</u>                         | <u>(7,648,516)</u>                                  | <u>-</u>                 | <u>(7,648,516)</u>   | <u>-</u>             |
| Business-type activities:                               |                      |                      |                                    |                                  |   |                          |                      |                      |
| Public Transportation System                            | 549,537              | 370,841              | -                                  | -                                | -   | (178,696)                | (178,696)            | -                    |
| Total primary government                                | <u>\$ 24,095,135</u> | <u>\$ 1,796,663</u>  | <u>\$ 14,471,260</u>               | <u>\$ -</u>                      | <u>(7,648,516)</u>                                  | <u>(178,696)</u>         | <u>(7,827,212)</u>   | <u>-</u>             |
| Component units:  |                      |                      |                                    |                                  |   |                          |                      |                      |
| Yap Visitor's Bureau                                    | \$ 279,634           | \$ -                 | \$ -                               | \$ -                             | -   | -                        | -                    | (279,634)            |
| Yap State Public Service Corporation                    | 5,735,260            | 5,819,405            | -                                  | 397,496                          | -   | -                        | -                    | 481,641              |
| The Diving Seagull, Inc.                                | 9,790,910            | 8,729,026            | -                                  | -                                | -   | -                        | -                    | (1,061,884)          |
| Total component units                                   | <u>\$ 15,805,804</u> | <u>\$ 14,548,431</u> | <u>\$ -</u>                        | <u>\$ 397,496</u>                | <u>-</u>  | <u>-</u>                 | <u>-</u>             | <u>(859,877)</u>     |
| General revenues:                                       |                      |                      |                                    |                                  |   |                          |                      |                      |
| Taxes:  |                      |                      |                                    |                                  |   |                          |                      |                      |
| FSM revenue sharing:                                    |                      |                      |                                    |                                  |   |                          |                      |                      |
| Gross revenue taxes                                     |                      |                      |                                    |                                  | 591,276   | -                        | 591,276              | -                    |
| Import taxes  |                      |                      |                                    |                                  | 662,318   | -                        | 662,318              | -                    |
| Income taxes  |                      |                      |                                    |                                  | 577,021   | -                        | 577,021              | -                    |
| Other taxes   |                      |                      |                                    |                                  | 295,005   | -                        | 295,005              | -                    |
| State taxes   |                      |                      |                                    |                                  | 1,169,507   | -                        | 1,169,507            | -                    |
| Unrestricted investment earnings                        |                      |                      |                                    |                                  | (215,098)   | -                        | (215,098)            | 41,645               |
| Contributions from primary government                   |                      |                      |                                    |                                  | -   | 92,670                   | 92,670               | 274,371              |
| Other   |                      |                      |                                    |                                  | 268,199   | 6                        | 268,205              | (324,391)            |
|   |                      |                      |                                    |                                  | <u>3,348,228</u>                                    | <u>92,676</u>            | <u>3,440,904</u>     | <u>(8,375)</u>       |
| Special items:  |                      |                      |                                    |                                  |   |                          |                      |                      |
| Write-off of receivables                                |                      |                      |                                    |                                  | (321,353)   | -                        | (321,353)            | -                    |
| Gain on SDR foreign exchange                            |                      |                      |                                    |                                  | 727,252   | -                        | 727,252              | -                    |
| Contributions to permanent funds                        |                      |                      |                                    |                                  | (1,033,441)   | -                        | (1,033,441)          | -                    |
| Total general revenues, special items and contributions |                      |                      |                                    |                                  | <u>2,720,686</u>                                    | <u>92,676</u>            | <u>2,813,362</u>     | <u>(8,375)</u>       |
| Change in net position                                  |                      |                      |                                    |                                  | <u>(4,927,830)</u>                                  | <u>(86,020)</u>          | <u>(5,013,850)</u>   | <u>(868,252)</u>     |
| Net position at the beginning of the year               |                      |                      |                                    |                                  | <u>98,346,499</u>                                   | <u>553,638</u>           | <u>98,900,137</u>    | <u>17,777,679</u>    |
| Net position at the end of the year                     |                      |                      |                                    |                                  | <u>\$ 93,418,669</u>                                | <u>\$ 467,618</u>        | <u>\$ 93,886,287</u> | <u>\$ 16,909,427</u> |

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Balance Sheet  
Governmental Funds  
September 30, 2015

|                                      | General              | Special Revenue           | Permanent                  |                     | Other Governmental Funds | Total                |
|--------------------------------------|----------------------|---------------------------|----------------------------|---------------------|--------------------------|----------------------|
|                                      |                      | Foreign Assistance Grants | Yap State Investment Trust | Compact Trust       |                          |                      |
| <b>ASSETS</b>                        |                      |                           |                            |                     |                          |                      |
| Cash and cash equivalents            | \$ 180,420           | \$ -                      | \$ -                       | \$ -                | \$ 278,990               | \$ 459,410           |
| Investments                          | 21,785,720           | -                         | -                          | -                   | -                        | 21,785,720           |
| Receivables, net:                    |                      |                           |                            |                     |                          |                      |
| Federal agencies                     | -                    | 1,579,140                 | -                          | -                   | -                        | 1,579,140            |
| FSM National Government              | 723,127              | -                         | -                          | -                   | 18,339                   | 741,466              |
| Other                                | 32,252               | 600                       | -                          | -                   | -                        | 32,852               |
| Due from other funds                 | 580,632              | 7,244,258                 | -                          | -                   | 533,597                  | 8,358,487            |
| Advances                             | 300,811              | 212,792                   | -                          | -                   | -                        | 513,603              |
| Restricted assets:                   |                      |                           |                            |                     |                          |                      |
| Cash and cash equivalents            | 880,771              | -                         | -                          | -                   | -                        | 880,771              |
| Investments                          | 1,537,291            | -                         | 42,465,744                 | 9,278,895           | -                        | 53,281,930           |
| Total assets                         | <u>\$ 26,021,024</u> | <u>\$ 9,036,790</u>       | <u>\$ 42,465,744</u>       | <u>\$ 9,278,895</u> | <u>\$ 830,926</u>        | <u>\$ 87,633,379</u> |
| <b>LIABILITIES AND FUND BALANCES</b> |                      |                           |                            |                     |                          |                      |
| Liabilities:                         |                      |                           |                            |                     |                          |                      |
| Bank overdraft                       |                      | \$ -                      | \$ -                       | \$ -                | \$ -                     | \$ -                 |
| Accounts payable                     | 524,405              | 822,881                   | -                          | -                   | 38,932                   | 1,386,218            |
| Other liabilities and accruals       | 136,785              | 181,365                   | -                          | -                   | 23,080                   | 341,230              |
| Unearned revenues                    | -                    | 3,402,273                 | -                          | -                   | -                        | 3,402,273            |
| Due to other funds                   | 7,777,855            | 579,842                   | -                          | -                   | 790                      | 8,358,487            |
| Total liabilities                    | <u>8,439,045</u>     | <u>4,986,361</u>          | <u>-</u>                   | <u>-</u>            | <u>62,802</u>            | <u>13,488,208</u>    |
| Fund balances:                       |                      |                           |                            |                     |                          |                      |
| Non-spendable                        | 2,438,866            | -                         | 42,465,744                 | 9,278,895           | -                        | 54,183,505           |
| Restricted                           | 1,537,291            | 4,050,429                 | -                          | -                   | 349,939                  | 5,937,659            |
| Committed                            | 1,081,128            | -                         | -                          | -                   | 418,975                  | 1,500,103            |
| Assigned                             | 930,018              | -                         | -                          | -                   | -                        | 930,018              |
| Unassigned:                          |                      |                           |                            |                     |                          |                      |
| General fund                         | 11,594,676           | -                         | -                          | -                   | -                        | 11,594,676           |
| Capital projects funds               | -                    | -                         | -                          | -                   | (790)                    | (790)                |
| Total fund balances                  | <u>17,581,979</u>    | <u>4,050,429</u>          | <u>42,465,744</u>          | <u>9,278,895</u>    | <u>768,124</u>           | <u>74,145,171</u>    |
| Total liabilities and fund balances  | <u>\$ 26,021,024</u> | <u>\$ 9,036,790</u>       | <u>\$ 42,465,744</u>       | <u>\$ 9,278,895</u> | <u>\$ 830,926</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

24,130,200

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          | (3,967,329) |
| Compensated absences payable    | (624,893)   |
| Accrued interest payable        | (14,872)    |
| Land acquisition claims payable | (249,608)   |

(4,856,702)

Net position of governmental activities

\$ 93,418,669

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, 2015

|   | General            | Special Revenue           | Permanent                  |                  | Other Governmental Funds | Total              |
|---|--------------------|---------------------------|----------------------------|------------------|--------------------------|--------------------|
|   |                    | Foreign Assistance Grants | Yap State Investment Trust | Compact Trust    |                          |                    |
| Revenues:   |                    |                           |                            |                  |                          |                    |
| Compact funding   | \$ -               | \$ 10,804,548             | \$ -                       | \$ -             | \$ -                     | \$ 10,804,548      |
| Net change in the fair value of investments               | (215,098)          | -                         | (551,591)                  | (481,850)        | -                        | (1,248,539)        |
| Federal contributions and other grants                    | -                  | 2,796,227                 | -                          | -                | -                        | 2,796,227          |
| FSM revenue sharing                                       | 2,125,620          | -                         | -                          | -                | -                        | 2,125,620          |
| State taxes   | 1,073,472          | -                         | -                          | -                | 96,035                   | 1,169,507          |
| CFSM grants   | -                  | 114,508                   | -                          | -                | 755,977                  | 870,485            |
| Fees and charges  | 341,524            | -                         | -                          | -                | 183,335                  | 524,859            |
| Departmental charges                                      | 880,044            | 20,919                    | -                          | -                | -                        | 900,963            |
| Other   | 268,199            | -                         | -                          | -                | -                        | 268,199            |
| <b>Total revenues</b>                                     | <b>4,473,761</b>   | <b>13,736,202</b>         | <b>(551,591)</b>           | <b>(481,850)</b> | <b>1,035,347</b>         | <b>18,211,869</b>  |
| Expenditures:   |                    |                           |                            |                  |                          |                    |
| Current:  |                    |                           |                            |                  |                          |                    |
| Judiciary   | 196,792            | -                         | -                          | -                | -                        | 196,792            |
| Councils of traditional leaders                           | 162,220            | -                         | -                          | -                | -                        | 162,220            |
| General government  | 1,210,333          | 1,566,300                 | -                          | -                | 1,026,225                | 3,802,858          |
| Resources and development                                 | 470,635            | 744,040                   | -                          | -                | -                        | 1,214,675          |
| Public safety   | 640,290            | -                         | -                          | -                | -                        | 640,290            |
| Community affairs   | 360,696            | -                         | -                          | -                | -                        | 360,696            |
| Education   | 45,192             | 6,072,314                 | -                          | -                | -                        | 6,117,506          |
| Public works and transportation                           | 1,389,799          | 206,526                   | -                          | -                | -                        | 1,596,325          |
| Health services   | 382,106            | 5,539,792                 | -                          | -                | -                        | 5,921,898          |
| Boards and commissions                                    | 200,471            | -                         | -                          | -                | -                        | 200,471            |
| Payments to component units                               | 29,556             | -                         | -                          | -                | -                        | 29,556             |
| Other appropriations                                      | 284,335            | 125,708                   | -                          | -                | -                        | 410,043            |
| Debt service  | 432,800            | -                         | -                          | -                | -                        | 432,800            |
| <b>Total expenditures</b>                                 | <b>5,805,225</b>   | <b>14,254,680</b>         | <b>-</b>                   | <b>-</b>         | <b>1,026,225</b>         | <b>21,086,130</b>  |
| Excess (deficiency) of revenues over (under) expenditures | (1,331,464)        | (518,478)                 | (551,591)                  | (481,850)        | 9,122                    | (2,874,261)        |
| Special item:   |                    |                           |                            |                  |                          |                    |
| Write-off of receivables                                  | (321,353)          | -                         | -                          | -                | -                        | (321,353)          |
| <b>Net change in fund balances</b>                        | <b>(1,652,817)</b> | <b>(518,478)</b>          | <b>(551,591)</b>           | <b>(481,850)</b> | <b>9,122</b>             | <b>(3,195,614)</b> |
| Fund balances at the beginning                            | 19,234,796         | 4,568,907                 | 43,017,335                 | 9,760,745        | 759,002                  | 77,340,785         |
| Fund balances at the end of the year                      | \$ 17,581,979      | \$ 4,050,429              | \$ 42,465,744              | \$ 9,278,895     | \$ 768,124               | \$ 74,145,171      |

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, 2015

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

|  |                |
|--|----------------|
| Net change in fund balances - total governmental funds | \$ (3,195,614) |
|--|----------------|

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|   |             |
|---|-------------|
| This is the amount by which depreciation exceeded capital outlays in the current period | (2,617,986) |
|---|-------------|

|  |         |
|--|---------|
| Special item associated with gain on SDR foreign exchange adjustment | 727,252 |
|--|---------|

The incurrence of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:

|                        |         |
|------------------------|---------|
| Repayment of ADB loans | 169,100 |
|------------------------|---------|

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

|  |                 |
|--|-----------------|
| Change in compensated absences payable | <u>(10,582)</u> |
|--|-----------------|

|   |                              |
|---|------------------------------|
| Change in net position of governmental activities | \$ <u><u>(4,927,830)</u></u> |
|---|------------------------------|

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Net Position  
Proprietary Funds  
September 30, 2015

|  | <u>Public<br/>Transportation<br/>System</u> |
|--|---|
| <u>ASSETS</u>                                    |   |
| Current assets:                                  |   |
| Cash and cash equivalents                        | \$ 86,485                                   |
| Receivables, net of allowance for uncollectibles | 10,852                                      |
| Inventories                                      | 116,490                                     |
| Other current assets                             | <u>13,076</u>                               |
| Total current assets                             | <u>226,903</u>                              |
| Noncurrent assets:                               |   |
| Capital assets, net of accumulated depreciation  | <u>281,470</u>                              |
| Total assets                                     | <u>\$ 508,373</u>                           |
| <u>LIABILITIES</u>                               |   |
| Current liabilities:                             |   |
| Accounts payable                                 | \$ 9,368                                    |
| Other liabilities and accruals                   | <u>31,387</u>                               |
| Total liabilities                                | <u>40,755</u>                               |
| <u>NET POSITION</u>                              |   |
| Net investment in capital assets                 | 281,470                                     |
| Unrestricted                                     | <u>186,148</u>                              |
| Total net position                               | <u>\$ 508,373</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, 2015

|   | <u>Public<br/>Transportation<br/>System</u> |
|---|---|
| Operating revenues:                         |   |
| Charges for services                        | \$ 149,370                                  |
| Sales                                       | 215,456                                     |
| Other                                       | <u>6,015</u>                                |
| Total operating revenues                    | <u>370,841</u>                              |
| Operating expenses:                         |   |
| Cost of services                            | 131,056                                     |
| Administration costs                        | 282,340                                     |
| Depreciation and amortization               | <u>136,141</u>                              |
| Total operating expenses                    | <u>549,537</u>                              |
| Loss from operation                         | (178,696)                                   |
| Nonoperating revenues:                      |   |
| Operating subsidy from Yap State Government | 92,670                                      |
| Interest income                             | <u>6</u>                                    |
| Total nonoperating revenues                 | 92,676                                      |
| Change in net position                      | (86,020)                                    |
| Net position at the beginning of the year   | <u>553,638</u>                              |
| Net position at the end of the year         | <u>\$ 467,618</u>                           |

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows  
Proprietary Funds  
Year Ended September 30, 2015

|   | <u>Public<br/>Transportation<br/>System</u> |
|---|---|
| Cash flows from operating activities:   |   |
| Cash received from customers  | \$ 374,334                                  |
| Cash payments to employees  | (265,775)                                   |
| Cash payments to suppliers  | <u>(129,125)</u>                            |
| Net cash used in operating activities   | <u>(20,566)</u>                             |
| Cash flows from noncapital financing activities:                                  |   |
| Contributions from the primary government   | 92,674                                      |
| Interest income   | <u>6</u>                                    |
|   | <u>92,680</u>                               |
| Cash flows from capital and related financing activities:                         |   |
| Purchases of capital assets   | <u>(12,770)</u>                             |
| Net change in cash and cash equivalents   | 59,344                                      |
| Cash and cash equivalents at the beginning of the year                            | <u>27,144</u>                               |
| Cash and cash equivalents at the end of the year                                  | <u><u>\$ 86,488</u></u>                     |
| Reconciliation of operating loss to net cash used in operating activities:        |   |
| Operating loss  | \$ (178,696)                                |
| Adjustments to reconcile operating loss to net cash used in operating activities: |   |
| Depreciation expense  | 136,141                                     |
| Changes in assets and liabilities:  |   |
| Other   |   |
| Receivables   | 1,494                                       |
| Inventories   | 2,147                                       |
| Other current assets  | (1,308)                                     |
| Accounts payable  | 768   |
| Other liabilities and accruals  | <u>18,888</u>                               |
| Net cash used in operating activities   | <u><u>\$ (20,566)</u></u>                   |

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Position  
Component Units  
September 30, 2015

|   | Yap<br>Visitor's<br>Bureau | Yap State<br>Public Service<br>Corporation | The Diving<br>Seagull, Inc. | Total                |
|---|----------------------------|--|-----------------------------|----------------------|
| <b>ASSETS</b>                                   |                            |  |                             |                      |
| Current assets:                                 |                            |  |                             |                      |
| Cash and cash equivalents                       | \$ 80,307                  | \$ 1,148,794                               | \$ 1,327,408                | \$ 2,556,509         |
| Time certificate of deposit                     | -                          | -  | 1,566,000                   | 1,566,000            |
| Investments                                     | -                          | -  | 1,142,421                   | 1,142,421            |
| Receivables, net:                               |                            |  |                             |                      |
| General   | -                          | 1,036,142                                  | -                           | 1,036,142            |
| Other   | 2,407                      | 79,763                                     | 251,706                     | 333,876              |
| Inventories                                     | -                          | 1,074,503                                  | 179,868                     | 1,254,371            |
| Other current assets                            | -                          | 84,452                                     | 1,179,289                   | 1,263,741            |
| Total current assets                            | <u>82,714</u>              | <u>3,423,654</u>                           | <u>5,646,692</u>            | <u>9,153,060</u>     |
| Noncurrent assets:                              |                            |  |                             |                      |
| Restricted assets:                              |                            |  |                             |                      |
| Cash and cash equivalents                       | -                          | -  | 207,475                     | 207,475              |
| Time certificate of deposit                     | -                          | -  | 2,031,271                   | 2,031,271            |
| Capital assets:                                 |                            |  |                             |                      |
| Nondepreciable capital assets                   | -                          | 2,941,757                                  | -                           | 2,941,757            |
| Capital assets, net of accumulated depreciation | 9,140                      | 6,514,875                                  | 3,937,151                   | 10,461,166           |
| Other non-current assets                        | -                          | 316,345                                    | 309,164                     | 625,509              |
| Total noncurrent assets                         | <u>9,140</u>               | <u>9,772,977</u>                           | <u>6,485,061</u>            | <u>16,267,178</u>    |
| Total assets                                    | <u>\$ 91,854</u>           | <u>\$ 13,196,631</u>                       | <u>\$ 12,131,753</u>        | <u>\$ 25,420,238</u> |
| <b>LIABILITIES</b>                              |                            |  |                             |                      |
| Current liabilities:                            |                            |  |                             |                      |
| Current portion of long-term debt               | \$ -                       | \$ 45,417                                  | \$ 506,798                  | \$ 552,215           |
| Accounts payable                                | -                          | 340,241                                    | 858,814                     | 1,199,055            |
| Unearned revenues                               | -                          | 176,595                                    | -                           | 176,595              |
| Other liabilities and accruals                  | 3,749                      | 469,771                                    | 1,473,924                   | 1,947,444            |
| Total current liabilities                       | 3,749                      | 1,032,024                                  | 2,839,536                   | 3,875,309            |
| Noncurrent liabilities:                         |                            |  |                             |                      |
| Noncurrent portion of long-term debt            | -                          | 2,486,153                                  | 2,149,349                   | 4,635,502            |
| Total liabilities                               | <u>3,749</u>               | <u>3,518,177</u>                           | <u>4,988,885</u>            | <u>8,510,811</u>     |
| <b>NET POSITION</b>                             |                            |  |                             |                      |
| Net investment in capital assets                | 9,140                      | 6,925,062                                  | 1,281,004                   | 8,215,206            |
| Restricted, expendable                          | -                          | 1,007,141                                  | 207,475                     | 1,214,616            |
| Unrestricted                                    | 78,965                     | 1,746,251                                  | 5,654,389                   | 7,479,605            |
| Total net position                              | <u>88,105</u>              | <u>9,678,454</u>                           | <u>7,142,868</u>            | <u>16,909,427</u>    |
|   | <u>\$ 91,854</u>           | <u>\$ 13,196,631</u>                       | <u>\$ 12,131,753</u>        | <u>\$ 25,420,238</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, 2015

|   | Yap<br>Visitor's<br>Bureau | Yap State<br>Public Service<br>Corporation | The Diving<br>Seagull, Inc. | Total                |
|---|----------------------------|--|-----------------------------|----------------------|
| Operating revenues:                         |                            |  |                             |                      |
| Charges for services                        | \$ -                       | \$ 5,339,362                               | \$ 8,724,433                | \$ 14,063,795        |
| Sales                                       | -                          | 480,043                                    | 4,593                       | 484,636              |
| Total operating revenues                    | <u>-</u>                   | <u>5,819,405</u>                           | <u>8,729,026</u>            | <u>14,548,431</u>    |
| Operating expenses:                         |                            |  |                             |                      |
| Cost of services                            | -                          | 4,323,208                                  | 9,493,479                   | 13,816,687           |
| Administration costs                        | 279,634                    | 346,798                                    | 295,208                     | 921,640              |
| Depreciation and amortization               | -                          | 1,065,254                                  | 2,223                       | 1,067,477            |
| Total operating expenses                    | <u>279,634</u>             | <u>5,735,260</u>                           | <u>9,790,910</u>            | <u>15,805,804</u>    |
| Operating loss                              | <u>(279,634)</u>           | <u>84,145</u>                              | <u>(1,061,884)</u>          | <u>(1,257,373)</u>   |
| Nonoperating revenues (expenses):           |                            |  |                             |                      |
| Contributions from the primary government   | 274,371                    | -  | -                           | 274,371              |
| Interest income                             | 3,600                      | 1,270                                      | 36,775                      | 41,645               |
| Interest expense                            | -                          | (16,271)                                   | (174,108)                   | (190,379)            |
| Other                                       | 6,123                      | 263,400                                    | (403,535)                   | (134,012)            |
| Total nonoperating revenues (expenses), net | <u>284,094</u>             | <u>248,399</u>                             | <u>(540,868)</u>            | <u>(8,375)</u>       |
| Capital contributions                       | <u>-</u>                   | <u>397,496</u>                             | <u>-</u>                    | <u>397,496</u>       |
| Change in net position                      | <u>4,460</u>               | <u>730,040</u>                             | <u>(1,602,752)</u>          | <u>(868,252)</u>     |
| Net position at the beginning of the year   | <u>83,645</u>              | <u>8,948,414</u>                           | <u>8,745,620</u>            | <u>17,777,679</u>    |
| Net position at the end of the year         | <u>\$ 88,105</u>           | <u>\$ 9,678,454</u>                        | <u>\$ 7,142,868</u>         | <u>\$ 16,909,427</u> |

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(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, 2015

(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, 2015

(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, 2015

(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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories:

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

The government-wide Statement of Net Position reports \$14,806,102 of restricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(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, 2015

(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, 2015

(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, 2015

(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 \$1,537,291. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$42,465,744 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$9,278,895 are restricted in that they are not available to be used for current operations.

As of September 30, 2015, 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 | \$ 193,444        |
| Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended   | <u>687,327</u>    |
|  | \$ <u>880,771</u> |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(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.        | \$ 2,031,271        |
| Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank. | <u>207,475</u>      |
|   | <u>\$ 2,238,746</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, 2015

(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, 2015

(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 2015, the State implemented the following pronouncements:

- *GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits.*

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

- GASB 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.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of the State.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. 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, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

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, 2014 from which summarized information was derived.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(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, 2015

(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, 2015, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$1,340,181 and the corresponding bank balance was \$1,615,062, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015, bank deposits in the amount of \$270,207 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, 2015, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$86,485. There were no significant differences between cash balances and bank balances. As of September 30, 2015, \$86,485 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, 2015, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$6,361,255 and the corresponding bank balances were \$6,393,937, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2015, bank deposits in the amount of \$1,038,984 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, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2015, the State's investments at fair value are as follows:

|                          |                      |
|--------------------------|----------------------|
| Fixed income securities: |                      |
| Fixed income securities  | \$ 9,045,928         |
| Other investments:       |                      |
| Domestic equities        | 58,967,323           |
| Cash management account  | <u>237,801</u>       |
|                          | <u>\$ 68,251,052</u> |

As of September 30, 2015, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

| <u>Investment Type</u>                   | <u>Fair Value</u>   | <u>Investment Maturities (In Years)</u> |                   |                   |                  | <u>Credit Ratings</u> |
|--|---------------------|---|-------------------|-------------------|------------------|-----------------------|
|  |                     | <u>Less than 1</u>                      | <u>1-5</u>        | <u>6-10</u>       | <u>Over 10</u>   |                       |
| U.S. Treasury Notes and Bonds            | \$ 1,568,016        | \$ 1,422,544                            | \$ 69,626         | \$ 53,117         | \$ 22,729        | AAA                   |
| U.S. Government Agencies Obligations:    |                     |   |                   |                   |                  |                       |
| Federal Home Loan Mortgage Corporation   | 420,239             | 359,820                                 | 26,842            | 22,761            | 10,816           | AAA                   |
| Government National Mortgage Association | 506                 | -                                       | -                 | -                 | 506              | AAA                   |
| Federal National Mortgage Association    | 151,052             | 39,017                                  | 95,731            | -                 | 16,304           | AAA                   |
| Tennessee Valley Authority               | 13,045              | -                                       | -                 | 7,066             | 5,979            | AAA                   |
| Housing Urban Development                | 55,647              | -                                       | -                 | 55,647            | -                | No rating             |
| AID-TUNISIA                              | 19,914              | -                                       | 19,914            | -                 | -                | No rating             |
| Municipal Obligations                    | 13,008              | 13,008                                  | -                 | -                 | -                | A2                    |
| Municipal Obligations                    | 27,812              | -                                       | 10,600            | 10,566            | 6,646            | Aa1                   |
| Municipal Obligations                    | 5,088               | -                                       | -                 | 5,088             | -                | Aa2                   |
| Corporate Bonds                          | 2,669,361           | 2,669,361                               | -                 | -                 | -                | Aa2                   |
| Corporate Bonds                          | 769,847             | 769,847                                 | -                 | -                 | -                | Aa3                   |
| Corporate Bonds                          | 2,184,022           | 2,184,022                               | -                 | -                 | -                | Baa1                  |
| Corporate Bonds                          | 418,395             | 418,395                                 | -                 | -                 | -                | A1                    |
| Corporate Bonds                          | 543,914             | 543,914                                 | -                 | -                 | -                | A3                    |
| Corporate Bonds                          | <u>186,062</u>      | <u>55,744</u>                           | <u>68,560</u>     | <u>39,423</u>     | <u>22,335</u>    | A1                    |
|  | <u>\$ 9,045,928</u> | <u>\$ 8,475,672</u>                     | <u>\$ 291,273</u> | <u>\$ 193,668</u> | <u>\$ 85,315</u> |                       |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2015, 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, 2015.

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, 2015, 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, 2015, the State's investments at fair value are as follows:

|                          |                     |
|--------------------------|---------------------|
| Fixed income securities: |                     |
| Domestic fixed income    | \$ <u>462,555</u>   |
| Other investments:       |                     |
| Equities                 | 628,528             |
| Cash management account  | <u>51,338</u>       |
|                          | <u>679,866</u>      |
|                          | \$ <u>1,142,421</u> |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

The Diving Seagull, Inc., Continued

As of September 30, 2015, 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                | \$ 46,376                  | \$ 152,859        | \$ 21,123        | \$ -        | \$ 220,358        |
| U.S. Government agencies | AAA                | 40,486                     | 37,205            | -                | -           | 77,691            |
| Corporate Notes          | A1                 | 5,104                      | 10,317            | -                | -           | 15,421            |
| Corporate Notes          | A2                 | -                          | 62,051            | 25,689           | -           | 87,740            |
| Corporate Notes          | A3                 | -                          | 25,106            | 20,464           | -           | 45,570            |
| Corporate Notes          | AA2                | -                          | -                 | 15,775           | -           | 15,775            |
|                          |                    | <u>\$ 91,966</u>           | <u>\$ 287,538</u> | <u>\$ 83,051</u> | <u>\$ -</u> | <u>\$ 462,555</u> |

(3) Receivables

Receivables as of September 30, 2015, 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                                      | \$ 8,224,101       | \$ -                             | \$ -                              | \$ -                 | \$ 2,000,000                    | \$ -                                | \$ 10,224,101       |
| Federal agencies                           | -                  | 1,894,024                        | -                                 | -                    | 612,780                         | -                                   | 2,506,804           |
| FSM National Government                    | 723,127            | 1,591,458                        | -                                 | -                    | -                               | -                                   | 2,314,585           |
| Other                                      | <u>381,183</u>     | <u>600</u>                       | <u>-</u>                          | <u>-</u>             | <u>17,291</u>                   | <u>22,856</u>                       | <u>421,930</u>      |
|  | 9,328,411          | 3,486,082                        | -                                 | -                    | 2,630,071                       | 22,856                              | 15,467,420          |
| Less: allowance for uncollectible accounts | <u>(8,573,032)</u> | <u>(1,906,342)</u>               | <u>-</u>                          | <u>-</u>             | <u>(2,611,732)</u>              | <u>(12,004)</u>                     | <u>(13,103,110)</u> |
| Net receivables                            | <u>\$ 755,379</u>  | <u>\$ 1,579,740</u>              | <u>\$ -</u>                       | <u>\$ -</u>          | <u>\$ 18,339</u>                | <u>\$ 10,852</u>                    | <u>\$ 2,364,310</u> |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(3) Receivables, Continued

Loans receivable of the primary government as of September 30, 2015 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. 824,101

8,224,101

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

\$ 10,224,101

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(3) Receivables, Continued

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

|   | Yap<br>Visitors<br>Bureau | Yap State<br>Public<br>Service<br>Corporation | The Diving<br>Seagull, Inc. | Totals              |
|---|---------------------------|---|-----------------------------|---------------------|
| Receivables:                                  |                           |   |                             |                     |
| General                                       | \$ 101,701                | \$ 1,112,495                                  | \$ 66,184                   | \$ 1,280,380        |
| Other   | -                         | 79,763  | 766,662                     | 846,425             |
|   | 101,701                   | 1,192,258                                     | 832,846                     | 2,126,805           |
| Less: allowance for<br>uncollectible accounts | (99,294)                  | (76,353)                                      | (581,140)                   | (756,787)           |
| Net receivables                               | \$ <u>2,407</u>           | \$ <u>1,115,905</u>                           | \$ <u>251,706</u>           | \$ <u>1,370,018</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, 2015, are summarized as follows:

| <u>Receivable Fund</u>      | <u>Payable Fund</u>         | <u>Amount</u>       |
|-----------------------------|-----------------------------|---------------------|
| General                     | Foreign Assistance Grants   | \$ 579,842          |
| General                     | Nonmajor governmental funds | 790                 |
| Foreign Assistance Grants   | General                     | 7,244,258           |
| Nonmajor governmental funds | General                     | 533,597             |
|                             |                             | <u>\$ 8,358,487</u> |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

**(5) Capital Assets**

Capital asset activities of the primary government for the year ended September 30, 2015, are as follows:

|  | Balance<br>October 1<br><u>2014</u> | <u>Additions</u>      | <u>Retirements</u> | Balance<br>September<br>30, 2015 |
|--|-------------------------------------|-----------------------|--------------------|----------------------------------|
| Governmental activities:                     |                                     |                       |                    |                                  |
| Capital assets, being depreciated:           |                                     |                       |                    |                                  |
| Buildings                                    | \$ 14,890,020                       | \$ -                  | \$ -               | \$ 14,890,020                    |
| Infrastructure                               | 86,807,703                          | -                     | -                  | 86,807,703                       |
| Equipment                                    | 765,030                             | -                     | -                  | 765,030                          |
| Vehicles                                     | 2,238,871                           | 105,775               | -                  | 2,344,646                        |
| Vessels                                      | 5,156,463                           | -                     | -                  | 5,156,463                        |
| Heavy equipment                              | <u>3,621,122</u>                    | <u>85,957</u>         | <u>-</u>           | <u>3,707,079</u>                 |
|  | <u>113,479,209</u>                  | <u>191,732</u>        | <u>-</u>           | <u>113,670,941</u>               |
| Less accumulated depreciation for:           |                                     |                       |                    |                                  |
| Buildings                                    | (9,336,449)                         | (561,027)             | -                  | (9,897,476)                      |
| Infrastructure                               | (71,988,195)                        | (1,794,683)           | -                  | (73,782,878)                     |
| Equipment                                    | (445,650)                           | (66,041)              | -                  | (511,691)                        |
| Vehicles                                     | (2,022,490)                         | (97,073)              | -                  | (2,119,563)                      |
| Vessels                                      | (2,711,861)                         | (196,844)             | -                  | (2,908,705)                      |
| Heavy equipment                              | <u>(3,396,988)</u>                  | <u>(94,050)</u>       | <u>-</u>           | <u>(3,491,038)</u>               |
|  | <u>(89,901,633)</u>                 | <u>(2,809,718)</u>    | <u>-</u>           | <u>(92,711,351)</u>              |
| Total capital assets, being depreciated, net | 23,577,576                          | (2,617,986)           | -                  | 20,959,590                       |
| Non-depreciable Assets:                      |                                     |                       |                    |                                  |
| Land   | <u>3,170,610</u>                    | <u>-</u>              | <u>-</u>           | <u>3,170,610</u>                 |
| Governmental activities capital assets, net  | \$ <u>26,748,186</u>                | \$ <u>(2,617,986)</u> | \$ <u>-</u>        | \$ <u>24,130,200</u>             |

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

|                                 |                     |
|---------------------------------|---------------------|
| Councils of Traditional leaders | \$ 1,425            |
| General government              | 88,176              |
| Economic development            | 8,992               |
| Community affairs               | 14,726              |
| Education                       | 217,066             |
| Public works and transportation | 2,026,286           |
| Health services                 | 68,959              |
| Boards and commissions          | 87,245              |
| Other appropriations            | <u>296,843</u>      |
|                                 | <u>\$ 2,809,718</u> |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(5) Capital Assets, Continued

|                                       | <u>Balance<br/>October 1,<br/>2014</u> | <u>Additions</u>    | <u>Retirements</u> | <u>Balance<br/>September<br/>30, 2015</u> |
|---------------------------------------|--|---------------------|--------------------|---|
| Business-type activities:             |  |                     |                    |   |
| Depreciable capital assets:           |  |                     |                    |   |
| Buildings                             | \$ 119,892                             | \$ 12,770           | \$ -               | \$ 132,662                                |
| Vehicles                              | 1,089,906                              | -                   | -                  | 1,089,906                                 |
| Shop equipment                        | 65,661                                 | -                   | -                  | 65,661                                    |
| Office equipment                      | <u>103,600</u>                         | <u>-</u>            | <u>-</u>           | <u>103,600</u>                            |
|                                       | 1,379,059                              | 12,770              | -                  | 1,391,829                                 |
| Less accumulated depreciation         | <u>(974,218)</u>                       | <u>(136,141)</u>    | <u>-</u>           | <u>(1,110,359)</u>                        |
| Total net capital assets              | <u>\$ 404,841</u>                      | <u>\$ (123,371)</u> | <u>\$ -</u>        | <u>\$ 281,470</u>                         |
| Discretely Presented Component Units: |  |                     |                    |   |
|                                       | <u>Balance<br/>October 1,<br/>2014</u> | <u>Additions</u>    | <u>Retirements</u> | <u>Balance<br/>September<br/>30, 2015</u> |
| Depreciable assets:                   |  |                     |                    |   |
| Utility plant                         | \$ 21,752,898                          | \$ 325,950          | \$ (907,996)       | \$ 21,170,852                             |
| Machinery, equipment and others       | <u>15,499,716</u>                      | <u>82,943</u>       | <u>-</u>           | <u>15,582,659</u>                         |
|                                       | 37,252,614                             | 408,893             | (907,996)          | 36,753,511                                |
| Less accumulated depreciation         | <u>(25,094,274)</u>                    | <u>(2,060,546)</u>  | <u>862,475</u>     | <u>(26,292,345)</u>                       |
|                                       | 12,158,340                             | (1,651,653)         | (45,521)           | 10,461,166                                |
| Nondepreciable assets:                |  |                     |                    |   |
| Construction work-in-progress         | <u>2,100,431</u>                       | <u>841,326</u>      | <u>-</u>           | <u>2,941,757</u>                          |
|                                       | <u>\$ 14,258,771</u>                   | <u>\$ (810,327)</u> | <u>\$ (45,521)</u> | <u>\$ 13,402,923</u>                      |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(6) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loans:

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$3,500,000 loan from the ADB (Loan Number 1520(SF)) through the FSM National Government. The activities of the ERS Program are recorded in the General Fund.

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2038. However, pursuant to the terms of the Financing Agreement between the State and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of the State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2002.

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, 2015. As of September 30, 2015, the amount outstanding against this loan was \$2,944,610. Of the required \$3,500,000 identified for future debt service payments, \$1,537,291 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, 2015, the outstanding balance is \$151,331.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(6) 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, 2015, the balances payable on these loans amounted to \$249,391 and \$621,997, respectively.

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

| <u>Year ending<br/>September 30,</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|--------------------------------------|---------------------|-------------------|---------------------|
| 2016                                 | \$ 136,446          | \$ 82,069         | \$ 218,515          |
| 2017                                 | 136,446             | 78,401            | 214,847             |
| 2018                                 | 206,596             | 73,331            | 279,927             |
| 2019                                 | 206,596             | 70,365            | 276,961             |
| 2020                                 | 206,596             | 65,996            | 272,592             |
| 2021 through 2025                    | 1,032,980           | 264,447           | 1,297,427           |
| 2026 through 2030                    | 925,107             | 158,063           | 1,083,170           |
| 2031 through 2035                    | 837,651             | 58,469            | 896,120             |
| 2036 through 2037                    | <u>278,911</u>      | <u>4,279</u>      | <u>283,190</u>      |
|                                      | <u>\$ 3,967,329</u> | <u>\$ 855,420</u> | <u>\$ 4,822,749</u> |

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC):

Uncollateralized loan of original principal of \$2,270,837 payable to the Asian Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) National Government and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% 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.

\$ 2,161,270

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

370,300

\$ 2,531,570

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(6) 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<br/>September 30,</u> | <u>Principal</u>    | <u>Interest</u>  | <u>Total</u>        |
|--------------------------------------|---------------------|------------------|---------------------|
| 2016                                 | \$ 45,417           | \$ -             | \$ 45,417           |
| 2017                                 | 83,272              | -                | 83,272              |
| 2018                                 | 121,126             | -                | 121,126             |
| 2019                                 | 128,532             | 2,779            | 131,311             |
| 2020                                 | 128,532             | 2,723            | 131,255             |
| 2021 through 2025                    | 672,286             | 12,259           | 684,545             |
| 2026 through 2030                    | 716,722             | 8,675            | 725,397             |
| 2031 through 2035                    | 569,027             | 4,443            | 573,470             |
| 2036 through 2037                    | <u>66,656</u>       | <u>635</u>       | <u>67,291</u>       |
|                                      | <u>\$ 2,531,570</u> | <u>\$ 31,514</u> | <u>\$ 2,563,084</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.

\$ 1,721,740

Bank loan in the amount of \$1,000,000 with interest at 2.12% per annum, to fund fishing operations. Interest and principal are payable in monthly installments of \$17,605, commencing June 10, 2015. This loan is collateralized by DSI's time certificate of deposit.

934,407

\$ 2,656,147

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

| <u>Year ending<br/>September 30,</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|--------------------------------------|---------------------|-------------------|---------------------|
| 2016                                 | \$ 506,798          | \$ 160,503        | \$ 667,301          |
| 2017                                 | 540,635             | 126,824           | 667,459             |
| 2018                                 | 576,959             | 90,342            | 667,301             |
| 2019                                 | 616,554             | 50,746            | 667,300             |
| 2020                                 | <u>415,201</u>      | <u>10,172</u>     | <u>425,373</u>      |
|                                      | <u>\$ 2,656,147</u> | <u>\$ 438,587</u> | <u>\$ 3,094,734</u> |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(7) Change in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2015, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

|                         | Balance<br>October 1,<br><u>2014</u> | <u>Additions</u>  | <u>Reductions</u>    | Balance<br>September 30,<br><u>2015</u> | <u>Due Within<br/>One Year</u> |
|-------------------------|--------------------------------------|-------------------|----------------------|---|--------------------------------|
| Loans payable:          |                                      |                   |                      |   |                                |
| ADB loans:              |                                      |                   |                      |   |                                |
| Loan 1520               | \$ 3,492,510                         | \$ -              | \$ (547,900)         | \$ 2,944,610                            | \$ 70,150                      |
| Loan 1816               | 276,971                              | -                 | (125,640)            | 151,331                                 | 8,900                          |
| Loan 1873               | 316,398                              | -                 | (67,007)             | 249,391                                 | 23,818                         |
| Loan 1874               | <u>777,802</u>                       | <u>-</u>          | <u>(155,805)</u>     | <u>621,997</u>                          | <u>33,578</u>                  |
|                         | <u>4,863,681</u>                     | <u>-</u>          | <u>(896,352)</u>     | <u>3,967,329</u>                        | <u>136,446</u>                 |
| Other:                  |                                      |                   |                      |   |                                |
| Compensated<br>absences | 614,311                              | 451,016           | (440,434)            | 624,893                                 | 459,325                        |
| Land acquisition claims | <u>249,608</u>                       | <u>-</u>          | <u>-</u>             | <u>249,608</u>                          | <u>-</u>                       |
|                         | <u>863,919</u>                       | <u>451,016</u>    | <u>(440,434)</u>     | <u>874,501</u>                          | <u>459,325</u>                 |
|                         | <u>\$ 5,727,600</u>                  | <u>\$ 451,016</u> | <u>\$(1,336,786)</u> | <u>\$ 4,841,830</u>                     | <u>595,771</u>                 |

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2015, the State recognized a foreign exchange gain of \$727,252 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a reduction in ADB loans payable.

As of September 30, 2015, \$249,608 in land acquisition claims payable due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(7) Change in Long-Term Obligations, Continued

Discretely Presented Component Units

During the year ended September 30, 2015, the following changes occurred in liabilities reported as part of the component unit's long-term liabilities in the statement of net position:

|                | Balance<br>October 1,<br><u>2014</u> | <u>Additions</u>    | <u>Reductions</u>   | Balance<br>September 30,<br><u>2015</u> | <u>Due Within<br/>One Year</u> |
|----------------|--------------------------------------|---------------------|---------------------|---|--------------------------------|
| Loans payable: |                                      |                     |                     |   |                                |
| YSPSC          | \$ 2,755,560                         | \$ 169,812          | \$ (393,802)        | \$ 2,531,570                            | \$ 45,417                      |
| DSI            | <u>2,008,496</u>                     | <u>1,000,000</u>    | <u>(352,349)</u>    | <u>2,656,147</u>                        | <u>506,798</u>                 |
|                | <u>\$ 4,764,056</u>                  | <u>\$ 1,169,812</u> | <u>\$ (746,151)</u> | <u>\$ 5,187,717</u>                     | <u>\$ 552,215</u>              |

(8) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

|                                  | General<br><u>Fund</u> | Grants<br>Assistance<br><u>Fund</u> | Yap State<br>Investment<br><u>Trust</u> | Compact<br>Trust<br><u>Fund</u> | Nonmajor<br><u>Funds</u> | Total<br>Governmental<br><u>Funds</u> |
|----------------------------------|------------------------|-------------------------------------|---|---------------------------------|--------------------------|---------------------------------------|
| Non-spendable:                   |                        |                                     |   |                                 |                          |                                       |
| Permanent fund principal         | \$ -                   | \$ -                                | \$ 42,465,744                           | \$ 9,278,895                    | \$ -                     | \$ 51,744,639                         |
| Pacific Islands Development Bank | 1,438,866              | -                                   | -                                       | -                               | -                        | 1,438,866                             |
| Bank of the FSM                  | 1,000,000              | -                                   | -                                       | -                               | -                        | 1,000,000                             |
| Restricted for:                  |                        |                                     |   |                                 |                          |                                       |
| Debt service                     | 1,537,291              | -                                   | -                                       | -                               | -                        | 1,537,291                             |
| General government               | -                      | 2,327,378                           | -                                       | -                               | -                        | 2,327,378                             |
| Education                        | -                      | 389,735                             | -                                       | -                               | -                        | 389,735                               |
| Health services                  | -                      | 375,623                             | -                                       | -                               | -                        | 375,623                               |
| Infrastructure                   | -                      | 957,693                             | -                                       | -                               | -                        | 957,693                               |
| Public works and transportation  | -                      | -                                   | -                                       | -                               | 349,939                  | 349,939                               |
| Committed for:                   |                        |                                     |   |                                 |                          |                                       |
| General government               | 212,579                | -                                   | -                                       | -                               | 418,975                  | 631,554                               |
| Debt service                     | 200,000                | -                                   | -                                       | -                               | -                        | 200,000                               |
| Infrastructure                   | 671,131                | -                                   | -                                       | -                               | -                        | 671,131                               |
| Education                        | (2,582)                | -                                   | -                                       | -                               | -                        | (2,582)                               |
| Assigned                         | 930,018                | -                                   | -                                       | -                               | -                        | 930,018                               |
| Unassigned                       | <u>11,594,676</u>      | <u>-</u>                            | <u>-</u>                                | <u>-</u>                        | <u>(790)</u>             | <u>11,593,866</u>                     |
|                                  | <u>\$ 17,581,979</u>   | <u>\$ 4,050,429</u>                 | <u>\$ 42,465,744</u>                    | <u>\$ 9,278,895</u>             | <u>\$ 768,124</u>        | <u>\$ 74,145,171</u>                  |

(9) Special Item

During the year ended September 30, 2015, the State determined that certain accounts receivable of \$321,353 were no longer collectible. As a result of such determination, the State wrote off these receivables and recognized this transaction as a special item.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(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, 2015, the State has significant encumbrances summarized as follows:

|              | <u>General</u>    | <u>Grants<br/>Assistance</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total</u>        |
|--------------|-------------------|------------------------------|---|---------------------|
| Encumbrances | \$ <u>538,741</u> | \$ <u>1,341,983</u>          | \$ <u>328,241</u>                       | \$ <u>2,208,965</u> |

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury.

Insurance Coverage

The State does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the State is self-insured to a material extent. The State has not recognized material losses in its financial statements as a result of being self-insured.

Federal Grants

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2015. In addition, the State is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. 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, 2015. 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2015

(10) Commitments and Contingencies, Continued

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, 2015, 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              |
| Typhoon Maysak Recovery Effort (YSL No. 9-04)       | 209,278          |
| 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. 7-47)      | 81,789           |
| Infrastructure Maintenance Fund (YSL No. 7-59)      | <u>191,877</u>   |
|   | <u>1,083,710</u> |

Foreign Assistance Grants

|   |                     |
|---|---------------------|
| Yap Community Development Program Matching (YSL No. 5-34) | <u>150,000</u>      |
| Total Continuing Appropriations                           | \$ <u>1,233,710</u> |

(11) Budgetary Compliance

For the year ended September 30, 2015, significant over-expenditures exceeded appropriations within the General Fund for the following:

|  |           |
|--|-----------|
| Office of the Governor                       | \$ 81,524 |
| Department of Resources and Development      | \$149,923 |
| Department of Public Safety/Attorney General | \$ 31,474 |
| Department of Public Affairs                 | \$143,408 |
| Debt Service                                 | \$432,800 |
| Other  | \$166,201 |

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2015**

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, 2015

|   | Budgeted Amounts     |                      | Actual -<br>Budgetary | Variance with<br>Final Budget |
|---|----------------------|----------------------|-----------------------|-------------------------------|
|   | Original             | Final                | Basis<br>(see Note 1) |                               |
| Revenues:                                   |                      |                      |                       |                               |
| Net change in the fair value of investments | \$ -                 | \$ -                 | \$ (215,098)          | \$ (215,098)                  |
| Other                                       | 5,173,869            | 5,142,529            | 4,688,859             | (453,670)                     |
| Total revenues                              | <u>5,173,869</u>     | <u>5,142,529</u>     | <u>4,473,761</u>      | <u>(668,768)</u>              |
| Expenditures:                               |                      |                      |                       |                               |
| Current:                                    |                      |                      |                       |                               |
| Judiciary                                   | 201,393              | 201,393              | 196,792               | 4,601                         |
| Council of traditional leaders              | 173,465              | 173,465              | 164,850               | 8,615                         |
| General government                          | 1,134,439            | 1,134,439            | 1,196,980             | (62,541)                      |
| Economic development                        | 292,574              | 306,812              | 456,735               | (149,923)                     |
| Public safety                               | 592,053              | 592,053              | 623,527               | (31,474)                      |
| Community affairs                           | 259,957              | 259,957              | 403,365               | (143,408)                     |
| Education                                   | 90,000               | 90,000               | 46,777                | 43,223                        |
| Public works and transportation             | 1,635,433            | 1,640,433            | 1,399,048             | 241,385                       |
| Health services                             | 699,108              | 699,108              | 336,914               | 362,194                       |
| Boards and commissions                      | 362,098              | 362,098              | 183,023               | 179,075                       |
| Payments to component units                 | 29,556               | 29,556               | 29,723                | (167)                         |
| Other appropriations                        | 153,355              | 153,355              | 318,665               | (165,310)                     |
| Debt service                                | -                    | -                    | 432,800               | (432,800)                     |
| Others                                      | 577,487              | 577,487              | 55,072                | 522,415                       |
| Total expenditures                          | <u>6,200,918</u>     | <u>6,220,156</u>     | <u>5,844,271</u>      | <u>375,885</u>                |
| Deficiency of revenues under expenditures   | <u>(1,027,049)</u>   | <u>(1,077,627)</u>   | <u>(1,370,510)</u>    | <u>(292,883)</u>              |
| Other changes in fund balance:              |                      |                      |                       |                               |
| Special item - write off of receivables     | -                    | -                    | (321,353)             | (321,353)                     |
| Increase in encumbrances                    | -                    | -                    | 39,046                | 39,046                        |
| Fund balance at the beginning of the year   | <u>19,234,796</u>    | <u>19,234,796</u>    | <u>19,234,796</u>     | <u>-</u>                      |
| Fund balance at the end of the year         | <u>\$ 18,207,747</u> | <u>\$ 18,157,169</u> | <u>\$ 17,581,979</u>  | <u>\$ (575,190)</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, 2015

(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, 2015**

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2015

|                           | Special Revenue     |                      | Permanent           |             | Other<br>Governmental<br>Funds | Total                |
|---------------------------|---------------------|----------------------|---------------------|-------------|--------------------------------|----------------------|
|                           | General             | Foreign              | Yap                 | Compact     |                                |                      |
|                           |                     | Assistance<br>Grants | Investment<br>Trust | Trust       |                                |                      |
| Expenditures:             |                     |                      |                     |             |                                |                      |
| Salaries and wages        | \$ 2,661,235        | \$ 6,255,038         | \$ -                | \$ -        | \$ 51,947                      | \$ 8,968,220         |
| Grants and subsidies      | 41,560              | 10,000               | -                   | -           | 496,647                        | 548,207              |
| Utilities                 | 578,814             | 1,472,997            | -                   | -           | -                              | 2,051,811            |
| Contractual services      | 101,044             | 604,452              | -                   | -           | 61,286                         | 766,782              |
| Supplies and materials    | 94,803              | 829,685              | -                   | -           | 12,502                         | 936,990              |
| Construction Maintenance  | -                   | 177,856              | -                   | -           | -                              | 177,856              |
| Scholarship and training  | 175,000             | 293,470              | -                   | -           | -                              | 468,470              |
| Travel                    | 121,014             | 663,640              | -                   | -           | 21,826                         | 806,480              |
| Capital outlay            | 71,848              | 380,314              | -                   | -           | 22,739                         | 474,901              |
| Rentals                   | 3,628               | 16,907               | -                   | -           | -                              | 20,535               |
| Food stuffs               | 94,526              | 252,445              | -                   | -           | -                              | 346,971              |
| Communications            | 102,262             | 169,887              | -                   | -           | -                              | 272,149              |
| Printing and reproduction | -                   | 128,259              | -                   | -           | -                              | 128,259              |
| Medical supplies          | -                   | 1,694,890            | -                   | -           | -                              | 1,694,890            |
| Repairs and maintenance   | 152,749             | 247,094              | -                   | -           | -                              | 399,843              |
| Freight                   | 8,956               | 18,584               | -                   | -           | -                              | 27,540               |
| Professional services     | 7,847               | 392,164              | -                   | -           | -                              | 400,011              |
| POL                       | 501,590             | 321,973              | -                   | -           | 101,672                        | 925,235              |
| Allowances                | 81,000              | 6,090                | -                   | -           | -                              | 87,090               |
| Leased housing and land   | 2,066               | -                    | -                   | -           | -                              | 2,066                |
| Principal repayment       | 169,100             | -                    | -                   | -           | -                              | 169,100              |
| Interest payments         | 263,700             | -                    | -                   | -           | -                              | 263,700              |
| Other                     | 572,483             | 318,935              | -                   | -           | 257,606                        | 1,149,024            |
|                           | <u>\$ 5,805,225</u> | <u>\$ 14,254,680</u> | <u>\$ -</u>         | <u>\$ -</u> | <u>\$ 1,026,225</u>            | <u>\$ 21,086,130</u> |

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**GENERAL FUND**

September 30, 2015

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, 2015  
(with comparative totals for the year ended September 30, 2014)

|  | 2015       | 2014       |
|--|------------|------------|
| Revenues:                                    |            |            |
| Revenue sharing:                             |            |            |
| Import tax                                   | \$ 662,318 | \$ 633,985 |
| Fuel tax                                     | 295,005    | 365,317    |
| Income tax                                   | 577,021    | 522,079    |
| Business gross receipts tax                  | 591,276    | 649,430    |
|  | 2,125,620  | 2,170,811  |
| Excise taxes:                                |            |            |
| Alcoholic beverages                          | 405,515    | 343,413    |
| Gasoline and diesel                          | 107,094    | 82,427     |
| Tobacco                                      | 112,812    | 136,609    |
| Other excise taxes                           | 448,051    | 427,780    |
|  | 1,073,472  | 990,229    |
| Fees and charges:                            |            |            |
| Licenses and permits                         | 85,749     | 91,186     |
| Fines/sale of confiscated property           | 38,018     | 57,769     |
| Leases and other rentals                     | 217,757    | 141,356    |
|  | 341,524    | 290,311    |
| Departmental charges:                        |            |            |
| Sea transportation                           | 276,738    | 291,496    |
| Air transportation                           | 180,518    | 160,973    |
| Hospital services                            | 367,127    | 346,600    |
| Other  | 55,661     | 10,251     |
|  | 880,044    | 809,320    |
| Net change in the fair value of investments  | (215,098)  | 2,510,647  |
| Other revenues                               | 268,199    | 378,888    |
| Total revenues                               | 4,473,761  | 7,150,206  |
| Expenditures:                                |            |            |
| Current:                                     |            |            |
| Judiciary                                    | 196,792    | 200,840    |
| Councils of Traditional Leaders:             |            |            |
| Council of Pilung                            | 83,729     | 84,605     |
| Council of Tamol                             | 78,491     | 83,292     |
|  | 162,220    | 167,897    |
| General government:                          |            |            |
| Office of the Governor                       | 230,209    | 179,522    |
| State Legislature                            | 434,698    | 431,668    |
| Office of Administrative Services            | 468,687    | 574,503    |
| Office of Planning, Budget and Statistics    | 76,739     | 624,722    |
|  | 1,210,333  | 1,810,415  |
| Resources and Development:                   |            |            |
| Department of Resources and Development      | 470,635    | 388,737    |
| Public Safety:                               |            |            |
| Department of Public Safety/Attorney General | 640,290    | 580,167    |

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, 2015  
(with comparative totals for the year ended September 30, 2014)

|   | 2015          | 2014          |
|---|---------------|---------------|
| Expenditures, continued:                                  |               |               |
| Current, continued:                                       |               |               |
| Community Affairs   |               |               |
| Department of Public Affairs                              | 360,696       | 240,273       |
| Public Works and Transportation:                          |               |               |
| Department of Public Works and Transportation             | 1,389,799     | 1,333,614     |
| Education Services:                                       |               |               |
| Department of Education                                   | 45,192        | 62,384        |
| Health Services:  |               |               |
| Department of Health Services                             | 382,106       | 680,547       |
| Boards and Commissions:                                   |               |               |
| EPA Administration Board                                  | -             | 67            |
| Rural Development   | 12,052        | 11,763        |
| Historic Preservation Office                              | 93,653        | 100,210       |
| Election Commissioner                                     | 77,585        | 51,843        |
| Yap Investment Trust                                      | 17,181        | 21,153        |
|   | 200,471       | 185,036       |
| Payments to component units:                              |               |               |
| Public Transportation System                              | 29,556        | 29,844        |
| Other appropriations:                                     |               |               |
| Public Auditor and Staff                                  | 7,278         | -             |
| Micronesian Legal Services Corporation                    | 41,280        | 41,280        |
| Japan Overseas Cooperation Volunteers                     | 8,850         | 6,985         |
| Peace Corps Program                                       | 14,000        | 5,600         |
| Yap Community Action Program                              | 76,282        | 80,773        |
| Small Business Development                                | -             | 3,653         |
| Other   | 136,645       | 372,319       |
|   | 284,335       | 510,610       |
| Debt service:   |               |               |
| Principal repayments                                      | 169,100       | 180,133       |
| Interest payments   | 263,700       | 287,406       |
|   | 432,800       | 467,539       |
| Total expenditures  | 5,805,225     | 6,657,903     |
| Excess (deficiency) of revenues over (under) expenditures | (1,331,464)   | 492,303       |
| Special item:   |               |               |
| Write-off of receivables                                  | 321,353       | -             |
| Other financing uses:                                     |               |               |
| Operating transfers out                                   | -             | (1,557,125)   |
| Net change in fund balance                                | (1,652,817)   | (1,064,822)   |
| Fund balance at the beginning of the year                 | 19,234,796    | 20,299,618    |
| Fund balance at the end of the year                       | \$ 17,581,979 | \$ 19,234,796 |

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, 2015

|   | Budgeted Amounts |                  | Actual<br>Amounts | Variance         |
|---|------------------|------------------|-------------------|------------------|
|   | Original         | Final            |                   |                  |
| <b>Revenues:</b>                              |                  |                  |                   |                  |
| Net change in the fair value of investments   | \$ -             | \$ -             | \$ (215,098)      | \$ (215,098)     |
| Other revenues                                | 5,173,869        | 5,142,529        | 4,688,859         | (453,670)        |
| Total revenues                                | <u>5,173,869</u> | <u>5,142,529</u> | <u>4,473,761</u>  | <u>(668,768)</u> |
| <b>Expenditures:</b>                          |                  |                  |                   |                  |
| <b>Current:</b>                               |                  |                  |                   |                  |
| Judiciary                                     | <u>201,393</u>   | <u>201,393</u>   | <u>196,792</u>    | <u>4,601</u>     |
| <b>Councils of Traditional Leaders:</b>       |                  |                  |                   |                  |
| Council of Pilung                             | 80,896           | 80,896           | 86,495            | (5,599)          |
| Council of Tamol                              | <u>92,569</u>    | <u>92,569</u>    | <u>78,355</u>     | <u>14,214</u>    |
|   | <u>173,465</u>   | <u>173,465</u>   | <u>164,850</u>    | <u>8,615</u>     |
| <b>General government:</b>                    |                  |                  |                   |                  |
| Office of the Governor                        | 152,590          | 152,590          | 234,114           | (81,524)         |
| State Legislature                             | 419,293          | 419,293          | 396,575           | 22,718           |
| Office of Administrative Services             | 485,028          | 485,028          | 472,064           | 12,964           |
| Office of Planning, Budget and Statistics     | <u>77,528</u>    | <u>77,528</u>    | <u>94,227</u>     | <u>(16,699)</u>  |
|   | <u>1,134,439</u> | <u>1,134,439</u> | <u>1,196,980</u>  | <u>(62,541)</u>  |
| <b>Economic Development:</b>                  |                  |                  |                   |                  |
| Department of Resources and Development       | <u>292,574</u>   | <u>306,812</u>   | <u>456,735</u>    | <u>(149,923)</u> |
| <b>Public Safety:</b>                         |                  |                  |                   |                  |
| Department of Public Safety/Attorney General  | <u>592,053</u>   | <u>592,053</u>   | <u>623,527</u>    | <u>(31,474)</u>  |
| <b>Community Affairs:</b>                     |                  |                  |                   |                  |
| Department of Public Affairs                  | <u>259,957</u>   | <u>259,957</u>   | <u>403,365</u>    | <u>(143,408)</u> |
| <b>Education:</b>                             |                  |                  |                   |                  |
| Department of Education                       | <u>90,000</u>    | <u>90,000</u>    | <u>46,777</u>     | <u>43,223</u>    |
| <b>Public Works and Transportation:</b>       |                  |                  |                   |                  |
| Department of Public Works and Transportation | <u>1,635,433</u> | <u>1,640,433</u> | <u>1,399,048</u>  | <u>241,385</u>   |
| <b>Health services:</b>                       |                  |                  |                   |                  |
| Department of Health Services                 | <u>699,108</u>   | <u>699,108</u>   | <u>336,914</u>    | <u>362,194</u>   |

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual - General Fund, Continued  
Year Ended September 30, 2015

|   | <u>Budgeted Amounts</u> |                      | Actual<br>Amounts    | Variance            |
|---|-------------------------|----------------------|----------------------|---------------------|
|   | <u>Original</u>         | <u>Final</u>         |                      |                     |
| Expenditures, continued:                  |                         |                      |                      |                     |
| Boards and Commissions:                   |                         |                      |                      |                     |
| Historic Preservation Office              | 95,655                  | 95,655               | 92,462               | 3,193               |
| Yap State Scholarship                     | 175,000                 | 175,000              | -                    | 175,000             |
| Yap State Election Commission             | 70,738                  | 70,738               | 72,890               | (2,152)             |
| Yap Investment Trust                      | 20,705                  | 20,705               | 17,671               | 3,034               |
|   | <u>362,098</u>          | <u>362,098</u>       | <u>183,023</u>       | <u>179,075</u>      |
| Payments to component units:              |                         |                      |                      |                     |
| Public Transportation System              | 29,556                  | 29,556               | 29,723               | (167)               |
|   | <u>29,556</u>           | <u>29,556</u>        | <u>29,723</u>        | <u>(167)</u>        |
| Other appropriations:                     |                         |                      |                      |                     |
| Micronesian Legal Services Corporation    | 41,280                  | 41,280               | 41,280               | -                   |
| Rural and Urban Serv. (RUS)               | 12,165                  | 12,165               | 12,052               | 113                 |
| Japan Overseas Cooperation Volunteers     | 9,000                   | 9,000                | 8,850                | 150                 |
| Peace Corps Program                       | 14,000                  | 14,000               | 14,000               | -                   |
| Yap CAP                                   | 76,910                  | 76,910               | 76,282               | 628                 |
| Other                                     | -                       | -                    | 166,201              | (166,201)           |
|   | <u>153,355</u>          | <u>153,355</u>       | <u>318,665</u>       | <u>(165,310)</u>    |
| Debt service:                             |                         |                      |                      |                     |
| Principal repayments                      | -                       | -                    | 169,100              | (169,100)           |
| Interest payments                         | -                       | -                    | 263,700              | (263,700)           |
|   | <u>-</u>                | <u>-</u>             | <u>432,800</u>       | <u>(432,800)</u>    |
| Others:                                   |                         |                      |                      |                     |
| Public Auditors                           | -                       | -                    | 9,494                | (9,494)             |
| 2015 Yap Day                              | 5,000                   | 5,000                | -                    | 5,000               |
| Inauguration                              | 12,513                  | 12,513               | -                    | 12,513              |
| IMF Local Matching                        | 200,042                 | 200,042              | 45,578               | 154,464             |
| Typhoon Maysak                            | 359,932                 | 359,932              | -                    | 359,932             |
|   | <u>577,487</u>          | <u>577,487</u>       | <u>55,072</u>        | <u>522,415</u>      |
| Total expenditures                        | <u>6,200,918</u>        | <u>6,220,156</u>     | <u>5,844,271</u>     | <u>375,885</u>      |
| Deficiency of revenues under expenditures | <u>(1,027,049)</u>      | <u>(1,077,627)</u>   | <u>(1,370,510)</u>   | <u>(292,883)</u>    |
| Other changes in fund balance:            |                         |                      |                      |                     |
| Special item - write off of receivables   | -                       | -                    | (321,353)            | (321,353)           |
| Increase in encumbrances                  | -                       | -                    | 39,046               | 39,046              |
| Fund balance at the beginning of the year | <u>19,234,796</u>       | <u>19,234,796</u>    | <u>19,234,796</u>    | <u>-</u>            |
| Fund balance at the end of the year       | <u>\$ 18,207,747</u>    | <u>\$ 18,157,169</u> | <u>\$ 17,581,979</u> | <u>\$ (575,190)</u> |

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2015

|   | <u>Other<br/>Special Revenue</u> | <u>Other<br/>Capital Projects</u> | <u>Total</u>      |
|---|----------------------------------|-----------------------------------|-------------------|
| <b><u>ASSETS</u></b>                        |                                  |                                   |                   |
| Cash and cash equivalents                   | \$ 278,990                       | \$ -                              | \$ 278,990        |
| Receivables, net:                           |                                  |                                   |                   |
| CFSM  | -                                | 18,339                            | 18,339            |
| Due from other funds                        | <u>173,121</u>                   | <u>360,476</u>                    | <u>533,597</u>    |
| Total assets                                | <u>\$ 452,111</u>                | <u>\$ 378,815</u>                 | <u>\$ 830,926</u> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b> |                                  |                                   |                   |
| Liabilities:                                |                                  |                                   |                   |
| Accounts payable                            | \$ 28,682                        | \$ 10,250                         | \$ 38,932         |
| Other liabilities and accruals              | 4,454                            | 18,626                            | 23,080            |
| Due to other funds                          | <u>-</u>                         | <u>790</u>                        | <u>790</u>        |
| Total liabilities                           | <u>33,136</u>                    | <u>29,666</u>                     | <u>62,802</u>     |
| Fund balances:                              |                                  |                                   |                   |
| Restricted                                  | -                                | 349,939                           | 349,939           |
| Committed                                   | 418,975                          | -                                 | 418,975           |
| Unassigned                                  | <u>-</u>                         | <u>(790)</u>                      | <u>(790)</u>      |
| Total fund balances                         | <u>418,975</u>                   | <u>349,149</u>                    | <u>768,124</u>    |
| Total liabilities and fund balances         | <u>\$ 452,111</u>                | <u>\$ 378,815</u>                 | <u>\$ 830,926</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, 2015

|  | <u>Other<br/>Special Revenue</u> | <u>Other<br/>Capital Projects</u> | <u>Total</u>      |
|--|----------------------------------|-----------------------------------|-------------------|
| Revenues:                                  |                                  |                                   |                   |
| CFSM grants                                | \$ -                             | \$ 755,977                        | \$ 755,977        |
| Excise taxes                               | 96,035                           | -                                 | 96,035            |
| Fees and charges                           | <u>183,335</u>                   | <u>-</u>                          | <u>183,335</u>    |
| Total revenues                             | <u>279,370</u>                   | <u>755,977</u>                    | <u>1,035,347</u>  |
| Expenditures by function:                  |                                  |                                   |                   |
| Current:                                   |                                  |                                   |                   |
| General government                         | <u>270,248</u>                   | <u>755,977</u>                    | <u>1,026,225</u>  |
| Total expenditures                         | <u>270,248</u>                   | <u>755,977</u>                    | <u>1,026,225</u>  |
| Net change in fund balances                | 9,122                            | -                                 | 9,122             |
| Fund balances at the beginning of the year | <u>409,853</u>                   | <u>349,149</u>                    | <u>759,002</u>    |
| Fund balances at the end of the year       | <u>\$ 418,975</u>                | <u>\$ 349,149</u>                 | <u>\$ 768,124</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, 2015

|  | <u>Other<br/>Special Revenue</u> | <u>Other<br/>Capital Projects</u> | <u>Total</u>      |
|--|----------------------------------|-----------------------------------|-------------------|
| Revenues:                                  |                                  |                                   |                   |
| CFSM grants                                | \$ -                             | \$ 755,977                        | \$ 755,977        |
| Excise taxes                               | 96,035                           | -                                 | 96,035            |
| Fees and charges                           | 183,335                          | -                                 | 183,335           |
|  | <u>279,370</u>                   | <u>755,977</u>                    | <u>1,035,347</u>  |
| Total revenues                             |                                  |                                   |                   |
| Expenditures by account:                   |                                  |                                   |                   |
| Salaries and wages                         | -                                | 51,947                            | 51,947            |
| Grants and subsidies                       | 245,397                          | 251,250                           | 496,647           |
| Contractual services                       | -                                | 61,286                            | 61,286            |
| Supplies and materials                     | -                                | 12,502                            | 12,502            |
| Travel                                     | -                                | 21,826                            | 21,826            |
| Capital outlay                             | -                                | 22,739                            | 22,739            |
| POL  | -                                | 101,672                           | 101,672           |
| Other                                      | 24,851                           | 232,755                           | 257,606           |
|  | <u>270,248</u>                   | <u>755,977</u>                    | <u>1,026,225</u>  |
| Total expenditures                         |                                  |                                   |                   |
| Net change in fund balances                | 9,122                            | -                                 | 9,122             |
| Fund balances at the beginning of the year | <u>409,853</u>                   | <u>349,149</u>                    | <u>759,002</u>    |
| Fund balances at the end of the year       | <u>\$ 418,975</u>                | <u>\$ 349,149</u>                 | <u>\$ 768,124</u> |

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2015

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, 2015, 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, 2015

|   | F39                   | F76                    | F85               | F86               |                   |
|---|-----------------------|------------------------|-------------------|-------------------|-------------------|
|   | Sports<br>Development | Housing<br>Maintenance | Enterprise        | Yap Seed<br>Trust | Total             |
| <b><u>ASSETS</u></b>                        |                       |                        |                   |                   |                   |
| Cash and cash equivalents                   | \$ -                  | \$ -                   | \$ -              | \$ 278,990        | \$ 278,990        |
| Due from other funds                        | 28,682                | 17,395                 | 117,246           | 9,798             | 173,121           |
| Total assets                                | <u>\$ 28,682</u>      | <u>\$ 17,395</u>       | <u>\$ 117,246</u> | <u>\$ 288,788</u> | <u>\$ 452,111</u> |
| <b><u>LIABILITIES AND FUND BALANCES</u></b> |                       |                        |                   |                   |                   |
| Liabilities:                                |                       |                        |                   |                   |                   |
| Accounts payable                            | \$ 28,682             | \$ -                   | \$ -              | \$ -              | \$ 28,682         |
| Other liabilities and accruals              | -                     | 4,454                  | -                 | -                 | 4,454             |
| Total liabilities                           | <u>28,682</u>         | <u>4,454</u>           | <u>-</u>          | <u>-</u>          | <u>33,136</u>     |
| Fund balances:                              |                       |                        |                   |                   |                   |
| Committed                                   | -                     | 12,941                 | 117,246           | 288,788           | 418,975           |
| Total fund balances                         | <u>-</u>              | <u>12,941</u>          | <u>117,246</u>    | <u>288,788</u>    | <u>418,975</u>    |
| Total liabilities and fund balances         | <u>\$ 28,682</u>      | <u>\$ 17,395</u>       | <u>\$ 117,246</u> | <u>\$ 288,788</u> | <u>\$ 452,111</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  
 Year Ended September 30, 2015

|  | F39                   | F76                    | F85               | F86               |                   |
|--|-----------------------|------------------------|-------------------|-------------------|-------------------|
|  | Sports<br>Development | Housing<br>Maintenance | Enterprise        | Yap Seed<br>Trust | Total             |
| Revenues:                                  |                       |                        |                   |                   |                   |
| Excise taxes                               | \$ 96,035             | \$ -                   | \$ -              | \$ -              | \$ 96,035         |
| Fees and charges                           | <u>-</u>              | <u>15,440</u>          | <u>167,895</u>    | <u>-</u>          | <u>183,335</u>    |
| Total revenues                             | <u>96,035</u>         | <u>15,440</u>          | <u>167,895</u>    | <u>-</u>          | <u>279,370</u>    |
| Expenditures by function:                  |                       |                        |                   |                   |                   |
| Current:                                   |                       |                        |                   |                   |                   |
| General government                         | <u>96,035</u>         | <u>8,978</u>           | <u>149,362</u>    | <u>15,873</u>     | <u>270,248</u>    |
| Total expenditures                         | <u>96,035</u>         | <u>8,978</u>           | <u>149,362</u>    | <u>15,873</u>     | <u>270,248</u>    |
| Net change in fund balances                | -                     | 6,462                  | 18,533            | (15,873)          | 9,122             |
| Fund balances at the beginning of the year | <u>-</u>              | <u>6,479</u>           | <u>98,713</u>     | <u>304,661</u>    | <u>409,853</u>    |
| Fund balances at the end of the year       | <u>\$ -</u>           | <u>\$ 12,941</u>       | <u>\$ 117,246</u> | <u>\$ 288,788</u> | <u>\$ 418,975</u> |

See Accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures By Account,  
 and Changes in Fund Balances  
 Year Ended September 30, 2015

|  | F39                   | F76                    | F85               | F86               |                   |
|--|-----------------------|------------------------|-------------------|-------------------|-------------------|
|  | Sports<br>Development | Housing<br>Maintenance | Enterprise        | Yap Seed<br>Trust | Total             |
| Revenues:                                  |                       |                        |                   |                   |                   |
| Excise taxes                               | \$ 96,035             | \$ -                   | \$ -              | \$ -              | \$ 96,035         |
| Fees and charges                           | <u>-</u>              | <u>15,440</u>          | <u>167,895</u>    | <u>-</u>          | <u>183,335</u>    |
| Total revenues                             | <u>96,035</u>         | <u>15,440</u>          | <u>167,895</u>    | <u>-</u>          | <u>279,370</u>    |
| Expenditures by account:                   |                       |                        |                   |                   |                   |
| Grants and subsidies                       | 96,035                | -                      | 149,362           | -                 | 245,397           |
| Other                                      | <u>-</u>              | <u>8,978</u>           | <u>-</u>          | <u>15,873</u>     | <u>24,851</u>     |
| Total expenditures                         | <u>96,035</u>         | <u>8,978</u>           | <u>149,362</u>    | <u>15,873</u>     | <u>270,248</u>    |
| Net change in fund balances                | -                     | 6,462                  | 18,533            | (15,873)          | 9,122             |
| Fund balances at the beginning of the year | <u>-</u>              | <u>6,479</u>           | <u>98,713</u>     | <u>304,661</u>    | <u>409,853</u>    |
| Fund balances at the end of the year       | <u>\$ -</u>           | <u>\$ 12,941</u>       | <u>\$ 117,246</u> | <u>\$ 288,788</u> | <u>\$ 418,975</u> |

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2015

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, 2015, 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, 2015

|   | F51                            | F53                         |            |
|---|--------------------------------|-----------------------------|------------|
|   | Compact<br>Capital<br>Projects | CFSM<br>Capital<br>Projects | Total      |
|   |                                |                             |            |
| <b><u>ASSETS</u></b>                                  |                                |                             |            |
| Receivables, net:                                     |                                |                             |            |
| CFSM  | \$ -                           | \$ 18,339                   | \$ 18,339  |
| Due from other funds                                  | -                              | 360,476                     | 360,476    |
| Total assets  | \$ -                           | \$ 378,815                  | \$ 378,815 |
| <b><u>LIABILITIES AND FUND BALANCES (DEFICIT)</u></b> |                                |                             |            |
| Liabilities:  |                                |                             |            |
| Accounts payable                                      | \$ -                           | \$ 10,250                   | \$ 10,250  |
| Other liabilities and accruals                        | -                              | 18,626                      | 18,626     |
| Due to other funds                                    | 790                            | -                           | 790        |
| Total liabilities                                     | 790                            | 28,876                      | 29,666     |
| Fund balances (deficit):                              |                                |                             |            |
| Restricted  | -                              | 349,939                     | 349,939    |
| Unassigned  | (790)                          | -                           | (790)      |
| Total fund balances (deficit)                         | (790)                          | 349,939                     | 349,149    |
| Total liabilities and fund balances                   | \$ -                           | \$ 378,815                  | \$ 378,815 |

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, 2015

|   | <b>F51</b>                     | <b>F53</b>                  |                             |
|---|--------------------------------|-----------------------------|-----------------------------|
|   | Compact<br>Capital<br>Projects | CFSM<br>Capital<br>Projects | Total                       |
|   | <u>                    </u>    | <u>                    </u> | <u>                    </u> |
| Revenues:   |                                |                             |                             |
| CFSM grants   | \$ -                           | \$ 755,977                  | \$ 755,977                  |
| Total revenues  | <u>-</u>                       | <u>755,977</u>              | <u>755,977</u>              |
| Expenditures by function:                               |                                |                             |                             |
| Current:  |                                |                             |                             |
| General government                                      | <u>-</u>                       | <u>755,977</u>              | <u>755,977</u>              |
| Total expenditures                                      | <u>-</u>                       | <u>755,977</u>              | <u>755,977</u>              |
| Net change in fund balances (deficit)                   | -                              | -                           | -                           |
| Fund balances (deficit) at the beginning of<br>the year | <u>(790)</u>                   | <u>349,939</u>              | <u>349,149</u>              |
| Fund balances (deficit) at the end of the year          | <u><u>\$ (790)</u></u>         | <u><u>\$ 349,939</u></u>    | <u><u>\$ 349,149</u></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, 2015

|   | <b>F51</b>                     | <b>F53</b>                  |                   |
|---|--------------------------------|-----------------------------|-------------------|
|   | Compact<br>Capital<br>Projects | CFSM<br>Capital<br>Projects | Total             |
|   | <u>          </u>              | <u>          </u>           | <u>          </u> |
| Revenues:   |                                |                             |                   |
| CFSM grants   | \$ -                           | \$ 755,977                  | \$ 755,977        |
| Total revenues  | <u>-</u>                       | <u>755,977</u>              | <u>755,977</u>    |
| Expenditures by account:                                |                                |                             |                   |
| Salaries and wages                                      | -                              | 51,947                      | 51,947            |
| Grants and subsidies                                    | -                              | 251,250                     | 251,250           |
| Contractual services                                    | -                              | 61,286                      | 61,286            |
| Supplies and materials                                  | -                              | 12,502                      | 12,502            |
| Travel  | -                              | 21,826                      | 21,826            |
| Capital outlay  | -                              | 22,739                      | 22,739            |
| POL   | -                              | 101,672                     | 101,672           |
| Other   | -                              | 232,755                     | 232,755           |
| Total expenditures                                      | <u>-</u>                       | <u>755,977</u>              | <u>755,977</u>    |
| Net change in fund balances (deficit)                   | -                              | -                           | -                 |
| Fund balances (deficit) at the beginning of<br>the year | <u>(790)</u>                   | <u>349,939</u>              | <u>349,149</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, 2015

|                                      | F6                                       | F10                 | F11               | F12                   | F13                              | F14                            | F15                       | F16              | F18                           | F19                 | F20                        | F21                   | F22                 | F23                | F25              | Total               |
|--------------------------------------|--|---------------------|-------------------|-----------------------|----------------------------------|--------------------------------|---------------------------|------------------|-------------------------------|---------------------|----------------------------|-----------------------|---------------------|--------------------|------------------|---------------------|
|                                      | Section 221(b)<br>Special Block<br>Grant | Education<br>Sector | Health<br>Sector  | Environment<br>Sector | Private<br>Sector<br>Development | Capacity<br>Building<br>Sector | Supplemental<br>Education | ERA<br>Sector    | Infrastructure<br>Maintenance | Infrastructure      | U.S. Grants<br>through FSM | Direct U.S.<br>Grants | FEMA<br>Grants      | Non U.S.<br>Grants | CFSM<br>Grants   |                     |
| <b>ASSETS</b>                        |  |                     |                   |                       |                                  |                                |                           |                  |                               |                     |                            |                       |                     |                    |                  |                     |
| Investment pool                      | \$ -                                     | \$ -                | \$ -              | \$ -                  | \$ -                             | \$ -                           | \$ -                      | \$ -             | \$ -                          | \$ -                | \$ -                       | \$ -                  | \$ -                | \$ -               | \$ -             | \$ -                |
| Receivables:                         |  |                     |                   |                       |                                  |                                |                           |                  |                               |                     |                            |                       |                     |                    |                  |                     |
| Federal agencies                     | -  | 605,057             | 154               | -                     | 72,460                           | -                              | -                         | 6,993            | 510,955                       | -                   | 199,949                    | 157,700               | -                   | -                  | 25,872           | 1,579,140           |
| Other                                | -  | -                   | -                 | -                     | -                                | -                              | -                         | -                | -                             | -                   | -                          | -                     | -                   | -                  | 600              | 600                 |
| Due from other funds                 | 958,891                                  | -                   | 617,147           | 139,696               | -                                | 923,368                        | 1,019,993                 | -                | 202,739                       | 1,155,762           | 378,725                    | 244,338               | 1,177,318           | 368,724            | 57,557           | 7,244,258           |
| Advances                             | -  | 67,933              | 19,889            | 2,792                 | 8,540                            | 12,967                         | 95,420                    | 5,251            | -                             | -                   | -                          | -                     | -                   | -                  | -                | 212,792             |
|                                      | <u>\$ 958,891</u>                        | <u>\$ 672,990</u>   | <u>\$ 637,190</u> | <u>\$ 142,488</u>     | <u>\$ 81,000</u>                 | <u>\$ 936,335</u>              | <u>\$ 1,115,413</u>       | <u>\$ 12,244</u> | <u>\$ 713,694</u>             | <u>\$ 1,155,762</u> | <u>\$ 578,674</u>          | <u>\$ 402,038</u>     | <u>\$ 1,177,318</u> | <u>\$ 368,724</u>  | <u>\$ 84,029</u> | <u>\$ 9,036,790</u> |
| <b>LIABILITIES AND FUND BALANCES</b> |  |                     |                   |                       |                                  |                                |                           |                  |                               |                     |                            |                       |                     |                    |                  |                     |
| <b>Liabilities:</b>                  |  |                     |                   |                       |                                  |                                |                           |                  |                               |                     |                            |                       |                     |                    |                  |                     |
| Accounts payable                     | \$ 21,210                                | \$ 86,247           | \$ 179,809        | \$ 7,718              | \$ 24,118                        | \$ 48,125                      | \$ 164,009                | \$ 7,843         | \$ 886                        |                     | \$ 78,860                  | \$ 157,189            | \$ 12,928           | \$ 12,629          | \$ 21,310        | \$ 822,881          |
| Other liabilities and accruals       | 12,636                                   | 63,205              | 9,011             | 8,403                 | 2,992                            | 5,514                          | 28,518                    | 1,987            |                               | 168                 | 34,040                     | 12,457                | 228                 |                    | 2,206            | 181,365             |
| Unearned revenues                    | -  | -                   | 72,747            | 126,367               | -                                | 108,955                        | 533,151                   | -                | -                             | 910,709             | -                          | 130,359               | 1,163,890           | 356,095            |                  | 3,402,273           |
| Due to other funds                   | -  | 523,538             | -                 | -                     | 53,890                           | -                              | -                         | 2,414            | -                             | -                   | -                          | -                     | -                   | -                  | -                | 579,842             |
| Total liabilities                    | <u>33,846</u>                            | <u>672,990</u>      | <u>261,567</u>    | <u>142,488</u>        | <u>81,000</u>                    | <u>162,594</u>                 | <u>725,678</u>            | <u>12,244</u>    | <u>886</u>                    | <u>910,877</u>      | <u>112,900</u>             | <u>300,005</u>        | <u>1,177,046</u>    | <u>368,724</u>     | <u>23,516</u>    | <u>4,986,361</u>    |
| <b>Fund balances:</b>                |  |                     |                   |                       |                                  |                                |                           |                  |                               |                     |                            |                       |                     |                    |                  |                     |
| Restricted                           | 925,045                                  | -                   | 375,623           | -                     | -                                | 773,741                        | 389,735                   | -                | 712,808                       | 244,885             | 465,774                    | 102,033               | 272                 | -                  | 60,513           | 4,050,429           |
| Total fund balances                  | <u>925,045</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>4,050,429</u>    |
| Total liabilities and fund balances  | <u>\$ 958,891</u>                        | <u>\$ 672,990</u>   | <u>\$ 637,190</u> | <u>\$ 142,488</u>     | <u>\$ 81,000</u>                 | <u>\$ 936,335</u>              | <u>\$ 1,115,413</u>       | <u>\$ 12,244</u> | <u>\$ 713,694</u>             | <u>\$ 1,155,762</u> | <u>\$ 578,674</u>          | <u>\$ 402,038</u>     | <u>\$ 1,177,318</u> | <u>\$ 368,724</u>  | <u>\$ 84,029</u> | <u>\$ 9,036,790</u> |

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances  
Year Ended September 30, 2015

|  | F6                  | F10              | F11               | F12                | F13                        | F14                      | F15                    | F16            | F18                        | F19               | F20                     | F21                | F22           | F23             | F25              |                     |
|--|---------------------|------------------|-------------------|--------------------|----------------------------|--------------------------|------------------------|----------------|----------------------------|-------------------|-------------------------|--------------------|---------------|-----------------|------------------|---------------------|
|  | 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                            | \$ -                | \$ 3,592,438     | \$ 3,889,475      | \$ 317,041         | \$ 631,390                 | \$ 341,342               | \$ 1,695,552           | \$ 130,784     | \$ 53,271                  | \$ 153,255        | \$ -                    | \$ -               | \$ -          | \$ -            | \$ -             | \$ 10,804,548       |
| Federal contributions and other grants     | -                   | -                | -                 | -                  | -                          | -                        | -                      | -              | -                          | -                 | 1,386,552               | 1,292,919          | -             | 116,756         | -                | 2,796,227           |
| CFSM grants                                | -                   | -                | -                 | -                  | -                          | -                        | -                      | -              | -                          | -                 | -                       | -                  | -             | -               | 114,508          | 114,508             |
| Departmental charges                       | -                   | -                | -                 | -                  | -                          | -                        | -                      | -              | -                          | -                 | -                       | 20,919             | -             | -               | -                | 20,919              |
|  | <u>-</u>            | <u>3,592,438</u> | <u>3,889,475</u>  | <u>317,041</u>     | <u>631,390</u>             | <u>341,342</u>           | <u>1,695,552</u>       | <u>130,784</u> | <u>53,271</u>              | <u>153,255</u>    | <u>1,386,552</u>        | <u>1,313,838</u>   | <u>-</u>      | <u>116,756</u>  | <u>114,508</u>   | <u>13,736,202</u>   |
| Expenditures by function:                  |                     |                  |                   |                    |                            |                          |                        |                |                            |                   |                         |                    |               |                 |                  |                     |
| Current:                                   |                     |                  |                   |                    |                            |                          |                        |                |                            |                   |                         |                    |               |                 |                  |                     |
| General government                         | 518,478             | -                | -                 | 317,041            | -                          | 341,342                  | -                      | 130,784        | -                          | -                 | -                       | 40,280             | -             | 116,756         | 101,619          | 1,566,300           |
| Resources and development                  | -                   | -                | -                 | -                  | 631,390                    | -                        | -                      | -              | -                          | -                 | 216                     | 103,840            | -             | -               | 8,594            | 744,040             |
| Education                                  | -                   | 3,592,438        | -                 | -                  | -                          | -                        | 1,695,552              | -              | -                          | -                 | 657,324                 | 127,000            | -             | -               | -                | 6,072,314           |
| Public Works and transportation            | -                   | -                | -                 | -                  | -                          | -                        | -                      | -              | 53,271                     | 153,255           | -                       | -                  | -             | -               | -                | 206,526             |
| Health services                            | -                   | -                | 3,889,475         | -                  | -                          | -                        | -                      | -              | -                          | -                 | 630,462                 | 1,019,855          | -             | -               | -                | 5,539,792           |
| Other appropriations                       | -                   | -                | -                 | -                  | -                          | -                        | -                      | -              | -                          | -                 | 98,550                  | 22,863             | -             | -               | 4,295            | 125,708             |
| Total expenditures                         | <u>518,478</u>      | <u>3,592,438</u> | <u>3,889,475</u>  | <u>317,041</u>     | <u>631,390</u>             | <u>341,342</u>           | <u>1,695,552</u>       | <u>130,784</u> | <u>53,271</u>              | <u>153,255</u>    | <u>1,386,552</u>        | <u>1,313,838</u>   | <u>-</u>      | <u>116,756</u>  | <u>114,508</u>   | <u>14,254,680</u>   |
| Net change in fund balances                | (518,478)           | -                | -                 | -                  | -                          | -                        | -                      | -              | -                          | -                 | -                       | -                  | -             | -               | -                | (518,478)           |
| Fund balances at the beginning of the year | 1,443,523           | -                | 375,623           | -                  | -                          | 773,741                  | 389,735                | -              | 712,808                    | 244,885           | 465,774                 | 102,033            | 272           | -               | 60,513           | 4,568,907           |
| Fund balances at the end of the year       | <u>\$ 925,045</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>\$ 4,050,429</u> |

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances  
Year Ended September 30, 2015

|   | F6                                       | F10                 | F11               | F12                   | F13                              | F14                            | F15                       | F16            | F18                           | F19               | F20                        | F21                   | F22            | F23                | F25              | Total               |
|---|--|---------------------|-------------------|-----------------------|----------------------------------|--------------------------------|---------------------------|----------------|-------------------------------|-------------------|----------------------------|-----------------------|----------------|--------------------|------------------|---------------------|
|   | Section 221(b)<br>Special Block<br>Grant | Education<br>Sector | Health<br>Sector  | Environment<br>Sector | Private<br>Sector<br>Development | Capacity<br>Building<br>Sector | Supplemental<br>Education | ERA<br>Sector  | Infrastructure<br>Maintenance | Infrastructure    | U.S. Grants<br>through FSM | Direct U.S.<br>Grants | FEMA<br>Grants | Non U.S.<br>Grants | CFSM<br>Grants   | Total               |
| <b>Revenues:</b>                              |  |                     |                   |                       |                                  |                                |                           |                |                               |                   |                            |                       |                |                    |                  |                     |
| Compact funding                               | \$ -                                     | \$ 3,592,438        | \$ 3,889,475      | \$ 317,041            | \$ 631,390                       | \$ 341,342                     | \$ 1,695,552              | \$ 130,784     | \$ 53,271                     | \$ 153,255        | \$ -                       | \$ -                  | \$ -           | \$ -               | \$ -             | \$ 10,804,548       |
| Federal contributions and other grants        | -  | -                   | -                 | -                     | -                                | -                              | -                         | -              | -                             | -                 | 1,386,552                  | 1,292,919             | -              | 116,756            | -                | 2,796,227           |
| CFSM grants                                   | -  | -                   | -                 | -                     | -                                | -                              | -                         | -              | -                             | -                 | -                          | -                     | -              | -                  | 114,508          | 114,508             |
| Department charges                            | -  | -                   | -                 | -                     | -                                | -                              | -                         | -              | -                             | -                 | -                          | 20,919                | -              | -                  | -                | 20,919              |
|   | <u>-</u>                                 | <u>3,592,438</u>    | <u>3,889,475</u>  | <u>317,041</u>        | <u>631,390</u>                   | <u>341,342</u>                 | <u>1,695,552</u>          | <u>130,784</u> | <u>53,271</u>                 | <u>153,255</u>    | <u>1,386,552</u>           | <u>1,313,838</u>      | <u>-</u>       | <u>116,756</u>     | <u>114,508</u>   | <u>13,736,202</u>   |
| <b>Expenditures by account:</b>               |  |                     |                   |                       |                                  |                                |                           |                |                               |                   |                            |                       |                |                    |                  |                     |
| Salaries and wages                            | -  | 1,967,060           | 1,283,363         | 206,281               | 227,932                          | 166,126                        | 854,275                   | 47,276         | -                             | -                 | 885,604                    | 612,801               | -              | 270                | 4,050            | 6,255,038           |
| Grants and subsidies                          | -  | -                   | -                 | -                     | -                                | -                              | -                         | -              | -                             | -                 | -                          | -                     | -              | 10,000             | -                | 10,000              |
| Utilities                                     | 476,878                                  | 303,237             | 470,026           | 23,125                | 49,101                           | 16,841                         | 38,455                    | -              | -                             | -                 | 16,934                     | 70,395                | -              | -                  | 8,005            | 1,472,997           |
| Contractual services                          | 41,600                                   | 38,750              | 114,700           | 20,798                | 141,049                          | 447                            | 15,217                    | -              | 51,950                        | -                 | 102,677                    | 49,780                | -              | 2,711              | 24,773           | 604,452             |
| Supplies and materials                        | -  | 197,175             | 105,078           | 27,895                | 21,410                           | 21,110                         | 257,687                   | 23,537         | -                             | -                 | 88,102                     | 72,990                | -              | 280                | 14,421           | 829,685             |
| Construction maintenance                      | -  | -                   | -                 | -                     | -                                | -                              | -                         | -              | 1,321                         | 153,255           | -                          | 23,280                | -              | -                  | -                | 177,856             |
| Scholarship and training                      | -  | 282,178             | 10,000            | -                     | 700                              | 592                            | -                         | -              | -                             | -                 | -                          | -                     | -              | -                  | -                | 293,470             |
| Travel  | -  | 114,702             | 60,329            | 228                   | 56,695                           | 30,188                         | 119,902                   | 9,616          | -                             | -                 | 172,017                    | 92,009                | -              | 1,447              | 6,507            | 663,640             |
| Capital outlay                                | -  | 87,177              | 11,323            | 3,443                 | 10,392                           | 34,273                         | 43,402                    | 15,650         | -                             | -                 | 30,172                     | 48,202                | -              | 85,957             | 10,323           | 380,314             |
| Rentals                                       | -  | -                   | -                 | -                     | -                                | 525                            | 6,996                     | -              | -                             | -                 | 8,158                      | -                     | -              | 50                 | 1,178            | 16,907              |
| Food stuffs                                   | -  | 83,893              | 54,954            | -                     | -                                | -                              | 90,240                    | -              | -                             | -                 | -                          | -                     | -              | 1,615              | 21,743           | 252,445             |
| Communications                                | -  | 46,660              | 13,347            | 12,776                | 29,732                           | 22,723                         | 12,227                    | 9,432          | -                             | -                 | 6,504                      | 16,386                | -              | -                  | 100              | 169,887             |
| Printing and reproduction                     | -  | 48,013              | -                 | 895                   | 53,092                           | 1,127                          | -                         | -              | -                             | -                 | 12,570                     | 9,033                 | -              | 3,505              | 24               | 128,259             |
| Medical supplies                              | -  | -                   | 1,567,786         | -                     | -                                | -                              | -                         | -              | -                             | -                 | 14,459                     | 112,645               | -              | -                  | -                | 1,694,890           |
| Repairs and maintenance                       | -  | 86,170              | 47,887            | 12,292                | 15,905                           | 1,148                          | 37,463                    | 190            | -                             | -                 | 19,006                     | 19,372                | -              | 196                | 7,465            | 247,094             |
| Freight                                       | -  | 8,996               | 2,907             | -                     | 1,760                            | -                              | 2,816                     | -              | -                             | -                 | -                          | -                     | -              | -                  | 2,105            | 18,584              |
| Professional services                         | -  | 116,776             | -                 | -                     | -                                | 4,973                          | 100,937                   | 23,331         | -                             | -                 | -                          | 140,915               | -              | -                  | 5,232            | 392,164             |
| POL   | -  | 139,482             | 57,451            | 6,706                 | 5,108                            | 6,198                          | 71,389                    | 237            | -                             | -                 | 15,402                     | 19,816                | -              | 184                | -                | 321,973             |
| Allowances                                    | -  | -                   | -                 | 150                   | -                                | -                              | 1,140                     | -              | -                             | -                 | 500                        | 4,300                 | -              | -                  | -                | 6,090               |
| Other   | -  | 72,169              | 90,324            | 2,452                 | 18,514                           | 35,071                         | 43,406                    | 1,515          | -                             | -                 | 14,447                     | 21,914                | -              | 10,541             | 8,582            | 318,935             |
| <b>Total expenditures</b>                     | <u>518,478</u>                           | <u>3,592,438</u>    | <u>3,889,475</u>  | <u>317,041</u>        | <u>631,390</u>                   | <u>341,342</u>                 | <u>1,695,552</u>          | <u>130,784</u> | <u>53,271</u>                 | <u>153,255</u>    | <u>1,386,552</u>           | <u>1,313,838</u>      | <u>-</u>       | <u>116,756</u>     | <u>114,508</u>   | <u>14,254,680</u>   |
| <b>Net change in fund balances</b>            | <u>(518,478)</u>                         | <u>-</u>            | <u>-</u>          | <u>-</u>              | <u>-</u>                         | <u>-</u>                       | <u>-</u>                  | <u>-</u>       | <u>-</u>                      | <u>-</u>          | <u>-</u>                   | <u>-</u>              | <u>-</u>       | <u>-</u>           | <u>-</u>         | <u>(518,478)</u>    |
| <b>Fund balances at the beginning of year</b> | <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>    |
| <b>Fund balances at the end of year</b>       | <u>\$ 925,045</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>\$ 4,050,429</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, 2015, 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 21, 2016. Our report includes a reference to other auditors and a modification for the omission of certain component units. Other auditors audited the financial statements of the Public Transportation System, as described in our report on the State of Yap's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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

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

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

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-004, that we consider to be material weaknesses.

### **Compliance and Other Matters**

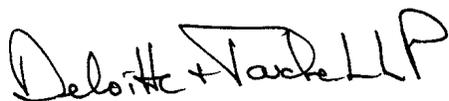
As part of obtaining reasonable assurance about whether the State of Yap's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

### **State of Yap's Response to Findings**

State of Yap's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 21, 2016

**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, 2015. 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, 2015. 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 93.224 Consolidated Health Centers***

As described in items 2015-001 through 2015-003 in the accompanying Schedule of Findings and Questioned Costs, the State of Yap did not comply with requirements regarding the following:

| <b><i>Finding #</i></b> | <b><i>CFDA #</i></b> | <b><i>Program (or Cluster) Name</i></b> | <b><i>Compliance Requirement</i></b> |
|-------------------------|----------------------|---|--------------------------------------|
| 2015-001                | 93.224               | Community Health Centers                | Cash Management                      |
| 2015-002                | 93.224               | Community Health Centers                | Allowable Costs/Cost Principles      |
| 2015-003                | 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 93.224 Consolidated Health Centers***

In our opinion, except for the possible effects of the matters 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 93.224 Consolidated Health Centers for the year ended September 30, 2015.

### ***Unmodified Opinion on 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants and 93.243 Substance Abuse and Mental Health Services – Projects of Regional and National Significance***

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 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants and CFDA 93.243 Substance Abuse and Mental Health Services – Projects of Regional and National Significance for the year ended September 30, 2015.

State of Yap's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.

*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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

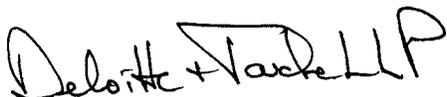
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 through 2015-003, that we consider to be material weaknesses.

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. 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, 2015, 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 21, 2016, which contained a modified opinion on those financial statements due to the omission of certain component units, and which report included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We did not audit the financial statements of the Public Transportation System which represents 100% of the assets, net position, and operating revenues of the State's business-type activities, and 38%, 38%, and 31%, 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 21, 2016

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

| Grantor/CFDA Grantor's Program Title  | CFDA No./<br>Grant No. | 2015<br>Fiscal Year<br>Expenditures |
|---|------------------------|-------------------------------------|
| <u>U. S. Department of Agriculture:</u>   |                        |                                     |
| Direct Programs:  |                        |                                     |
| Cooperative Forestry Assistance   | 10.664                 | \$ 47,556                           |
| Forest Stewardship Program  | 10.678                 | 56,284                              |
| Community Facilities Loans and Grants   | 10.766                 | 40,280                              |
| Subtotal Direct Programs  |                        | <u>144,120</u>                      |
| Pass-Through Federated States of Micronesia National Government:  |                        |                                     |
| Cooperative Forestry Assistance   | 10.664                 | 215                                 |
| Subtotal Pass-Through Federated States of Micronesia National Government  |                        | <u>215</u>                          |
| Total U. S. Department of Agriculture   |                        | <u>144,335</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                 | 11,450,026                          |
| Historic Prevention Fund Grant-In-Aid   | 15.904                 | 98,550                              |
| Total U. S. Department of the Interior  |                        | <u>11,548,576</u>                   |
| <u>U. S. Small Business Administration</u>  |                        |                                     |
| Direct Programs:  |                        |                                     |
| 8(a) Business Development Program   | 59.006                 | 22,863                              |
| Total U. S. Small Business Administration   |                        | <u>22,863</u>                       |
| <u>U. S. Department of Education:</u>   |                        |                                     |
| Pass-Through Federated States of Micronesia National Government:  |                        |                                     |
| Special Education-Grants to States  | 84.027A                | 657,324                             |
| Total U. S. Department of Education   |                        | <u>657,324</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                 | 1,019,855                           |
| Pass-Through Federated States of Micronesia National Government:  |                        |                                     |
| Affordable Care Act (ACA) Personal Responsibility Education Program   | 93.092                 | 33,476                              |
| Maternal and Child Health Federal Consolidated Programs   | 93.110                 | 7,470                               |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs   | 93.116                 | 53,000                              |
| Family Planning-Services  | 93.217                 | 28,160                              |
| Substance Abuse and Mental Health Services - Projects of Regional and National Significance   | 93.243                 | 114,305                             |
| Universal Newborn Hearing Screening   | 93.251                 | 53,854                              |
| Immunization Cooperative Grants   | 93.268                 | 71,613                              |
| CDC and Prevention - Investigation and Technical Assistance   | 93.283                 | 89,369                              |
| Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program  | 93.314                 | 262                                 |
| Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)                                | 93.758                 | 6,629                               |
| Assistance Programs for Chronic Disease Prevention and Control  | 93.945                 | 29,986                              |
| Block Grants for Community Mental Health Services   | 93.958                 | 3,701                               |
| Block Grants for Prevention and Treatment of Substance Abuse  | 93.959                 | 63,180                              |
| Preventive Health and Health Services Block Grant   | 93.991                 | 4,624                               |
| Maternal and Child Health Services Block Grant to the States  | 93.994                 | 70,834                              |
| Subtotal Pass-Through Federated States of Micronesia National Government  |                        | <u>630,463</u>                      |
| Total U. S. Department of Health and Human Services   |                        | <u>1,650,318</u>                    |
| Total Federal Awards  |                        | <u>\$ 14,023,416</u>                |
| Reconciliation to financial statements - Expenditures of the Foreign Assistance Grants Fund   |                        | \$ 14,254,680                       |
| Less Non-U.S. Grants Fund   |                        | (116,756)                           |
| Less CFSM Grants Fund   |                        | <u>(114,508)</u>                    |
|   |                        | <u>\$ 14,023,416</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, 2015

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, 2015 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, 2015.

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, 2015

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 \$538,501 in federal grants during the year ended September 30, 2015.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

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

*Financial Statements*

- |  |                           |
|--|---------------------------|
| 1. Type of auditors' report issued:                      | Adverse and<br>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   | Unmodified    |
| CFDA Program 93.224   | Qualified     |
| CFDA Program 93.243   | 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:<br>Compact of Free Association, As Amended, Compact Sector Grants                    |
| 93.224              | Consolidated Health Centers (Community Health Centers,<br>Migrant Health Centers, Health Care for the Homeless, and<br>Public Housing Primary Care) |
| 93.243              | Substance Abuse and Mental Health Services – Projects of Regional and<br>National Significance  |

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$420,702 |
| 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, 2015

**Section II – Financial Statements Findings**

| <u>Finding #</u> | <u>Finding</u>               |
|------------------|------------------------------|
| 2015-004         | External Financial Reporting |

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

| <u>Finding #</u> | <u>CFDA #</u> | <u>Finding</u>                  | <u>Questioned Costs</u> |
|------------------|---------------|---------------------------------|-------------------------|
| 2015-001         | 93.224        | Cash Management                 | \$ -                    |
| 2015-002         | 93.224        | Allowable Costs/Cost Principles | 30,354                  |
| 2015-003         | 93.224        | Program Income                  | -                       |
|                  |               |                                 | <u>\$ 30,354</u>        |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-001  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: H80CS06653  
Requirement: Cash Management  
Interest Liability: \$144  
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: For 9 (or 45%) of 20 samples tested, 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, 2015, is \$244 of which \$144 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.

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 \$144 exists.

Prior Year Status: This condition was cited in the 2014 and 2013 Single Audits.

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. Finance will make drawdown for payroll separately. We will make a payroll drawdown after four or five days of the release of payroll checks.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-002  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.224 Consolidated Health Centers  
 Grant Number: H80CS06653  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$30,354

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:

1. 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 FY2015 is \$13,154. This condition was cited in the 2014 Single Audit Report.

| <u>Check #</u> | <u>Issued</u> | <u>Leave Payout</u> |
|----------------|---------------|---------------------|
| 318833         | 01/10/2015    | \$ 3,288            |
| 318805         | 01/10/2015    | 2,204               |
| 318810         | 01/10/2015    | 1,951               |
| 318799         | 01/10/2015    | 1,103               |
| 318811         | 01/10/2015    | 550                 |
| 318804         | 01/10/2015    | 2,029               |
| 318806         | 01/10/2015    | <u>2,029</u>        |
|                |               | <u>\$ 13,154</u>    |

2. For 3 (or 15%) of 20 transactions tested, incentive awards for employees were paid quarterly. 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 FY2015 is \$13,500.

| <u>Quarter end</u> | <u>Number of employees</u> | <u>Amount per person</u> | <u>Leave Payout</u> |
|--------------------|----------------------------|--------------------------|---------------------|
| 12/31/2014         | 22                         | \$150                    | \$ 3,300            |
| 03/31/2015         | 20                         | 150                      | 3,000               |
| 06/30/2015         | 24                         | 150                      | 3,600               |
| 09/30/2015         | 24                         | 150                      | <u>3,600</u>        |
|                    |                            |                          | <u>\$ 13,500</u>    |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-002, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: H80CS06653  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$30,354

3. For 3 (or 20%) of 15 transactions tested, quarterly payments to board members for attending internal meetings was processed based on a letter issued by the Waab Community Health Center. 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 FY2015 is \$3,700.

| <u>Quarter end</u> | <u>Number of members</u> | <u>Amount</u>   |
|--------------------|--------------------------|-----------------|
| 12/31/2014         | 13                       | \$ 1,040        |
| 03/31/2015         | 13                       | 740             |
| 06/30/2015         | 13                       | 1,160           |
| 09/30/2015         | 13                       | <u>760</u>      |
|                    |                          | <u>\$ 3,700</u> |

**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 result.

**Recommendation:** We recommend that program expenditures comply with grant requirements and conform to standard Yap State policies.

**Auditee Response and Corrective Action Plan:** We agree with this finding. Finance is working with WCHC to resolve this.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-003  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: H80CS06653  
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 more than two weeks.

| <u>Collection Date</u> | <u>Cash Receipt Number</u> | <u>Deposit Date</u> | <u>Amount</u> |
|------------------------|----------------------------|---------------------|---------------|
| 11/11/14 – 11/15/14    | 8682 – 8707                | 12/30/14            | \$ 68         |
| 05/13/15 – 05/15/15    | MR003530 – MR003541        | 06/01/15            | \$ 48         |

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.

Prior Year Status: This condition was cited in the 2014 Single Audit.

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. WCHC revised their collection and deposit policy on 9/15/2015 where they have to deposit at Yap State Treasury on weekly basis.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-004  
Area: External Financial Reporting

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

Condition: Fiscal year 2015 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 Audits for fiscal year 2014 and 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  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

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

|                                   | Questioned Costs<br>Set Forth in<br>Prior Audit Report<br><u>2014</u> | Questioned<br>Costs Resolved<br>in Fiscal Year<br><u>2015</u> | Questioned Costs at<br><u>September 30, 2015</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 | 45,776  | -   | 45,776   |
| Unresolved Questioned Costs FY 14 | <u>129,385</u>  | <u>-</u>  | <u>129,385</u>                                   |
|                                   | <u>\$ 993,644</u>   | <u>\$ -</u>   | 993,644  |
| Questioned Costs FY 15            |   |   | <u>30,354</u>                                    |
| Total Questioned Costs            |   |   | <u>\$ 1,023,998</u>                              |