

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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**REPORT ON THE AUDIT OF  
FINANCIAL STATEMENTS IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

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**YEAR ENDED SEPTEMBER 30, 2016**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2016

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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, 2016**

## **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, 2016, 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 36%, 36% and 32%, 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, 2016, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matters**

### *New Accounting Pronouncements*

As described in Note 1 to the financial statements, the State adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015. As a result, the State has elected to restate the beginning net position of the governmental activities and the beginning fund balance of the General Fund for the effect of adopting this accounting pronouncement.

## *Receivables from the FSM National Government*

As discussed in Note 3 to the financial statements, the State is in discussions with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions.

Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

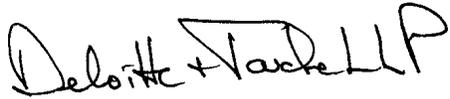
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 53 and 54, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 30, 2017 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

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

June 30, 2017

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2016

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, 2016. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2015 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, 2016, Yap State's total net position increased by \$2.25 million (or 2.4%) from \$95.02 million, as restated, in the prior year to \$97.27 million.
- For the fiscal year ended September 30, 2016, Yap State's total fund balance increased by \$4.3 million (or 5.8%) from \$75.3 million as of the prior year, as restated, to \$79.6 million.
- In comparison to fiscal year 2015, revenues increased by \$7.01 million (or 38.5%), and total expenditures decreased by \$0.95 million (or 4.5%). The increase in revenue was due mainly to significant gains in the fair value of investments; \$1.5 million was attributed to unrestricted investments and \$3.78 million was attributed to the Yap State Investment Trust Fund.
- At the end of fiscal year 2016, the Yap State Investment Trust Fund reported a balance of \$46.2 million, which was an increase of \$3.78 million from the prior year, due to gains in the fair value of the investment.

Restatement

The beginning net position of the governmental activities and the beginning fund balance of the General Fund have been restated as the State adopted GASB Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015 as described in Note 1 to the financial statements.

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

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

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Management's Discussion and Analysis  
Year Ended September 30, 2016

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

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

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

Fund Financial Statements

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

Yap State has two types of funds:

- Governmental funds. Most of Yap State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can 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-term and short-term financial information.

**FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE**

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2016, Yap State's assets exceeded liabilities by \$97.27 million. Of its total net position, \$37.25 million is restricted for specific uses. Included in the restricted amount, \$21.98 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, 2016 with comparative figures for the prior year:

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Management's Discussion and Analysis  
Year Ended September 30, 2016

	Governmental Activities		Business Type Activities		Total		Change	%
	(As Restated)				(As Restated)			
	2016	2015	2016	2015	2016	2015		
<b>Assets:</b>								
Current and other assets	\$ 84,133,494	\$ 80,407,295	\$323,092	\$226,903	\$ 84,456,586	\$ 80,634,198	\$3,822,388	4.7
Capital assets	<u>21,797,489</u>	<u>24,130,200</u>	<u>182,585</u>	<u>281,470</u>	<u>21,980,074</u>	<u>24,411,670</u>	<u>(2,431,596)</u>	-10.0
<b>Total assets</b>	<b>\$105,930,983</b>	<b>\$104,537,495</b>	<b>\$505,677</b>	<b>\$508,373</b>	<b>\$106,436,660</b>	<b>\$105,045,868</b>	<b>\$1,390,792</b>	<b>1.3</b>
<b>Liabilities:</b>								
Current and other liabilities	\$ 5,334,571	\$ 6,019,094	\$ 47,609	\$ 40,755	5,382,180	\$ 6,059,849	\$ (677,669)	-11.2
Long-term obligations	<u>3,779,657</u>	<u>3,967,329</u>	<u>-</u>	<u>-</u>	<u>3,779,657</u>	<u>3,967,329</u>	<u>(187,672)</u>	-4.7
<b>Total liabilities</b>	<b>9,114,228</b>	<b>9,986,423</b>	<b>47,609</b>	<b>40,755</b>	<b>9,161,837</b>	<b>10,027,178</b>	<b>(865,342)</b>	<b>-8.6</b>
<b>Net position:</b>								
Net investment in capital assets	21,797,489	24,130,200	182,585	281,470	21,980,074	24,411,670	(2,431,596)	-10.0
Restricted	15,273,057	14,806,102	-	-	15,273,057	14,806,102	466,955	3.2
Unrestricted	<u>59,746,209</u>	<u>55,614,770</u>	<u>275,483</u>	<u>186,148</u>	<u>60,021,692</u>	<u>55,800,918</u>	<u>4,220,774</u>	<u>7.6</u>
<b>Total net position</b>	<b>\$ 96,816,755</b>	<b>\$ 94,551,072</b>	<b>\$458,068</b>	<b>\$467,618</b>	<b>\$ 97,274,823</b>	<b>\$ 95,018,690</b>	<b>\$2,256,133</b>	<b>2.4</b>

At the end of fiscal year 2016, Yap State's unrestricted position shows a surplus of \$60.02 million (62% of total net position). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$46.2 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2015, Yap State's assets increased by \$1.39 million. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Governmental Activities		Business Type Activities		Total		Change	%
	(As Restated)				(As Restated)			
	2016	2015	2016	2015	2016	2015		
<b>Revenues:</b>								
Program revenues:								
Charges for services	\$1,449,573	\$ 1,425,822	\$ 393,717	\$ 370,841	\$ 1,843,290	\$ 1,796,663	\$ 46,627	2.6
Operating grants and contributions	3,895,477	14,471,260	-	-	13,895,477	14,471,260	(575,783)	-4.0
General revenues:								
Taxes	3,486,804	3,295,127	-	-	3,486,804	3,295,127	191,677	5.8
Unrestricted investment (losses) earnings	1,580,692	(215,098)	-	-	1,580,692	(215,098)	1,795,790	-834.9
Contribution from primary government	-	-	157,242	92,670	157,242	92,670	64,572	69.7
Other	<u>115,388</u>	<u>268,199</u>	<u>-</u>	<u>6</u>	<u>115,388</u>	<u>268,205</u>	<u>(152,817)</u>	<u>-57.0</u>
<b>Total revenues</b>	<b>20,527,934</b>	<b>19,245,310</b>	<b>550,959</b>	<b>463,517</b>	<b>21,078,893</b>	<b>19,708,827</b>	<b>1,370,066</b>	<b>7.0</b>
<b>Expenses:</b>								
General government	3,533,452	3,810,459	560,509	549,537	4,093,961	4,359,996	(266,035)	-6.1
Health services	5,538,249	5,990,857	-	-	5,538,249	5,990,857	(452,608)	-7.6
Education	6,274,337	6,289,197	-	-	6,274,337	6,289,197	(14,860)	-0.2
Economic development	857,908	1,218,667	-	-	857,908	1,218,667	(360,759)	-29.6
Public safety	560,882	593,290	-	-	560,882	593,290	(32,408)	-5.5
Public works and transportation	3,283,608	3,622,611	-	-	3,283,608	3,622,611	(339,003)	-9.4
Community affairs	299,719	375,422	-	-	299,719	375,422	(75,703)	-20.2
Boards and commissions	510,348	284,516	-	-	510,348	284,516	225,832	79.4
Payments to components	29,556	29,556	-	-	29,556	29,556	-	0.0
Judiciary	189,224	196,792	-	-	189,224	196,792	(7,568)	-3.8
Other	<u>1,150,978</u>	<u>1,134,231</u>	<u>-</u>	<u>-</u>	<u>1,150,978</u>	<u>1,134,231</u>	<u>16,747</u>	<u>1.5</u>
<b>Total expenses</b>	<b>22,228,261</b>	<b>23,545,598</b>	<b>560,509</b>	<b>549,537</b>	<b>22,788,770</b>	<b>24,095,135</b>	<b>(1,306,365)</b>	<b>-5.4</b>
Contributions to permanent funds	4,698,567	(1,033,441)	-	-	4,698,567	(1,033,441)	5,732,008	-554.7
Write-off of receivables	(753,741)	(321,353)	-	-	(753,741)	(321,353)	(432,388)	134.6
Gain on SDR foreign exchange	<u>21,184</u>	<u>727,252</u>	<u>-</u>	<u>-</u>	<u>21,184</u>	<u>727,252</u>	<u>(706,068)</u>	<u>-97.1</u>
Change in net position	2,265,683	(4,927,830)	(9,550)	(86,020)	2,256,133	(5,013,850)	7,269,983	145.0
Net position at the beginning of the year	<u>94,551,072</u>	<u>99,478,902</u>	<u>467,618</u>	<u>553,638</u>	<u>95,018,690</u>	<u>100,032,540</u>	<u>(5,013,850)</u>	<u>-5.0</u>
Net position at the end of the year	<b>\$ 96,816,755</b>	<b>\$94,551,072</b>	<b>\$458,068</b>	<b>\$467,618</b>	<b>\$97,274,823</b>	<b>\$ 95,018,690</b>	<b>\$2,256,133</b>	<b>2.4</b>

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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2016

Total revenues in fiscal year 2016 increased by \$1.4 million over prior year's \$19.7 million primarily due to significant gains on the fair value of investments. Most of the increase was in the Yap State Trust investments.

Total expenses of \$22.8 million in fiscal year 2016 are 5.4% less than that of the fiscal year 2015 expenses of \$24.1 million.

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

**FINANCIAL ANALYSIS OF YAP STATE GOVERNMENTAL FUNDS**

As noted earlier, Yap State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2016, Yap State's governmental funds reported a combined fund balance of \$79.6 million, which represents an increase of \$4.3 million in comparison with fiscal year 2015. Of the total fund balance, \$68.27 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; 2) restricted to liquidate contracts and purchase orders of the prior period; 3) restricted because the funds are already committed; and, 4) restricted and intended for a specific purpose. The unassigned combined fund balance is \$11.34 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, 2016 and 2015 are shown below:

	General Fund		Foreign Assistance Grants Fund		Yap State Investment Trust Fund		Compact Trust Fund		Other Funds	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>										
Taxes	\$3,375,278	\$3,199,092	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,526	\$ 96,035
Compact	-	-	10,297,856	10,804,548	-	-	-	-	-	-
Other/Transfers in	<u>2,904,016</u>	<u>1,274,669</u>	<u>2,789,116</u>	<u>2,931,654</u>	<u>3,781,139</u>	<u>(551,591)</u>	<u>917,428</u>	<u>(481,850)</u>	<u>1,050,142</u>	<u>939,312</u>
Total revenues	6,279,294	4,473,761	13,086,972	13,736,202	3,781,139	(551,591)	917,428	(481,850)	1,161,668	1,035,347
<b>Expenditures/transfers out</b>										
	<u>5,618,895</u>	<u>6,126,578</u>	<u>13,420,661</u>	<u>14,254,680</u>	-	-	-	-	<u>1,097,988</u>	<u>1,026,225</u>
Excess (deficiency)	<u>\$ 660,399</u>	<u>\$(1,652,817)</u>	<u>\$(333,689)</u>	<u>\$(518,478)</u>	<u>\$3,781,139</u>	<u>\$(551,591)</u>	<u>\$917,428</u>	<u>\$(481,850)</u>	<u>\$ 63,680</u>	<u>\$ 9,122</u>

**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 \$1.55 million gain, which contributed to the State's increase in revenues as compared to prior year. Actual expenditures before special items for the fiscal year were \$0.2 million less than total revenues.

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2016. Activities in this fund was relatively stable during the year.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2016

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 2016.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2016, amounted to \$114.1 million, net of accumulated depreciation of \$95.6 million, leaving a net book value of \$21.8 million. This represents a net decrease of \$2.3 million from fiscal year 2015. The table below summarizes Yap State's capital assets:

	2016	2015	Change	%
Land	\$ 3,170,610	\$ 3,170,610	\$ -	-
Buildings	4,431,574	4,992,544	(560,970)	(11.24)
Equipment	293,318	253,339	39,979	15.78
Heavy Equipment	389,332	216,041	173,291	80.21
Vehicles	225,443	225,083	360	0.16
Boats	2,057,069	2,247,758	(190,689)	(8.48)
Infrastructure	<u>11,230,143</u>	<u>13,024,825</u>	<u>(1,794,682)</u>	(13.78)
Total	<u>\$ 21,797,489</u>	<u>\$ 24,130,200</u>	<u>\$ (2,332,711)</u>	(9.7)

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

Long-Term Debt

Long-term debt obligations of the Yap State primary government totaled \$3.8 million at September 30, 2016. This debt is comprised of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, and the Basic Social Services Loan. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by a restricted investment account of \$1.4 million jointly held with the FSM National Government. Additional information on Yap State's long-term debt obligations can be found in Notes 6 and 7 to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2016

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 41% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 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, 2016

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 452,326	\$ 86,428	\$ 538,754	\$ 3,642,800
Time certificates of deposit	-	-	-	566,000
Investments	18,931,127	-	18,931,127	1,217,880
Receivables, net of allowance for uncollectibles	1,871,137	14,049	1,885,186	1,255,726
Advances	1,102,419	-	1,102,419	-
Inventories	-	208,894	208,894	1,009,562
Other current assets	-	13,721	13,721	509,038
Restricted assets:				
Cash and cash equivalents	195,556	-	195,556	-
Total current assets	<u>22,552,565</u>	<u>323,092</u>	<u>22,875,657</u>	<u>8,201,006</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	2,241,746
Investments	57,863,713	-	57,863,713	-
Investments	2,278,350	-	2,278,350	-
Capital assets:				
Nondepreciable capital assets	3,170,610	-	3,170,610	3,888,229
Capital assets, net of accumulated depreciation	18,626,879	182,585	18,809,464	11,366,843
Other assets	1,438,866	-	1,438,866	274,545
Total noncurrent assets	<u>83,378,418</u>	<u>182,585</u>	<u>83,561,003</u>	<u>17,771,363</u>
Total assets	<u>\$ 105,930,983</u>	<u>\$ 505,677</u>	<u>\$ 106,436,660</u>	<u>\$ 25,972,369</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term obligations	134,043	-	134,043	623,755
Accounts payable	762,307	16,059	778,366	1,412,774
Current portion of compensated absences	424,446	-	424,446	-
Accrued interest payable	14,872	-	14,872	-
Other liabilities and accruals	388,310	31,550	419,860	1,687,494
Unearned revenues	3,370,087	-	3,370,087	114,298
Total current liabilities	<u>5,094,065</u>	<u>47,609</u>	<u>5,141,674</u>	<u>3,838,321</u>
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	3,645,614	-	3,645,614	6,662,467
Noncurrent portion of compensated absences	124,941	-	124,941	-
Other noncurrent liabilities	249,608	-	249,608	-
Total noncurrent liabilities	<u>4,020,163</u>	<u>-</u>	<u>4,020,163</u>	<u>6,662,467</u>
Total liabilities	<u>9,114,228</u>	<u>47,609</u>	<u>9,161,837</u>	<u>10,500,788</u>
<b>NET POSITION</b>				
Net investment in capital assets	21,797,489	182,585	21,980,074	7,968,850
Restricted for:				
Nonexpendable:				
Future operations	10,196,323	-	10,196,323	-
Expendable:				
Compact related	3,656,227	-	3,656,227	-
Debt service	1,420,507	-	1,420,507	-
Other purposes	-	-	-	2,513,027
Unrestricted	59,746,209	275,483	60,021,692	4,989,704
Total net position	<u>96,816,755</u>	<u>458,068</u>	<u>97,274,823</u>	<u>15,471,581</u>
Total liabilities and net position	<u>\$ 105,930,983</u>	<u>\$ 505,677</u>	<u>\$ 106,436,660</u>	<u>\$ 25,972,369</u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Activities  
Year Ended September 30, 2016

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
<b>Governmental activities:</b>								
Judiciary	\$ 189,224	\$ -	\$ -	\$ -	\$ (189,224)	\$ -	\$ (189,224)	\$ -
Councils of traditional leaders	146,790	-	-	-	(146,790)	-	(146,790)	-
General government	3,533,452	1,449,573	2,152,883	-	69,004	-	69,004	-
Resources and development	857,908	-	451,140	-	(406,768)	-	(406,768)	-
Public safety	560,882	-	-	-	(560,882)	-	(560,882)	-
Community affairs	299,719	-	-	-	(299,719)	-	(299,719)	-
Education	6,274,337	-	6,077,384	-	(196,953)	-	(196,953)	-
Public works and transportation	3,283,608	-	167,357	-	(3,116,251)	-	(3,116,251)	-
Health services	5,538,249	-	5,017,157	-	(521,092)	-	(521,092)	-
Boards and commissions	510,348	-	-	-	(510,348)	-	(510,348)	-
Payments to components	29,556	-	29,556	-	-	-	-	-
Other appropriations	732,739	-	-	-	(732,739)	-	(732,739)	-
Interest expense	271,449	-	-	-	(271,449)	-	(271,449)	-
<b>Total governmental activities</b>	<b>22,228,261</b>	<b>1,449,573</b>	<b>13,895,477</b>	<b>-</b>	<b>(6,883,211)</b>	<b>-</b>	<b>(6,883,211)</b>	<b>-</b>
<b>Business-type activities:</b>								
Public Transportation System	560,509	393,717	-	-	-	(166,792)	(166,792)	-
<b>Total primary government</b>	<b>\$ 22,788,770</b>	<b>\$ 1,843,290</b>	<b>\$ 13,895,477</b>	<b>\$ -</b>	<b>(6,883,211)</b>	<b>(166,792)</b>	<b>(7,050,003)</b>	<b>-</b>
<b>Component units:</b>								
Yap Visitor's Bureau	\$ 312,484	\$ -	\$ -	\$ -	-	-	-	(312,484)
Yap State Public Service Corporation	5,595,228	6,017,105	-	73,839	-	-	-	495,716
The Diving Seagull, Inc.	9,388,991	7,912,182	-	-	-	-	-	(1,476,809)
<b>Total component units</b>	<b>\$ 15,296,703</b>	<b>\$ 13,929,287</b>	<b>\$ -</b>	<b>\$ 73,839</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,293,577)</b>
<b>General revenues:</b>								
<b>Taxes:</b>								
<b>FSM revenue sharing:</b>								
Gross revenue taxes					600,639	-	600,639	-
Import taxes					738,049	-	738,049	-
Income taxes					564,715	-	564,715	-
Other taxes					371,074	-	371,074	-
State taxes					1,212,327	-	1,212,327	-
Unrestricted investment earnings					1,580,692	-	1,580,692	115,849
Contributions from primary government					-	157,242	157,242	309,938
Other					115,388	-	115,388	(570,056)
					5,182,884	157,242	5,340,126	(144,269)
<b>Special items:</b>								
Write-off of receivables					(753,741)	-	(753,741)	-
Gain on SDR foreign exchange					21,184	-	21,184	-
Contributions to permanent funds					4,698,567	-	4,698,567	-
					9,148,894	157,242	9,306,136	(144,269)
<b>Total general revenues, special items and contributions</b>					<b>9,148,894</b>	<b>157,242</b>	<b>9,306,136</b>	<b>(144,269)</b>
<b>Change in net position</b>					<b>2,265,683</b>	<b>(9,550)</b>	<b>2,256,133</b>	<b>(1,437,846)</b>
Net position at the beginning of the year, as previously reported					93,418,669	467,618	93,886,287	16,909,427
Implementation of GASB 72 (Note 1)					1,132,403	-	1,132,403	-
Net position at the beginning of the year, as restated					94,551,072	467,618	95,018,690	16,909,427
<b>Net position at the end of the year</b>					<b>\$ 96,816,755</b>	<b>\$ 458,068</b>	<b>\$ 97,274,823</b>	<b>\$ 15,471,581</b>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Balance Sheet  
Governmental Funds  
September 30, 2016

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
<b>ASSETS</b>						
Cash and cash equivalents	\$ 431,386	\$ -	\$ -	\$ -	\$ 20,940	\$ 452,326
Investments	20,925,366	-	-	-	284,111	21,209,477
Receivables, net:						
Federal agencies	-	1,484,456	-	-	-	1,484,456
FSM National Government	308,735	-	-	-	-	308,735
Other	77,346	600	-	-	-	77,946
Due from other funds	1,015,714	6,703,250	-	-	583,934	8,302,898
Advances	440,202	662,217	-	-	-	1,102,419
Other assets	1,438,866	-	-	-	-	1,438,866
Restricted assets:						
Cash and cash equivalents	195,556	-	-	-	-	195,556
Investments	1,420,507	-	46,246,883	10,196,323	-	57,863,713
Total assets	<u>\$ 26,253,678</u>	<u>\$ 8,850,523</u>	<u>\$ 46,246,883</u>	<u>\$ 10,196,323</u>	<u>\$ 888,985</u>	<u>\$ 92,436,392</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 262,021	\$ 493,688	\$ -	\$ -	\$ 6,598	\$ 762,307
Other liabilities and accruals	83,433	255,084	-	-	49,793	388,310
Unearned revenues	-	3,370,087	-	-	-	3,370,087
Due to other funds	7,287,184	1,014,924	-	-	790	8,302,898
Total liabilities	<u>7,632,638</u>	<u>5,133,783</u>	<u>-</u>	<u>-</u>	<u>57,181</u>	<u>12,823,602</u>
Fund balances:						
Non-spendable	3,717,216	-	46,246,883	10,196,323	-	60,160,422
Restricted	1,420,507	3,716,740	-	-	349,939	5,487,186
Committed	6,707,908	-	-	-	482,655	7,190,563
Assigned	1,078,339	-	-	-	-	1,078,339
Unassigned:						
General fund	5,697,070	-	-	-	-	5,697,070
Capital projects funds	-	-	-	-	(790)	(790)
Total fund balances	<u>18,621,040</u>	<u>3,716,740</u>	<u>46,246,883</u>	<u>10,196,323</u>	<u>831,804</u>	<u>79,612,790</u>
Total liabilities and fund balances	<u>\$ 26,253,678</u>	<u>\$ 8,850,523</u>	<u>\$ 46,246,883</u>	<u>\$ 10,196,323</u>	<u>\$ 888,985</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

21,797,489

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	(3,779,657)
Compensated absences payable	(549,387)
Accrued interest payable	(14,872)
Land acquisition claims payable	(249,608)

(4,593,524)

Net position of governmental activities

\$ 96,816,755

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, 2016

	General	Special Revenue	Permanent		Other Governmental Funds	Total
		Foreign Assistance Grants	Yap State Investment Trust	Compact Trust		
<b>Revenues:</b>						
Compact funding	\$ -	\$ 10,297,856	\$ -	\$ -	\$ -	\$ 10,297,856
Net change in the fair value of investments	1,554,631	-	3,781,139	917,428	26,061	6,279,259
Federal contributions and other grants	-	2,450,677	-	-	-	2,450,677
FSM revenue sharing	2,274,477	-	-	-	-	2,274,477
State taxes	1,100,801	-	-	-	111,526	1,212,327
CFSM grants	-	316,615	-	-	830,329	1,146,944
Fees and charges	324,203	-	-	-	193,752	517,955
Departmental charges	909,794	21,824	-	-	-	931,618
Other	115,388	-	-	-	-	115,388
<b>Total revenues</b>	<b>6,279,294</b>	<b>13,086,972</b>	<b>3,781,139</b>	<b>917,428</b>	<b>1,161,668</b>	<b>25,226,501</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Judiciary	189,224	-	-	-	-	189,224
Councils of traditional leaders	168,873	-	-	-	-	168,873
General government	1,053,974	1,448,236	-	-	1,097,988	3,600,198
Resources and development	400,111	451,140	-	-	-	851,251
Public safety	560,882	-	-	-	-	560,882
Community affairs	286,193	-	-	-	-	286,193
Education	11,622	6,077,384	-	-	-	6,089,006
Public works and transportation	1,309,236	167,357	-	-	-	1,476,593
Health services	518,299	5,069,333	-	-	-	5,587,632
Boards and commissions	423,103	-	-	-	-	423,103
Payments to component units	29,556	-	-	-	-	29,556
Other appropriations	229,885	207,211	-	-	-	437,096
Debt service	437,937	-	-	-	-	437,937
<b>Total expenditures</b>	<b>5,618,895</b>	<b>13,420,661</b>	<b>-</b>	<b>-</b>	<b>1,097,988</b>	<b>20,137,544</b>
Excess (deficiency) of revenues over (under) expenditures	660,399	(333,689)	3,781,139	917,428	63,680	5,088,957
<b>Special item:</b>						
Less: Write-off of receivables	(753,741)	-	-	-	-	(753,741)
<b>Net change in fund balances</b>	<b>(93,342)</b>	<b>(333,689)</b>	<b>3,781,139</b>	<b>917,428</b>	<b>63,680</b>	<b>4,335,216</b>
Fund balances at the beginning of the year, as previously reported	17,581,979	4,050,429	42,465,744	9,278,895	768,124	74,145,171
Implementation of GASB 72 (Note 1)	1,132,403	-	-	-	-	1,132,403
Fund balances at the beginning of the year, as restated	18,714,382	4,050,429	42,465,744	9,278,895	768,124	75,277,574
Fund balances at the end of the year	\$ 18,621,040	\$ 3,716,740	\$ 46,246,883	\$ 10,196,323	\$ 831,804	\$ 79,612,790

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, 2016

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	\$ 4,335,216
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 (\$2,780,931) exceeded capital outlays (\$448,220) in the current period.	(2,332,711)
Special item associated with gain on SDR foreign exchange adjustment.	21,184
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	166,488
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>75,506</u>
Change in net position of governmental activities	\$ <u><u>2,265,683</u></u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Net Position  
Proprietary Funds  
September 30, 2016

	<u>Public Transportation System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 86,428
Receivables, net of allowance for uncollectibles	14,049
Inventories	208,894
Other current assets	<u>13,721</u>
Total current assets	323,092
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>182,585</u>
Total assets	<u>\$ 505,677</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 16,059
Other liabilities and accruals	<u>31,550</u>
Total liabilities	<u>47,609</u>
<u>NET POSITION</u>	
Net investment in capital assets	182,585
Unrestricted	<u>275,483</u>
Total net position	<u>458,068</u>
	<u>\$ 505,677</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, 2016

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 304,769
Sales	85,416
Other	<u>3,532</u>
Total operating revenues	<u>393,717</u>
Operating expenses:	
Cost of services	138,522
Administration costs	308,795
Depreciation and amortization	<u>113,192</u>
Total operating expenses	<u>560,509</u>
Loss from operations	(166,792)
Nonoperating revenues:	
Operating subsidy from primary government	<u>157,242</u>
Change in net position	(9,550)
Net position at the beginning of the year	<u>467,618</u>
Net position at the end of the year	<u><u>\$ 458,068</u></u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows  
Proprietary Funds  
Year Ended September 30, 2016

	<u>Public Transportation System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 404,289
Cash payments to employees	(375,491)
Cash payments to suppliers	<u>(171,789)</u>
Net cash used in operating activities	<u>(142,991)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>157,242</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(14,308)</u>
Net change in cash and cash equivalents	(57)
Cash and cash equivalents at the beginning of the year	<u>86,485</u>
Cash and cash equivalents at the end of the year	<u>\$ 86,428</u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (166,792)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	113,192
Changes in assets and liabilities:	
Other	(644)
Receivables	(3,197)
Inventories	(92,404)
Accounts payable	6,691
Other liabilities and accruals	<u>163</u>
Net cash used in operating activities	<u>\$ (142,991)</u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Position  
Component Units  
September 30, 2016

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 177,007	\$ 1,498,836	\$ 1,966,957	\$ 3,642,800
Time certificate of deposit	-	-	566,000	566,000
Investments	-	-	1,217,880	1,217,880
Receivables, net:				
General	801	1,067,201	-	1,068,002
Other	-	77,312	110,412	187,724
Inventories	-	900,730	108,832	1,009,562
Other current assets	-	159,608	349,430	509,038
Total current assets	<u>177,808</u>	<u>3,703,687</u>	<u>4,319,511</u>	<u>8,201,006</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	2,241,746	2,241,746
Capital assets:				
Nondepreciable capital assets	-	3,888,229	-	3,888,229
Capital assets, net of accumulated depreciation	11,094	7,928,208	3,427,541	11,366,843
Other assets	-	274,545	-	274,545
Total noncurrent assets	<u>11,094</u>	<u>12,090,982</u>	<u>5,669,287</u>	<u>17,771,363</u>
Total assets	<u>\$ 188,902</u>	<u>\$ 15,794,669</u>	<u>\$ 9,988,798</u>	<u>\$ 25,972,369</u>
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 83,272	\$ 540,483	\$ 623,755
Accounts payable	-	402,195	1,010,579	1,412,774
Unearned revenues	-	114,298	-	114,298
Other liabilities and accruals	4,049	472,546	1,210,899	1,687,494
Total current liabilities	4,049	1,072,311	2,761,961	3,838,321
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	5,051,348	1,611,119	6,662,467
Total liabilities	<u>4,049</u>	<u>6,123,659</u>	<u>4,373,080</u>	<u>10,500,788</u>
<b>NET POSITION</b>				
Net investment in capital assets	11,094	6,681,817	1,275,939	7,968,850
Restricted, expendable	-	271,281	2,241,746	2,513,027
Unrestricted	173,759	2,717,912	2,098,033	4,989,704
Total net position	<u>184,853</u>	<u>9,671,010</u>	<u>5,615,718</u>	<u>15,471,581</u>
	<u>\$ 188,902</u>	<u>\$ 15,794,669</u>	<u>\$ 9,988,798</u>	<u>\$ 25,972,369</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, 2016

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,547,746	\$ 7,897,190	\$ 13,444,936
Sales	-	469,359	14,992	484,351
Total operating revenues	<u>-</u>	<u>6,017,105</u>	<u>7,912,182</u>	<u>13,929,287</u>
Operating expenses:				
Cost of services	-	4,191,731	9,137,064	13,328,795
Administration costs	309,163	481,150	251,056	1,041,369
Depreciation and amortization	<u>3,321</u>	<u>922,347</u>	<u>871</u>	<u>926,539</u>
Total operating expenses	<u>312,484</u>	<u>5,595,228</u>	<u>9,388,991</u>	<u>15,296,703</u>
Operating income (loss)	<u>(312,484)</u>	<u>421,877</u>	<u>(1,476,809)</u>	<u>(1,367,416)</u>
Nonoperating revenues (expenses):				
Contributions from the primary government	309,938	-	-	309,938
Interest income		2,174	113,675	115,849
Interest expense	-	(684)	(164,016)	(164,700)
Other	<u>99,294</u>	<u>(504,650)</u>	<u>-</u>	<u>(405,356)</u>
Total nonoperating revenues (expenses), net	<u>409,232</u>	<u>(503,160)</u>	<u>(50,341)</u>	<u>(144,269)</u>
Capital contributions	<u>-</u>	<u>73,839</u>	<u>-</u>	<u>73,839</u>
Change in net position	96,748	(7,444)	(1,527,150)	(1,437,846)
Net position at the beginning of the year	<u>88,105</u>	<u>9,678,454</u>	<u>7,142,868</u>	<u>16,909,427</u>
Net position at the end of the year	<u>\$ 184,853</u>	<u>\$ 9,671,010</u>	<u>\$ 5,615,718</u>	<u>\$ 15,471,581</u>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(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, 2016

(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, 2016

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Omitted Component Units:

The following component units have been omitted from the 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 component units' column reporting unit.

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 component units' column reporting unit.

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 component units' column reporting unit.

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 component units' column reporting unit.

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, 2016

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and deferred outflows of resources, and 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 \$15,273,057 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, 2016

(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.

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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The State categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

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.

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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

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 \$1,420,507. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$46,246,883 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$10,196,323 are restricted in that they are not available to be used for current operations.

As of September 30, 2016, 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	\$ 193,774
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Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>1,782</u>
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\$ 195,556

Discretely Presented Component Units

The Diving Seagull, Inc.:

Time certificate of deposit restricted as collateral for long-term debt with a bank.	\$ 2,091,746
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Deposit accounts restricted as collateral for long-term debt with the FSM Development Bank.	<u>150,000</u>
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\$ 2,241,746

L. Other Assets

The State holds approximately 19% of the outstanding shares of Pacific Islands Development Bank with a carrying amount of \$1,438,866. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

M. 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

N. 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 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.

O. 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

P. 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.

Q. 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 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.

R. Fund Balance

Fund balance classifications are based on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

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

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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

S. 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.

T. New Accounting Standards

During fiscal year 2016, the State implemented the following pronouncements:

- GASB 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 implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investment from cost-basis to the net asset value (NAV), as cost-basis measurement is no longer an allowable measurable method for equity investment. Such implementation had a material effect on the accompanying financial statements resulting in the restatement of the State's beginning net position/fund balance. Net position for governmental activities and fund balance for the General Fund as of October 1, 2015 increased by \$1,132,403 as a result of the implementation of GASB Statement No. 72. Refer to Note 2B for more information regarding the State's investments.
- GASB 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 No. 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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.

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.

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.

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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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.

U. Estimates

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

V. 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, 2015 from which summarized information was derived.

(2) Deposits and Investments

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(2) Deposits and Investments, Continued

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

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

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

A. Deposits

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

As of September 30, 2016, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$647,882 and the corresponding bank balance was \$1,157,554, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016, bank deposits in the amount of \$270,232 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, 2016, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$86,428. There were no significant differences between cash balances and bank balances. As of September 30, 2016, \$86,485 of cash is maintained in one financial institution subject to FDIC insurance and which is fully FDIC insured.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2016, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$6,450,546 and the corresponding bank balances were \$6,473,513, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2016, bank deposits in the amount of \$1,115,227 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.

Primary Government

As of September 30, 2016, the State's investments are as follows:

General Fund:	
Fixed income	\$ 8,157,295
Domestic equities	2,278,350
Common equities	11,333,121
Cash management account	<u>577,107</u>
	<u>22,345,873</u>
Yap State Investment Trust Fund:	
Fixed income	15,635,785
Common equities	18,379,865
International equities	10,430,643
Real estate	216,685
Cash management account	<u>1,583,905</u>
	<u>46,246,883</u>
Compact Trust Fund:	
Common trust funds:	
Domestic Equity	\$ 2,784,213
International Equity	2,627,727
Fixed Income	1,944,275
Private Equity	754,727
Hedge Fund	890,342
Real Estate	1,155,858
Money market funds	<u>39,181</u>
	<u>10,196,323</u>
Other Governmental Funds:	
Mutual Funds	35,743
Common equities	140,670
International equities	102,159
Money market funds	<u>5,539</u>
	<u>284,111</u>
	<u>\$ 79,073,190</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(2) Deposits and Investments, Continued

**B. Investments, Continued**

Primary Government, Continued

As of September 30, 2016, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

**General Fund:**

<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	\$ 2,660,116	\$ 2,544,886	\$ 67,419	\$ 43,725	\$ 4,086	AAA
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	292,130	284,288	968	-	6,874	AAA
Government National Mortgage Association	370	-	-	-	370	AAA
Federal National Mortgage Association	30,787	-	19,888	-	10,899	AAA
Federal Home Loan Bank	24,697	24,697	-	-	-	AAA
Tennessee Valley Authority	6,172	-	-	6,172	-	AAA
AID-TUNISIA	11,117	-	11,117	-	-	AAA
NCUA	5,565	5,565	-	-	-	AAA
Overseas Private Inv Corp	33,000	-	-	33,000	-	AAA
Private Export Funding	11,690	-	-	11,690	-	AAA
Mortgage Backed	1,495,497	1,495,497	-	-	-	Aa1
Asset Backed	260,019	260,019	-	-	-	Aa3
Municipal Obligations	8,675	-	6,649	-	2,026	AAA
Municipal Obligations	13,182	-	7,249	2,858	3,075	Aa
Corporate Bonds	25,037	9,354	9,262	6,421	-	AAA
Corporate Bonds	58,664	16,502	42,162	-	-	Aa
Corporate Bonds	40,074	-	10,502	6,171	23,401	A
Corporate Bonds	9,234	-	4,484	4,750	-	Baa
Corporate Bonds	4,108	-	-	-	4,108	No rating
Corporate Bonds	2,698,664	2,698,664	-	-	-	Baa1
Corporate Bonds	468,497	468,497	-	-	-	A2
	<u>\$ 8,157,295</u>	<u>\$ 7,807,969</u>	<u>\$ 179,700</u>	<u>\$ 114,787</u>	<u>\$ 54,839</u>	

**Yap State Investment Trust Fund:**

<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	\$ 4,160,805	\$ 400,274	\$ 1,278,974	\$ 890,610	\$ 1,590,947	AAA
U.S. Government Agencies Obligations:						
Federal Home Credit Bank	1,925,298	-	1,925,298	-	-	AAA
Federal National Mortgage Association	895,466	200,244	695,222	-	-	AAA
Federal National Mortgage Association	150,720	-	150,720	-	-	No rating
Federal Home Loan Bank	595,901	395,727	200,174	-	-	AAA
Federal Home Loan Mortgage	700,774	500,618	200,156	-	-	AAA
Asset Backed	1,351,495	-	120,607	394,897	835,991	No rating
Corporate Bonds	102,921	-	102,921	-	-	AAA
Corporate Bonds	107,365	-	107,365	-	-	Aa1
Corporate Bonds	232,358	-	-	232,358	-	Aa3
Corporate Bonds	1,045,152	89,930	680,987	274,235	-	Baa1
Corporate Bonds	505,145	-	274,523	230,622	-	Baa2
Corporate Bonds	244,601	-	75,195	169,406	-	Baa3
Corporate Bonds	726,463	96,549	316,145	313,769	-	A1
Corporate Bonds	921,728	-	724,533	197,195	-	A3
Corporate Bonds	1,557,970	-	648,451	909,519	-	A3
Corporate Bonds	59,150	-	59,150	-	-	B2
Corporate Bonds	352,473	-	-	352,473	-	No rating
	<u>\$ 15,635,785</u>	<u>\$ 1,683,342</u>	<u>\$ 7,560,421</u>	<u>\$ 3,965,084</u>	<u>\$ 2,426,938</u>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The State has the following recurring fair value measurements as of September 30, 2016:

General Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 2,660,117	\$ -	\$ 2,660,117	\$ -
U.S. Government Agencies	415,528	-	415,528	-
Securitized assets	1,755,516	-	1,755,516	-
Municipal obligations	21,857	-	21,857	-
Corporate notes	<u>3,304,277</u>	-	<u>3,304,277</u>	-
	8,157,295	-	8,157,295	-
Equity securities:				
U.S. equities	<u>11,333,121</u>	<u>11,333,121</u>	-	-
Total investments at fair value	19,490,416	\$ <u>11,333,121</u>	\$ <u>8,157,295</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in Bank of the FSM	2,278,350			
Investments measured at amortized cost:				
Money market funds	<u>577,107</u>			
	<u>\$ 22,345,873</u>			

Yap State Investment Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Yap State investment trust funds:				
Domestic equities	\$ 18,379,865	\$ 18,379,865	\$ -	\$ -
International equities	10,430,643	10,430,643	-	-
Fixed income	<u>15,635,785</u>	<u>15,635,785</u>	-	-
Total investments at fair value	44,446,293	\$ <u>44,446,293</u>	\$ <u>-</u>	\$ <u>-</u>
Investments measured at NAV:				
Real estate	216,685			
Investments measured at amortized cost:				
Certificates of deposit	1,550,485			
Cash management account	<u>33,420</u>			
	<u>\$ 46,246,883</u>			

As of September 30, 2016, the certificates of deposit of Yap State Investment Trust Fund were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016, bank deposits in the amount of \$849,956 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Compact Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 2,784,213	\$ 2,784,213	\$ -	\$ -
International Equity	2,627,727	2,627,727	-	-
Fixed Income	1,944,275	1,944,275	-	-
Private Equity	<u>754,727</u>	<u>-</u>	<u>-</u>	<u>754,727</u>
Total investments at fair value	8,110,942	\$ <u>7,356,215</u>	\$ <u>-</u>	\$ <u>754,727</u>
Investments measured at NAV:				
Hedge Fund	890,342			
Real Estate	1,155,858			
Investments measured at amortized cost:				
Money market funds	<u>39,181</u>			
	\$ <u>10,196,323</u>			

Other Governmental Funds

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Other governmental funds:				
Mutual funds	\$ 35,743	\$ 35,743	\$ -	\$ -
U.S. equities	140,670	140,670	-	-
International equities	<u>102,159</u>	<u>102,159</u>	<u>-</u>	<u>-</u>
Total investments at fair value	278,572	\$ <u>278,572</u>	\$ <u>-</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>5,539</u>			
	\$ <u>284,111</u>			

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, 2016.

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, 2016, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

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.

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2016. High yield debt receiving a credit rating below "A" comprises approximately 32.2% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2016. At September 30, 2016, the weighted average maturity of the bonds comprising MIM CFI is 8.23 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2016. High yield debt receiving a credit rating below "A" comprises approximately 83.6% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2016. At September 30, 2016, the weighted average maturity of the bonds comprising MIM OFI is 3.70 years.

The Trust Fund's investment policy does not require direct investment in fixed maturity securities ("Bonds") as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a common trust fund, ETF, or similar investment vehicle have no maturity date.

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2016, the Trust Fund held approximately \$3,307,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$713,000 was held in securities whose functional currency is the Euro, \$393,000 whose functional currency is the British pound, \$365,000 whose functional currency is the Japanese yen, and \$1,836,000 in functional currencies of 35 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 16.4% of invested assets at September 30, 2016.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A ("Mercer Hedge Fund") and the Blackstone Partners Offshore Fund Ltd. Mercer Hedge Funds Investors SPC, who incorporated the Mercer Hedge Fund, and the Blackstone Partners Offshore Fund Ltd. are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the hedge fund pools are equivalent to the value of the pool shares.

The State owns 100,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. An equity investment in the common stock of the Bank of the Federated States of Micronesia (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equities reported by the investee.

Discretely Presented Component Units

The Diving Seagull, Inc. (DSI):

As of September 30, 2016, DSI's investments are as follows:

Fixed income	\$ 470,773
Common equities	710,604
Money market funds	<u>36,503</u>
	<u>\$ 1,217,880</u>

As of September 30, 2016, DSI's fixed income securities, including their Moody's Investor Service and/ or S & P credit ratings, had the following maturities:

	<u>Credit Ratings</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>		
			<u>Less than 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>
U.S. Treasury obligations	AAA	\$ 160,870	\$ 25,604	\$ 135,266	\$ -
U.S. Treasury obligations	Not rated	25,747	-	-	25,747
U.S. Government agencies obligations	AAA	37,056	15,039	22,017	-
Corporate Notes	A1	20,243	10,052	10,191	-
Corporate Notes	A2	89,829	22,093	41,197	26,539
Corporate Notes	A3	70,277	-	35,792	34,485
Corporate Notes	AA2	15,767	-	15,767	-
Corporate Notes	BAA1	26,000	12,021	-	13,979
Corporate Notes	BAA2	12,234	-	12,234	-
Corporate Notes	BAA3	<u>12,750</u>	-	-	<u>12,750</u>
		<u>\$ 470,773</u>	<u>\$ 84,809</u>	<u>\$ 272,464</u>	<u>\$ 113,500</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units, Continued

The Diving Seagull, Inc. (DSI), Continued:

The Diving Seagull has the following recurring fair value measurements as of September 30, 2016:

	Total	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 186,618	\$ -	\$ 186,618	\$ -
U.S. Government agencies	37,056	-	37,056	-
Corporate notes	<u>247,099</u>	<u>-</u>	<u>247,099</u>	<u>-</u>
	470,773	-	470,773	-
Equity securities:				
U.S. equities	<u>710,604</u>	<u>710,604</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,181,377	\$ <u>710,604</u>	\$ <u>470,773</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>36,503</u>			
	<u>\$ 1,217,800</u>			

(3) Receivables

Receivables as of September 30, 2016, 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:							
Federal agencies	\$ -	\$ 1,858,778	\$ -	\$ -	\$ -	\$ -	\$ 1,858,778
FSM National Government	812,200	1,589,338	-	-	612,780	-	3,014,318
Other	<u>481,333</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>16,055</u>	<u>26,863</u>	<u>524,851</u>
	1,293,533	3,448,716	-	-	628,835	26,863	5,397,947
Less: allowance for uncollectible accounts	<u>(907,452)</u>	<u>(1,963,660)</u>	<u>-</u>	<u>-</u>	<u>(628,835)</u>	<u>(12,814)</u>	<u>(3,512,761)</u>
Net receivables	<u>\$ 386,081</u>	<u>\$ 1,485,056</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,049</u>	<u>\$ 1,885,186</u>

The final settlement of receivables due from the FSM National Government arising from Compact sector grant transactions can be determined only by final action of the FSM National Government in consultation with the grantor agency. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(3) Receivables, Continued

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

	Yap Visitors Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Receivables:				
General	\$ 801	\$ 1,143,555	\$ 74,890	\$ 1,219,246
Other	<u>-</u>	<u>77,312</u>	<u>616,662</u>	<u>693,974</u>
	801	1,220,867	691,552	1,913,220
Less: allowance for uncollectible accounts	<u>-</u>	<u>(76,354)</u>	<u>(581,140)</u>	<u>(657,494)</u>
Net receivables	\$ <u>801</u>	\$ <u>1,144,513</u>	\$ <u>110,412</u>	\$ <u>1,255,726</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, 2016, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
General	Foreign Assistance Grants	\$ 1,014,924
General	Nonmajor governmental funds	790
Foreign Assistance Grants	General	6,703,250
Nonmajor governmental funds	General	<u>583,934</u>
		\$ <u>8,302,898</u>

(5) Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2016, are as follows:

	Balance October 1 <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2016
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 14,890,020	\$ -	\$ -	\$ 14,890,020
Infrastructure	86,807,703	-	-	86,807,703
Equipment	765,030	82,500	-	847,530
Vehicles	2,344,646	82,060	-	2,426,706
Vessels	5,156,463	-	-	5,156,463
Heavy equipment	<u>3,707,079</u>	<u>283,660</u>	<u>-</u>	<u>3,990,739</u>
	<u>113,670,941</u>	<u>448,220</u>	<u>-</u>	<u>114,119,161</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(5) Capital Assets, Continued

Capital asset activities of the primary government for the year ended September 30, 2016, are as follows:

	Balance October 1 <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2016</u>
Governmental activities, Continued:				
Less accumulated depreciation for:				
Buildings	(9,897,476)	(560,970)	-	(10,458,446)
Infrastructure	(73,782,878)	(1,794,682)	-	(75,577,560)
Equipment	(511,691)	(42,521)	-	(554,212)
Vehicles	(2,199,563)	(81,700)	-	(2,281,263)
Vessels	(2,908,705)	(190,689)	-	(3,099,394)
Heavy equipment	<u>(3,491,038)</u>	<u>(110,369)</u>	-	<u>(3,601,407)</u>
	<u>(92,711,351)</u>	<u>(2,780,931)</u>	-	<u>(95,572,282)</u>
Total capital assets, being depreciated, net	20,959,590	(2,332,711)	-	18,626,879
Non-depreciable Assets:				
Land	<u>3,170,610</u>	-	-	<u>3,170,610</u>
Governmental activities capital assets, net	\$ <u>24,130,200</u>	\$ <u>(2,332,711)</u>	\$ -	\$ <u>21,797,489</u>

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

Councils of traditional leaders	\$ 2,917
General government	60,850
Resources and development	6,657
Community affairs	13,526
Education	213,331
Public works and transportation	2,047,545
Health services	53,217
Boards and commissions	87,245
Other appropriations	<u>295,643</u>
	<u>\$ 2,780,931</u>

	Balance October 1, <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2016</u>
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 132,662	\$ 2,150	\$ -	\$ 134,812
Vehicles	1,089,906	1,000	-	1,090,906
Shop equipment	65,661	3,244	(260)	68,645
Office equipment	103,600	6,891	-	110,491
Land improvement	<u>-</u>	<u>1,282</u>	-	<u>1,282</u>
	1,391,829	14,567	(260)	1,406,136
Less accumulated depreciation	<u>(1,110,359)</u>	<u>(113,192)</u>	-	<u>(1,223,551)</u>
Total net capital assets	\$ <u>281,470</u>	\$ <u>(98,625)</u>	\$ <u>(260)</u>	\$ <u>182,585</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(5) Capital Assets, Continued

Discretely Presented Component Units:

	Balance October 1, <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2016
Depreciable assets:				
Utility plant	\$ 21,170,852	\$ 2,338,126	\$ (33,316)	\$ 23,475,662
Machinery, equipment and others	<u>15,582,659</u>	<u>88,790</u>	<u>-</u>	<u>15,671,449</u>
	36,753,511	2,426,916	(33,316)	39,147,111
Less accumulated depreciation	<u>(26,292,345)</u>	<u>(1,518,793)</u>	<u>30,870</u>	<u>(27,780,268)</u>
	10,461,166	908,123	(2,446)	11,366,843
Nondepreciable assets:				
Construction work-in-progress	<u>2,941,757</u>	<u>946,472</u>	<u>-</u>	<u>3,888,229</u>
	\$ <u>13,402,923</u>	\$ <u>1,854,595</u>	\$ <u>(2,446)</u>	\$ <u>15,255,072</u>

(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, 2016. As of September 30, 2016, the amount outstanding against this loan was \$2,862,010. Of the required \$3,500,000 identified for future debt service payments, \$1,420,507 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(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 Basic Social Services Program Loan with the 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, 2016, the outstanding balance is \$115,656.

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 the 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, 2016, the balances payable on these loans amounted to \$224,598 and \$577,393, respectively.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 134,043	\$ 42,360	\$ 176,403
2018	204,052	39,299	243,351
2019	204,052	38,339	242,391
2020	204,052	35,978	240,030
2021	204,052	33,617	237,669
2022 through 2026	1,007,649	132,677	1,140,326
2027 through 2031	901,700	78,163	979,863
2032 through 2036	787,726	29,762	817,488
2037 through 2041	<u>132,331</u>	<u>1,302</u>	<u>133,633</u>
	<u>\$ 3,779,657</u>	<u>\$ 431,497</u>	<u>\$ 4,211,154</u>

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC):

Uncollateralized loan of original principal of \$2,270,837 payable to the ADB borrowed through the 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% per annum on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable semiannually in Special Drawing Rights (SDR) commencing August 2007. An SDR adjustment and additional consulting fees increased the loan balance by \$639,957 in fiscal year 2009.

\$ 2,115,853

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

Yap State Public Service Corporation (YSPSC), Continued:

Guaranteed loan with a maximum amount of \$4,680,000 payable to the 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 0.80% per annum which includes a 0.20% maturity premium, net of a 0.20% rebate.	1,894,153
Loan with a maximum amount of \$4,360,000 for renewable energy, YSPSC is liable to ADB for interest at 2%.	<u>1,124,614</u>
	<u>\$ 5,134,620</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 83,272	\$ -	\$ 83,272
2018	121,126	-	121,126
2019	215,240	35,864	251,104
2020	215,240	34,451	249,691
2021	215,240	33,037	248,277
2022 through 2026	1,303,499	139,803	1,443,302
2027 through 2031	1,455,031	92,061	1,547,092
2032 through 2036	1,186,209	42,298	1,228,507
2037 through 2040	<u>339,763</u>	<u>2,986</u>	<u>342,749</u>
	<u>\$ 5,134,620</u>	<u>\$ 380,500</u>	<u>\$ 5,515,120</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.	\$ 1,407,175
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.	<u>744,427</u>
	<u>\$ 2,151,602</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

The Diving Seagull, Inc. (DSI), Continued:

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 540,483	\$ 126,818	\$ 667,301
2018	577,014	90,287	667,301
2019	616,614	50,687	667,301
2020	<u>417,491</u>	<u>10,128</u>	<u>247,619</u>
	<u>\$ 2,151,602</u>	<u>\$ 277,920</u>	<u>\$ 2,429,522</u>

(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, 2016, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2016</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 2,944,610	\$ -	\$ (82,600)	\$ 2,862,010	\$ 70,010
Loan 1816	151,331	-	(35,675)	115,656	7,241
Loan 1873	249,391	-	(24,793)	224,598	23,712
Loan 1874	<u>621,997</u>	-	<u>(44,604)</u>	<u>577,393</u>	<u>33,080</u>
	<u>3,967,329</u>	<u>-</u>	<u>(187,672)</u>	<u>3,779,657</u>	<u>134,043</u>
Other:					
Compensated absences	624,893	324,929	(400,435)	549,387	424,446
Land acquisition claims	<u>249,608</u>	<u>-</u>	<u>-</u>	<u>249,608</u>	<u>-</u>
	<u>874,501</u>	<u>324,929</u>	<u>(400,435)</u>	<u>798,995</u>	<u>424,446</u>
	<u>\$ 4,841,830</u>	<u>\$ 324,929</u>	<u>\$ (588,107)</u>	<u>\$ 4,578,652</u>	<u>\$ 558,489</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, 2016, the State recognized a foreign exchange gain of \$21,184 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(7) Change in Long-Term Obligations, Continued

Primary Government, Continued

As of September 30, 2016, \$249,608 in land acquisition claims payable due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

Discretely Presented Component Units

During the year ended September 30, 2016, the following changes occurred in liabilities reported as part of the component unit's long-term liabilities in the statement of net position:

	Balance October 1,			Balance September 30,	Due Within
	<u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>2016</u>	<u>One Year</u>
Loans payable:					
YSPSC	\$ 2,531,570	\$ 2,648,467	\$ (45,417)	\$ 5,134,620	\$ 83,272
DSI	<u>2,656,147</u>	<u>-</u>	<u>(504,545)</u>	<u>2,151,602</u>	<u>540,483</u>
	<u>\$ 5,187,717</u>	<u>\$ 2,648,467</u>	<u>\$ (549,962)</u>	<u>\$ 7,286,222</u>	<u>\$ 623,755</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 Fund	Grants Assistance Fund	Yap State Investment Trust	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:						
Permanent fund principal	\$ -	\$ -	\$ 46,246,883	\$10,196,323	\$ -	\$ 56,443,206
Pacific Islands Development Bank	1,438,866	-	-	-	-	1,438,866
Bank of the FSM	2,278,350	-	-	-	-	2,278,350
Restricted for:						
Debt service	1,420,507	-	-	-	-	1,420,507
General government	-	1,993,360	-	-	-	1,993,360
Education	-	389,735	-	-	-	389,735
Health services	-	375,623	-	-	-	375,623
Infrastructure	-	958,022	-	-	-	958,022
Public works and transportation	-	-	-	-	349,939	349,939
Committed for:						
General government	194,121	-	-	-	482,655	676,776
Debt service	200,000	-	-	-	-	200,000
Infrastructure	671,131	-	-	-	-	671,131
Loan program	3,000,000	-	-	-	-	3,000,000
2018 Micronesian Games	1,371,210	-	-	-	-	1,371,210
Other programs	1,271,446	-	-	-	-	1,271,446
Assigned	1,078,339	-	-	-	-	1,078,339
Unassigned	<u>5,697,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(790)</u>	<u>5,696,480</u>
	<u>\$ 18,621,040</u>	<u>\$ 3,716,740</u>	<u>\$ 46,246,883</u>	<u>\$ 10,196,323</u>	<u>\$ 831,804</u>	<u>\$ 79,612,790</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(9) Special Item

During the year ended September 30, 2016, the State determined that certain General Fund accounts receivable of \$753,741 were no longer collectible. As a result of such determination, the State wrote off these receivables and recognized this transaction as a special item.

(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, 2016, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>475,186</u>	\$ <u>1,494,930</u>	\$ <u>640,659</u>	\$ <u>2,610,775</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, 2016. 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 the Uniform Guidance. 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, 2016. 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, 2016

(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, 2016, 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
Pacific Islands Development Bank loan program	3,000,000
Yap State Development Investment Loan (YSL No. 5-1)	193,402
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)	191,877
12 <sup>th</sup> Festival of Pacific Arts and Culture	46,500
Micronesian Track and Field Championship	7,112
Yap Community Development Program	150,000
2018 Micronesian Games	<u>1,371,210</u>
	<u>5,642,656</u>

Foreign Assistance Grants Fund

Yap Community Development Program Matching (YSL No. 5-34) 150,000

Total Continuing Appropriations \$ 5,792,656

Fishing License Fees

The Diving Seagull, Inc. (DSI) may be liable for fishing license fees incurred for the year ended September 30, 2016 with the Parties to the Nauru Agreement Office (Nauru Agreement). Outstanding unpaid fishing license fees under demand from the Nauru Agreement are \$2,445,585 as of September 30, 2016 while the balance recorded by DSI is \$526,641. No provision for this matter has been made in the State's financial statements. Resolution of this matter may have a material impact on the State's financial statements due to the inability to predict the ultimate outcome.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2016

(11) Budgetary Compliance

For the year ended September 30, 2016, significant over-expenditures exceeded appropriations within the General Fund for the following:

Department of Resources and Development	\$ 73,344
Environment Protection Agency	\$ 87,741
Yap CAP	\$ 42,603
Debt service	\$ 437,937

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, 2016**

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, 2016

	<u>Budgeted Amounts</u>		Actual - Budgetary	Variance with <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	Basis (see Note 1)	
Revenues:				
Other	\$ 4,439,774	\$ 4,994,213	\$ 6,279,294	\$ 1,285,081
Total revenues	<u>4,439,774</u>	<u>4,994,213</u>	<u>6,279,294</u>	<u>1,285,081</u>
Expenditures:				
Current:				
Judiciary	201,093	201,093	205,960	(4,867)
Council of traditional leaders	182,955	182,955	174,471	8,484
General government	1,197,728	1,205,728	1,122,809	82,919
Economic development	357,188	357,188	430,532	(73,344)
Public safety	593,628	593,628	569,334	24,294
Community affairs	316,201	316,201	300,599	15,602
Education	71,911	168,911	74,955	93,956
Public works and transportation	1,837,734	1,946,636	1,520,616	426,020
Health services	516,743	915,106	546,514	368,592
Boards and commissions	497,929	497,929	445,746	52,183
Payments to component units	32,235	32,235	29,556	2,679
Other appropriations	152,860	152,860	193,682	(40,822)
Debt service	-	-	437,937	(437,937)
Others	271,230	271,230	41,370	229,860
Total expenditures	<u>6,229,435</u>	<u>6,841,700</u>	<u>6,094,081</u>	<u>747,619</u>
Excess (deficiency) of revenues over (under) expenditures	(1,789,661)	(1,847,487)	185,213	2,032,700
Special item:				
Write off of receivables	-	-	(753,741)	(753,741)
Net change in fund balance	(1,789,661)	(1,847,487)	(568,528)	1,278,959
Encumbrances	538,742	538,742	475,186	(63,556)
Fund balance at the beginning of the year	<u>18,714,382</u>	<u>18,714,382</u>	<u>18,714,382</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 17,463,463</u>	<u>\$ 17,405,637</u>	<u>\$ 18,621,040</u>	<u>\$ 1,215,403</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, 2016

(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, 2016**

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2016

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Foreign	Yap	Compact		
		Assistance Grants	Investment Trust	Trust		
Expenditures:						
Salaries and wages	\$ 2,654,905	\$ 6,246,384	\$ -	\$ -	\$ 82,237	\$ 8,983,526
Grants and subsidies	41,280	-	-	-	568,990	610,270
Utilities	625,322	1,218,212	-	-	-	1,843,534
Contractual services	125,252	545,899	-	-	210,420	881,571
Supplies and materials	86,625	1,148,455	-	-	3,632	1,238,712
Construction Maintenance	-	19,556	-	-	-	19,556
Scholarship and training	175,000	234,831	-	-	-	409,831
Travel	187,211	651,260	-	-	43,145	881,616
Capital outlay	65,976	480,178	-	-	46,147	592,301
Rentals	3,763	14,775	-	-	-	18,538
Food stuffs	97,265	232,702	-	-	-	329,967
Communications	111,537	155,557	-	-	-	267,094
Printing and reproduction	-	60,772	-	-	-	60,772
Medical supplies	-	1,149,968	-	-	-	1,149,968
Repairs and maintenance	92,977	339,848	-	-	-	432,825
Freight	5,520	43,073	-	-	-	48,593
Professional services	14,516	363,772	-	-	-	378,288
POL	230,337	165,520	-	-	7,891	403,748
Allowances	81,000	4,750	-	-	-	85,750
Leased housing and land	2,066	-	-	-	-	2,066
Principal repayment	166,488	-	-	-	-	166,488
Interest payments	271,449	-	-	-	-	271,449
Other	580,406	345,149	-	-	135,526	1,061,081
	<u>\$ 5,618,895</u>	<u>\$ 13,420,661</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,097,988</u>	<u>\$ 20,137,544</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2016

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, 2016  
(with comparative totals for the year ended September 30, 2015)

	<u>2016</u>	<u>2015</u>
Revenues:		
Revenue sharing:		
Import tax	\$ 738,049	\$ 662,318
Fuel tax	371,074	295,005
Income tax	564,715	577,021
Business gross receipts tax	<u>600,639</u>	<u>591,276</u>
	<u>2,274,477</u>	<u>2,125,620</u>
Excise taxes:		
Alcoholic beverages	401,917	405,515
Gasoline and diesel	84,393	107,094
Tobacco	131,726	112,812
Other excise taxes	<u>482,765</u>	<u>448,051</u>
	<u>1,100,801</u>	<u>1,073,472</u>
Fees and charges:		
Licenses and permits	85,550	85,749
Fines/sale of confiscated property	41,284	38,018
Leases and other rentals	<u>197,369</u>	<u>217,757</u>
	<u>324,203</u>	<u>341,524</u>
Departmental charges:		
Sea transportation	275,440	276,738
Air transportation	220,452	180,518
Hospital services	339,961	367,127
Other	<u>73,941</u>	<u>55,661</u>
	<u>909,794</u>	<u>880,044</u>
Net change in the fair value of investments	<u>1,554,631</u>	<u>(215,098)</u>
Other revenues	<u>115,388</u>	<u>268,199</u>
Total revenues	<u>6,279,294</u>	<u>4,473,761</u>
Expenditures:		
Current:		
Judiciary	<u>189,224</u>	<u>196,792</u>
Councils of Traditional Leaders:		
Council of Pilung	74,469	83,729
Council of Tamol	<u>94,404</u>	<u>78,491</u>
	<u>168,873</u>	<u>162,220</u>
General government:		
Office of the Governor	162,939	230,209
State Legislature	412,418	434,698
Office of Administrative Services	407,058	468,687
Office of Planning, Budget and Statistics	<u>71,559</u>	<u>76,739</u>
	<u>1,053,974</u>	<u>1,210,333</u>
Resources and Development:		
Department of Resources and Development	<u>400,111</u>	<u>470,635</u>
Public Safety:		
Department of Public Safety/Attorney General	<u>560,882</u>	<u>640,290</u>

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, 2016  
(with comparative totals for the year ended September 30, 2015)

	2016	2015
Expenditures, continued:		
Current, continued:		
Community Affairs		
Department of Public Affairs	286,193	360,696
Public Works and Transportation:		
Department of Public Works and Transportation	1,309,236	1,389,799
Education Services:		
Department of Education	11,622	45,192
Health Services:		
Department of Health Services	518,299	382,106
Boards and Commissions:		
EPA Administration Board	76,877	-
Rural Development	12,568	12,052
Historic Preservation Office	92,180	93,653
Yap State Scholarship	175,000	-
Election Commissioner	45,694	77,585
Yap Investment Trust	20,784	17,181
	423,103	200,471
Payments to component units:		
Public Transportation System	29,556	29,556
Other appropriations:		
Public Auditor and Staff	-	7,278
Micronesian Legal Services Corporation	41,280	41,280
Japan Overseas Cooperation Volunteers	8,889	8,850
Peace Corps Program	24,000	14,000
Yap Community Action Program	118,216	76,282
Others	37,500	136,645
	229,885	284,335
Debt service:		
Principal repayments	166,488	169,100
Interest payments	271,449	263,700
	437,937	432,800
Total expenditures	5,618,895	5,805,225
Excess (deficiency) of revenues over (under) expenditures	660,399	(1,331,464)
Special item:		
Less: Write-off of receivables	753,741	321,353
Net change in fund balance	(93,342)	(1,652,817)
Fund balance at the beginning of the year	18,714,382	20,367,199
Fund balance at the end of the year	\$ 18,621,040	\$ 18,714,382

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, 2016

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final	Budgetary Basis	
Revenues:				
Other revenues	\$ 4,439,774	\$ 4,994,213	\$ 6,279,294	\$ 1,285,081
Total revenues	<u>4,439,774</u>	<u>4,994,213</u>	<u>6,279,294</u>	<u>1,285,081</u>
Expenditures:				
Current:				
Judiciary	<u>201,093</u>	<u>201,093</u>	<u>205,960</u>	<u>(4,867)</u>
Councils of Traditional Leaders:				
Council of Pilung	87,392	87,392	76,817	10,575
Council of Tamol	<u>95,563</u>	<u>95,563</u>	<u>97,654</u>	<u>(2,091)</u>
	<u>182,955</u>	<u>182,955</u>	<u>174,471</u>	<u>8,484</u>
General government:				
Office of the Governor	179,781	179,781	167,241	12,540
State Legislature	437,444	437,444	421,101	16,343
Office of Administrative Services	482,261	490,261	454,687	35,574
Office of Planning, Budget and Statistics	<u>98,242</u>	<u>98,242</u>	<u>79,780</u>	<u>18,462</u>
	<u>1,197,728</u>	<u>1,205,728</u>	<u>1,122,809</u>	<u>82,919</u>
Economic Development:				
Department of Resources and Development	<u>357,188</u>	<u>357,188</u>	<u>430,532</u>	<u>(73,344)</u>
Public Safety:				
Department of Public Safety/Attorney General	<u>593,628</u>	<u>593,628</u>	<u>569,334</u>	<u>24,294</u>
Community Affairs:				
Department of Public Affairs	<u>316,201</u>	<u>316,201</u>	<u>300,599</u>	<u>15,602</u>
Education:				
Department of Education	<u>71,911</u>	<u>168,911</u>	<u>74,955</u>	<u>93,956</u>
Public Works and Transportation:				
Department of Public Works and Transportation	<u>1,837,734</u>	<u>1,946,636</u>	<u>1,520,616</u>	<u>426,020</u>
Health services:				
Department of Health Services	<u>516,743</u>	<u>915,106</u>	<u>546,514</u>	<u>368,592</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, 2016

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Boards and Commissions:				
Environment Protection Agency	-	-	87,741	(87,741)
Rural and Urban Serv. (RUS)	155,177	155,177	12,615	142,562
Historic Preservation Office	95,440	95,440	102,192	(6,752)
Yap State Scholarship	175,000	175,000	175,000	-
Yap State Election Commission	50,724	50,724	47,349	3,375
Yap Investment Trust	21,588	21,588	20,849	739
	<u>497,929</u>	<u>497,929</u>	<u>445,746</u>	<u>52,183</u>
Payments to component units:				
Public Transportation System	32,235	32,235	29,556	2,679
	<u>32,235</u>	<u>32,235</u>	<u>29,556</u>	<u>2,679</u>
Other appropriations:				
Micronesian Legal Services Corporation	42,950	42,950	41,280	1,670
Japan Overseas Cooperation Volunteers	9,000	9,000	8,889	111
Peace Corps Program	24,000	24,000	24,000	-
Yap CAP	76,910	76,910	119,513	(42,603)
	<u>152,860</u>	<u>152,860</u>	<u>193,682</u>	<u>(40,822)</u>
Debt service:				
Principal repayments	-	-	166,488	(166,488)
Interest payments	-	-	271,449	(271,449)
	<u>-</u>	<u>-</u>	<u>437,937</u>	<u>(437,937)</u>
Others:				
Other	271,230	271,230	41,370	229,860
	<u>271,230</u>	<u>271,230</u>	<u>41,370</u>	<u>229,860</u>
<b>Total expenditures</b>	<u>6,229,435</u>	<u>6,841,700</u>	<u>6,094,081</u>	<u>747,619</u>
Excess (deficiency) of revenues over (under) expenditures	(1,789,661)	(1,847,487)	185,213	2,032,700
Special item:				
Write off of receivables	-	-	(753,741)	(753,741)
<b>Net change in fund balance</b>	<u>(1,789,661)</u>	<u>(1,847,487)</u>	<u>(568,528)</u>	<u>1,278,959</u>
Encumbrances	538,742	538,742	475,186	(63,556)
Fund balance at the beginning of the year	<u>18,714,382</u>	<u>18,714,382</u>	<u>18,714,382</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 17,463,463</u>	<u>\$ 17,405,637</u>	<u>\$ 18,621,040</u>	<u>\$ 1,215,403</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2016

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 20,940	\$ -	\$ 20,940
Investments	284,111	-	284,111
Due from other funds	<u>184,132</u>	<u>399,802</u>	<u>583,934</u>
Total assets	<u>\$ 489,183</u>	<u>\$ 399,802</u>	<u>\$ 888,985</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 2,073	\$ 4,525	\$ 6,598
Other liabilities and accruals	4,455	45,338	49,793
Due to other funds	<u>-</u>	<u>790</u>	<u>790</u>
Total liabilities	<u>6,528</u>	<u>50,653</u>	<u>57,181</u>
Fund balances:			
Restricted	-	349,939	349,939
Committed	482,655	-	482,655
Unassigned	<u>-</u>	<u>(790)</u>	<u>(790)</u>
Total fund balances	<u>482,655</u>	<u>349,149</u>	<u>831,804</u>
Total liabilities and fund balances	<u>\$ 489,183</u>	<u>\$ 399,802</u>	<u>\$ 888,985</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, 2016

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 830,329	\$ 830,329
Excise taxes	111,526	-	111,526
Fees and charges	193,752	-	193,752
Net change in the fair value of investments	<u>26,061</u>	<u>-</u>	<u>26,061</u>
Total revenues	<u>331,339</u>	<u>830,329</u>	<u>1,161,668</u>
Expenditures by function:			
Current:			
General government	<u>267,659</u>	<u>830,329</u>	<u>1,097,988</u>
Total expenditures	<u>267,659</u>	<u>830,329</u>	<u>1,097,988</u>
Net change in fund balances	63,680	-	63,680
Fund balances at the beginning of the year	<u>418,975</u>	<u>349,149</u>	<u>768,124</u>
Fund balances at the end of the year	<u>\$ 482,655</u>	<u>\$ 349,149</u>	<u>\$ 831,804</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, 2016

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 830,329	\$ 830,329
Excise taxes	111,526	-	111,526
Fees and charges	193,752	-	193,752
Net change in the fair value of investments	<u>26,061</u>	<u>-</u>	<u>26,061</u>
Total revenues	<u>331,339</u>	<u>830,329</u>	<u>1,161,668</u>
Expenditures by account:			
Salaries and wages	-	82,237	82,237
Grants and subsidies	248,376	320,614	568,990
Contractual services	-	210,420	210,420
Supplies and materials	-	3,632	3,632
Travel	-	43,145	43,145
Capital outlay	-	46,147	46,147
POL	-	7,891	7,891
Other	<u>19,283</u>	<u>116,243</u>	<u>135,526</u>
Total expenditures	<u>267,659</u>	<u>830,329</u>	<u>1,097,988</u>
Net change in fund balances	63,680	-	63,680
Fund balances at the beginning of the year	<u>418,975</u>	<u>349,149</u>	<u>768,124</u>
Fund balances at the end of the year	<u>\$ 482,655</u>	<u>\$ 349,149</u>	<u>\$ 831,804</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2016

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, 2016, 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, 2016

	<b>F39</b>	<b>F76</b>	<b>F85</b>	<b>F86</b>	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 20,940	\$ 20,940
Investments	-	-	-	284,111	284,111
Due from other funds	<u>32,537</u>	<u>15,563</u>	<u>126,234</u>	<u>9,798</u>	<u>184,132</u>
Total assets	<u>\$ 32,537</u>	<u>\$ 15,563</u>	<u>\$ 126,234</u>	<u>\$ 314,849</u>	<u>\$ 489,183</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 2,073	\$ -	\$ 2,073
Other liabilities and accruals	-	<u>4,455</u>	-	-	<u>4,455</u>
Total liabilities	<u>-</u>	<u>4,455</u>	<u>2,073</u>	<u>-</u>	<u>6,528</u>
Fund balances:					
Committed	<u>32,537</u>	<u>11,108</u>	<u>124,161</u>	<u>314,849</u>	<u>482,655</u>
Total fund balances	<u>32,537</u>	<u>11,108</u>	<u>124,161</u>	<u>314,849</u>	<u>482,655</u>
Total liabilities and fund balances	<u>\$ 32,537</u>	<u>\$ 15,563</u>	<u>\$ 126,234</u>	<u>\$ 314,849</u>	<u>\$ 489,183</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, 2016

	<b>F39</b>	<b>F76</b>	<b>F85</b>	<b>F86</b>	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 111,526	\$ -	\$ -	\$ -	\$ 111,526
Fees and charges	-	17,450	176,302		193,752
Net change in the fair value of investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,061</u>	<u>26,061</u>
Total revenues	<u>111,526</u>	<u>17,450</u>	<u>176,302</u>	<u>26,061</u>	<u>331,339</u>
Expenditures by function:					
Current:					
General government	<u>78,989</u>	<u>19,283</u>	<u>169,387</u>	<u>-</u>	<u>267,659</u>
Total expenditures	<u>78,989</u>	<u>19,283</u>	<u>169,387</u>	<u>-</u>	<u>267,659</u>
Net change in fund balances	32,537	(1,833)	6,915	26,061	63,680
Fund balances at the beginning of the year	<u>-</u>	<u>12,941</u>	<u>117,246</u>	<u>288,788</u>	<u>418,975</u>
Fund balances at the end of the year	<u>\$ 32,537</u>	<u>\$ 11,108</u>	<u>\$ 124,161</u>	<u>\$ 314,849</u>	<u>\$ 482,655</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, 2016

	<b>F39</b>	<b>F76</b>	<b>F85</b>	<b>F86</b>	<b>F86</b>
	<u>Sports Development</u>	<u>Housing Maintenance</u>	<u>Enterprise</u>	<u>Yap Seed Trust</u>	<u>Total</u>
Revenues:					
Excise taxes	\$ 111,526	\$ -	\$ -	\$ -	\$ 111,526
Fees and charges	-	17,450	176,302		193,752
Net change in the fair value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,061</u>	<u>26,061</u>
Total revenues	<u>111,526</u>	<u>17,450</u>	<u>176,302</u>	<u>26,061</u>	<u>331,339</u>
Expenditures by account:					
Grants and subsidies	78,989	-	169,387	-	248,376
Other	<u>-</u>	<u>19,283</u>	<u>-</u>	<u>-</u>	<u>19,283</u>
Total expenditures	<u>78,989</u>	<u>19,283</u>	<u>169,387</u>	<u>-</u>	<u>267,659</u>
Net change in fund balances	32,537	(1,833)	6,915	26,061	63,680
Fund balances at the beginning of the year	<u>-</u>	<u>12,941</u>	<u>117,246</u>	<u>288,788</u>	<u>418,975</u>
Fund balances at the end of the year	<u>\$ 32,537</u>	<u>\$ 11,108</u>	<u>\$ 124,161</u>	<u>\$ 314,849</u>	<u>\$ 482,655</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2016

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, 2016, 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, 2016

	<b>F51</b>	<b>F53</b>	
	Compact Capital Projects	CFSM Capital Projects	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Due from other funds	\$ -	\$ 399,802	\$ 399,802
	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES AND FUND BALANCES (DEFICIT)</b>			
Accounts payable	\$ -	\$ 4,525	\$ 4,525
Other liabilities and accruals	-	45,338	45,338
Due to other funds	<u>790</u>	<u>-</u>	<u>790</u>
Total liabilities	<u>790</u>	<u>49,863</u>	<u>50,653</u>
Fund balances (deficit):			
Restricted	-	349,939	349,939
Unassigned	<u>(790)</u>	<u>-</u>	<u>(790)</u>
Total fund balances (deficit)	<u>(790)</u>	<u>349,939</u>	<u>349,149</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 399,802</u>	<u>\$ 399,802</u>

See Accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures By Function,  
 and Changes in Fund Balances (Deficit)  
 Year Ended September 30, 2016

	<b>F51</b>	<b>F53</b>	
	Compact Capital Projects	CFSM Capital Projects	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
CFSM grants	\$ -	\$ 830,329	\$ 830,329
Total revenues	<u>-</u>	<u>830,329</u>	<u>830,329</u>
Expenditures by function:			
Current:			
General government	<u>-</u>	<u>830,329</u>	<u>830,329</u>
Net change in fund balances (deficit)	-	-	-
Fund balances (deficit) at the beginning of 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

NONMAJOR GOVERNMENTAL FUNDS  
CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures By Account,  
and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2016

	<b>F51</b>	<b>F53</b>	
	Compact Capital Projects	CFSM Capital Projects	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues:			
CFSM grants	\$ -	\$ 830,329	\$ 830,329
Total revenues	<u>-</u>	<u>830,329</u>	<u>830,329</u>
Expenditures by account:			
Salaries and wages	-	82,237	82,237
Grants and subsidies	-	320,614	320,614
Contractual services	-	210,420	210,420
Supplies	-	3,632	3,632
Travel	-	43,145	43,145
Capital outlay	-	46,147	46,147
POL	-	7,891	7,891
Other	<u>-</u>	<u>116,243</u>	<u>116,243</u>
Total expenditures	<u>-</u>	<u>830,329</u>	<u>830,329</u>
Net change in fund balances (deficit)	-	-	-
Fund balances (deficit) at the beginning of 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>

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Balance Sheet  
September 30, 2016

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
<b>ASSETS</b>																
Receivables:																
Federal agencies	\$ -	\$ 629,164	\$ 154	\$ -	\$ 92,619	\$ -	\$ -	\$ 11,931	\$ 512,788	\$ -	\$ 251,138	\$ 20,228	\$ -	\$ -	\$ (33,566)	\$ 1,484,456
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	600	600
Due from other funds	634,657	-	618,581	160,380	-	917,518	910,415	-	200,349	1,112,300	294,140	198,038	1,177,318	365,147	114,407	6,703,250
Advances	-	427,107	67,343	4,045	20,593	2,495	127,966	12,668	-	-	-	-	-	-	-	662,217
	<u>\$ 634,657</u>	<u>\$ 1,056,271</u>	<u>\$ 686,078</u>	<u>\$ 164,425</u>	<u>\$ 113,212</u>	<u>\$ 920,013</u>	<u>\$ 1,038,381</u>	<u>\$ 24,599</u>	<u>\$ 713,137</u>	<u>\$ 1,112,300</u>	<u>\$ 545,278</u>	<u>\$ 218,266</u>	<u>\$ 1,177,318</u>	<u>\$ 365,147</u>	<u>\$ 81,441</u>	<u>\$ 8,850,523</u>
<b>LIABILITIES AND FUND BALANCES</b>																
<b>BALANCES</b>																
Liabilities:																
Accounts payable	\$ 29,723	\$ 42,945	\$ 150,209	\$ 4,092	\$ 18,787	\$ 29,670	\$ 104,698	\$ 3,745	\$ -	\$ 168	\$ 40,534	\$ 26,830	\$ 12,928	\$ 12,467	\$ 16,892	\$ 493,688
Other liabilities and accruals	13,907	107,010	19,445	6,871	3,739	7,427	34,455	2,932	-	-	38,970	15,483	228	581	4,036	255,084
Unearned revenues	-	-	140,801	153,462	-	109,175	509,493	-	-	867,247	-	73,920	1,163,890	352,099	-	3,370,087
Due to other funds	-	906,316	-	-	90,686	-	-	17,922	-	-	-	-	-	-	-	1,014,924
Total liabilities	<u>43,630</u>	<u>1,056,271</u>	<u>310,455</u>	<u>164,425</u>	<u>113,212</u>	<u>146,272</u>	<u>648,646</u>	<u>24,599</u>	<u>-</u>	<u>867,415</u>	<u>79,504</u>	<u>116,233</u>	<u>1,177,046</u>	<u>365,147</u>	<u>20,928</u>	<u>5,133,783</u>
Fund balances:																
Restricted	<u>591,027</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>713,137</u>	<u>244,885</u>	<u>465,774</u>	<u>102,033</u>	<u>272</u>	<u>-</u>	<u>60,513</u>	<u>3,716,740</u>
Total fund balances	<u>591,027</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>713,137</u>	<u>244,885</u>	<u>465,774</u>	<u>102,033</u>	<u>272</u>	<u>-</u>	<u>60,513</u>	<u>3,716,740</u>
Total liabilities and fund balances	<u>\$ 634,657</u>	<u>\$ 1,056,271</u>	<u>\$ 686,078</u>	<u>\$ 164,425</u>	<u>\$ 113,212</u>	<u>\$ 920,013</u>	<u>\$ 1,038,381</u>	<u>\$ 24,599</u>	<u>\$ 713,137</u>	<u>\$ 1,112,300</u>	<u>\$ 545,278</u>	<u>\$ 218,266</u>	<u>\$ 1,177,318</u>	<u>\$ 365,147</u>	<u>\$ 81,441</u>	<u>\$ 8,850,523</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, 2016

	<b>F6</b>	<b>F10</b>	<b>F11</b>	<b>F12</b>	<b>F13</b>	<b>F14</b>	<b>F15</b>	<b>F16</b>	<b>F18</b>	<b>F19</b>	<b>F20</b>	<b>F21</b>	<b>F22</b>	<b>F23</b>	<b>F25</b>	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
Revenues:																
Compact funding	\$ -	\$ 3,942,121	\$ 3,468,946	\$ 257,120	\$ 417,160	\$ 380,780	\$ 1,534,497	\$ 176,938	\$ 1,832	\$ 118,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,297,856
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,217,143	1,211,107	-	22,427	-	2,450,677
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	316,615	316,615
Departmental charges	-	-	-	-	-	-	-	-	329	-	-	21,495	-	-	-	21,824
	<u>-</u>	<u>3,942,121</u>	<u>3,468,946</u>	<u>257,120</u>	<u>417,160</u>	<u>380,780</u>	<u>1,534,497</u>	<u>176,938</u>	<u>2,161</u>	<u>118,462</u>	<u>1,217,143</u>	<u>1,232,602</u>	<u>-</u>	<u>22,427</u>	<u>316,615</u>	<u>13,086,972</u>
Expenditures by function:																
Current:																
General government	334,018	-	-	257,120	-	380,780	-	176,938	-	-	-	81,980	-	5,665	211,735	1,448,236
Resources and development	-	-	-	-	417,160	-	-	-	-	-	(215)	-	-	-	34,195	451,140
Education	-	3,942,121	-	-	-	-	1,534,497	-	-	-	558,536	42,230	-	-	-	6,077,384
Public Works and transportation	-	-	-	-	-	-	-	-	1,832	118,462	-	-	-	-	47,063	167,357
Health services	-	-	3,468,946	-	-	-	-	-	-	-	544,652	1,050,970	-	4,765	-	5,069,333
Other appropriations	-	-	-	-	-	-	-	-	-	-	114,170	57,422	-	11,997	23,622	207,211
Total expenditures	<u>334,018</u>	<u>3,942,121</u>	<u>3,468,946</u>	<u>257,120</u>	<u>417,160</u>	<u>380,780</u>	<u>1,534,497</u>	<u>176,938</u>	<u>1,832</u>	<u>118,462</u>	<u>1,217,143</u>	<u>1,232,602</u>	<u>-</u>	<u>22,427</u>	<u>316,615</u>	<u>13,420,661</u>
Net change in fund balances	(334,018)	-	-	-	-	-	-	-	329	-	-	-	-	-	-	(333,689)
Fund balances at the beginning 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>
Fund balances at the end of the year	<u>\$ 591,027</u>	<u>\$ -</u>	<u>\$ 375,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 713,137</u>	<u>\$ 244,885</u>	<u>\$ 465,774</u>	<u>\$ 102,033</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ 60,513</u>	<u>\$ 3,716,740</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, 2016

	<b>F6</b>	<b>F10</b>	<b>F11</b>	<b>F12</b>	<b>F13</b>	<b>F14</b>	<b>F15</b>	<b>F16</b>	<b>F18</b>	<b>F19</b>	<b>F20</b>	<b>F21</b>	<b>F22</b>	<b>F23</b>	<b>F25</b>	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
<b>Revenues:</b>																
Compact funding	\$ -	\$ 3,942,121	\$ 3,468,946	\$ 257,120	\$ 417,160	\$ 380,780	\$ 1,534,497	\$ 176,938	\$ 1,832	\$ 118,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,297,856
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	1,217,143	1,211,107	-	22,427	-	2,450,677
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	316,615	316,615
Department charges	-	-	-	-	-	-	-	-	329	-	-	21,495	-	-	-	21,824
	<u>-</u>	<u>3,942,121</u>	<u>3,468,946</u>	<u>257,120</u>	<u>417,160</u>	<u>380,780</u>	<u>1,534,497</u>	<u>176,938</u>	<u>2,161</u>	<u>118,462</u>	<u>1,217,143</u>	<u>1,232,602</u>	<u>-</u>	<u>22,427</u>	<u>316,615</u>	<u>13,086,972</u>
<b>Expenditures by account:</b>																
Salaries and wages	43,703	2,052,333	1,333,709	172,013	157,465	170,887	760,175	79,009	-	-	873,158	573,401	-	4,061	26,470	6,246,384
Utilities	290,315	313,871	399,700	14,342	47,754	23,750	30,243	-	-	-	23,331	68,102	-	684	6,120	1,218,212
Contractual services	-	74,741	114,887	16,437	80,264	19,750	16,131	-	1,832	29,915	42,006	34,574	-	384	114,978	545,899
Supplies and materials	-	551,920	88,042	7,838	17,054	25,180	248,547	29,079	-	-	45,976	117,639	-	6,856	10,324	1,148,455
Construction maintenance	-	-	-	-	-	-	-	-	-	19,556	-	-	-	-	-	19,556
Scholarship and training	-	229,831	5,000	-	-	-	-	-	-	-	-	-	-	-	-	234,831
Travel	-	125,388	61,441	4,491	5,626	25,828	174,439	16,568	-	-	132,155	89,342	-	1,911	14,071	651,260
Capital outlay	-	117,548	162,866	4,705	7,316	18,957	43,132	27,291	-	10,417	19,535	61,530	-	130	6,751	480,178
Rentals	-	9,905	3,095	1,050	-	-	20	-	-	-	425	180	-	-	100	14,775
Food stuffs	-	67,758	54,999	-	-	-	108,333	-	-	-	-	-	-	82	1,530	232,702
Communications	-	49,977	13,121	10,033	22,000	13,041	10,087	9,648	-	-	10,739	16,331	-	300	280	155,557
Printing and reproduction	-	-	2,495	1,259	42,885	-	-	18	-	-	10,128	3,987	-	-	-	60,772
Medical supplies	-	-	1,006,128	-	-	-	-	-	-	-	14,262	129,578	-	-	-	1,149,968
Repairs and maintenance	-	79,650	73,663	20,650	25,948	831	37,756	2,150	-	58,574	4,504	25,485	-	-	10,637	339,848
Freight	-	13,931	21,048	-	488	-	5,525	-	-	-	133	1,948	-	-	-	43,073
Professional services	-	44,758	5,900	-	5,948	50,183	75,000	13,006	-	-	-	45,807	-	4,410	118,760	363,772
POL	-	63,808	58,207	4,302	2,261	3,444	1,353	98	-	-	12,887	18,430	-	530	200	165,520
Allowances	-	-	-	-	-	-	930	-	-	-	-	3,820	-	-	-	4,750
Other	-	146,702	64,645	-	2,151	28,929	22,826	71	-	-	27,904	42,448	-	3,079	6,394	345,149
Total expenditures	<u>334,018</u>	<u>3,942,121</u>	<u>3,468,946</u>	<u>257,120</u>	<u>417,160</u>	<u>380,780</u>	<u>1,534,497</u>	<u>176,938</u>	<u>1,832</u>	<u>118,462</u>	<u>1,217,143</u>	<u>1,232,602</u>	<u>-</u>	<u>22,427</u>	<u>316,615</u>	<u>13,420,661</u>
Net change in fund balances	(334,018)	-	-	-	-	-	-	-	329	-	-	-	-	-	-	(333,689)
Fund balances at the beginning of 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>
Fund balances at the end of year	<u>\$ 591,027</u>	<u>\$ -</u>	<u>\$ 375,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 713,137</u>	<u>\$ 244,885</u>	<u>\$ 465,774</u>	<u>\$ 102,033</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ 60,513</u>	<u>\$ 3,716,740</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 State of Yap as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise State of Yap's basic financial statements, and have issued our report thereon dated June 30, 2017. Our report includes an adverse opinion for the omission of certain component units, a reference to other auditors, and an emphasis-of-other matter paragraph for the implementation of new accounting standards. Other auditors audited the financial statements of the Public Transportation System, as described in our report on 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 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 State of Yap's internal control. Accordingly, we do not express an opinion on the effectiveness of State of Yap's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-003 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002 and 2016-004 to be significant deficiencies.

## **Compliance and Other Matters**

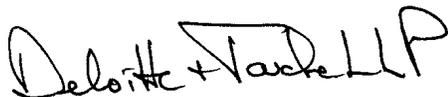
As part of obtaining reasonable assurance about whether State of Yap's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-005 and 2016-006.

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

State of Yap's response to the findings identified in our audit are described in the accompanying corrective action plan. State of Yap's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 30, 2017

**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 THE UNIFORM GUIDANCE**

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

### **Report on Compliance for Each Major Federal Program**

We have audited State of Yap's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of State of Yap's major federal programs for the year ended September 30, 2016. 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 3B to the Schedule of Expenditures of Federal Awards, 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, 2016. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), if required.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of State of Yap's compliance.

***Basis for Qualified Opinion on CFDA 93.224 Consolidated Health Centers***

As described in items 2016-001 and 2016-003 in the accompanying Schedule of Findings and Questioned Costs, State of Yap did not comply with requirements regarding the following:

<b><i>Finding #</i></b>	<b><i>CFDA #</i></b>	<b><i>Program Name</i></b>	<b><i>Compliance Requirement</i></b>
2016-001	93.224	Consolidated Health Centers	Period of Performance of Federal Funds
2016-003	93.224	Consolidated Health Centers	Procurement and Suspension and Debarment

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

***Qualified Opinion on CFDA 93.224 Consolidated Health Centers***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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, 2016.

***Unmodified Opinion on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants***

In our opinion, 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 for the year ended September 30, 2016.

***Other Matters***

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002 and 2016-004. Our opinion on each major federal program is not modified with respect to these matters.

State of Yap’s response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. State of Yap’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control Over Compliance***

Management of 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 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 the Uniform Guidance, 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 State of Yap’s internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-003 to be material weaknesses.

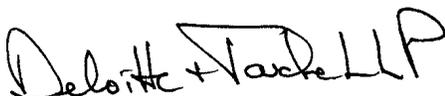
*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-002 and 2016-004 to be significant deficiencies.

State of Yap's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. State of Yap's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

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 State of Yap as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise State of Yap's basic financial statements. We issued our report thereon dated June 30, 2017, which report contained an adverse opinion on those financial statements due to the omission of certain component units, and which report included a reference to other auditors and an emphasis-of-matter paragraph for the implementation of new accounting standards. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of 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 30, 2017

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Identifying Number Assigned by Pass- Through Entity	Passed through to Subrecipient	Federal Expenditures
<u>U. S. Department of Agriculture:</u>				
Direct Programs:				
Cooperative Forestry Assistance	10.664			\$ 81,765
Total U. S. Department of Agriculture				\$ 81,765
<u>U. S. Department of the Interior:</u>				
Direct Programs:				
General Technical Assistance: Early Childhood Education	15.875			\$ 42,229
Pass-Through Grants from the Federated States of Micronesia				
National Government:				
A5				
Economic, Social and Political Development of the Territories:				
Compact of Free Association Sector Grants				
Compact II Education Sector	15.875	00050-2016-COFA-FSM		\$ 3,942,121
Compact II Health Sector				3,468,946
Compact II Private Sector Development			\$ 309,938	417,160
Compact II Capacity Building Sector				380,780
Compact II Environment Sector				257,120
Compact II Infrastructure Sector				118,462
Compact II Infrastructure Maintenance Sector				1,832
Supplemental Education Grant				1,534,497
Compact II ERA				176,938
Historic Prevention Fund Grant-In-Aid	15.904			114,166
Subtotal Pass-Through Grants from Federated States of Micronesia National Government				10,412,022
Total U. S. Department of the Interior				\$ 10,454,251
<u>U. S. Department of State:</u>				
Direct Programs:				
U.S. Ambassadors' Fund for Cultural Preservation	19.025			\$ 21,244
Total U. S. Department of State				\$ 21,244
<u>U. S. Small Business Administration</u>				
Direct Programs:				
8(a) Business Development Program	59.006			36,179
Total U. S. Small Business Administration				36,179
<u>U. S. Department of Education:</u>				
Pass-Through Grants from the Federated States of Micronesia				
National Government:				
A5				
Special Education-Grants to States	84.027A			558,536
Total U. S. Department of Education				558,536
<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			1,050,970
Pass-Through Grants from the Federated States of Micronesia				
National Government:				
A5				
Affordable Care Act (ACA) Personal Responsibility Education Program				
	93.092			26,467
Maternal and Child Health Federal Consolidated Programs Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.110			5,544
Family Planning-Services	93.116			49,035
Grants to States to Support Oral Health Workforce Activities	93.217			33,878
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.236			10,059
Universal Newborn Hearing Screening	93.243			25,758
Immunization Cooperative Grants	93.251			64,802
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.268			68,918
	93.283			87,392

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Identifying Number Assigned by Pass- Through Entity	Passed through to Subrecipient	Federal Expenditures
<u>U. S. Department of Health and Human Services, Continued</u>				
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758			10,702
Assistance Programs for Chronic Disease Prevention and Control	93.945			34,507
Block Grants for Community Mental Health Services	93.958			4,439
Block Grants for Prevention and Treatment of Substance Abuse	93.959			57,447
Maternal and Child Health Services Block Grant to the States	93.994			65,708
Subtotal Pass-Through Grants from Federated States of Micronesia National Government				<u>544,656</u>
Total U. S. Department of Health and Human Services				<u>1,595,626</u>
Total Federal Awards				<u>\$ 12,747,601</u>
Reconciliation to the basic financial statements:				
Foreign Assistance Grants Fund expenditures				\$ 13,420,661
Less Non-U.S. Grants Fund expenditures				(22,427)
Less: CFM Grants Fund expenditures				(316,615)
Less: Section 221(b) Special Block Grant Fund expenditures				<u>(334,018)</u>
				<u>\$ 12,747,601</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, 2016

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 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State of Yap's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of State of Yap under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Yap, it is not intended to and does not present the financial positions or changes in financial positions of State of Yap.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Yap maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

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, 2016 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by the State of Yap, as defined above, for the year ended September 30, 2016.

The Yap State Public Service Corporation (YSPSC), a discretely presented component unit of the State of Yap, separately satisfies the requirements of the Uniform Guidance. YSPSC expended \$220,000 in federal grants during the year ended September 30, 2016.

C. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

D. Subrecipients

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2016

3. Summary of Significant Accounting Policies, Continued

E. Indirect Cost Allocation

The State of Yap did not receive any indirect cost allocation. The State of Yap did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance and did not charge indirect costs against federal programs.

F. 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 for purposes of major program determinations.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2016

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

*Financial Statements*

- |  |                        |
|--|------------------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP : | Adverse and Unmodified |
| Internal control over financial reporting:   |                        |
| 2. Material weakness(es) identified?   | Yes                    |
| 3. Significant deficiency(ies) identified?   | Yes                    |
| 4. Noncompliance material to financial statements noted?   | Yes                    |

*Federal Awards*

Internal control over major federal programs:

- |  |                         |
|--|-------------------------|
| 5. Material weakness(es) identified?   | Yes                     |
| 6. Significant deficiency(ies) identified?   | Yes                     |
| 7. Type of auditors' report issued on compliance for major federal programs:<br>CFDA Program 15.875<br>CFDA Program 93.224 | Unmodified<br>Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?                      | Yes                     |

9. Identification of major federal programs:

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

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 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, 2016

**Section II – Financial Statements Findings**

<u>Finding #</u>	<u>Finding</u>
2016-001	Period of Performance of Federal Funds
2016-002	Allowable Costs/Cost Principles
2016-003	Procurement and Suspension and Debarment
2016-004	Allowable Costs/Cost Principles
2016-005	External Financial Reporting
2016-006	Budgetary Compliance

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

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2016-001	93.224	Period of Performance of Federal Funds	\$ 38,538
2016-002	93.224	Allowable Costs/Cost Principles	35,976
2016-003	93.224	Procurement and Suspension and Debarment	-
2016-004	15.875	Allowable Costs/Cost Principles	-
			<u>\$ 74,514</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2016

Finding No.: 2016-001  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Federal Award No.: H80CS06653  
Requirement: Period of Performance of Federal Funds  
Questioned Costs: \$38,538

Criteria: In accordance with applicable period of performance requirements, recipients may charge only costs that result from obligations incurred during the funding period.

Condition: For 3 (or 15%) of 20 non-payroll transactions tested, aggregating \$58,762 of total non-payroll costs of \$534,864, the following costs were charged to the program beyond the applicable period of performance.

<u>Check</u>	<u>Transaction</u>	<u>Amount</u>
84024	174981T-0000021	\$ 22,654
84541	176509T-0000013	5,161
83346	171981T-0000003	<u>10,723</u>
		\$ <u>38,538</u>

Cause: The cause of the above condition appears to be lack of payment monitoring.

Effect: The effect of the above condition is potential noncompliance with the criteria and question costs result.

Recommendation: We recommend that the State should record Consolidated Health Centers expenditures in the appropriate period and timely monitor compliance with period of performance requirements.

Auditee Response and Corrective Action Plan: We agree with this finding. Communication to the grantor was initiated to grant an extension to allow time for the goods to arrive on-island before the transaction could be properly closed. Due to a misunderstanding by management of both WCHC and the Finance Office, the transaction was processed.

The Yap State Government describes the corrective actions in the corrective action plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2016

Finding No.: 2016-002  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.224 Consolidated Health Centers  
 Federal Award No.: H80CS06653  
 Requirement: Allowable Costs/Cost Principles  
 Questioned Costs: \$35,976

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 in excess of 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 payments for this purpose during FY2016 is \$9,294.

<u>Check</u>	<u>Issued</u>	<u>Leave Payout</u>
345099	01/09/16	\$ 3,462
345071	01/09/16	1,995
345075	01/09/16	1,760
345065	01/09/16	1,068
345076	01/09/16	737
345074	01/09/16	<u>272</u>
		\$ <u>9,294</u>

2. Incentive awards and service fees 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 related expenditures during FY2016 are \$24,682.

<u>Quarter end</u>	<u>Incentive</u>	<u>Service</u>	<u>Total</u>
12/31/2015	\$ 4,050	\$ 4,152	\$ 8,202
03/31/2016	3,600	4,996	8,596
06/30/2016	2,100	3,010	5,110
09/30/2016	1,500	1,274	<u>2,774</u>
			\$ <u>24,682</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2016

Finding No.: 2016-002, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Federal Award No.: H80CS06653  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$35,976

Condition, Continued:

3. 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 related expenditures during FY2016 are \$2,000.

<u>Quarter end</u>	<u>Amount</u>
12/31/2015	\$ 120
03/31/2016	960
06/30/2016	800
09/30/2016	<u>120</u>
	\$ <u>2,000</u>

Cause: The cause of the above conditions appear 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 the above conditions is potential noncompliance with the criteria, and questioned costs result.

Identification as a Repeat Finding: 2015-002

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. This repeat finding was previously discussed with WCHC management to have it addressed with its grantor to come to a resolution. Due to the misunderstanding by management of both WCHC and the Finance Office, request for payments were processed in FY16 resulting in the repeat finding.

The Yap State Government describes the corrective actions in the corrective action plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2016

Finding No.: 2016-003  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Federal Award No.: H80CS06653  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$0

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

Condition: For 1 (or 5%) of 20 non-payroll transactions tested, aggregating \$58,762 of total non-payroll costs of \$534,864, the State requirement to perform formal bidding procedures was waived by WCHC or the State Governor, who does not have the authority to waive such requirement.

<u>Check</u>	<u>Transaction</u>	<u>Amount</u>
83346	171981T-0000003	\$ <u>10,723</u>

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

Effect: The effect of the above condition is questioned costs which, when extrapolated, exceed the threshold and potential noncompliance with the criteria. No questioned cost amount is presented at this finding because the amount is already questioned at Finding No. 2016-001.

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

Auditee Response and Corrective Action Plan: We agree with this finding.

The Yap State Government describes the corrective actions in the corrective action plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2016

Finding No.: 2016-004  
Federal Agency: U.S. Department of the Interior  
Pass-Through Entity: Federated States of Micronesia National Government  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria: Reconciling subsidiary ledgers to the general ledger on a regular basis is fundamental and critical to maintaining accurate financial records and to minimizing the opportunity for misappropriation of funds or fraudulent activities.

Condition: Subsidiary records, particularly accounts payable, contained variances that are not timely reconciled. Because of inadequacy of accounting records, documentary evidence available was limited as the State has been unable to identify the propriety of significant unsubstantiated amounts that form part of the expenditures of Compact Sector Grants amounting to \$145,323 as of September 30, 2016.

The State charged the above balances to the General Fund during the subsequent period and credited the respective program accounts and therefore, the balance above is not reported as a questioned cost.

The above condition impacts other expenditures of other federal awards; however, the amounts are below the \$25,000 threshold, and therefore, such are not reported as a finding.

Cause: The cause of the above condition is the absence of timely or accurate reconciliations of accounts payable subsidiary ledgers.

Effect: The effect of the above condition is a potential misstatement of the financial statements resulting in reduced expenditures of federal awards for the subsequent period.

Recommendation: The State should perform monthly accurate reconciliation of accounts payable timely.

Auditee Response and Corrective Action Plan: We agree with this finding. Lack of timely reconciliation is mainly due to lack of training and technical capacity of the office. The loss of key staffs at critical time of the fiscal year has also compounded the issue which has led to this audit finding.

The Yap State Government describes the corrective actions in the corrective action plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2016

Finding No.: 2016-005  
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 2016 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 unit 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.

Identification as a Repeat Finding: 2015-004

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. However, this repeat finding is outside the authority of the Finance Office to take any corrective actions.

The Yap State Government describes the corrective actions in the corrective action plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2016

Finding No.: 2016-006  
Area: Budgetary Compliance

Criteria: Section 5 of Article IX of the Yap State Constitution states that the legislature shall not appropriate funds in excess of estimated available revenues.

Condition: The current year appropriation of \$5,690,693 significantly exceeded estimated available revenues of \$4,439,774 resulting in a budgetary deficit of \$1,250,919.

Cause: The cause of the above condition appears to be lack of adherence to the criteria.

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

Recommendation: We recommend that the legislature should not appropriate funds in excess of estimated available revenues.

Auditee Response and Corrective Action Plan: We partially agree with this finding. The appropriations are primarily based on operational revenue in addition to other sources of funds such as unassigned investments and realized gains on such investments. Thus, the final budget may be in excess of projected revenues.

The Yap State Government describes the corrective actions in the corrective action plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Year Findings and Questioned Costs  
Year Ended September 30, 2016

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

	Questioned Costs Set Forth in Prior Audit Report <u>2015</u>	Questioned Costs Resolved in Fiscal Year <u>2016</u>	<u>Questioned Costs at September 30, 2016</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	129,385	-	129,385
Unresolved Questioned Costs FY 15	<u>30,354</u>	<u>-</u>	<u>30,354</u>
Questioned Costs FY 16	\$ <u>1,023,998</u>	\$ <u>-</u>	1,023,998 <u>74,514</u>
Total Questioned Costs			\$ <u>1,098,512</u>

**YAP STATE GOVERNMENT**

**CORRECTIVE ACTION PLAN**

**2 CFR § 200.511(c)**

**Year Ended September 30, 2016**

<b>Finding Number</b>	<b>Corrective Action Plan</b>	<b>Anticipated Completion Date</b>	<b>Responsible Person (Contact details)</b>
2016-001	Beginning July 2017, we will initiate discussions with WCHC management to have them reassess their internal policies and processes to determine whether there are necessary changes or controls that must be put in place to mitigate against future occurrences. Division of Finance will also conduct its internal assessment to ensure that there is a clear understanding of the regulations that pertain to period of performance and any other related regulations.	September 30, 2017	Chief of Finance
2016-002	Beginning July 2017, we will inform WCHC management of the recurring findings for the management to make the necessary changes to its incentive program to eliminate these recurring findings. The Division of Finance will cease from processing any further incentive payment requests until policy changes have been put in place that will correct these recurring findings.	June 30, 2017	Chief of Finance
2016-003	Beginning July 2017 the Division of Procurement will take the lead on conducting the necessary meetings and training with key staff from the relevant entities to ensure that a clear understanding is in place regarding all necessary procurement regulations and the necessary compliance actions.	September 30, 2017	Chief of Procurement
2016-004	Discussion and actions have already been initiated to bring in a consultant to assist the Finance Division with training, reviewing internal policies and processes and providing a recommendation on the necessary changes that must be made. Recruitment process will begin July 2017 to fill in the vacancy positions, hopefully, back to a full staff. Additionally, beginning July 2017, management will reassess the current delegation of duties and responsibilities to determine the necessary changes that must also be made to ensure that all tasks are completed successfully.	December 31, 2017	Chief of Finance and OAS, Acting Director
2016-005	We will bring it to the proper authority for a hopeful review and resolution.	July 31, 2017	OAS, Acting Director
2016-006	Changes to the budgetary process is outside the authority of the Finance Office to take any corrective action. However we will bring this issue to the proper authorities for their review and resolution.	July 31, 2017	OAS, Acting Director