

June 30, 2017

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

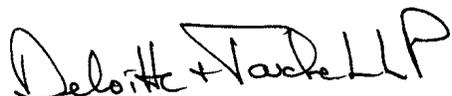
Dear Governor Ganngiyan:

We have performed an audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State) as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 30, 2017.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the State is responsible.

This report is intended solely for the information and use of the State's management, the Office of the Governor, the Office of the FSM National Public Auditor, federal awarding agencies, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Most respectfully,

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

Cc: To Management of the State of Yap



OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated September 15, 2016. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards are to:

- Express an opinion on whether each opinion unit of the State's basic financial statements and the accompanying supplementary information, in relation to the basic financial statements as a whole, for the year ended September 30, 2016 (the "financial statements"), are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), and perform specified procedures on the required supplementary information for the year ended September 30, 2016;
- Express an opinion on whether the supplementary information that accompanies the financial statements, including the Schedule of Expenditures of Federal Awards, is fairly stated, in all material respects, in relation to the financial statements as a whole;
- Report on the State's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2016, based on an audit of financial statements performed in accordance with generally accepted government auditing standards; and
- Express an opinion on the State's compliance with requirements applicable to each major program and report on the State's internal control over compliance in accordance with the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance).

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Office of the Governor are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Office of the Governor of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the State's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance. Our audit does not, however, provide a legal determination of the State's compliance with those requirements.

SIGNIFICANT ACCOUNTING POLICIES

The State's significant accounting policies are set forth in Note 1 to the State's 2016 financial statements. During the year ended September 30, 2016, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the State:

- 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 measureable method for equity investments and resulted 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.
- 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 financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which 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 financial statements.

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.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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.

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.

We have evaluated the significant qualitative aspects of the State's accounting policies, including accounting policies, accounting estimates and financial statement disclosures and concluded that the policies are appropriate, adequately disclosed, and consistently applied by management.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the State's 2016 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2016, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendix A to Attachment I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. We have attached to this letter, as Attachment II, a summary of misstatements corrected by management.

OTHER INFORMATION IN THE ANNUAL REPORTS OF THE STATE

When audit financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the State issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in the State's 2016 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Office of the Governor.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the State's 2016 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2016.



SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence, with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the State's management and staff and had unrestricted access to the State's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the State's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the State is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

MODIFICATIONS TO OUR OPINION

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. Our opinion is modified with respect to this matter and the proposed wording of the modification follows:

"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."

EMPHASIS-OF-MATTER PARAGRAPHS

Implementation of New Accounting Standards

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. During fiscal year 2016, the State implemented GASB Statement No. 72. The wording of the emphasis-of-matter paragraph follows:

"As described in Note 1 to the financial statements, the State implemented 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."



EMPHASIS-OF-MATTER PARAGRAPHS, CONTINUED

Receivables from the FSM National Government

Certain receivables due from the FSM National Government remain uncollected. 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 consultations 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. The wording of the emphasis-of-matter paragraph follows:

"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."

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated June 30, 2017, concerning certain matters involving the State's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated June 30, 2017, concerning the State's compliance with requirements applicable to each major program and on internal control over compliance in accordance with the Uniform Guidance. Although we have included management's written response to our findings, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.



OFFICE OF THE DIRECTOR
Telephone: (691) 350-2307

OFFICE OF ADMINISTRATIVE SERVICES
YAP STATE GOVERNMENT
P.O. Box 610
Colonia, Yap State
Federated States of Micronesia
96943

CABLE ADDRESS: GOV YAP
FAX: (691) 350-4113

Office Telephones:
FINANCE/TREASURY: 350-2142/2107
PROPERTY: 350-2271/2370
PERSONNEL: 350-2145
REVENUE: 350-2472

June 30, 2017

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning GU 96913

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap Federated States of Micronesia (the "Government"), as of and for the year ended September 30, 2016, which collectively comprise the Government's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances of the Government in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The preparation and fair presentation in the basic financial statements of financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, in conformity with GAAP.
- b. 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
 - To prevent and detect fraud.
- c. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for general purpose financial statements obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 - b. Net position components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
 - c. Deposits and investment securities are properly classified in the category of custodial credit risk.
 - d. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - e. Required supplementary information is measured and presented within prescribed guidelines.
 - f. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
 - g. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - h. All funds that meet the quantitative criteria in the GASB Codification of Government Accounting and Financial Reporting Standards ("GASB Codification) Section 2200.159 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
 - i. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - j. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 - k. The Government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and appropriately disclosed and that net position is properly recognized under the policy.
 - l. The Government has followed GASB Codification Section 1800.178 regarding which resources (restricted, committed, assigned, or unassigned) are considered to be spent for expenditures to determine the fund balance classifications for financial reporting purposes.
 - m. Interfund, internal, and intra-Government activity and balances have been appropriately classified and reported.
 - n. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.

2. The Government has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Government has made available to you:
 - a. All financial records and related data for all financial transactions of the Government and for all funds administered by the Government. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Government and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
 - a. Action taken by Government management that contravenes the provisions of federal laws, or Guam laws, and laws and regulations, or of contracts and grants applicable to the Government.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements, which have been provided to you.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. The Government has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Government and do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Government involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others, when the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Government's financial statements communicated by employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification Section C50, *Claims and Judgments*, except as disclosed in Note 10 to the financial statements.

10. Significant assumptions used by us in making accounting estimates are reasonable.
11. We are responsible for the preparation of the Schedule of Expenditures of Federal Awards 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* ("OMB Uniform Guidance"). We have identified and disclosed all of the Government's government programs and related activities subject to the OMB Uniform Guidance compliance audit. In addition, we have accurately completed the appropriate sections of the data collection form.
12. We are responsible for compliance with local, state, and federal laws, rules, and regulations, including compliance with the requirements of OMB Uniform Guidance, and provisions of grants and contracts relating to the Government's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Government is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
13. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on its federal programs.
14. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that are significant deficiencies or material weaknesses in internal control over financial reporting.
15. No events have occurred subsequent to September 30, 2016 that require consideration as adjustments to or disclosures in the schedule of federal awards and related notes or that existed at the end of the reporting period that affect noncompliance during the reporting period.
16. We have disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to September 30, 2016.
17. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by the Government with regard to significant deficiencies and material weaknesses in internal control over compliance, subsequent to September 30, 2016.
18. Federal awards expenditures have been charged in accordance with applicable cost principles.
19. The Reporting Package submitted to the Federal Audit Clearinghouse (FAC) as defined by the Uniform Grant Guidance section 2CFR200.512(3)(c) does not contain protected personally identifiable information.
20. We have disclosed all contracts or other agreements with service organizations.
21. We have disclosed to you all communications from service organizations relating to noncompliance with the requirements of federal statutes, regulations, and terms and conditions of federal awards at those organizations.

22. We have:

- a. Identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each federal program under audit.
- b. Complied, in all material respects, with the requirements identified above in connection with federal awards except as disclosed in the Schedule of Findings and Questioned Costs.
- c. Identified and disclosed interpretations of any compliance requirements that have varying interpretations.
- d. Made available all information related to federal financial reports and claims for advances and reimbursements. Federal financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared and are prepared on a basis consistent with that presented in the Schedule of Expenditures of Federal Awards. The copies of federal program financial reports provided are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
- e. Identified and disclosed all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews related to the objectives of the audit.
- f. Identified previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit and the corrective actions taken to address significant findings and recommendations, including the status of follow-up on prior audit findings (and information about all management decisions) by federal awarding agencies and pass-through entities.
- g. Provided to you our views on the reported findings, conclusions, and recommendations for your report.
- h. Monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Uniform Guidance.
- i. Issued management decisions for audit findings that relate to federal awards made to subrecipients. Such management decisions were issued within six months of acceptance of the audit report by the FAC. Additionally, we have followed up to determine whether the subrecipient has taken timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means that pertain to the federal award provided to the subrecipient from the Government.
- j. Considered the results of the subrecipient's audits and made any necessary adjustments to the auditee's own books and records.

23. We are responsible for follow-up on all prior-year(s) findings. We have prepared a summary schedule of prior-year findings reporting the status of our efforts in implementation of the prior-year's corrective action plan. The summary schedule of prior audit findings includes all findings required to be included in accordance with OMB Uniform Guidance.

24. We are responsible for taking corrective action plan on audit findings and have developed a corrective action plan that meets the requirements of OMB Uniform Guidance. We have included in the corrective action plan for current-year findings, the name of the person in our organization responsible for implementation of the actions, the best actions to be taken, and the estimate of a completion date. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.
25. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
26. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Government*. We believe that we have properly identified and reported as a component unit of the Government each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Government*.

Except where otherwise stated below, matters less than \$137,000 collectively for the governmental activities, \$34,000 collectively for the General Fund, \$80,000 collectively for the Foreign Assistance Grants Fund, \$255,000 collectively for the Yap State Investment Trust Fund, \$51,000 collectively for the Compact Trust Fund, and \$7,000 collectively for the aggregate remaining fund information are not considered to be exceptions that require disclosure for the purpose of the following representations. These amounts are not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

27. Except as listed in Appendix A, there are no transactions that have not been recorded and reflected in the financial statements.
28. The Government has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
29. Regarding related parties:
 - a. We have disclosed to you the identity of the Government's related parties and all the related party relationships and transactions of which we are aware.
 - b. To the extent applicable, related parties and all related-party relationships and transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral) have been appropriately identified, properly accounted for, and disclosed in the financial statements.
30. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
31. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.

- b. The concentration makes the Government vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
32. There are no:
- a. Instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
 - b. Known actual or possible litigation and claims whose effects should be considered when preparing the financial statements that have not been disclosed to you and accounted for and disclosed in accordance with GAAP.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as discussed in Note 10 to the financial statements.
33. The Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as discussed in Notes 1K and 6 to the financial statements.
34. The Government has complied with aspects of contractual agreements that may affect the financial statements.
35. No department or agency of the Government has reported a material instance of noncompliance to us.
36. The Government has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
37. No events have occurred after September 30, 2016, but before June 30, 2017, the date the financial statements were issued that requires consideration as adjustments to or disclosures in the financial statements.
38. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
39. Regarding supplementary information:
- a. We are responsible for the preparation and fair presentation of the supplementary information in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*.

- c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
40. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
41. During the year ended September 30, 2016, the Government 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 resulted in additional disclosures 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 measureable method for equity investment. Such implementation had a material effect on the 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 Government'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 Government's 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 Government's financial statements.
42. In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.

43. In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
44. In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
45. In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Government.
46. 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.
47. 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.
48. 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.
49. 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,

50. Management of the Government believes that it is in compliance with all significant limitations and restrictions of the Asian Development Bank loan covenants as of September 30, 2016.
51. Management is in discussion 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. Management believes that the recorded balances are correct.
52. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
53. Financial instruments with significant individual or group concentration of credit risk have been appropriately identified, properly recorded, and disclosed in the financial statements.
54. The Government 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, the Government management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Government 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. No losses have occurred as a result of these risks in any of the past three fiscal years.
55. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
56. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Government has been discovered.

Very truly yours,



Julius L. Tun
Acting Director
Office of Administrative Services



Maria Mireg
Chief of Finance & Treasury

Yap State Government
 September 30, 2016
 Summary of Uncorrected Misstatements

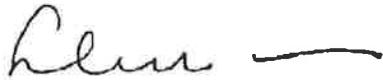
General Fund	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Total Dr (Cr)
PAJE 1A (Dr) Accounts receivable (Cr) Lease income To reconcile the accounts receivable recorded in the general ledger to the aging schedule.	9,699			(9,699)	9,699 (9,699)
PAJE 2A (Dr) Due from other funds (Cr) Advances To correct the account used to record the fuel delivered.	33,037 (33,037)				33,037 (33,037)
PAJE 3A (Dr) Accounts payable (Cr) Other income To reconcile accounts payable recorded in the general ledger to the schedule.		61,627		(61,627)	61,627 (61,627)
PAJE 4A (Dr) Operating expenses (Cr) Accounts payable To reconcile accounts payable recorded in the general ledger to the schedule.		(28,963)		28,963	28,963 (28,963)
PAJE 5A (Dr) Expenses (Cr) Advances To reconcile advances recorded in the general ledger to the schedule.	(118,850)			118,850	118,850 (118,850)
	(109,151)	32,664	-	76,487	-

ATTACHMENT I, CONTINUED

Grant Assistance Funds	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Total Dr (Cr)
PAJE 1B					
AP Fund 06		1,098			1,098
Exp Fund 06				(1,098)	(1,098)
AP Fund 10		(1,459)			(1,459)
Exp Fund 10				1,459	1,459
AP Fund 11		76,604			76,604
Exp Fund 11				(76,604)	(76,604)
AP Fund 12		131			131
Exp Fund 12				(131)	(131)
AP Fund 13		(656)			(656)
Exp Fund 13				656	656
AP Fund 14		(808)			(808)
Exp Fund 14				808	808
AP Fund 15		68,719			68,719
Exp Fund 15				(68,719)	(68,719)
AP Fund 20		29,163			29,163
Exp Fund 20				(29,163)	(29,163)
AP Fund 21		13,709			13,709
Exp Fund 21				(13,709)	(13,709)
AP Fund 22		12,290			12,290
Exp Fund 22				(12,290)	(12,290)
AP Fund 23		11,350			11,350
Exp Fund 23				(11,350)	(11,350)
AP Fund 25		7,091			7,091
Exp Fund 25				(7,091)	(7,091)
To reconcile accounts payable in the general ledger to the schedule of accounts payable					
PAJE 2B					
AP - Fund 14		6,560			6,560
AP - Fund 15		2,702			2,702
Operating expenses - Fund 14				(6,560)	(6,560)
Operating expenses - Fund 15				(2,702)	(2,702)
To remove invalid accounts payable recorded in the general ledger					

PAJE 3B			
(Dr) Federal contribution		56,439	56,439
(Cr) Unearned income	(56,439)		(56,439)
To recognize Federal contribution revenues based on the actual expenses			
	- 170,055	- (170,055)	-

The uncorrected misstatements aggregated herein are not the result of illegal or fraudulent activities. Rather, such represent misstatements. We believe the effects of such uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



Julius L. Tun
Acting Director
Department of Administrative Services



Maria Mireg
Chief of Finance and Treasury

Yap State Government
September 30, 2016
Summary of Corrected Misstatements

General Fund	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Total Dr (Cr)
To adjust investments at NAV due to the implementtion of GASB72	1,278,351		(1,132,403)	(145,948)	1,278,351 (1,132,403) (145,948)
To correct investment account balances	1,525,467 (116,784)			(1,408,683)	1,525,467 (116,784) (1,408,683)
To provide allowance for doubtful accounts - advances to suppliers	(155,581)			155,581	155,581 (155,581)
To provide allowance for doubtful accounts - general	(21,890)			21,890	21,890 (21,890)
To provide allowance for doubtful accounts - lease	(88,555)			88,555	88,555 (88,555)
To correct overstatement of allowance for doubtful accounts - long-term lease	39,639			(39,639)	39,639 (39,639)
To correct understatement of FSM revenue sharing	(487,715)			487,715	487,715 (487,715)
	1,972,932	-	(1,132,403)	(840,529)	-

Grant Assistance Funds	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Total Dr (Cr)
To correct the beginning fund balance - fund 12	(1,342)		1,342		1,342 (1,342)
To correct the beginning fund balance - fund 13	(3,320)		3,320		3,320 (3,320)
To correct the beginning fund balance - fund 14	(3,800)		3,800		3,800 (3,800)

ATTACHMENT II, CONTINUED

To correct the beginning fund balance - fund 15	1,191	1,191		
	(1,191)		(1,191)	
To correct the beginning fund balance - fund 15	4,597	4,597		
	(4,597)		(4,597)	
To correct the beginning fund balance - fund 20	100,273	100,273		
	(100,273)		(100,273)	
To correct overstatement of revenues - fund 21		52,176	52,176	
	(52,176)		(52,176)	
	(114,523)	(52,176)	114,523	52,176
				-

Yap Investment Trust	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Total Dr (Cr)
To correct understatement of investments	3,781,139			(3,781,139)	3,781,139 (3,781,139)
	3,781,139	-	-	(3,781,139)	-

Yap Investment Trust	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Total Dr (Cr)
To correct understatement of investments	917,428			(917,428)	917,428 (917,428)
	917,428	-	-	(917,428)	-

Nonmajor funds	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Total Dr (Cr)
To correct understatement of investments	26,030			(26,030)	26,030 (26,030)
To reclassify the negative receivable to unearned revenue - fund 53	27,066			(27,066)	27,066 (27,066)
	53,096	-	-	(53,096)	-

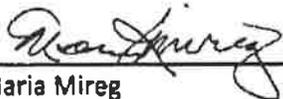
Government-wide	Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Total Dr (Cr)
To eliminate interfund balances	(8,302,898)	8,302,898			(8,302,898) 8,302,898

ATTACHMENT II, CONTINUED

To record current year capital asset additions	448,220	(448,220)	448,220 (448,220)
To record current year depreciation expenses	(2,780,931)	2,780,931	2,780,931 (2,780,931)
To record repayments of ADB loans and SDR adjustment	187,672	(166,488) (21,184)	187,672 (166,488) (21,184)
To reclassify to the current portion of long-term	(134,043) 134,043		(134,043) 134,043
To record annual leave earnings and usage	(324,929) 400,435	324,929 (400,435)	324,929 (324,929) 400,435 (400,435)
To reclassify to the current portion of compensated absences	(424,446) 424,446		(424,446) 424,446
	(10,635,609)	8,566,076	-
		2,069,533	-



Julius L. Tun
 Acting Director
 Department of Administrative Services



Maria Mireg
 Chief of Finance and Treasury