

**YAP VISITORS BUREAU  
(A COMPONENT UNIT OF THE STATE OF YAP)**

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**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Yap Visitors Bureau:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Yap Visitors Bureau, a component unit of Yap State Government, which comprise the statements of net position as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

### **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 an opinion on these financial statements based on our audits. We conducted our audits 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 opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Yap Visitors Bureau as of September 30, 2016 and 2015, and the changes in its net position and its cash flows, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

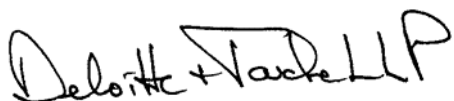
## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2017, on our consideration of the Yap Visitors Bureau'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 Yap Visitors Bureau's internal control over financial reporting and compliance.

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

May 10, 2017

**YAP VISITORS BUREAU  
(A COMPONENT UNIT OF THE STATE OF YAP)**

Management's Discussion and Analysis  
Years Ended September 30, 2016 and 2015

This section of the Yap Visitors Bureau (the "Bureau" or "YVB") annual financial report presents our management's discussion and analysis of the Bureau's financial performance for the years ended September 30, 2016 and 2015, and how it has performed in the past, and its future prospects. It should be read in conjunction with the financial statements, which follow this section.

The Yap Visitors Bureau was created pursuant to Yap State Law (YSL) No. 4-25, as amended, and commenced operations on October 22, 1996. The Yap Visitors Bureau is the agency responsible for, among others, promoting Yap as a visitor's destination, developing industry and promoting local participation at all levels of the tourism industry.

On January 20, 2004, the Governor signed into law YSL No. 6-24 which amended Title 20 of the Yap State code by amending Subsection 1014 concerning the fiscal authority of the Yap Visitors Bureau. This new law makes it clear that, unless otherwise provided by law of the granting authority, all funds received by the Bureau shall be considered grants in aid.

The Bureau received grants from the Compact II Private Sector grant for its operations. For fiscal years 2008 and 2007, a memorandum of agreement with the Bureau and the Yap State Finance Office was to allow monthly reimbursement to the Bureau and thereby liquidate the Bureau's budget.

In fiscal year 2009, FSM law no. 827 was amended to read "Memorandum of Agreement (MOA) or other forms of agreement the purpose of which is to obligate and disburse to a respective agency its annual budget as approved herein, including reimbursements to such agencies for payments for expenditures under their respective budget is prohibited. All funds appropriated by this Act shall be maintained under the authority of the Director of the Office of Administrative Services."

This amendment to the law created a complete change in the way Yap Visitors Bureau was managed. Previously transactions and payments could be made on a timely manner and records kept on a computer accounting program with original hard copy files kept at the YVB office. With the change, official transactions, such as payments and record keeping was required to take place at Yap State Finance. This created many additional layers and delays with problems keeping track of the records and files.

This change in required procedures continues to hamper the Yap Visitors Bureau, due to the inefficiency of Yap State Finance. Routine procedures still take a long time to process and vendors are often paid months late. Documents continue to be lost which often result in audit difficulties. The audit this year was carried on at Yap State Finance, but YVB had to furnish documents that had been lost or misplaced by their office. YVB continues to be charged for the audit procedures.

The restrictions of the YVB funding source provide an increasing number of challenges for the Bureau to make progress in increasing the number of appropriate visitors to Yap. The Bureau is trying to promote International Travel, Food and Entertainment for the island of Yap. The funding source does not allow international travel, food, and many types of entertainment.

**YAP VISITORS BUREAU  
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Management's Discussion and Analysis  
Years Ended September 30, 2016 and 2015

Summary Statements of Net position:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current assets	\$ 177,007	\$ 80,307	\$ 82,899
Long-term assets	801	2,407	2,407
Capital assets, net	<u>11,094</u>	<u>9,140</u>	<u>6,031</u>
Total assets	\$ <u>188,902</u>	\$ <u>91,854</u>	\$ <u>91,337</u>
Liabilities and Net position:			
Accrued payroll and other expenses	\$ <u>4,049</u>	\$ <u>3,749</u>	\$ <u>7,692</u>
Total liabilities	<u>4,049</u>	<u>3,749</u>	<u>7,692</u>
Net position:			
Invested in capital assets	11,094	9,140	6,031
Unrestricted	<u>173,759</u>	<u>78,965</u>	<u>77,614</u>
Total liabilities	<u>184,853</u>	<u>88,105</u>	<u>83,645</u>
Total liabilities and net position	\$ <u>188,902</u>	\$ <u>91,854</u>	\$ <u>91,337</u>

Summary Statements of Revenues, Expenses and Changes in Net position:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating expenses	\$ <u>312,484</u>	\$ <u>279,634</u>	\$ <u>370,468</u>
Loss from operations	(312,484)	(279,634)	(370,468)
Nonoperating revenues	<u>409,232</u>	<u>284,094</u>	<u>271,387</u>
Change in net position	96,748	4,460	(99,081)
Net position at beginning of year	<u>88,105</u>	<u>83,645</u>	<u>182,726</u>
Net position at end of year	\$ <u>184,853</u>	\$ <u>88,105</u>	\$ <u>83,645</u>

For future prospects, YVB will continue with its Product Development and explore more creative ways of marketing Yap as a destination. YVB will continue to develop and support product development to enhance the visitor experience.

Capital Asset and Debt Management

The Bureau has no long-term debt. For more information concerning the Bureau's capital assets, please refer to note 5 to the financial statements.

**YAP VISITORS BUREAU  
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Management's Discussion and Analysis  
Years Ended September 30, 2016 and 2015

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the Bureau's report on the audit of financial statements, which is dated May 6, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be viewed at the Office of the Public Auditor's website at [www.fsmopa.fm](http://www.fsmopa.fm)

**Additional Financial Information**

This discussion and analysis are designed to provide the Yap Visitors Bureau's customers and other interested parties with an overview of the Yap Visitors Bureau's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Don Evans, General Manager, at P.O. Box 988, Colonia, Yap FM 96943 or email [yvb@mail.fm](mailto:yvb@mail.fm).

**YAP VISITORS BUREAU**  
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Statements of Net Position  
September 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 177,007	\$ 80,307
Total current assets	177,007	80,307
Loan receivable, net of an allowance for doubtful accounts of \$0 and \$99,294 in 2016 and 2015, respectively	801	2,407
Capital assets, net	11,094	9,140
	<u>\$ 188,902</u>	<u>\$ 91,854</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accrued payroll and other expenses	\$ 4,049	\$ 3,749
Total liabilities	4,049	3,749
Net position:		
Net investment in capital assets	11,094	9,140
Unrestricted	173,759	78,965
Total net position	184,853	88,105
Total liabilities and net position	<u>\$ 188,902</u>	<u>\$ 91,854</u>

See accompanying notes to financial statements.

**YAP VISITORS BUREAU**  
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Statements of Revenues, Expenses and Changes in Net Position  
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating expenses:		
Promotions and advertising	\$ 103,618	\$ 53,411
Payroll, taxes and benefits	66,228	63,385
Contractual services	55,195	82,805
Travel	35,562	33,050
Communications and utilities	29,132	23,926
Office repairs and supplies	19,428	20,225
Depreciation	<u>3,321</u>	<u>2,832</u>
Total operating expenses	<u>312,484</u>	<u>279,634</u>
Loss from operations	<u>312,484</u>	<u>279,634</u>
Nonoperating revenues:		
Yap State Government subsidies	309,938	274,371
Recoveries of loan losses	99,294	-
Interest income	-	3,600
Other	<u>-</u>	<u>6,123</u>
Total nonoperating revenues	<u>409,232</u>	<u>284,094</u>
Change in net position	96,748	4,460
Net position at beginning of year	<u>88,105</u>	<u>83,645</u>
Net position at end of year	<u>\$ 184,853</u>	<u>\$ 88,105</u>

See accompanying notes to financial statements.



**YAP VISITORS BUREAU**  
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Statements of Cash Flows  
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash payments to vendors for goods and services	\$ (242,935)	\$ (213,417)
Cash payments to employees for services	<u>(65,928)</u>	<u>(67,328)</u>
Net cash used in operating activities	<u>(308,863)</u>	<u>(280,745)</u>
Cash flows from investing activities:		
Interest on loan receivable	-	3,600
Principal collection on loan receivable	<u>100,900</u>	<u>-</u>
Net cash provided by investing activities	<u>100,900</u>	<u>3,600</u>
Cash flows from noncapital financing activities:		
Operating subsidies received from Yap State Government	309,938	274,371
Other	<u>-</u>	<u>6,123</u>
Net cash provided by noncapital financing activities	<u>309,938</u>	<u>280,494</u>
Cash flows from capital financing activities:		
Acquisition of property and equipment	<u>(5,275)</u>	<u>(5,941)</u>
Net cash used in capital financing activities	<u>(5,275)</u>	<u>(5,941)</u>
Net change in cash	96,700	(2,592)
Cash at beginning of year	<u>80,307</u>	<u>82,899</u>
Cash at end of year	<u>\$ 177,007</u>	<u>\$ 80,307</u>
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (312,484)	\$ (279,634)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	3,321	2,832
Increase (decrease) in liabilities:		
Accrued payroll and other expenses	<u>300</u>	<u>(3,943)</u>
Net cash used in operating activities	<u>\$ (308,863)</u>	<u>\$ (280,745)</u>

See accompanying notes to financial statements.

**YAP VISITORS BUREAU  
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Notes to Financial Statements  
September 30, 2016 and 2015

(1) Organization

The Yap Visitors Bureau (the "Bureau" or "YVB") was created pursuant to Yap State Law (YSL) No. 4-25 and commenced operations on October 22, 1996. The primary objectives of YVB include increasing the awareness of Yap as a tourist destination, developing the resources of the private sector, increasing local employment in the tourism industry, encouraging and developing community involvement in tourism, increasing the number of visitor activities and preserving the tourism environment.

YVB is governed by a seven-member Board of Directors, five of whom are appointed from the business community by the Governor with the advice and consent of the State Legislature, one appointed by the Speaker of the State Legislature, and one elected by a vote of the six appointed members who has direct involvement in the tourism industry. A General Manager, hired by the Board of Directors, oversees daily operations.

YVB's financial statements are incorporated into the financial statements of the State of Yap as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of YVB conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds.

The Bureau adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 (Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments). GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into four net position categories:

- (a) *Net investment in capital assets* – This represents the Bureau's investment in capital assets, net of accumulated depreciation, and outstanding principle balances of debt attributable to the acquisition, construction, or improvement of those capital assets.
- (b) *Restricted Nonexpendable* – Net position subject to externally imposed stipulations that require the Bureau to maintain them permanently.
- (c) *Restricted Expendable* – Net position whose use by the Bureau is subject to externally imposed stipulations that can be fulfilled by actions of the Bureau pursuant to those stipulations or that expire by the passage of time.
- (d) *Unrestricted* – Net position that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

**YAP VISITORS BUREAU  
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Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

Proprietary funds are accounted on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities, associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. YVB considers revenues and costs that are directly related to its operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities, such as grants and subsidies, are reflected as non-operating.

Cash

For purposes of the statements of net position and cash flows, cash is defined as cash on hand and cash held in demand deposit accounts.

Loan Receivables

Loan receivables are stated at unpaid principal balance less an allowance for loan losses, which was determined based on assessed individual collectability.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. As a general rule, YVB capitalizes all assets that have a useful life of more than one year. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follow:

Furniture and fixtures	2 - 6 years
Office equipment	3 - 5 years
Vehicles	3 - 5 years

Annual and Sick Leave

Earned but unused annual leave is paid to employees upon termination of their employment. Therefore, YVB accrues such benefits in the period earned. Sick pay benefits are dependent solely on employee illness. Accordingly, an expense for earned sick leave is only recorded when the leave is actually taken.

**YAP VISITORS BUREAU  
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Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2016, the Bureau 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 did not have a material effect on the accompanying financial statements.
- 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.

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.

**YAP VISITORS BUREAU  
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Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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.

**YAP VISITORS BUREAU  
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Notes to Financial Statements  
September 30, 2016 and 2015

(3) Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

YVB does not have a formal deposit or investment policy. However, the deposit and investment policy of the YVB is mandated by its enabling legislation. The Board of Directors is required to engage one or more fund custodians to assume responsibility for the physical possession of the YVB's investments.

GASB Statement No. 40 requires disclosures for deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Bureau'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. YVB does not have a deposit policy for custodial credit risk.

As of September 30, 2016 and 2015, the carrying amounts of the YVB's deposits with financial institutions were \$177,007 and \$80,307, respectively. The bank balances were \$177,022 and \$80,322 at September 30, 2016 and 2015, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, bank deposits in the amount of \$177,022 and \$80,322, respectively, were FDIC insured. YVB has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(4) Loan Receivables

At September 30, 2016 and 2015, loan receivables of \$801 and \$101,701, respectively, represent balances outstanding on a \$150,000 loan dated August 31, 2010. The loan bears interest fixed at 5% and is payable in 60 monthly installments of \$2,830.

YVB and the borrower entered into a forbearance agreement in April 2014 and the loan is payable in 13 monthly installments of \$300 during the forbearance period, which began in April 2014 and ended in April 2015. At September 30, 2016 and 2015, a \$0 and \$99,294, respectively, allowance has been provided for the loan.

(5) Capital Assets

Capital asset activity for the years ended September 30, 2016 and 2015 is as follows:

	Beginning Balance <u>October 1, 2015</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2016</u>
Furniture and fixtures	\$ 13,015	\$ -	\$ -	\$ 13,015
Vehicles	25,500	-	-	25,500
Other equipment	<u>62,234</u>	<u>5,275</u>	<u>-</u>	<u>67,509</u>
	100,749	5,275	-	106,024
Less accumulated depreciation	<u>(91,609)</u>	<u>(3,321)</u>	<u>-</u>	<u>(94,930)</u>
Total	\$ <u>9,140</u>	\$ <u>1,954</u>	\$ <u>-</u>	\$ <u>11,094</u>

**YAP VISITORS BUREAU  
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Notes to Financial Statements  
September 30, 2016 and 2015

(5) Capital Assets, Continued

	Beginning Balance <u>October 1, 2014</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2015</u>
Furniture and fixtures	\$ 13,015	\$ -	\$ -	\$ 13,015
Vehicles	25,500	-	-	25,500
Other equipment	<u>56,293</u>	<u>5,941</u>	<u>-</u>	<u>62,234</u>
	94,808	5,941	-	100,749
Less accumulated depreciation	<u>(88,777)</u>	<u>(2,832)</u>	<u>-</u>	<u>(91,609)</u>
Total	\$ <u>6,031</u>	\$ <u>3,109</u>	\$ <u>-</u>	\$ <u>9,140</u>

(6) Yap State Government Subsidies

During the years ended September 30, 2016 and 2015, YVB received operating subsidies in the amount of \$309,938 and \$274,371, respectively, from the Yap State Government which were funded by the Compact Private Sector Grants. Pursuant to the terms of a Memorandum of Understanding with the Department of Administrative Services, eligible expenditures are to be reimbursed. During the years ended September 30, 2016 and 2015, YVB incurred eligible expenditures of \$309,938 and \$270,728, respectively.

(7) Related Party Transactions

In the ordinary course of business, YVB enters into transactions with the Yap State Government and private businesses in which certain of the YVB board members hold positions of influence. The Yap State subsidies for the years ended September 30, 2016 and 2015 of \$309,938 and \$274,371, respectively, constitute related party transactions.

(8) Risk Management

YVB is self-insured for all risks. Any loss or liability that may result upon the occurrence of a natural disaster, accident or litigation will be borne entirely by YVB. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

**INDEPENDENT AUDITOR'S 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**

The Board of Directors  
Yap Visitors Bureau

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Yap Visitors Bureau (the Bureau), which comprise the statement of net position as September 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated May 10, 2017.

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

In planning and performing our audit of the financial statements, we considered the Bureau'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bureau's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

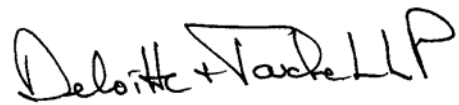


## Compliance and Other Matters

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

## 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.

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

May 10, 2017

**YAP VISITORS BUREAU  
(A COMPONENT UNIT OF THE STATE OF YAP)**

Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2016

There are no prior year findings unresolved as of September 30, 2016.