

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2017**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	5
III. Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Governmental Fund Financial Statements:	
Balance Sheet	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Fund Financial Statements:	
Statement of Net Position	16
Statement of Revenues, Expenses, and Changes in Net Position	17
Statement of Cash Flows	18
Discretely Presented Component Unit Financial Statements:	
Combining Statement of Net Position	19
Combining Statement of Revenues, Expenses, and Changes in Net Position	20
Notes to the Basic Financial Statements	21
IV. Required Supplementary Information - Other than Management's Discussion and Analysis	52
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	53
Notes to Required Supplementary Information - Budgetary Reporting	54
V. Other Supplementary Information	55
Combining Schedule of Expenditures by Account - Governmental Funds	56
General Fund:	57
Statement of Revenues, Expenditures by Function, and Changes in Fund Balance	58
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	60

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS, CONTINUED

	<u>Page No.</u>
V. Other Supplementary Information, Continued	
Nonmajor Governmental Funds:	
Combined Balance Sheet	62
Combined Statement of Revenues, Expenditures by Function, and Changes in Fund Balances	63
Combined Statement of Revenues, Expenditures by Account, and Changes in Fund Balances	64
Nonmajor Governmental Funds - Special Revenue Funds:	65
Combining Balance Sheet	66
Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances	67
Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances	68
Nonmajor Governmental Funds - Capital Project Funds:	69
Combining Balance Sheet	70
Combining Statement of Expenditures by Function, and Changes in Fund Balances	71
Combining Statement of Expenditures by Account, and Changes in Fund Balances	72
Foreign Assistance Grants Fund:	
Combining Balance Sheet	73
Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances	74
Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances	75
VI. Independent Auditors' Report on Internal Control and on Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	76
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	78
Schedule of Expenditures of Federal Awards	81
Notes to Schedule of Expenditures of Federal Awards	83
Schedule of Findings and Questioned Costs	85
Summary Schedule of Prior Audit Findings and Questioned Costs	90

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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**INDEPENDENT AUDITORS' REPORT,  
FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION**

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**YEAR ENDED SEPTEMBER 30, 2017**

## **INDEPENDENT AUDITORS' REPORT**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the State of Yap (the State) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Transportation System, which represents 100% of the assets, net position, and operating revenues of the State's business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Summary of Opinions***

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
Grants Assistance Fund	Unmodified
Yap State Investment Trust	Unmodified
Public Transportation System	Unmodified
Compact Trust Fund	Unmodified

***Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units***

The financial statements do not include financial data for Yap Fishing Authority. Accounting principles generally accepted in the United States of America require the financial data for this component unit be presented as a component unit and financial information about Yap Fishing Authority be part of the discretely presented component units' column, thus increasing the assets, liabilities, net position, revenues, expenses, and changes in net position of the component units. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the discretely presented component units' column is not reasonably determinable.

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2017, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the State of Yap as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matters******Transfer of ADB loan from Gagil-Tomil Water Authority***

As described in Note 7 to the financial statements, financial responsibility for an ADB loan of \$2,411,985, previously administered by the Gagil-Tomil Water Authority, a component unit of the State, was transferred to the Primary Government as of October 1, 2016.

Our opinion is not modified with respect to this matter.

***Other Matters******Required Supplementary Information***

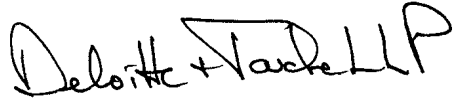
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and notes thereto, on pages 53 and 54, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2018 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely 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 the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

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

June 19, 2018



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2017

This analysis, prepared by the Office of Administrative Services, offers readers of the Yap State Government's (Yap State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2017. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2016 comparative information has been included, where appropriate. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides guidelines on what must be included and excluded from this analysis.

**FINANCIAL HIGHLIGHTS**

- For the fiscal year ended September 30, 2017, Yap State's total net position increased by \$8.0 million (or 8.22%) from \$97.3 million in the prior year to \$105.3 million.
- For the fiscal year ended September 30, 2017, Yap State's total fund balance increased by \$9.51 million (or 11.9%) from \$79.6 million to \$89.1 million.
- In comparison to fiscal year 2016, revenues increased by \$8.21 million or 24.5% and total expenditures increased by \$3.6 million (or 15%). The increase in revenue was due mainly to significant gains in the fair value of investments; (\$2.5 million) was attributed to unrestricted investments and (\$6.07 million) was attributed to the Yap Trust Fund.
- Fiscal year 2017 revenues available for appropriation were \$9.3 million less than budgeted for the general fund. Actual expenditures were \$4.1 million less than the final budgeted amount.
- At the end of fiscal year 2016, the Yap State Trust Fund reported a balance of \$52.3 million, which was an increase of \$6.07 million from the prior year, due to gains in the fair value of the investment.
- At the end of the fiscal year 2017, the unrestricted net position was \$66.30 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

Government-Wide Financial Statements

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2017

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

The Government-Wide Financial Statements of Yap State are divided into three categories:

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

Fund Financial Statements

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

Yap State has two types of funds:

- Governmental funds. Most of Yap State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Yap State programs. Because this information does not encompass the additional long-term focus of the Government-Wide Statements, we provide additional information at the bottom of the Governmental Fund Financial Statements, or on the subsequent page, that explains and reconciles the relationship (or differences) between them.
- Proprietary funds. Services for which Yap State charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the Government-Wide Financial Statements, provide both long- and short-term financial information.

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

Net position may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2017, Yap State's assets exceeded liabilities by \$104.5 million. Of its total net position, \$38.2 million is restricted for specific uses. Included in the restricted amount, \$22.1 million is invested in capital assets (buildings, roads, etc.). Yap State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Yap State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following schedule summarizes Yap State's net position as of September 30, 2017 with comparative figures for the prior year:

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**Management's Discussion and Analysis  
Year Ended September 30, 2017**

	Governmental Activities		Business Type Activities		Totals			
	2017	2016	2017	2016	2017	2016	Change	%
<b>Assets</b>								
Current assets	\$ 24,330,791	\$22,569,506	\$309,574	\$323,092	\$24,640,365	\$22,892,598	\$1,747,767	7.63
Other noncurrent assets	69,971,016	60,142,062	-	-	69,971,016	60,142,062	9,828,954	16.34
Capital assets, net	22,083,940	23,236,355	537,176	182,585	22,621,116	23,418,940	(797,824)	-3.41
<b>Total assets</b>	<b>116,385,747</b>	<b>105,947,923</b>	<b>846,750</b>	<b>505,677</b>	<b>117,232,497</b>	<b>106,453,600</b>	<b>10,778,897</b>	<b>10.13</b>
<b>Liabilities</b>								
Current liabilities	5,921,225	5,094,065	36,662	47,609	5,957,887	5,141,674	816,213	15.87
Non-current liabilities	6,001,909	4,020,163	-	-	6,001,909	4,020,163	1,981,746	49.30
<b>Total liabilities</b>	<b>11,923,134</b>	<b>9,114,228</b>	<b>36,662</b>	<b>47,609</b>	<b>11,959,796</b>	<b>9,161,837</b>	<b>2,797,959</b>	<b>30.54</b>
<b>Net position</b>								
Invested in capital assets, net	22,083,940	21,797,489	537,176	182,585	22,621,116	21,980,074	641,042	2.92
Restricted	16,082,691	15,273,057	-	-	16,082,691	15,273,057	809,634	5.30
Unrestricted	66,295,982	59,746,209	272,912	275,483	66,568,894	60,021,692	6,547,202	10.91
<b>Total net position</b>	<b>\$104,462,613</b>	<b>\$96,816,755</b>	<b>\$810,088</b>	<b>\$458,068</b>	<b>\$105,272,701</b>	<b>\$97,274,823</b>	<b>\$7,997,878</b>	<b>8.22</b>

At the end of fiscal year 2017, Yap State's unrestricted assets show a surplus of \$66.3 million (63.5% of total net position). Included in this amount is the Yap State Investment Trust with a fiscal year end value of \$52.3 million. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2016, Yap State's assets increased by \$10.8 million. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	Governmental Activities		Business Type Activities		Totals			
	2017	2016	2017	2016	2017	2016	Change	%
<b>Revenues:</b>								
Program Revenues:								
Charges for services	\$ 1,451,207	\$ 1,449,573	\$370,990	\$393,717	\$ 1,822,197	\$ 1,843,290	\$ (21,093)	-1.14
Operating grants and contributions	16,295,307	13,895,477	-	-	16,295,307	13,895,477	2,399,830	17.27
Capital grants and contributions	3,121,582	-	-	-	3,121,582	-	3,121,582	0.00
General Revenues:								
Taxes	4,148,734	3,486,804	-	-	4,148,734	3,486,804	661,930	18.98
Unrestricted investment earnings	2,499,322	1,580,692	-	-	2,499,322	1,580,692	918,630	58.12
Operating subsidy from primary government	-	-	110,056	157,242	110,056	157,242	(47,186)	-30.01
Capital contribution from primary government	-	-	465,398	-	465,398	-	465,398	-
Other	1,474,731	115,388	-	-	1,474,731	115,388	1,359,343	1178.06
<b>Total revenues</b>	<b>28,990,883</b>	<b>20,527,934</b>	<b>946,444</b>	<b>550,959</b>	<b>29,937,327</b>	<b>21,078,893</b>	<b>8,858,434</b>	<b>42.03</b>
<b>Expenses:</b>								
General government	4,920,110	3,533,452	594,424	560,509	5,514,534	4,093,961	1,420,573	34.70
Health services	5,864,424	5,538,249	-	-	5,864,424	5,538,249	326,175	5.89
Education	7,718,183	6,274,337	-	-	7,718,183	6,274,337	1,443,846	23.01
Resources and development	1,111,157	857,908	-	-	1,111,157	857,908	253,249	29.52
Public safety	538,078	560,882	-	-	538,078	560,882	(22,804)	-4.07
Public works and transportation	3,925,163	3,283,608	-	-	3,925,163	3,283,608	641,555	19.54
Community affairs	327,301	299,719	-	-	327,301	299,719	27,582	9.20
Boards and commissions	214,494	510,348	-	-	214,494	510,348	295,854	-57.97
Payments to components	2,562,844	29,556	-	-	2,562,844	29,556	2,533,288	8571.15
Judiciary	194,108	189,224	-	-	194,108	189,224	4,884	2.58
Others	1,307,212	1,150,978	-	-	1,307,212	1,150,978	156,234	13.57
<b>Total expenses</b>	<b>28,683,074</b>	<b>22,228,261</b>	<b>594,424</b>	<b>560,509</b>	<b>29,277,498</b>	<b>22,788,770</b>	<b>6,904,774</b>	<b>30.30</b>
<b>Special items:</b>								
Contributions to permanent funds	7,569,986	4,698,567	-	-	7,569,986	4,698,567	2,871,419	61.11
Write-off of receivables	(212,180)	(753,741)	-	-	(212,180)	(753,741)	541,561	-71.85
Gain (Loss) on SDR foreign exchange	(19,757)	21,184	-	-	(19,757)	21,184	40,941	1932.60
<b>Change in net position</b>	<b>7,645,858</b>	<b>2,265,683</b>	<b>352,020</b>	<b>(9,550)</b>	<b>7,997,878</b>	<b>2,256,133</b>	<b>1,500,261</b>	<b>66.50</b>
<b>Net position at the beginning of the year</b>	<b>96,816,755</b>	<b>94,551,072</b>	<b>458,068</b>	<b>467,618</b>	<b>97,274,823</b>	<b>95,018,690</b>	<b>2,256,133</b>	<b>2.37</b>
<b>Net position at the end of the year</b>	<b>\$104,462,613</b>	<b>\$96,816,755</b>	<b>\$810,088</b>	<b>\$458,068</b>	<b>\$105,272,701</b>	<b>\$97,274,823</b>	<b>\$3,756,394</b>	<b>2.86</b>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2017

Total revenues in fiscal year 2017 increased by \$8.5 million over prior year's \$20.5 million primarily due to significant gains in the fair value of investments. Most of the gains were in the Yap State Trust investments.

Total expenses of \$28.5 million in fiscal year 2017 is 22.5% more than that of fiscal year 2016's expenses of \$22.2 million.

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

**FINANCIAL ANALYSIS OF YAP STATE GOVERNMENTAL FUNDS**

As noted earlier, Yap State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2017, Yap State's governmental funds reported a combined fund balance of \$89.12 million, which represents a increase of \$9.5 million in comparison with fiscal year 2016. Of the total fund balance, \$89.1 million is non-spendable, restricted, committed, or assigned. These classifications indicate that the funds are not available for new spending because it is: 1) non-spendable because it is already committed to assets or is restricted by law or other stipulation (\$68.6 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$4.7 million); 3) restricted because the funds are already committed (\$2.0 million); and, 4) restricted and intended for a specific purpose (\$0.4 million). The unassigned combined fund balance is \$13.3 million. As mentioned above, GASB 54 was implemented in fiscal year 2011, which changed the classification definitions in the State's fund balance.

The State's governmental fund changes in fund balances for the years ended September 30, 2017 and 2016 are shown below:

	General Fund		Foreign Assistance Grants Fund		Yap State Investment Trust Fund		Compact Trust Fund		Other Funds	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues:										
Taxes	\$4,033,749	\$3,375,278	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 114,985	\$ 111,526
Compact	-	-	12,097,661	10,297,856	-	-	-	-	-	-
Other/transfers in	<u>5,156,389</u>	<u>2,904,016</u>	<u>2,320,767</u>	<u>2,789,116</u>	<u>6,073,483</u>	<u>3,781,139</u>	<u>1,496,503</u>	<u>917,428</u>	<u>2,145,750</u>	<u>1,050,142</u>
Total revenues	9,190,138	6,279,294	14,418,428	13,086,972	6,073,483	3,781,139	1,496,503	917,428	2,260,735	1,161,668
Expenditures/transfers out	<u>6,361,553</u>	<u>5,618,895</u>	<u>15,100,531</u>	<u>13,420,661</u>	-	-	-	-	<u>2,255,479</u>	<u>1,097,988</u>
Net change in fund balances	<u>\$ 2,828,585</u>	<u>\$ 660,399</u>	<u>\$ (682,103)</u>	<u>\$ (333,689)</u>	<u>\$6,073,483</u>	<u>\$3,781,139</u>	<u>\$1,496,503</u>	<u>\$917,428</u>	<u>\$ 5,256</u>	<u>\$ 63,680</u>

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Yap State budgetary report is impacted by the financial market's performance. The market's performance during the fiscal year resulted in a \$2.5 million gain which contributed to the State's increase in revenues as compared to prior year. Actual expenditures for the fiscal year were \$2.8 million less than the revenues.

Foreign Assistance Grants Fund

The Compact Sector funds are the dominant source of operating grants during fiscal 2017. Activities in this fund was relatively stable during the year.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2017

Yap State Investment Trust and Compact Trust Fund

Revenues for these funds are determined by the results of the State's investments. Those results are primarily based on improvement in the U.S. Stock market, which is what transpired during fiscal year 2017.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2017, amounted to \$117.4 million, net of accumulated depreciation of \$98.4 million, leaving a net book value of \$22.08 million. This represents a net increase of \$366,451 from fiscal year 2016. The table below summarizes Yap State's capital assets:

	2017	2016	Change	%
Land	\$ 3,170,610	\$ 3,170,610	\$ -	0.00
Buildings	6,633,429	4,431,574	2,201,855	49.69
Equipment	244,610	293,318	(48,708)	-16.61
Heavy Equipment	480,193	389,332	90,861	23.34
Vehicles	251,832	145,443	106,389	73.15
Vessels	1,867,805	2,057,069	(189,264)	-9.20
Infrastructure	9,435,461	11,230,143	(1,794,682)	-15.98
Total	<u>\$22,083,940</u>	<u>\$21,717,489</u>	<u>\$ 366,451</u>	<u>1.69</u>

Total capital assets of the primary government were increased by \$2,907,430 of capital contributions (building) from the FSM National Government, \$214,152 of capital contributions (heavy equipment) from Japan Embassy and \$120,633 of capital outlays with various funds, and decreased by \$2,955,764 due to current year depreciation charges.

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

Long-Term Debt

ADB loan #2099 (Omnibus Infrastructure Development loan) was initially transferred to, and administered by, Gagil-Tomil Water Authority (GTWA), a component unit of the State, but such was transferred to the State effective October 1, 2016, which date the State determined that GTWA could not generate sufficient cash flows to fund related debt service. As of September 30, 2017, the balance of this loan amounted to \$2,276,209.

Long-term debt obligations of the Yap State primary government totaled \$5.9 million at September 30, 2017. This debt is comprised of the non-current portion of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, Basic Social Services Loan and Omnibus Infrastructure Development, with all four adding to \$5.9 million, liability for compensated absences of \$545,902, and long-term payments due under land purchase agreements of \$249,608. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by \$1.7 million deposited in a restricted investment account jointly held with the FSM National Government.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis  
Year Ended September 30, 2017

Additional information on Yap State's long-term debt obligations can be found in notes 6 and 7 to the financial statements.

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

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

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 51.2% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of the Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2017 and beyond.

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

**CONTACTING YAP STATE'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors, a general overview of Yap State's finances to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Office of Administrative Services, P.O Box 610, Yap, FM 96943.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Net Position  
September 30, 2017

	Primary Government			Component
	Governmental	Business-Type	Total	Units
	Activities	Activities		
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 2,113,184	\$ 57,679	\$ 2,170,863	\$ 3,635,660
Time certificates of deposit	-	-	-	577,433
Investments	18,545,069	-	18,545,069	1,352,698
Receivables, net of allowance for uncollectibles	1,337,757	14,751	1,352,508	1,760,811
Advances	330,327	-	330,327	-
Inventories	-	178,495	178,495	1,024,790
Other current assets	-	58,649	58,649	124,369
Restricted assets:				
Cash and cash equivalents	2,004,454	-	2,004,454	-
Total current assets	24,330,791	309,574	24,640,365	8,475,761
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	-	2,241,746
Investments	65,368,420	-	65,368,420	-
Investments	2,413,730	-	2,413,730	-
Capital assets:				
Nondepreciable capital assets	3,170,610	-	3,170,610	5,002,693
Capital assets, net of accumulated depreciation	18,913,330	537,176	19,450,506	14,795,436
Other assets	2,188,866	-	2,188,866	274,545
Total noncurrent assets	92,054,956	537,176	92,592,132	22,314,420
Total assets	\$ 116,385,747	\$ 846,750	\$ 117,232,497	\$ 30,790,181
<b>LIABILITIES</b>				
Current liabilities:				
Current portion of long-term obligations	318,604	-	318,604	751,788
Current portion of fines and penalties payable	-	-	-	750,000
Short term loan	-	-	-	250,000
Accounts payable	1,465,454	7,112	1,472,566	2,347,940
Current portion of compensated absences	408,276	-	408,276	-
Accrued interest payable	14,872	-	14,872	-
Other liabilities and accruals	340,359	29,550	369,909	1,511,664
Unearned revenues	3,373,660	-	3,373,660	114,298
Total current liabilities	5,921,225	36,662	5,957,887	5,725,690
Noncurrent liabilities:				
Noncurrent portion of fines and penalties payable	-	-	-	200,000
Noncurrent portion of long-term obligations	5,614,675	-	5,614,675	10,373,038
Noncurrent portion of compensated absences	137,626	-	137,626	-
Other noncurrent liabilities	249,608	-	249,608	-
Total noncurrent liabilities	6,001,909	-	6,001,909	10,573,038
Total liabilities	11,923,134	36,662	11,959,796	16,298,728
<b>NET POSITION</b>				
Net investment in capital assets	22,083,940	537,176	22,621,116	9,236,188
Restricted for:				
Nonexpendable:				
Future operations	11,692,826	-	11,692,826	-
Expendable:				
Compact related	3,034,637	-	3,034,637	-
Debt service	1,355,228	-	1,355,228	-
Other purposes	-	-	-	2,268,862
Unrestricted	66,295,982	272,912	66,568,894	2,986,403
Total net position	104,462,613	810,088	105,272,701	14,491,453
Total liabilities and net position	\$ 116,385,747	\$ 846,750	\$ 117,232,497	\$ 30,790,181

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Activities  
Year Ended September 30, 2017

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
Judiciary	\$ 194,108	\$ -	\$ -	\$ -	\$ (194,108)	\$ -	\$ (194,108)	\$ -
Councils of traditional leaders	175,662	-	-	-	(175,662)	-	(175,662)	-
General government	4,920,110	1,428,788	2,542,200	-	(949,122)	-	(949,122)	-
Resources and development	1,111,157	-	590,554	-	(520,603)	-	(520,603)	-
Public safety	538,078	-	-	-	(538,078)	-	(538,078)	-
Community affairs	327,301	-	-	-	(327,301)	-	(327,301)	-
Education	7,718,183	-	7,339,199	2,907,430	2,528,446	-	2,528,446	-
Public works and transportation	3,925,163	-	472,710	214,152	(3,238,301)	-	(3,238,301)	-
Health services	5,864,424	22,419	5,242,359	-	(599,646)	-	(599,646)	-
Boards and commissions	214,494	-	-	-	(214,494)	-	(214,494)	-
Payments to components	2,562,844	-	-	-	(2,562,844)	-	(2,562,844)	-
Other appropriations	1,052,781	-	108,285	-	(944,496)	-	(944,496)	-
Interest expense	78,769	-	-	-	(78,769)	-	(78,769)	-
Total governmental activities	28,683,074	1,451,207	16,295,307	3,121,582	(7,814,978)	-	(7,814,978)	-
Business-type activities:								
Public Transportation System	594,424	370,990	-	-	-	(223,434)	(223,434)	-
Total primary government	\$ 29,277,498	\$ 1,822,197	\$ 16,295,307	\$ 3,121,582	(7,814,978)	(223,434)	(8,038,412)	-
Component units:								
Yap Visitor's Bureau	\$ 284,244	\$ -	\$ -	\$ -	-	-	-	(284,244)
Yap State Public Service Corporation	5,779,921	5,781,488	-	1,124,382	-	-	-	1,125,949
The Diving Seagull, Inc.	11,141,484	9,204,438	-	-	-	-	-	(1,937,046)
Total component units	\$ 17,205,649	\$ 14,985,926	\$ -	\$ 1,124,382	-	-	-	(1,095,341)
General revenues:								
Taxes:								
FSM revenue sharing:								
Gross revenue taxes					643,385	-	643,385	-
Import taxes					870,840	-	870,840	-
Income taxes					592,053	-	592,053	-
Other taxes					296,309	-	296,309	-
State taxes					1,746,147	-	1,746,147	-
Unrestricted investment earnings					2,499,322	-	2,499,322	160,740
Operating subsidy from primary government					-	110,056	110,056	16,043
Capital contribution from primary government					-	465,398	465,398	259,190
Other					1,474,731	-	1,474,731	(320,760)
					8,122,787	575,454	8,698,241	115,213
Special items:								
Write-off of receivables					(212,180)	-	(212,180)	-
Loss on SDR foreign exchange					(19,757)	-	(19,757)	-
Contributions to permanent funds					7,569,986	-	7,569,986	-
Total general revenues, special items and contributions					15,460,836	575,454	16,036,290	115,213
Change in net position					7,645,858	352,020	7,997,878	(980,128)
Net position at the beginning of the year					96,816,755	458,068	97,274,823	15,471,581
Net position at the end of the year					\$ 104,462,613	\$ 810,088	\$ 105,272,701	\$ 14,491,453

See accompanying notes to financial statements.



STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Balance Sheet  
Governmental Funds  
September 30, 2017

	General	Special Revenue Foreign Assistance Grants	Permanent Yap State Investment Trust	Permanent Compact Trust	Other Governmental Funds	Total
<u>ASSETS</u>						
Cash and cash equivalents	\$ 2,092,189	\$ -	\$ -	\$ -	\$ 20,995	\$ 2,113,184
Investments	20,634,175	-	-	-	324,624	20,958,799
Receivables, net:						
Federal agencies	-	-	-	-	-	-
FSM National Government	464,427	483,497	-	-	118,179	1,066,103
Other	269,854	600	-	-	1,200	271,654
Due from other funds	330,143	6,769,452	-	-	584,880	7,684,475
Advances	97,291	233,036	-	-	-	330,327
Other assets	2,188,866	-	-	-	-	2,188,866
Restricted assets:						
Cash and cash equivalents	2,004,454	-	-	-	-	2,004,454
Investments	1,355,228	-	52,320,366	11,692,826	-	65,368,420
Total assets	<u>\$ 29,436,627</u>	<u>\$ 7,486,585</u>	<u>\$ 52,320,366</u>	<u>\$ 11,692,826</u>	<u>\$ 1,049,878</u>	<u>\$ 101,986,282</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 939,499	\$ 487,966	\$ -	\$ -	\$ 37,989	\$ 1,465,454
Other liabilities and accruals	56,141	260,179	-	-	24,039	340,359
Unearned revenues	-	3,373,660	-	-	-	3,373,660
Due to other funds	7,354,332	330,143	-	-	-	7,684,475
Total liabilities	<u>8,349,972</u>	<u>4,451,948</u>	<u>-</u>	<u>-</u>	<u>62,028</u>	<u>12,863,948</u>
Fund balances:						
Non-spendable	4,602,596	-	52,320,366	11,692,826	-	68,615,788
Restricted	1,355,228	3,034,637	-	-	349,939	4,739,804
Committed	1,363,563	-	-	-	637,911	2,001,474
Assigned	423,947	-	-	-	-	423,947
Unassigned:						
General fund	13,341,321	-	-	-	-	13,341,321
Capital projects funds	-	-	-	-	-	-
Total fund balances	<u>21,086,655</u>	<u>3,034,637</u>	<u>52,320,366</u>	<u>11,692,826</u>	<u>987,850</u>	<u>89,122,334</u>
Total liabilities and fund balances	<u>\$ 29,436,627</u>	<u>\$ 7,486,585</u>	<u>\$ 52,320,366</u>	<u>\$ 11,692,826</u>	<u>\$ 1,049,878</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

22,083,940

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

Long-term debt payable	(5,933,279)
Compensated absences payable	(545,902)
Accrued interest payable	(14,872)
Land acquisition claims payable	(249,608)

(6,743,661)

Net position of governmental activities

\$ 104,462,613

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2017

	General	Special Revenue Foreign Assistance Grants	Permanent Yap State Investment Trust	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:						
Compact funding	\$ -	\$ 12,097,661	\$ -	\$ -	\$ -	\$ 12,097,661
Net change in the fair value of investments	2,458,809	-	6,073,483	1,496,503	40,513	10,069,308
Federal contributions and other grants	-	2,000,511	-	-	-	2,000,511
FSM revenue sharing	2,402,587	-	-	-	-	2,402,587
State taxes	1,631,162	-	-	-	114,985	1,746,147
CFSM grants	-	297,836	-	-	1,899,299	2,197,135
Fees and charges	345,385	-	-	-	205,938	551,323
Departmental charges	877,464	22,420	-	-	-	899,884
Other	1,474,731	-	-	-	-	1,474,731
Total revenues	9,190,138	14,418,428	6,073,483	1,496,503	2,260,735	33,439,287
Expenditures:						
Current:						
Judiciary	194,108	-	-	-	-	194,108
Councils of traditional leaders	170,662	-	-	-	-	170,662
General government	1,264,215	1,347,424	-	-	2,255,479	4,867,118
Resources and development	513,947	590,554	-	-	-	1,104,501
Public safety	538,078	-	-	-	-	538,078
Community affairs	313,775	-	-	-	-	313,775
Education	32,162	7,339,199	-	-	-	7,371,361
Public works and transportation	1,402,513	472,710	-	-	-	1,875,223
Health services	652,630	5,242,359	-	-	-	5,894,989
Boards and commissions	200,689	-	-	-	-	200,689
Payments to component units	150,859	-	-	-	-	150,859
Other appropriations	571,026	108,285	-	-	-	679,311
Debt service	356,889	-	-	-	-	356,889
Total expenditures	6,361,553	15,100,531	-	-	2,255,479	23,717,563
Excess (deficiency) of revenues over (under) expenditures	2,828,585	(682,103)	6,073,483	1,496,503	5,256	9,721,724
Other financing sources (uses):						
Operating transfer in	-	-	-	-	150,790	150,790
Operating transfer out	(150,790)	-	-	-	-	(150,790)
Total other financing sources (uses), net	(150,790)	-	-	-	150,790	-
Special item:						
less: Write-off of receivables	(212,180)	-	-	-	-	(212,180)
Net change in fund balances	2,465,615	(682,103)	6,073,483	1,496,503	156,046	9,509,544
Fund balances at the beginning of the year	18,621,040	3,716,740	46,246,883	10,196,323	831,804	79,612,790
Fund balances at the end of the year	\$ 21,086,655	\$ 3,034,637	\$ 52,320,366	\$ 11,692,826	\$ 987,850	\$ 89,122,334

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended September 30, 2017

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

Net change in fund balances - total governmental funds	\$ 9,509,544
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$2,955,764) exceeded capital outlays (\$120,633) in the current period.	(2,835,131)
Some capital assets were donated by the FSM National Government	2,907,430
Some capital assets were donated by the Japan Government	214,152
Special item associated with a loss on SDR foreign exchange adjustment.	(19,757)
An ADB loan, administered by Gagil-Tomil Water Authority, a component unit of the State, was transferred to the primary government.	(2,411,985)
The incurrence of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:	
Repayment of ADB loans	278,120
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:	
Change in compensated absences payable	<u>3,485</u>
Change in net position of governmental activities	\$ <u>7,645,858</u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Net Position  
Proprietary Fund  
September 30, 2017

	Public Transportation <u>System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 57,679
Receivables, net of allowance for uncollectibles	14,751
Inventories	178,495
Other current assets	<u>58,649</u>
Total current assets	309,574
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>537,176</u>
Total assets	<u>\$ 846,750</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 7,112
Other liabilities and accruals	<u>29,550</u>
Total liabilities	<u>36,662</u>
<u>NET POSITION</u>	
Net investment in capital assets	537,176
Unrestricted	<u>272,912</u>
Total net position	<u>810,088</u>
	<u>\$ 846,750</u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Fund  
Year Ended September 30, 2017

	Public Transportation System
Operating revenues:	
Charges for services	\$ 148,490
Sales	217,234
Other	<u>5,266</u>
Total operating revenues	<u>370,990</u>
Operating expenses:	
Cost of services	131,752
Administration costs	354,566
Depreciation and amortization	<u>108,106</u>
Total operating expenses	<u>594,424</u>
Loss from operations	(223,434)
Nonoperating revenues:	
Operating subsidy from primary government	<u>110,056</u>
Total nonoperating revenues	<u>110,056</u>
Capital contribution from primary government	<u>465,398</u>
Change in net position	352,020
Net position at the beginning of the year	<u>458,068</u>
Net position at the end of the year	<u><u>\$ 810,088</u></u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows  
Proprietary Fund  
Year Ended September 30, 2017

	Public Transportation System
Cash flows from operating activities:	
Cash received from customers	\$ 334,005
Cash payments to employees	(309,441)
Cash payments to suppliers	<u>(166,070)</u>
Net cash used in operating activities	<u>(141,506)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>575,454</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	<u>(462,697)</u>
Net change in cash and cash equivalents	(28,749)
Cash and cash equivalents at the beginning of the year	<u>86,428</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 57,679</u></u>
Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (223,434)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	108,106
Changes in assets and liabilities:	
Other	(44,928)
Receivables	(702)
Inventories	30,399
Accounts payable	(8,947)
Other liabilities and accruals	<u>(2,000)</u>
Net cash used in operating activities	<u><u>\$ (141,506)</u></u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
Combining Statement of Net Position  
Component Units  
September 30, 2017

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 179,628	\$ 1,747,359	\$ 1,708,673	\$ 3,635,660
Time certificate of deposit	-	-	577,433	577,433
Investments	-	-	1,352,698	1,352,698
Receivables, net:				
General	-	1,077,973	-	1,077,973
Other	-	14,055	668,783	682,838
Inventories	-	915,958	108,832	1,024,790
Other current assets	-	114,104	10,265	124,369
Total current assets	<u>179,628</u>	<u>3,869,449</u>	<u>4,426,684</u>	<u>8,475,761</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	-	-	2,241,746	2,241,746
Capital assets:				
Nondepreciable capital assets	-	5,002,693	-	5,002,693
Capital assets, net of accumulated depreciation	9,899	11,878,113	2,907,424	14,795,436
Other assets	-	274,545	-	274,545
Total noncurrent assets	<u>9,899</u>	<u>17,155,351</u>	<u>5,149,170</u>	<u>22,314,420</u>
Total assets	<u>\$ 189,527</u>	<u>\$ 21,024,800</u>	<u>\$ 9,575,854</u>	<u>\$ 30,790,181</u>
<u>LIABILITIES</u>				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 181,690	\$ 570,098	\$ 751,788
Current portion of fines and penalties payable	-	-	750,000	750,000
Short term loan	-	-	250,000	250,000
Accounts payable	2,778	279,681	2,065,481	2,347,940
Unearned revenues	-	114,298	-	114,298
Other liabilities and accruals	<u>7,838</u>	<u>619,071</u>	<u>884,755</u>	<u>1,511,664</u>
Total current liabilities	<u>10,616</u>	<u>1,194,740</u>	<u>4,520,334</u>	<u>5,725,690</u>
Noncurrent liabilities:				
Noncurrent portion of fines and penalties payable	-	-	200,000	200,000
Noncurrent portion of long-term debt	-	<u>9,246,294</u>	<u>1,126,744</u>	<u>10,373,038</u>
Total noncurrent liabilities	<u>-</u>	<u>9,246,294</u>	<u>1,326,744</u>	<u>10,573,038</u>
Total liabilities	<u>10,616</u>	<u>10,441,034</u>	<u>5,847,078</u>	<u>16,298,728</u>
<u>NET POSITION</u>				
Net investment in capital assets	9,899	7,452,822	1,773,467	9,236,188
Restricted, expendable	-	27,116	2,241,746	2,268,862
Unrestricted	<u>169,012</u>	<u>3,103,828</u>	<u>(286,437)</u>	<u>2,986,403</u>
Total net position	<u>178,911</u>	<u>10,583,766</u>	<u>3,728,776</u>	<u>14,491,453</u>
	<u>\$ 189,527</u>	<u>\$ 21,024,800</u>	<u>\$ 9,575,854</u>	<u>\$ 30,790,181</u>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combining Statement of Revenues, Expenses, and Changes in Net Position  
Component Units  
Year Ended September 30, 2017

	Yap Visitor's Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,383,738	\$ 9,202,427	\$ 14,586,165
Sales	-	397,750	2,011	399,761
Total operating revenues	-	5,781,488	9,204,438	14,985,926
Operating expenses:				
Cost of services	-	4,376,147	10,865,911	15,242,058
Administration costs	279,988	556,932	269,572	1,106,492
Depreciation and amortization	4,256	846,842	6,001	857,099
Total operating expenses	284,244	5,779,921	11,141,484	17,205,649
Operating income (loss)	(284,244)	1,567	(1,937,046)	(2,219,723)
Nonoperating revenues (expenses):				
Contributions from the primary government	259,190	-	-	259,190
Contributions from FSM National Government	16,043	-	-	16,043
Interest income	-	2,304	158,436	160,740
Interest expense	-	(64,154)	(108,332)	(172,486)
Other	3,069	(151,343)	-	(148,274)
Total nonoperating revenues (expenses), net	278,302	(213,193)	50,104	115,213
Capital contributions	-	1,124,382	-	1,124,382
Change in net position	(5,942)	912,756	(1,886,942)	(980,128)
Net position at the beginning of the year	184,853	9,671,010	5,615,718	15,471,581
Net position at the end of the year	\$ 178,911	\$ 10,583,766	\$ 3,728,776	\$ 14,491,453

See accompanying notes to financial statements.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

**(1) Summary of Significant Accounting Policies**

The State of Yap (the State) was constituted on December 24, 1982, under the provisions of the Yap State Constitution (the Constitution) as approved by the people of Yap. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

The accompanying financial statements of the State have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

**A. Reporting Entity**

The State is one of the four states that make up the Federated States of Micronesia (FSM), along with the states of Chuuk, Kosrae and Pohnpei. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of 10 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and two Associate Justices, and other courts that may be created by law. The State also has traditional leaders that serve in the Council of Pilung and the Council of Tamol that advise the State on matters concerning customary law and traditional practice.

For financial reporting purposes, the State has included all funds, organizations, agencies, boards, commissions and institutions. The State has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the State, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the State. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each blended and discretely presented component unit of the State has a September 30 year-end.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the State, are deemed to be related organizations. The nature and relationship of the State's component units and related organizations are disclosed in the following section.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

**(1) Summary of Significant Accounting Policies, Continued**

**A. Reporting Entity, Continued**

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The net position and results of operations of the following legally separate entities are presented as part of the State's operations:

**Proprietary Fund:**

Public Transportation System (PTS) PTS was created by Yap State Law (YSL) No. 1-170 and is responsible for the provision of reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to PTS through legislative appropriations.

**Discretely Presented Component Units:**

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

Yap Visitor's Bureau (YVB): YVB was created by YSL No. 4-25 and is responsible for the promotion of Yap as a tourist destination. YVB is governed by a seven-member Board of Directors, of which five members are appointed by the Governor subject to the advice and consent of the Legislature, one member is appointed by the Speaker of the Legislature, and one member is elected by the six appointed members. The State provides financial support to YVB through legislative appropriations.

Yap State Public Service Corporation (YSPSC): YSPSC was created by YSL No. 4-4 and is responsible for the delivery of electricity, water and sewer in the State. YSPSC is governed by a seven-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The State provides financial support to YSPSC through legislative appropriations.

The Diving Seagull, Inc. (DSI): DSI was incorporated in the State on March 17, 1997 and was organized primarily to pursue fishing and other fishing related activities by operating fishing vessels, marketing and selling fish, and developing cold storage and/or transshipment facilities. DSI is governed by a five-member Board of Directors. The State has the ability to impose its will on DSI.

The State's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities or obtaining them directly from the Office of the Public Auditor at the following address:

P.O. Box 927  
Colonia, Yap, FSM 96943

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Omitted Component Units:

The following component units have been omitted from the financial statements due to the lack of available financial information:

Gagil-Tomil Water Authority (GTWA): GTWA was created by YSL No. 1-183 and is responsible for the provision of services in the operation and maintenance of the Gagil-Tomil Water System. GTWA is governed by a nine-member Board of Directors, four of which are appointed by the Gagil member of the Council of Pilung, four appointed by the Tomil member of the Council of Pilung, and one appointed by the Governor. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

Southern Yap Water Authority (SYWA): SYWA was created by YSL No. 1-221 and is responsible for the operation and maintenance of the Southern Yap Water System. SYWA is governed by a six-member Board of Directors, of which one is appointed by the Governor, two members who are appointed by the Municipal Chief of Rull on the Council of Pilung, one of whom shall be from either Lamer or Luwech Villages, and three members who are appointed by the municipal chiefs of Gilman, Kanifay, and Dalipebinaw on the Council of Pilung. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

Yap Fishing Authority (YFA): YFA was created by Yap District Law (YDL) No. 6-13 and is responsible for the promotion, development, and supporting of commercial utilization of living marine resources within the State. YFA is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. The financial activities of this omitted component unit are considered material to the component units' column reporting unit.

Yap Sports Council (YSC): YSC was created by YSL No. 4-65 and is responsible for promoting and encouraging sports participation at all levels of society. YSC is governed by an eleven-member Board of Directors, of which three members are appointed by the Governor subject to the advice and consent of the Legislature, two members are appointed by the Speaker of the Legislature, two members are appointed by the Council of Pilung, two members are appointed by the Council of Tamol, and two members are appointed by the Congress of the FSM National Government. The financial activities of this omitted component unit are not considered material to the component units' column reporting unit.

B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference reported as net position. Net position is reported in the following categories:

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

The government-wide Statement of Net Position reports \$16,082,691 of restricted net position.

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The State reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of the State and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Component Unit Financial Statements:

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a discretely presented component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The State reports the following major funds:

General Fund - this fund is the primary operating fund of the State. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Grants Assistance Fund - a Special Revenue Fund that accounts for funds received under sector grants pursuant to the amended Compact of Free Association; all financial transactions of federally assisted funds, which are subgranted to the State, as well as other direct federal grants that the State received from the United States government, and foreign assistance grants.

Yap State Investment Trust Fund - a Permanent Fund that accounts for certain invested funds established by YSL 7-17 to provide for future State needs. All earnings of the Fund accrue to the fund.

Section 215 Compact Trust Fund - a Permanent Fund that accounts for the State's contributions to the Trust Fund established in accordance with Section 215 of the Compact of Free Association, as amended, to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding.

E. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents of the primary government and the discretely presented component units include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the State. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net position/balance sheet.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

F. Investments

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

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

G. Receivables

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the State for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies".

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the State. The State establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

H. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

I. Interfund Receivables/Payables

During the course of its operations, the State records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet.

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

Inventories of the discretely presented component units are determined by physical count and are valued at the lower of cost or market by the first-in first-out method (FIFO).

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings for the Yap State Early Retirement Scheme with investments recorded in the General Fund of \$1,355,228. Furthermore, investments recorded in the Yap State Investment Trust Fund of \$52,320,366 are restricted pursuant to YSL 7-17, and investments recorded in the Compact Trust Fund of \$11,692,826 are restricted in that they are not available to be used for current operations.

As of September 30, 2017, cash and cash equivalents of the primary government and the discretely presented component units were restricted for the following uses:

Primary Government

Savings accounts established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	\$ 129,141
Deposit accounts established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended	<u>1,875,313</u>
	\$ <u>2,004,454</u>

Discretely Presented Component Units

The Diving Seagull, Inc.:

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

L. Other Assets

The State holds approximately 23.7% of the outstanding shares of Pacific Islands Development Bank with a carrying amount of \$2,188,866. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying financial statements.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

M. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, docks, water and sewer lines, water catchments, and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Machinery and equipment, other than vehicles and boats, are capitalized when the cost of individual items exceed \$50,000. Vehicles and boats, along with significant repair and maintenance qualifying as a betterment of such, are capitalized regardless of cost and depreciated. Buildings and infrastructure projects, along with significant improvements or reconstruction qualifying as a betterment of such, are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

Capital assets of the primary government and the component units are depreciated using the straight-line method over their estimated useful lives, with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

Buildings	40 - 50 years
Infrastructure	25 - 50 years
Facilities	3 - 40 years
Machinery and equipment	3 - 25 years
Furniture and fixtures	3 - 10 years

N. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The State has no items that qualify for reporting in this category.

O. Unearned Revenues

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

P. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of one working day per bi-weekly pay period.

Q. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The State has no items that qualify for reporting in this category.

R. Fund Balance

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

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

S. Risk Financing

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, State management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the State reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. However, no material losses have been incurred as a result of this policy in the last three years.

T. New Accounting Standards

During the year ended September 30, 2017, the State implemented the following pronouncements:

- GASB 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.
- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB 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*.
- GASB 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.
- GASB 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

The implementation of these statements did not have a material effect on the accompanying financial statements.

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

In 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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

U. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

V. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2016 from which summarized information was derived.

(2) Deposits and Investments

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

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

**(2) Deposits and Investments, Continued**

- ii. Stocks - A "B" rating by a national rating service is required. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
- iii. Bonds - Investments in bonds are confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or government agency obligations which are not rated.

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

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

**A. Deposits**

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

As of September 30, 2017, the carrying amount of the primary government's governmental activities total cash and cash equivalents was \$4,117,638 and the corresponding bank balance was \$4,501,364, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017, bank deposits in the amount of \$270,255 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

As of September 30, 2017, the carrying amount of the primary government's business-type activities total cash and cash equivalents was \$57,679. There were no significant differences between cash balances and bank balances. As of September 30, 2017, \$57,679 of cash is maintained in one financial institution subject to FDIC insurance and which is fully FDIC insured.

As of September 30, 2017, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$6,454,839 and the corresponding bank balances were \$6,402,164, which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2017, bank deposits in the amount of \$1,179,643 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

**B. Investments**

The State has invested its excess Compact Funds in a pooled investment fund which is managed under the control of the Federated Development Authority, an entity comprised of the FSM National Government and its four component states. The State has also invested its excess Compact Funds in the Yap State Investment Trust Fund, which was established in the current year to more appropriately account for its investments. The Legislature believes that the State may become more financially independent by placing its invested funds in a Trust account. Investment income originating from the pool accrues to the General Fund.

Primary Government

As of September 30, 2017, the State's investments are as follows:

General Fund:

Fixed income	\$ 7,575,485
Domestic equities	2,413,730
Common equities	10,790,294
Cash management account	<u>1,209,894</u>
	<u>21,989,403</u>

Yap State Investment Trust Fund:

Fixed income	15,688,887
Common equities	22,592,389
International equities	12,721,313
Real estate	186,292
Cash management account	<u>1,131,485</u>
	<u>52,320,366</u>

Compact Trust Fund:

Common trust funds:	
Domestic Equity	\$ 1,725,186
International Equity	2,346,050
Global Equity	1,096,906
Fixed Income	4,645,248
Private Equity	526,912
Hedge Fund	509,130
Real Estate	837,995
Money market funds	<u>5,399</u>

11,692,826

Other Governmental Funds:

Mutual Funds	41,271
Common equities	120,387
International equities	156,492
Money market funds	<u>6,474</u>

324,624

\$ 86,327,219

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

**(2) Deposits and Investments, Continued**

**B. Investments, Continued**

**Primary Government, Continued**

As of September 30, 2017, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

**General Fund:**

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Ratings
		Less than 1	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 138,798	\$ 11,724	\$ 39,893	\$ 77,525	\$ 9,656	Aaa
U.S. Government Agencies Obligations:						
Federal Home Loan Mortgage Corporation	5,254	205	213	-	4,836	Aaa
Government National Mortgage Association	307	-	-	-	307	Aaa
Federal National Mortgage Association	35,724	26,185	3,740	-	5,799	Aaa
Federal Home Loan Bank	8,292	-	-	8,292	-	Aaa
Tennessee Valley Authority	5,848	-	-	5,848	-	Aaa
Freddie MAC	10,129	-	5,343	4,786	-	Aaa
Overseas Private Inv Corp	28,504	-	-	28,504	-	Aaa
Private Export Funding	11,069	-	-	11,069	-	Aaa
Municipal Obligations	21,948	-	11,047	6,563	4,338	Aa1
Corporate Bonds	34,307	10,690	12,319	8,129	3,169	Aaa
Corporate Bonds	16,642	-	13,441	3,201	-	Aa1
Corporate Bonds	5,912	-	3,232	2,680	-	Aa2
Corporate Bonds	15,342	3,208	3,224	8,910	-	Aa3
Corporate Bonds	11,085	-	-	8,376	2,709	A1
Corporate Bonds	10,879	4,285	-	6,594	-	A2
Corporate Bonds	11,271	-	6,423	3,257	1,591	A3
Corporate Bonds	4,960	-	-	2,241	2,719	Baa1
Corporate Bonds	4,896	-	2,157	2,739	-	Baa2
Corporate Bonds	4,999	-	-	-	4,999	Baa3
Corporate Bonds	2,619	-	-	-	2,619	Ba1
Corporate Bonds	11,254	-	-	1,755	9,499	No rating
	<u>\$ 400,039</u>	<u>\$ 56,297</u>	<u>\$ 101,032</u>	<u>\$ 190,469</u>	<u>\$ 52,241</u>	

**Investment Type (no aging schedule)**

	Fair Value	Credit Rating
U.S. Treasury Notes and Bonds	\$ 2,525,585	Aaa
U.S. Government Agencies Obligations	173,093	A2
Mortgage Backed	1,686,108	Aaa
Asset-Backed	117,634	A2
Corporate Bonds - Industrial	1,267,722	Baa1
Corporate Bonds - Finance	832,811	Baa1
Corporate Bonds - Yankee Bond	359,461	A3
Corporate Bonds - Utilities	110,387	Baa2
Corporate Bonds - Others	102,645	A2
	<u>\$ 7,175,446</u>	



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

**(2) Deposits and Investments, Continued**

**B. Investments, Continued**

**Primary Government, Continued**

**Yap State Investment Trust Fund:**

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Ratings
		Less than 1	1-5	6-10	Over 10	
U.S. Treasury Notes and Bonds	\$ 4,468,600	\$ 39,961	\$ 1,971,209	\$ 660,792	\$ 1,796,638	Aaa
U.S. Government Agencies Obligations:						
Federal Home Loan Bank	365,000	-	365,000	-	-	Aaa
Federal National Mortgage Association	400,590	-	400,590	-	-	Aaa
Federal Farm Credit Bank	1,386,516	780,799	605,717	-	-	Aaa
Federal Home Loan Mortgage Corp.	1,307,170	199,716	1,107,454	-	-	Aaa
Asset Backed	1,330,172	-	-	545,942	784,230	No rating
Corporate Bonds	100,909	-	100,909	-	-	Aaa
Corporate Bonds	424,279	106,028	318,251	-	-	Aa2
Corporate Bonds	1,458,345	-	1,099,771	358,574	-	A1
Corporate Bonds	1,306,761	214,445	920,153	172,163	-	A2
Corporate Bonds	1,445,985	-	582,507	863,478	-	A3
Corporate Bonds	200,372	-	200,372	-	-	Aa1
Corporate Bonds	103,566	-	-	103,566	-	Aa3
Corporate Bonds	607,402	97,254	359,658	150,490	-	Baa1
Corporate Bonds	634,939	-	336,849	298,090	-	Baa2
Corporate Bonds	72,692	-	72,692	-	-	Baa3
Corporate Bonds	75,589	-	75,589	-	-	No rating
	<u>\$ 15,688,887</u>	<u>\$ 1,438,203</u>	<u>\$ 8,516,721</u>	<u>\$ 3,153,095</u>	<u>\$ 2,580,868</u>	

The State has the following recurring fair value measurements as of September 30, 2017:

**General Fund**

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury Notes and Bonds	\$ 2,664,383	\$ -	\$ 2,664,383	\$ -
U.S. Government Agencies Obligations	278,220	-	278,220	-
Securitized Assets	1,803,742	-	1,803,742	-
Municipal Obligations	21,948	-	21,948	-
Corporate Bonds	<u>2,807,192</u>	<u>-</u>	<u>2,807,192</u>	<u>-</u>
	7,575,485	-	7,575,485	-
Equity securities:				
U.S. Equities	<u>10,790,294</u>	<u>10,790,294</u>	<u>-</u>	<u>-</u>
Total investments at fair value	18,365,779	\$ <u>10,790,294</u>	\$ <u>7,575,485</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity Investment in Bank of the FSM	2,413,730			
Investments measured at amortized cost:				
Money Market Funds	<u>1,209,894</u>			
	<u>\$ 21,989,403</u>			

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Yap State Investment Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Yap State investment trust funds:				
Common Equities	\$ 22,592,389	\$ 22,592,389	\$ -	\$ -
International Equities	12,721,313	12,721,313	-	-
Fixed Income	<u>15,688,887</u>	<u>15,688,887</u>	-	-
Total investments at fair value	51,002,589	\$ <u>51,002,589</u>	\$ -	\$ -
Investments measured at NAV:				
Real estate	186,292			
Investments measured at amortized cost:				
Certificates of Deposit	956,109			
Cash Management Account	<u>175,376</u>			
	\$ <u>52,320,366</u>			

As of September 30, 2017, the certificates of deposit of Yap State Investment Trust Fund were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017, bank deposits in the amount of \$562,249 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Compact Trust Fund

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Common trust funds:				
Domestic Equity	\$ 1,725,186	\$ 1,725,186	\$ -	\$ -
International Equity	2,346,050	2,346,050	-	-
Global Equity	1,096,906	1,096,906		
Fixed Income	4,645,248	4,645,248	-	-
Private Equity	<u>526,912</u>	-	-	<u>526,912</u>
Total investments at fair value	10,340,302	\$ <u>9,813,390</u>	\$ -	\$ <u>526,912</u>
Investments measured at NAV:				
Hedge Fund	509,130			
Real Estate	837,995			
Investments measured at amortized cost:				
Money market funds	<u>5,399</u>			
	\$ <u>11,692,826</u>			

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

Other Governmental Funds

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Other governmental funds:				
Mutual Funds	\$ 41,271	\$ 41,271	\$ -	\$ -
Common Equities	120,387	120,387	-	-
International Equities	<u>156,492</u>	<u>156,492</u>	-	-
Total investments at fair value	318,150	\$ <u>318,150</u>	\$ -	\$ -
Investments measured at amortized cost:				
Money Market Funds	<u>6,474</u>			
	\$ <u>324,624</u>			

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the State's investment policy.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2017.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2017, the State did not have any investments in a single issuer that represented 5% or more of the investments of the State.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The State does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2017. High yield debt receiving a credit rating below "A" comprises approximately 32.7% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2017. At September 30, 2017, the weighted average maturity of the bonds comprising MIM CFI is 9.96 years.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued

The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2017. High yield debt receiving a credit rating below "A" comprises approximately 79.9% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2017. At September 30, 2017, the weighted average maturity of the bonds comprising MIM OFI is 8.56 years.

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

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2017, the Trust Fund held approximately \$198,312,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$37,201,000 was held in securities whose functional currency is the Euro, \$16,282,000 whose functional currency is the British pound, \$24,087,000 whose functional currency is the Japanese yen, and \$120,742,000 in functional currencies of 36 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 12.8% of invested assets at September 30, 2017.

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Discretely Presented Component Units

The Diving Seagull, Inc. (DSI):

As of September 30, 2017, DSI's investments are as follows:

Fixed income	\$ 484,761
Common equities	840,268
Money market funds	<u>27,669</u>
	<u>\$ 1,352,698</u>

As of September 30, 2017, DSI's fixed income securities, including their S & P credit ratings, had the following maturities:

	<u>Credit Ratings</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>		
			<u>Less than 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>
U.S. Treasury obligations	AAA	\$ 132,625	\$ -	\$ 123,262	\$ 9,363
U.S. Treasury obligations	Not rated	25,103	-	-	25,103
U.S. Government agencies obligations	AAA	72,084	41,917	30,167	-
Corporate Notes	A1	31,246	-	31,246	-
Corporate Notes	A2	89,181	20,116	69,065	-
Corporate Notes	A3	81,058	-	81,058	-
Corporate Notes	AA2	15,441	-	15,441	-
Corporate Notes	BAA1	13,452	-	13,452	-
Corporate Notes	BAA2	12,144	-	12,144	-
Corporate Notes	BAA3	<u>12,427</u>	<u>-</u>	<u>-</u>	<u>12,427</u>
		<u>\$ 484,761</u>	<u>\$ 62,033</u>	<u>\$ 375,835</u>	<u>\$ 46,893</u>

The Diving Seagull has the following recurring fair value measurements as of September 30, 2017:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income:				
U.S. Treasury obligations	\$ 157,728	\$ -	\$ 157,728	\$ -
U.S. Government agencies	72,084	-	72,084	-
Corporate notes	<u>254,949</u>	<u>-</u>	<u>254,949</u>	<u>-</u>
	484,761	-	484,761	-
Equity securities:				
U.S. equities	<u>840,268</u>	<u>840,268</u>	<u>-</u>	<u>-</u>
Total investments at fair value	1,325,029	\$ <u>840,268</u>	\$ <u>484,761</u>	\$ <u>-</u>
Investments measured at amortized cost:				
Money market funds	<u>27,669</u>			
	<u>\$ 1,352,698</u>			

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

**(3) Receivables**

Receivables as of September 30, 2017, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Foreign Assistance Grants</u>	<u>Yap State Investment Trust</u>	<u>Compact Trust</u>	<u>Nonmajor and Other Funds</u>	<u>Public Transportation System</u>	<u>Total</u>
Receivables:							
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FSM National Government	497,611	483,497	-	-	712,621	-	1,693,729
Other	<u>655,960</u>	<u>1,634,454</u>	<u>-</u>	<u>-</u>	<u>14,435</u>	<u>35,324</u>	<u>2,340,173</u>
	1,153,571	2,117,951	-	-	727,056	35,324	4,033,902
Less: allowance for uncollectible accounts	(419,290)	(1,633,854)	<u>-</u>	<u>-</u>	(607,677)	(20,573)	(2,681,394)
Net receivables	\$ <u>734,281</u>	\$ <u>484,097</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>119,379</u>	\$ <u>14,751</u>	\$ <u>1,352,508</u>

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

	<u>Yap Visitors Bureau</u>	<u>Yap State Public Service Corporation</u>	<u>The Diving Seagull, Inc.</u>	<u>Total</u>
Receivables:				
General	\$ -	\$ 1,154,327	\$ -	\$ 1,154,327
Other	<u>-</u>	<u>14,055</u>	<u>1,285,445</u>	<u>1,299,500</u>
	-	1,168,382	1,285,445	2,453,827
Less: allowance for uncollectible accounts	<u>-</u>	<u>(76,354)</u>	<u>(616,662)</u>	<u>(693,016)</u>
Net receivables	\$ <u>-</u>	\$ <u>1,092,028</u>	\$ <u>668,783</u>	\$ <u>1,760,811</u>

**(4) Interfund Receivables and Payables**

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2017, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Foreign Assistance Grants	\$ 330,143
Foreign Assistance Grants	General	6,769,452
Nonmajor governmental funds	General	<u>584,880</u>
		\$ <u>7,684,475</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

**(5) Capital Assets**

Capital asset activities of the primary government for the year ended September 30, 2017, are as follows:

	Balance October 1 <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, 2017
Governmental activities:				
Capital assets, being depreciated:				
Buildings	\$ 14,890,020	\$ 2,907,430	\$ -	\$ 17,797,450
Infrastructure	86,807,703	-	-	86,807,703
Equipment	847,530	-	-	847,530
Vehicles	2,426,706	120,633	-	2,547,339
Vessels	5,156,463	-	-	5,156,463
Heavy equipment	<u>3,990,739</u>	<u>214,152</u>	<u>-</u>	<u>4,204,891</u>
	<u>114,119,161</u>	<u>3,242,215</u>	<u>-</u>	<u>117,361,376</u>
Less accumulated depreciation for:				
Buildings	(10,458,446)	(705,575)	-	(11,164,021)
Infrastructure	(75,577,560)	(1,794,682)	-	(77,372,242)
Equipment	(554,212)	(48,708)	-	(602,920)
Vehicles	(2,201,263)	(94,244)	-	(2,295,507)
Vessels	(3,099,394)	(189,264)	-	(3,288,658)
Heavy equipment	<u>(3,601,407)</u>	<u>(123,291)</u>	<u>-</u>	<u>(3,724,698)</u>
	<u>(95,492,282)</u>	<u>(2,955,764)</u>	<u>-</u>	<u>(98,448,046)</u>
Total capital assets, being depreciated, net	18,626,879	286,451	-	18,913,330
Non-depreciable Assets:				
Land	<u>3,170,610</u>	<u>-</u>	<u>-</u>	<u>3,170,610</u>
Governmental activities capital assets, net	\$ <u>21,797,489</u>	\$ <u>286,451</u>	\$ <u>-</u>	\$ <u>22,083,940</u>

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

Councils of traditional leaders	\$ 5,000
General government	56,477
Resources and development	6,656
Community affairs	13,526
Education	346,822
Public works and transportation	2,068,288
Health services	71,720
Boards and commissions	13,805
Other appropriations	<u>373,470</u>
	\$ <u>2,955,764</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(5) Capital Assets, Continued

	Balance October 1, 2016	Additions	Retirements	Balance September 30, 2017
Business-type activities:				
Depreciable capital assets:				
Buildings	\$ 134,812	\$ 5,900	\$ -	\$ 140,712
Vehicles	1,090,906	446,000	-	1,536,906
Shop equipment	68,645	6,867	-	75,512
Office equipment	110,491	3,442	-	113,933
Land improvement	<u>1,282</u>	<u>488</u>	<u>-</u>	<u>1,770</u>
	1,406,136	462,697	-	1,868,833
Less accumulated depreciation	<u>(1,223,551)</u>	<u>(108,106)</u>	<u>-</u>	<u>(1,331,657)</u>
Total net capital assets	\$ <u>182,585</u>	\$ <u>354,591</u>	\$ <u>-</u>	\$ <u>537,176</u>

Discretely Presented Component Units:

	Balance October 1, 2016	Additions	Retirements	Balance September 30, 2017
Depreciable assets:				
Utility plant	\$ 23,475,662	\$ 4,797,698	\$ (60,261)	\$ 28,213,099
Machinery, equipment and others	<u>15,671,449</u>	<u>85,040</u>	<u>(26,568)</u>	<u>15,729,921</u>
	39,147,111	4,882,738	(86,829)	43,943,020
Less accumulated depreciation	<u>(27,780,268)</u>	<u>(1,453,194)</u>	<u>85,878</u>	<u>(29,147,584)</u>
	11,366,843	3,429,544	(951)	14,795,436
Nondepreciable assets:				
Construction work-in-progress	<u>3,888,229</u>	<u>4,826,155</u>	<u>(3,711,691)</u>	<u>5,002,693</u>
	\$ <u>15,255,072</u>	\$ <u>8,255,699</u>	\$ <u>(3,712,642)</u>	\$ <u>19,798,129</u>

(6) Long-Term Obligations

Primary Government

Asian Development Bank (ADB) Loans:

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

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



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(6) Long-Term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued:

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2017. As of September 30, 2017, the amount outstanding against this loan was \$2,822,504. Of the required \$3,500,000 identified for future debt service payments, \$1,355,228 is deposited in an investment account jointly held with the FSM National Government. That investment account is restricted for the repayment of this debt and other ADB related debt set forth below.

The State entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the Basic Social Services Program Loan with the ADB (Loan Number 1816 FSM (SF)), for the purpose of promoting basic social services in Yap, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The loan is payable semiannually commencing February 1, 2009, at which time the service charge increases to 1.5% per annum, with a maturity date of August 1, 2032. As of September 30, 2017, the outstanding balance is \$87,898.

The State entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with the ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)), for the purpose of promoting private sector development in Yap, with interest at 1% - 1.5% per annum. The principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2011 and the last payment on November 15, 2026. As of September 30, 2017, the balances payable on these loans amounted to \$203,100 and \$543,568, respectively.

The State entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loan with ADB (Loan Number 2099 FSM (SF)) for the purpose of funding the Omnibus Infrastructure Development Project, with interest at 1% to 1.5% per annum. Principal payments shall be made semiannually commencing 2013, with a maturity date of 2037. The loan was initially transferred to, and administered by, Gagil-Tomil Water Authority (GTWA), but such was transferred to the Primary Government effective October 1, 2016, which date the State determined that GTWA could not generate sufficient cash flows to fund related debt service. As of September 30, 2017, the balance of this loan amounted to \$2,276,209.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 318,604	\$ 74,887	\$ 393,491
2019	325,591	70,813	396,404
2020	325,591	66,635	392,226
2021	325,591	62,457	388,048
2022	325,591	58,279	383,870
2023 through 2027	1,599,100	228,795	1,827,895
2028 through 2032	1,508,497	130,014	1,638,511
2033 through 2037	<u>1,204,714</u>	<u>38,180</u>	<u>1,242,894</u>
	<u>\$ 5,933,279</u>	<u>\$ 730,060</u>	<u>\$ 6,663,339</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(6) Long-Term Obligations, Continued

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC):

Uncollateralized loan of original principal of \$2,270,837 payable to the ADB borrowed through the FSM National Government and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% per annum on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable semiannually in Special Drawing Rights (SDR) commencing August 2007. An SDR adjustment and additional consulting fees increased the loan balance by \$639,957 in fiscal year 2009. \$ 2,093,145

Guaranteed loan with a maximum amount of \$4,680,000 payable to the ADB borrowed through the FSM National Government and Yap State for the Yap Renewable Energy Development Project. YSPSC is liable to Yap State for interest at 0.80% per annum which includes a 0.20% maturity premium, net of a 0.20% rebate. 3,808,646

Loan with a maximum amount of \$4,360,000 for renewable energy, YSPSC is liable to ADB for interest at 2%. 3,526,193

\$ 9,427,984

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 181,690	\$ -	\$ 181,690
2019	373,609	96,462	470,071
2020	373,609	92,355	465,964
2021	373,609	88,249	461,858
2022	449,782	83,707	533,489
2023 through 2027	2,401,255	346,781	2,748,036
2028 through 2032	2,629,547	217,275	2,846,822
2033 through 2037	2,240,053	85,593	2,325,646
2038 through 2040	<u>404,830</u>	<u>1,317</u>	<u>406,147</u>
	\$ <u>9,427,984</u>	\$ <u>1,011,739</u>	\$ <u>10,439,723</u>

The Diving Seagull, Inc. (DSI):

Bank loan in the amount of \$3,000,000 granted by the FSM Development Bank, with interest at 9% per annum, to purchase a fishing vessel. Interest and principal are payable in monthly installments of \$38,003, commencing April 25, 2010. This loan is collateralized by a security agreement over all assets of Diving Seagull, Inc. and secured by certain deposit accounts. \$ 1,133,957

Bank loan in the amount of \$1,000,000 with interest at 2.12% per annum, to fund fishing operations. Interest and principal are payable in monthly installments of \$17,605, commencing June 10, 2015. This loan is collateralized by DSI's time certificate of deposit. 562,885

\$ 1,696,842

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(6) Long-Term Obligations, Continued

Discretely Presented Component Units, Continued

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

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	570,098	97,202	667,300
2019	609,075	58,226	667,301
2020	517,669	16,353	534,022
	<u>\$ 1,696,842</u>	<u>\$ 171,781</u>	<u>\$ 1,868,623</u>

(7) Change in Long-Term Obligations

Primary Government

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2017, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2017</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 2,862,010	\$ -	\$ (39,506)	\$ 2,822,504	\$ 141,135
Loan 1816	115,656	-	(27,758)	87,898	5,859
Loan 1873	224,598	-	(21,498)	203,100	16,907
Loan 1874	577,393	-	(33,825)	543,568	32,944
Loan 2099	-	2,411,985	(135,776)	2,276,209	121,759
	<u>3,779,657</u>	<u>2,411,985</u>	<u>(258,363)</u>	<u>5,933,279</u>	<u>318,604</u>
Other:					
Compensated absences	549,387	323,938	(327,423)	545,902	408,276
Land acquisition claims	<u>249,608</u>	<u>-</u>	<u>-</u>	<u>249,608</u>	<u>-</u>
	<u>798,995</u>	<u>323,938</u>	<u>(327,423)</u>	<u>795,510</u>	<u>408,276</u>
	<u>\$ 4,578,652</u>	<u>\$ 2,735,923</u>	<u>\$ (585,786)</u>	<u>\$ 6,728,789</u>	<u>\$ 726,880</u>

As of October 1, 2016, \$2,411,985 of an ADB loan (2099), previously administered by the Gagil-Tomil Water Authority (GTWA), an omitted component unit, was transferred to the State. The State determined that GTWA will not be able to make required payments of debt service and has accordingly assumed that responsibility.

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2017, the State recognized a foreign exchange loss of \$19,757 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a reduction in ADB loans payable.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(7) Change in Long-Term Obligations, Continued

Primary Government, Continued

As of September 30, 2017, \$249,608 in land acquisition claims payable due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

Discretely Presented Component Units

During the year ended September 30, 2017, the following changes occurred in liabilities reported as part of the component unit's long-term liabilities in the statement of net position:

	Balance October 1,			Balance September 30,	Due Within
Loans payable:	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>One Year</u>
YSPSC	\$ 5,134,620	\$ 4,316,072	\$ (22,708)	\$ 9,427,984	\$ 181,690
DSI	<u>2,151,602</u>	<u>-</u>	<u>(454,760)</u>	<u>1,696,842</u>	<u>570,098</u>
	<u>\$ 7,286,222</u>	<u>\$ 4,316,072</u>	<u>\$ (477,468)</u>	<u>\$ 11,124,826</u>	<u>\$ 751,788</u>

(8) Fund Balances

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

	General Fund	Grants Assistance Fund	Yap State Investment Trust	Compact Trust Fund	Nonmajor Funds	Total Governmental Funds
Non-spendable:						
Permanent fund principal	\$ -	\$ -	\$ 52,320,366	\$ 11,692,826	\$ -	\$ 64,013,192
Pacific Islands Development Bank	2,188,866	-	-	-	-	2,188,866
Bank of the FSM	2,413,730	-	-	-	-	2,413,730
Restricted for:						
Debt service	1,355,228	-	-	-	-	1,355,228
General government	-	1,311,257	-	-	-	1,311,257
Education	-	389,735	-	-	-	389,735
Health services	-	375,623	-	-	-	375,623
Infrastructure	-	958,022	-	-	-	958,022
Public works and transportation	-	-	-	-	349,939	349,939
Committed for:						
General government	13,558	-	-	-	487,911	501,469
2018 Micronesian Games	1,231,684	-	-	-	-	1,231,684
Other programs	118,321	-	-	-	150,000	268,321
Assigned	423,947	-	-	-	-	423,947
Unassigned	<u>13,341,321</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,341,321</u>
	<u>\$ 21,086,655</u>	<u>\$ 3,034,637</u>	<u>\$ 52,320,366</u>	<u>\$ 11,692,826</u>	<u>\$ 987,850</u>	<u>\$ 89,122,334</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

**(9) Operating Transfers In/Out**

**Primary Government**

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2017, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	Nonmajor Funds	\$ <u>150,790</u>	\$ <u>150,790</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. Specifically, the State transferred \$150,000 from the General Fund to the nonmajor funds representing community development funds appropriated under Yap State law 9-34 to the Enterprise Fund and \$790 from the General Fund to the nonmajor funds representing the residual fund balance of the Transportation and Infrastructure Revolving Fund.

**(10) Commitments and Contingencies**

**Encumbrances**

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2017, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>1,787,510</u>	\$ <u>1,239,926</u>	\$ <u>773,318</u>	\$ <u>3,800,754</u>

**Sick Leave**

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

**Insurance Coverage**

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

**Federal Grants**

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2017. In addition, the State is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of the Uniform Guidance. The ultimate disposition

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(10) Commitments and Contingencies, Continued

of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Litigation

The State was not a party to any pending or threatened litigation at September 30, 2017. If claims are filed, they are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State's Attorney General is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths.

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI), for which obligation on these lands ceased in May, 1984. Subsequent to May 1984, responsibility to rent or purchase the sites was transferred to the State. The State's Division of Land and Surveys has estimated that the State may be responsible for funding the indefinite land use sites for back rent with interest. The State is actively attempting to negotiate purchase prices for these properties.

Continuing Appropriations

As of September 30, 2017, the State has significant continuing appropriations summarized as follows:

General Fund:

2018 Micronesian Games (YSL No.9-54)	\$ 957,321
Micronesian Games (Sports Complex Venue Improvement) (YSL No. 9-59, 9-77)	273,250
SYWA (Office/warehouse renovation) (YSL No. 9-59, 9-77)	97,988
Historical Preservation Office (Mangiyol project) (YSL No. 9-62, 9-77)	14,892
Autopsies (YSL No. 5-47)	13,558
SYWA (Badger water & residential meters purchases) (YSL No. 9-57, 9-77)	5,441
Micronesian Games (Marketing Awareness) (YSL 9-39, 9-54, 9-77)	<u>1,113</u>
	\$ <u>1,363,563</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2017

(10) Commitments and Contingencies, Continued

Fines and Penalties

In July 2017, Diving Seagull, Inc. (DSI) entered into a settlement with various parties relating to fishing violations. DSI was required to pay a sum of \$1,200,000 due in installments. As of September 30, 2017, DSI has partially paid \$250,000 with a remaining balance of \$750,000 and \$200,000 to be paid in fiscal years 2018 and 2019, respectively.

(11) Budgetary Compliance

For the year ended September 30, 2017, significant over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ 356,889
Write-off of receivables	212,180
Payments to Component Units	121,303
Department of Health Services	84,901
Office of Administrative Services	<u>42,161</u>
	<u>\$ 817,434</u>

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2017**



STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual - General Fund  
Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual - Budgetary Basis (see Note 1)</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other	<u>\$ 18,480,158</u>	<u>\$ 18,480,158</u>	<u>\$ 9,190,138</u>	<u>\$ 9,290,020</u>
Total revenues	<u>18,480,158</u>	<u>18,480,158</u>	<u>9,190,138</u>	<u>9,290,020</u>
Expenditures:				
Current:				
Judiciary	244,131	244,131	214,730	29,401
Council of traditional leaders	193,372	202,220	189,080	13,140
General government	1,526,698	1,584,554	1,420,172	164,382
Economic development	555,783	555,783	537,272	18,511
Public safety	606,938	606,938	562,772	44,166
Community affairs	456,104	467,554	336,187	131,367
Education	127,552	127,552	69,714	57,838
Public works and transportation	2,186,555	2,186,555	1,819,086	367,469
Health services	607,159	607,159	692,060	(84,901)
Boards and commissions	232,852	249,344	209,687	39,657
Payments to component units	34,548	34,548	155,851	(121,303)
Other appropriations	6,104,267	6,104,267	2,335,563	3,768,704
Debt service	-	-	356,889	(356,889)
Total expenditures	<u>12,875,959</u>	<u>12,970,605</u>	<u>8,899,063</u>	<u>4,071,542</u>
Excess (deficiency) of revenues over (under) expenditures	5,604,199	5,509,553	291,075	5,218,478
Special item:				
less: Write-off of receivables	<u>-</u>	<u>-</u>	<u>(212,180)</u>	<u>212,180</u>
Other financing uses:				
Operating transfer out	<u>-</u>	<u>-</u>	<u>(150,790)</u>	<u>150,790</u>
Net change in fund balance	5,604,199	5,509,553	(71,895)	5,581,448
Encumbrances	6,539,271	6,539,271	1,787,510	4,751,761
Fund balance at the beginning of the year	<u>18,621,040</u>	<u>18,621,040</u>	<u>18,621,040</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 30,764,510</u>	<u>\$ 30,669,864</u>	<u>\$ 20,336,655</u>	<u>\$ 10,333,209</u>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2017

(1) Budgetary Information

An annual appropriated budget is adopted by the State's Legislature for the General Fund and Compact Programs through an Appropriations Act. However, additional appropriations and budget modifications occur throughout the year. The majority of unencumbered appropriations lapse as of year end unless specifically extended by the State's Legislature. Budgets for special revenue funds, except the Compact Program Fund, are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for special revenue funds, except the Compact Program Fund, is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain as reservations of fund balance until becoming expended or canceled. If an encumbrance is subsequently canceled, the funds revert to the applicable unreserved fund balance unless otherwise required by law.

Budgetary expenditures, which are on a basis other than GAAP, represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are therefore determined by subtracting both current year liquidations of prior year encumbrances and unliquidated prior year encumbrances from the combined total of current year. When reviewed in relation to respective budgets, budgetary expenditures provide the principal means of evaluating current year operating performance and management stewardship. Amounts included on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Combined Balance Sheet within the other charges in unreserved fund balance section of that statement.

(2) Reconciliation to Expenditures on the GAAP basis

Budgetary expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund are presented on a non-GAAP budgetary basis and therefore include \$750,000 of budgetary expenditures for investment in Pacific Islands Development Bank (PIDB), which are not so recognized on a GAAP basis:

Expenditures on a non-GAAP budgetary basis	\$ 8,899,063
Less: non-GAAP expenditures, investment in PIDB	<u>(750,000)</u>
Expenditures on a GAAP basis	\$ <u>8,149,063</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2017**

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account  
Governmental Funds  
Year Ended September 30, 2017

		Special Revenue	Permanent		Other	
		Foreign	Yap	Compact	Governmental	
	General	Assistance Grants	Investment Trust	Trust	Funds	Total
Expenditures:						
Salaries and wages	\$ 2,432,516	\$ 6,503,517	\$ -	\$ -	\$ 24,179	\$ 8,960,212
Grants and subsidies	41,187	6,426	-	-	367,958	415,571
Utilities	876,238	1,029,429	-	-	-	1,905,667
Contractual services	511,045	820,156	-	-	1,428,094	2,759,295
Supplies and materials	134,676	934,895	-	-	5,768	1,075,339
Construction Maintenance	-	-	-	-	-	-
Scholarship and training	178,000	229,503	-	-	-	407,503
Travel	237,123	642,273	-	-	84,254	963,650
Capital outlay	109,852	1,156,122	-	-	138,151	1,404,125
Rentals	(294)	35,308	-	-	-	35,014
Food stuffs	110,727	217,466	-	-	-	328,193
Communications	109,161	160,692	-	-	-	269,853
Printing and reproduction	-	37,664	-	-	-	37,664
Medical supplies	-	1,236,270	-	-	-	1,236,270
Repairs and maintenance	127,844	316,786	-	-	-	444,630
Freight	13,162	57,647	-	-	-	70,809
Professional services	15,460	296,369	-	-	-	311,829
POL	335,990	252,423	-	-	2,884	591,297
Allowances	105,000	1,320	-	-	-	106,320
Leased housing and land	2,066	-	-	-	-	2,066
Payment to component units	121,303	-	-	-	-	121,303
Principal repayment	278,120	-	-	-	-	278,120
Interest payments	78,769	-	-	-	-	78,769
Other	543,608	1,166,265	-	-	204,191	1,914,064
	<u>\$ 6,361,553</u>	<u>\$ 15,100,531</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,255,479</u>	<u>\$ 23,717,563</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

September 30, 2017

The general fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund. The United States Compact of Free Association current account and inflation adjustment funds associated with the current account are accounted for in this fund in addition to local taxes and other revenues.

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balance - General Fund  
Year Ended September 30, 2017  
(with comparative totals for the year ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Revenues:		
Revenue sharing:		
Import tax	\$ 870,840	\$ 738,049
Fuel tax	296,309	371,074
Income tax	592,053	564,715
Business gross receipts tax	<u>643,385</u>	<u>600,639</u>
	<u>2,402,587</u>	<u>2,274,477</u>
Excise taxes:		
Alcoholic beverages	496,699	401,917
Gasoline and diesel	86,245	84,393
Tobacco	542,155	131,726
Other excise taxes	<u>506,063</u>	<u>482,765</u>
	<u>1,631,162</u>	<u>1,100,801</u>
Fees and charges:		
Licenses and permits	86,805	85,550
Fines/sale of confiscated property	45,049	41,284
Leases and other rentals	<u>213,531</u>	<u>197,369</u>
	<u>345,385</u>	<u>324,203</u>
Departmental charges:		
Sea transportation	142,888	275,440
Air transportation	196,407	220,452
Hospital services	534,033	339,961
Other	<u>4,136</u>	<u>73,941</u>
	<u>877,464</u>	<u>909,794</u>
Net change in the fair value of investments	<u>2,458,809</u>	<u>1,554,631</u>
Other revenues	<u>1,474,731</u>	<u>115,388</u>
Total revenues	<u>9,190,138</u>	<u>6,279,294</u>
Expenditures:		
Current:		
Judiciary	<u>194,108</u>	<u>189,224</u>
Councils of Traditional Leaders:		
Council of Pilung	76,050	74,469
Council of Tamol	<u>94,612</u>	<u>94,404</u>
	<u>170,662</u>	<u>168,873</u>
General government:		
Office of the Governor	160,443	162,939
State Legislature	436,335	412,418
Office of Administrative Services	529,975	407,058
Office of Planning, Budget and Statistics	<u>137,462</u>	<u>71,559</u>
	<u>1,264,215</u>	<u>1,053,974</u>
Resources and Development:		
Department of Resources and Development	<u>513,947</u>	<u>400,111</u>
Public Safety:		
Department of Public Safety/Attorney General	<u>538,078</u>	<u>560,882</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balance - General Fund, Continued  
Year Ended September 30, 2017  
(with comparative totals for the year ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Expenditures, continued:		
Current, continued:		
Community Affairs		
Department of Public Affairs	<u>313,775</u>	<u>286,193</u>
Public Works and Transportation:		
Department of Public Works and Transportation	<u>1,402,513</u>	<u>1,309,236</u>
Education Services:		
Department of Education	<u>32,162</u>	<u>11,622</u>
Health Services:		
Department of Health Services	<u>652,630</u>	<u>518,299</u>
Boards and Commissions:		
Historic Preservation Office	73,166	92,180
EPA Administration Board	56,088	76,877
Election Commissioner	38,906	45,694
Small Business Development Center	16,765	-
Yap Investment Trust	15,764	20,784
Yap State Scholarship	-	175,000
Rural Development	<u>-</u>	<u>12,568</u>
	<u>200,689</u>	<u>423,103</u>
Payments to component units:		
Yap State Public Service Corporation	121,303	-
Public Transportation System	<u>29,556</u>	<u>29,556</u>
	<u>150,859</u>	<u>29,556</u>
Other appropriations:		
Micronesian Legal Services Corporation	41,187	41,280
Japan Overseas Cooperation Volunteers	8,936	8,889
Peace Corps Program	23,419	24,000
Yap Community Action Program	81,804	118,216
Preparation for 2018 Micro Games	400,390	-
Others	<u>15,290</u>	<u>37,500</u>
	<u>571,026</u>	<u>229,885</u>
Debt service:		
Principal repayments	278,120	166,488
Interest payments	<u>78,769</u>	<u>271,449</u>
	<u>356,889</u>	<u>437,937</u>
Total expenditures	<u>6,361,553</u>	<u>5,618,895</u>
Excess of revenues over expenditures	<u>2,828,585</u>	<u>660,399</u>
Special item:		
Less: Write-off of receivables	<u>(212,180)</u>	<u>(753,741)</u>
Other financing uses:		
Operating transfers out	<u>(150,790)</u>	<u>-</u>
Total other financing sources (uses), net	<u>(150,790)</u>	<u>-</u>
Net change in fund balance	2,465,615	(93,342)
Fund balance at the beginning of the year	<u>18,621,040</u>	<u>18,714,382</u>
Fund balance at the end of the year	<u>\$ 21,086,655</u>	<u>\$ 18,621,040</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual - General Fund  
Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other revenues	<u>\$ 18,480,158</u>	<u>\$ 18,480,158</u>	<u>\$ 9,190,138</u>	<u>\$ 9,290,020</u>
Total revenues	<u>18,480,158</u>	<u>18,480,158</u>	<u>9,190,138</u>	<u>9,290,020</u>
Expenditures:				
Current:				
Judiciary	<u>244,131</u>	<u>244,131</u>	<u>214,730</u>	<u>29,401</u>
Councils of Traditional Leaders:				
Council of Pilung	<u>86,094</u>	<u>86,094</u>	<u>78,256</u>	<u>7,838</u>
Council of Tamol	<u>107,278</u>	<u>116,126</u>	<u>110,824</u>	<u>5,302</u>
	<u>193,372</u>	<u>202,220</u>	<u>189,080</u>	<u>13,140</u>
General government:				
Office of the Governor	<u>171,162</u>	<u>171,162</u>	<u>167,263</u>	<u>3,899</u>
State Legislature	<u>460,210</u>	<u>462,625</u>	<u>448,476</u>	<u>14,149</u>
Office of Administrative Services	<u>580,019</u>	<u>587,519</u>	<u>629,680</u>	<u>(42,161)</u>
Office of Planning, Budget and Statistics	<u>315,307</u>	<u>363,248</u>	<u>174,753</u>	<u>188,495</u>
	<u>1,526,698</u>	<u>1,584,554</u>	<u>1,420,172</u>	<u>164,382</u>
Economic Development:				
Department of Resources and Development	<u>555,783</u>	<u>555,783</u>	<u>537,272</u>	<u>18,511</u>
Public Safety:				
Department of Public Safety/Attorney General	<u>606,938</u>	<u>606,938</u>	<u>562,772</u>	<u>44,166</u>
Community Affairs:				
Department of Public Affairs	<u>456,104</u>	<u>467,554</u>	<u>336,187</u>	<u>131,367</u>
Education:				
Department of Education	<u>127,552</u>	<u>127,552</u>	<u>69,714</u>	<u>57,838</u>
Public Works and Transportation:				
Department of Public Works and Transportation	<u>2,186,555</u>	<u>2,186,555</u>	<u>1,819,086</u>	<u>367,469</u>
Health services:				
Department of Health Services	<u>607,159</u>	<u>607,159</u>	<u>692,060</u>	<u>(84,901)</u>

See Accompanying Independent Auditors' Report.



STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual - General Fund, Continued  
Year Ended September 30, 2017

	Budgeted Amounts		Actual Amounts	
	Original	Final	Budgetary Basis	Variance
Expenditures, continued:				
Boards and Commissions:				
Historic Preservation Office	78,218	93,110	77,078	16,032
Environment Protection Agency	67,306	67,306	59,281	8,025
Yap State Election Commission	38,983	40,583	40,699	(116)
Small Business Development Center	16,765	16,765	16,765	-
Yap Investment Trust	19,630	19,630	15,864	3,766
Rural and Urban Serv. (RUS)	11,950	11,950	-	11,950
	<u>232,852</u>	<u>249,344</u>	<u>209,687</u>	<u>39,657</u>
Payments to component units:				
Yap State Public Service Corporation	-	-	121,303	(121,303)
Public Transportation System	34,548	34,548	34,548	-
	<u>34,548</u>	<u>34,548</u>	<u>155,851</u>	<u>(121,303)</u>
Other appropriations:				
Micronesian Legal Services Corporation	41,280	41,280	41,187	93
Japan Overseas Cooperation Volunteers	9,000	9,000	8,936	64
Peace Corps Program	24,000	24,000	23,419	581
Yap CAP	87,653	87,653	86,111	1,542
2018 Micro Games	1,667,820	1,667,820	1,381,071	286,749
Others	4,274,514	4,274,514	794,839	3,479,675
	<u>6,104,267</u>	<u>6,104,267</u>	<u>2,335,563</u>	<u>3,768,704</u>
Debt service:				
Principal repayments	-	-	278,120	(278,120)
Interest payments	-	-	78,769	(78,769)
	<u>-</u>	<u>-</u>	<u>356,889</u>	<u>(356,889)</u>
Total expenditures	<u>12,875,959</u>	<u>12,970,605</u>	<u>8,899,063</u>	<u>4,071,542</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,604,199</u>	<u>5,509,553</u>	<u>291,075</u>	<u>5,218,478</u>
Special item:				
less: Write-off of receivables	<u>-</u>	<u>-</u>	<u>(212,180)</u>	<u>212,180</u>
Other financing uses:				
Operating transfer out	<u>-</u>	<u>-</u>	<u>(150,790)</u>	<u>150,790</u>
Net change in fund balance	<u>5,604,199</u>	<u>5,509,553</u>	<u>(71,895)</u>	<u>5,581,448</u>
Encumbrances	6,539,271	6,539,271	1,787,510	4,751,761
Fund balance at the beginning of the year	<u>18,621,040</u>	<u>18,621,040</u>	<u>18,621,040</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 30,764,510</u>	<u>\$ 30,669,864</u>	<u>\$ 20,336,655</u>	<u>\$ 10,333,209</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2017

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 20,995	\$ -	\$ 20,995
Investments	324,624	-	324,624
Receivables, net	-	119,379	119,379
Due from other funds	<u>323,810</u>	<u>261,070</u>	<u>584,880</u>
Total assets	<u>\$ 669,429</u>	<u>\$ 380,449</u>	<u>\$ 1,049,878</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 27,063	\$ 10,926	\$ 37,989
Other liabilities and accruals	4,455	19,584	24,039
Total liabilities	<u>31,518</u>	<u>30,510</u>	<u>62,028</u>
Fund balances:			
Restricted	-	349,939	349,939
Committed	<u>637,911</u>	<u>-</u>	<u>637,911</u>
Total fund balances	<u>637,911</u>	<u>349,939</u>	<u>987,850</u>
Total liabilities and fund balances	<u>\$ 669,429</u>	<u>\$ 380,449</u>	<u>\$ 1,049,878</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Function,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended September 30, 2017

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 1,899,299	\$ 1,899,299
Excise taxes	114,985	-	114,985
Fees and charges	205,938	-	205,938
Net change in the fair value of investments	<u>40,513</u>	<u>-</u>	<u>40,513</u>
Total revenues	<u>361,436</u>	<u>1,899,299</u>	<u>2,260,735</u>
Expenditures by function:			
Current:			
General government	<u>356,180</u>	<u>1,899,299</u>	<u>2,255,479</u>
Total expenditures	<u>356,180</u>	<u>1,899,299</u>	<u>2,255,479</u>
Other financing sources:			
Operating transfer in	<u>150,000</u>	<u>790</u>	<u>150,790</u>
Net change in fund balances	155,256	790	156,046
Fund balances at the beginning of the year	<u>482,655</u>	<u>349,149</u>	<u>831,804</u>
Fund balances at the end of the year	<u>\$ 637,911</u>	<u>\$ 349,939</u>	<u>\$ 987,850</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Account,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended September 30, 2017

	Other <u>Special Revenue</u>	Other <u>Capital Projects</u>	<u>Total</u>
Revenues:			
CFSM grants	\$ -	\$ 1,899,299	\$ 1,899,299
Excise taxes	114,985	-	114,985
Fees and charges	205,938	-	205,938
Net change in the fair value of investments	<u>40,513</u>	<u>-</u>	<u>40,513</u>
Total revenues	<u>361,436</u>	<u>1,899,299</u>	<u>2,260,735</u>
Expenditures by account:			
Salaries and wages	-	24,179	24,179
Grants and subsidies	307,527	60,431	367,958
Contractual services	-	1,428,094	1,428,094
Supplies and materials	-	5,768	5,768
Travel	-	84,254	84,254
Capital outlay	-	138,151	138,151
POL	-	2,884	2,884
Other	<u>48,653</u>	<u>155,538</u>	<u>204,191</u>
Total expenditures	<u>356,180</u>	<u>1,899,299</u>	<u>2,255,479</u>
Other financing sources:			
Operating transfer in	<u>150,000</u>	<u>790</u>	<u>150,790</u>
Net change in fund balances	155,256	790	156,046
Fund balances at the beginning of the year	<u>482,655</u>	<u>349,149</u>	<u>831,804</u>
Fund balances at the end of the year	<u>\$ 637,911</u>	<u>\$ 349,939</u>	<u>\$ 987,850</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2017

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of the State's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2017, follows:

Sports Development Fund

This fund accounts for certain funds dedicated to sports development in the State.

Housing Maintenance Fund

This fund accounts for funds dedicated to the housing expenses of specific employees of the State.

Enterprise Fund

This fund accounts for funds dedicated to recycling and other special purposes.

Yap Seed Trust Fund

This fund accounts for interest income from savings and certificates of deposit and other special purposes.

See Accompanying Independent Auditors' Report.

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

Combining Balance Sheet  
September 30, 2017

	<b>F39</b>	<b>F76</b>	<b>F85</b>	<b>F86</b>	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 20,995	\$ 20,995
Investments	-	-	-	324,624	324,624
Due from other funds	<u>27,063</u>	<u>25,084</u>	<u>261,920</u>	<u>9,743</u>	<u>323,810</u>
Total assets	<u>\$ 27,063</u>	<u>\$ 25,084</u>	<u>\$ 261,920</u>	<u>\$ 355,362</u>	<u>\$ 669,429</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
Liabilities:					
Accounts payable	\$ 27,063	\$ -	\$ -	\$ -	\$ 27,063
Other liabilities and accruals	<u>-</u>	<u>4,455</u>	<u>-</u>	<u>-</u>	<u>4,455</u>
Total liabilities	<u>27,063</u>	<u>4,455</u>	<u>-</u>	<u>-</u>	<u>31,518</u>
Fund balances:					
Committed	<u>-</u>	<u>20,629</u>	<u>261,920</u>	<u>355,362</u>	<u>637,911</u>
Total fund balances	<u>-</u>	<u>20,629</u>	<u>261,920</u>	<u>355,362</u>	<u>637,911</u>
Total liabilities and fund balances	<u>\$ 27,063</u>	<u>\$ 25,084</u>	<u>\$ 261,920</u>	<u>\$ 355,362</u>	<u>\$ 669,429</u>

See Accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures By Function,  
and Changes in Fund Balances  
Year Ended September 30, 2017

	<b>F39</b>	<b>F76</b>	<b>F85</b>	<b>F86</b>	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 114,985	\$ -	\$ -	\$ -	\$ 114,985
Fees and charges	-	16,651	189,287	-	205,938
Net change in the fair value of investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,513</u>	<u>40,513</u>
Total revenues	<u>114,985</u>	<u>16,651</u>	<u>189,287</u>	<u>40,513</u>	<u>361,436</u>
Expenditures by function:					
Current:					
General government	<u>147,522</u>	<u>7,130</u>	<u>201,528</u>	<u>-</u>	<u>356,180</u>
Total expenditures	<u>147,522</u>	<u>7,130</u>	<u>201,528</u>	<u>-</u>	<u>356,180</u>
Other financing sources:					
Operating transfers in	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Net change in fund balances	(32,537)	9,521	137,759	40,513	155,256
Fund balances at the beginning of the year	<u>32,537</u>	<u>11,108</u>	<u>124,161</u>	<u>314,849</u>	<u>482,655</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 20,629</u>	<u>\$ 261,920</u>	<u>\$ 355,362</u>	<u>\$ 637,911</u>

See Accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures By Account,  
and Changes in Fund Balances  
Year Ended September 30, 2017

	<b>F39</b>	<b>F76</b>	<b>F85</b>	<b>F86</b>	
	Sports Development	Housing Maintenance	Enterprise	Yap Seed Trust	Total
Revenues:					
Excise taxes	\$ 114,985	\$ -	\$ -	\$ -	\$ 114,985
Fees and charges	-	16,651	189,287	-	205,938
Net change in the fair value of investments	-	-	-	40,513	40,513
Total revenues	<u>114,985</u>	<u>16,651</u>	<u>189,287</u>	<u>40,513</u>	<u>361,436</u>
Expenditures by account:					
Grants and subsidies	147,522	-	160,005	-	307,527
Other	-	7,130	41,523	-	48,653
Total expenditures	<u>147,522</u>	<u>7,130</u>	<u>201,528</u>	<u>-</u>	<u>356,180</u>
Other financing sources:					
Operating transfers in	-	-	150,000	-	150,000
Net change in fund balances	(32,537)	9,521	137,759	40,513	155,256
Fund balances at the beginning of the year	<u>32,537</u>	<u>11,108</u>	<u>124,161</u>	<u>314,849</u>	<u>482,655</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 20,629</u>	<u>\$ 261,920</u>	<u>\$ 355,362</u>	<u>\$ 637,911</u>

See Accompanying Independent Auditors' Report.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2017

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. A brief discussion of the State's Nonmajor Governmental Funds - Capital Projects Funds as of September 30, 2017, follows:

Compact Capital Projects Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(d) and approved by the FSM Congress.

CFSM Capital Projects Fund

This fund is used to account for grants awarded by the Congress of the Federated States of Micronesia (CFSM) for improvement and betterment projects within the State.

See Accompanying Independent Auditors' Report.

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

Combining Balance Sheet  
September 30, 2017

	<b>F51</b>	<b>F53</b>	
	Compact Capital Projects	CFSM Capital Projects	Total
<b><u>ASSETS</u></b>			
Receivables, net	\$ -	\$ 119,379	\$ 119,379
Due from other funds	-	261,070	261,070
Total assets	<u>\$ -</u>	<u>\$ 380,449</u>	<u>\$ 380,449</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Accounts payable	\$ -	\$ 10,926	\$ 10,926
Other liabilities and accruals	-	19,584	19,584
Due to other funds	-	-	-
Total liabilities	<u>-</u>	<u>30,510</u>	<u>30,510</u>
Fund balances:			
Restricted	-	349,939	349,939
Unassigned	-	-	-
Total fund balances	<u>-</u>	<u>349,939</u>	<u>349,939</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 380,449</u>	<u>\$ 380,449</u>

See Accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures By Function,  
and Changes in Fund Balances  
Year Ended September 30, 2017

	<b>F51</b>	<b>F53</b>	
	Compact Capital Projects	CFSM Capital Projects	Total
Revenues:			
CFSM grants	\$ -	\$ 1,899,299	\$ 1,899,299
Total revenues	<u>-</u>	<u>1,899,299</u>	<u>1,899,299</u>
Expenditures by function:			
Current:			
General government	<u>-</u>	<u>1,899,299</u>	<u>1,899,299</u>
Total expenditures	<u>-</u>	<u>1,899,299</u>	<u>1,899,299</u>
Other financing sources:			
Operating transfer in	<u>790</u>	<u>-</u>	<u>790</u>
Net change in fund balances	<u>790</u>	<u>-</u>	<u>790</u>
Fund balances (deficit) at the beginning of the year	<u>(790)</u>	<u>349,939</u>	<u>349,149</u>
Fund balances at the end of the year	<u><u>\$ -</u></u>	<u><u>\$ 349,939</u></u>	<u><u>\$ 349,939</u></u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS  
CAPITAL PROJECTS FUNDS

Combining Statement of Revenues, Expenditures By Account,  
and Changes in Fund Balances  
Year Ended September 30, 2017

	<b>F51</b>	<b>F53</b>	
	Compact Capital Projects	CFSM Capital Projects	Total
Revenues:			
CFSM grants	\$ -	\$ 1,899,299	\$ 1,899,299
Total revenues	<u>-</u>	<u>1,899,299</u>	<u>1,899,299</u>
Expenditures by account:			
Salaries and wages	-	24,179	24,179
Grants and subsidies	-	60,431	60,431
Contractual services	-	1,428,094	1,428,094
Supplies	-	5,768	5,768
Travel	-	84,254	84,254
Capital outlay	-	138,151	138,151
POL	-	2,884	2,884
Other	<u>-</u>	<u>155,538</u>	<u>155,538</u>
Total expenditures	<u>-</u>	<u>1,899,299</u>	<u>1,899,299</u>
Other financing sources:			
Operating transfer in	<u>790</u>	<u>-</u>	<u>790</u>
Net change in fund balances	790	-	790
Fund balances (deficit) at the beginning of the year	<u>(790)</u>	<u>349,939</u>	<u>349,149</u>
Fund balances at the end of the year	<u>\$ -</u>	<u>\$ 349,939</u>	<u>\$ 349,939</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
Foreign Assistance Grants Fund  
Combining Balance Sheet  
September 30, 2017

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
<b>ASSETS</b>																
Receivables:																
FSM National Government	\$ -	\$ -	\$ 154	\$ 19,206	\$ -	\$ -	\$ -	\$ -	\$ 40	\$ 91,948	\$ 372,149	\$ -	\$ -	\$ -	\$ -	\$ 483,497
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	600	600
Due from other funds	573,140	438,688	1,301,506	91,298	166,832	958,041	498,982	63,703	745,677	163,486	-	239,101	1,165,029	362,013	1,956	6,769,452
Advances	-	54,581	31,251	5,876	32,080	13,624	92,321	3,303	-	-	-	-	-	-	-	233,036
	<u>\$ 573,140</u>	<u>\$ 493,269</u>	<u>\$ 1,332,911</u>	<u>\$ 116,380</u>	<u>\$ 198,912</u>	<u>\$ 971,665</u>	<u>\$ 591,303</u>	<u>\$ 67,006</u>	<u>\$ 745,717</u>	<u>\$ 255,434</u>	<u>\$ 372,149</u>	<u>\$ 239,101</u>	<u>\$ 1,165,029</u>	<u>\$ 362,013</u>	<u>\$ 2,556</u>	<u>\$ 7,486,585</u>
<b>LIABILITIES AND FUND BALANCES</b>																
Liabilities:																
Accounts payable	\$ 35,624	\$ 91,351	\$ 114,576	\$ 108,102	\$ 19,158	\$ 30,808	\$ 47,009	\$ 2,903	\$ -	\$ 9,009	\$ 15,870	\$ 10,873	\$ -	\$ 1,507	\$ 1,176	\$ 487,966
Other liabilities and accruals	-	94,029	58,953	8,278	7,013	5,088	28,591	6,870	-	1,540	26,136	21,443	-	858	1,380	260,179
Unearned revenues	-	307,889	783,759	-	172,741	162,028	125,968	57,233	32,580	-	-	206,785	1,165,029	359,648	-	3,373,660
Due to other funds	-	-	-	-	-	-	-	-	-	-	330,143	-	-	-	-	330,143
Total liabilities	<u>35,624</u>	<u>493,269</u>	<u>957,288</u>	<u>116,380</u>	<u>198,912</u>	<u>197,924</u>	<u>201,568</u>	<u>67,006</u>	<u>32,580</u>	<u>10,549</u>	<u>372,149</u>	<u>239,101</u>	<u>1,165,029</u>	<u>362,013</u>	<u>2,556</u>	<u>4,451,948</u>
Fund balances:																
Restricted	<u>537,516</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>713,137</u>	<u>244,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,034,637</u>
Total fund balances	<u>537,516</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>713,137</u>	<u>244,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,034,637</u>
Total liabilities and fund balances	<u>\$ 573,140</u>	<u>\$ 493,269</u>	<u>\$ 1,332,911</u>	<u>\$ 116,380</u>	<u>\$ 198,912</u>	<u>\$ 971,665</u>	<u>\$ 591,303</u>	<u>\$ 67,006</u>	<u>\$ 745,717</u>	<u>\$ 255,434</u>	<u>\$ 372,149</u>	<u>\$ 239,101</u>	<u>\$ 1,165,029</u>	<u>\$ 362,013</u>	<u>\$ 2,556</u>	<u>\$ 7,486,585</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Statement of Revenues, Expenditures by Function, and Changes in Fund Balances  
Year Ended September 30, 2017

	F6	F10	F11	F12	F13	F14	F15	F16	F18	F19	F20	F21	F22	F23	F25	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
Revenues:																
Compact funding	\$ -	\$ 5,103,051	\$ 3,556,772	\$ 444,854	\$ 451,211	\$ 322,247	\$ 1,605,266	\$ 278,058	\$ 151,702	\$ 184,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,097,661
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	759,582	1,159,293	(272)	81,908	-	2,000,511
CFSM Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	297,836	297,836
Departmental charges	-	-	-	-	-	-	-	-	-	-	-	22,420	-	-	-	22,420
	<u>-</u>	<u>5,103,051</u>	<u>3,556,772</u>	<u>444,854</u>	<u>451,211</u>	<u>322,247</u>	<u>1,605,266</u>	<u>278,058</u>	<u>151,702</u>	<u>184,500</u>	<u>759,582</u>	<u>1,181,713</u>	<u>(272)</u>	<u>81,908</u>	<u>297,836</u>	<u>14,418,428</u>
Expenditures by function:																
Current:																
General government	53,511	-	-	444,854	-	322,247	-	278,058	-	-	-	1,739	-	-	247,015	1,347,424
Resources and development	-	-	-	-	451,211	-	-	-	-	-	-	116,478	-	15,394	7,471	590,554
Education	-	5,103,051	-	-	-	-	1,605,266	-	-	-	630,882	-	-	-	-	7,339,199
Public Works and transportation	-	-	-	-	-	-	-	-	151,702	184,500	-	-	-	32,645	103,863	472,710
Health services	-	-	3,556,772	-	-	-	-	-	-	-	548,689	1,128,203	-	8,695	-	5,242,359
Other appropriations	-	-	-	-	-	-	-	-	-	-	45,785	37,326	-	25,174	-	108,285
Total expenditures	<u>53,511</u>	<u>5,103,051</u>	<u>3,556,772</u>	<u>444,854</u>	<u>451,211</u>	<u>322,247</u>	<u>1,605,266</u>	<u>278,058</u>	<u>151,702</u>	<u>184,500</u>	<u>1,225,356</u>	<u>1,283,746</u>	<u>-</u>	<u>81,908</u>	<u>358,349</u>	<u>15,100,531</u>
Deficiency of revenues under expenditures	(53,511)	-	-	-	-	-	-	-	-	-	(465,774)	(102,033)	(272)	-	(60,513)	(682,103)
Other financing uses:																
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	(53,511)	-	-	-	-	-	-	-	-	-	(465,774)	(102,033)	(272)	-	(60,513)	(682,103)
Fund balances at the beginning of the year	<u>591,027</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>713,137</u>	<u>244,885</u>	<u>465,774</u>	<u>102,033</u>	<u>272</u>	<u>-</u>	<u>60,513</u>	<u>3,716,740</u>
Fund balances at the end of the year	<u>\$ 537,516</u>	<u>\$ -</u>	<u>\$ 375,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 713,137</u>	<u>\$ 244,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,034,637</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP**  
FEDERATED STATES OF MICRONESIA

Foreign Assistance Grants Fund

Combining Statement of Revenues, Expenditures by Account, and Changes in Fund Balances  
Year Ended September 30, 2017

	<b>F6</b>	<b>F10</b>	<b>F11</b>	<b>F12</b>	<b>F13</b>	<b>F14</b>	<b>F15</b>	<b>F16</b>	<b>F18</b>	<b>F19</b>	<b>F20</b>	<b>F21</b>	<b>F22</b>	<b>F23</b>	<b>F25</b>	
	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education	ERA Sector	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U.S. Grants	CFSM Grants	Total
Revenues:																
Compact funding	\$ -	\$ 5,103,051	\$ 3,556,772	\$ 444,854	\$ 451,211	\$ 322,247	\$ 1,605,266	\$ 278,058	\$ 151,702	\$ 184,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,097,661
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	759,582	1,159,293	(272)	81,908	-	2,000,511
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	297,836	297,836
Department charges	-	-	-	-	-	-	-	-	-	-	-	22,420	-	-	-	22,420
	<u>-</u>	<u>5,103,051</u>	<u>3,556,772</u>	<u>444,854</u>	<u>451,211</u>	<u>322,247</u>	<u>1,605,266</u>	<u>278,058</u>	<u>151,702</u>	<u>184,500</u>	<u>759,582</u>	<u>1,181,713</u>	<u>(272)</u>	<u>81,908</u>	<u>297,836</u>	<u>14,418,428</u>
Expenditures by account:																
Salaries and wages	2,874	2,226,781	1,325,017	212,009	156,978	177,971	757,681	169,985	835	30,045	851,716	557,501	-	18,376	15,748	6,503,517
Grants and subsidies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,426
Utilities	50,637	329,352	400,000	18,475	47,071	30,660	30,735	-	-	608	19,747	101,570	-	574	-	1,029,429
Contractual services	-	75,934	148,921	46,384	86,188	6,860	36,944	24,850	79,488	59,769	31,846	42,382	-	32,645	147,945	820,156
Supplies and materials	-	344,519	79,992	11,559	38,786	15,416	236,353	13,989	289	2,129	53,120	137,208	-	459	1,076	934,895
Construction maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Scholarship and training	-	229,503	-	-	-	-	-	-	-	-	-	-	-	-	-	229,503
Travel	-	72,858	37,567	110,581	3,388	21,973	107,299	12,010	-	5,831	136,528	126,022	-	3,677	4,539	642,273
Capital outlay	-	603,931	223,406	2,298	32,250	18,513	140,848	28,458	-	9,783	33,909	25,574	-	21,795	15,357	1,156,122
Rentals	-	29,850	-	-	4,214	-	735	-	-	-	-	101	-	-	408	35,308
Food stuffs	-	64,299	41,992	-	-	-	103,684	-	-	-	-	-	-	368	7,123	217,466
Communications	-	46,836	18,295	13,194	22,719	12,078	10,524	9,802	-	1,945	8,516	16,383	-	400	-	160,692
Printing and reproduction	-	-	4,199	816	19,284	-	-	-	-	-	12,277	638	-	450	-	37,664
Medical supplies	-	-	1,077,329	-	-	-	-	-	-	-	7,220	151,721	-	-	-	1,236,270
Repairs and maintenance	-	65,942	54,558	14,984	23,929	4,824	24,658	39	71,090	15,200	13,958	26,279	-	370	955	316,786
Freight	-	20,508	28,137	604	305	-	3,141	-	-	-	3,171	1,781	-	-	-	57,647
Professional services	-	51,107	-	-	-	(200)	76,858	18,900	-	51,600	-	7,725	-	-	90,379	296,369
POL	-	93,449	23,907	11,748	1,760	207	27,147	-	-	-	11,674	22,261	-	927	59,343	252,423
Allowances	-	-	-	-	-	-	1,320	-	-	-	-	-	-	-	-	1,320
Other	-	848,182	93,452	2,202	14,339	33,945	47,339	25	-	7,590	35,248	66,600	-	1,867	15,476	1,166,265
Total expenditures	<u>53,511</u>	<u>5,103,051</u>	<u>3,556,772</u>	<u>444,854</u>	<u>451,211</u>	<u>322,247</u>	<u>1,605,266</u>	<u>278,058</u>	<u>151,702</u>	<u>184,500</u>	<u>1,225,356</u>	<u>1,283,746</u>	<u>-</u>	<u>81,908</u>	<u>358,349</u>	<u>15,100,531</u>
Deficiency of revenues under expenditures	(53,511)	-	-	-	-	-	-	-	-	-	(465,774)	(102,033)	(272)	-	(60,513)	(682,103)
Other financing uses:																
Operating transfers out	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	(53,511)	-	-	-	-	-	-	-	-	-	(465,774)	(102,033)	(272)	-	(60,513)	(682,103)
Fund balances at the beginning of year	<u>591,027</u>	<u>-</u>	<u>375,623</u>	<u>-</u>	<u>-</u>	<u>773,741</u>	<u>389,735</u>	<u>-</u>	<u>713,137</u>	<u>244,885</u>	<u>465,774</u>	<u>102,033</u>	<u>272</u>	<u>-</u>	<u>60,513</u>	<u>3,716,740</u>
Fund balances at the end of year	<u>\$ 537,516</u>	<u>\$ -</u>	<u>\$ 375,623</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 773,741</u>	<u>\$ 389,735</u>	<u>\$ -</u>	<u>\$ 713,137</u>	<u>\$ 244,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,034,637</u>

See Accompanying Independent Auditors' Report.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of State of Yap as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise State of Yap's basic financial statements, and have issued our report thereon dated June 19, 2018. Our report includes an adverse opinion for the omission of a certain component unit and a reference to other auditors. Other auditors audited the financial statements of the Public Transportation System, as described in our report on State of Yap's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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

**Internal Control Over Financial Reporting**

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



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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2017-003 to be a material weakness.

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.

## **Compliance and Other Matters**

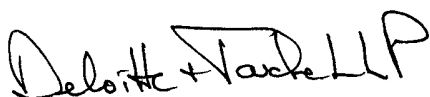
As part of obtaining reasonable assurance about whether State of Yap's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-003.

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

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 19, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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

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

We have audited State of Yap's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of State of Yap's major federal programs for the year ended September 30, 2017. State of Yap's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, State of Yap's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2017. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of State of Yap's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about State of Yap's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of State of Yap's compliance.

***Basis for Qualified Opinion on CFDA 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants and CFDA 93.224 Consolidated Health Centers***

As described in items 2017-001 and 2017-002 in the accompanying Schedule of Findings and Questioned Costs, State of Yap did not comply with requirements regarding the following:

<b><i>Finding #</i></b>	<b><i>CFDA #</i></b>	<b><i>Program Name</i></b>	<b><i>Compliance Requirement</i></b>
2017-001	15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Procurement and Suspension and Debarment
2017-002	93.224	Consolidated Health Centers	Procurement and Suspension and Debarment

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

***Qualified Opinion on Each Major Federal Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, State of Yap complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA Program 15.875 Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants; and on CFDA Program 93.224 Consolidated Health Centers for the year ended September 30, 2017.

***Other Matters***

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

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

Management of State of Yap is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered State of Yap's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of State of Yap's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2017-002 to be material weaknesses.

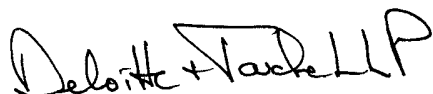
A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of State of Yap as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise State of Yap's basic financial statements. We issued our report thereon dated June 19, 2018, which contained an adverse opinion on those financial statements due to the omission of certain component units, and which included a reference to other auditors and an emphasis-of-matter paragraph for the implementation of new accounting standards. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 19, 2018

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Identifying Number Assigned by Pass- Through Entity	Passed through to Subrecipient	Federal Expenditures
<u>U. S. Department of Agriculture:</u>				
Direct Programs:				
Cooperative Forestry Assistance	10.664			\$ 116,478
Total U. S. Department of Agriculture				\$ 116,478
<u>U. S. Department of the Interior:</u>				
Direct Programs:				
General Technical Assistance: Early Childhood Education	15.875			\$ 1,738
Pass-Through Grants from the FSM National Government:		A5		
Economic, Social and Political Development of the Territories:				
Compact of Free Association Sector Grants	15.875	00050-2016-COFA-FSM		
Compact II Education Sector			\$ 5,103,051	
Compact II Health Sector			3,556,772	
Compact II Private Sector Development			\$ 259,190	451,211
Compact II Capacity Building Sector				322,247
Compact II Environment Sector				444,854
Compact II Infrastructure Sector				184,500
Compact II Infrastructure Maintenance Sector				151,702
Supplemental Education Grant				1,605,266
Compact II ERA				278,058
Historic Prevention Fund Grant-In-Aid	15.904			45,785
Subtotal Pass-Through Grants from Federated States of Micronesia National Government			259,190	12,143,446
Total U. S. Department of the Interior			\$ 259,190	\$ 12,145,184
<u>U. S. Department of State:</u>				
Direct Programs:				
U.S. Ambassadors' Fund for Cultural Preservation	19.025			\$ 2,757
Total U. S. Department of State				\$ 2,757
<u>U. S. Small Business Administration</u>				
Direct Programs:				
8(a) Business Development Program	59.006			\$ 34,570
Total U. S. Small Business Administration				\$ 34,570
<u>U. S. Department of Education:</u>				
Pass-Through Grants from the FSM National Government:		A5		
Special Education Cluster (IDEA):				
Special Education - Grants to States	84.027A			\$ 630,882
Total Special Education Cluster (IDEA) and Total U.S. Department of Education				\$ 630,882
<u>U. S. Department of Health and Human Services:</u>				
Direct Programs:				
Health Center Program Cluster:				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224			\$ 1,128,203
Subtotal Health Center Program Cluster				\$ 1,128,203
Pass-Through Grants from the FSM National Government:		A5		
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092			27,171
Maternal and Child Health Federal Consolidated Programs	93.110			7,046
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			53,329
Family Planning-Services	93.217			25,300
Grants to States to Support Oral Health Workforce Activities	93.236			14,926
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243			32,976
Universal Newborn Hearing Screening	93.251			55,138
Immunization Cooperative Grants	93.268			77,846
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283			77,375

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Identifying Number Assigned by Pass- Through Entity	Passed through to Subrecipient	Federal Expenditures
<u>U. S. Department of Health and Human Services, Continued</u>				
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC	93.323			16,500
Preventive Health and Health Services Block Grant funded				
solely with Prevention and Public Health Funds (PPHF)	93.758			3,328
Assistance Programs for Chronic Disease Prevention and Control	93.945			33,645
Block Grants for Community Mental Health Services	93.958			3,625
Block Grants for Prevention and Treatment of Substance Abuse	93.959			46,765
Maternal and Child Health Services Block Grant to the States	93.994			73,719
Subtotal Pass-Through Grants from Federated States of Micronesia National Government				\$ 548,689
Total U. S. Department of Health and Human Services				1,676,892
Total Expenditures of Federal Awards			\$ 259,190	\$ 14,606,763
Reconciliation to the basic financial statements:				
Foreign Assistance Grants Fund expenditures				\$ 15,100,531
Less Non-U.S. Grants Fund expenditures				(81,908)
Less: CFM Grants Fund expenditures				(358,349)
Less: Section 221(b) Special Block Grant Fund expenditures				(53,511)
				\$ 14,606,763

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2017

1. Scope

The State of Yap is one of the four States of the Federated States of Micronesia. All significant operations of the State of Yap are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as the State of Yap's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of State of Yap under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Yap, it is not intended to and does not present the financial positions or changes in financial positions of State of Yap.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, the State of Yap's reporting entity is defined in Note 1A to its September 30, 2017 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by the State of Yap, as defined above, for the year ended September 30, 2017.

The Yap State Public Service Corporation (YSPSC), a discretely presented component unit of the State of Yap, separately satisfies the requirements of the Uniform Guidance. YSPSC expended \$225,000 in federal grants during the year ended September 30, 2017.

C. Matching Costs

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

D. Subrecipients

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2017

3. Summary of Significant Accounting Policies, Continued

E. Indirect Cost Allocation

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

F. CFDA #15.875

CFDA #15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA #15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2017

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

*Financial Statements*

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

*Federal Awards*

Internal control over major federal programs:

- |   |           |
|---|-----------|
| 5. Material weakness(es) identified?  | Yes       |
| 6. Significant deficiency(ies) identified?  | Yes       |
| 7. Type of auditors' report issued on compliance for major federal programs:                          | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes       |
| 9. Identification of major federal programs:  |           |

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

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee?                                   | No        |

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2017

**Section II – Financial Statements Findings**

<u>Finding #</u>	<u>Finding</u>
2017-003	External Financial Reporting

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

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2017-001	15.875	Procurement and Suspension and Debarment	\$ 76,540
2017-002	93.224	Procurement and Suspension and Debarment	<u>18,515</u>
			\$ <u>95,055</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2017

Finding No.: 2017-001  
Federal Agency: U.S. Department of the Interior  
Pass-Through Entity: Federated States of Micronesia  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Federal Award No.: Compact Sector Grants  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$76,540

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

Condition:

Of 25 nonpayroll transactions, aggregating \$819,899 of \$7,040,353 in total program non-payroll costs, we noted the following deficiencies:

1. For 3 (or 12%), State price quotations sent to vendors included requirements for a particular brand name, product, or feature of a product, peculiar to one manufacturer, thereby precluding consideration of a product manufactured by another company.

<u>Check</u>	<u>Transaction</u>	<u>Amount</u>
91048	198048T-0000007	\$ 2,340
92077	201564T-0000043	450
86962	185614T-0000003	3,750
		<u>\$ 6,540</u>

2. For 1 (or 4%), consisting of a \$70,000 non-payroll cost, the State requirement to perform formal bidding procedures was waived by the State Governor, who does not have the authority to waive such requirement. Payment was processed without documentation of procurement procedures.

Cause: The cause of the condition appears to be inconsistencies in complying with the competitive procurement requirements.

Effect: The effect of this condition is potential noncompliance with the criteria, and questioned costs result.

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

Views of Auditee and Planned Corrective Actions: The State agrees with this finding and describes corrective action in the Corrective Action Plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2017

Finding No.: 2017-002  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Federal Award No.: H80CS06653  
Requirement: Procurement and Suspension and Debarment  
Questioned Costs: \$18,515

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

Condition: For 3 (or 14%) of 22 nonpayroll transactions tested, aggregating \$108,000 of \$631,626 in total program non-payroll costs, State price quotations sent to vendors included requirements for a particular brand name, product, or feature of a product, peculiar to one manufacturer, thereby precluding consideration of a product manufactured by another company.

<u>Check</u>	<u>Transaction</u>	<u>Amount</u>
86715	184767T-0000025	\$ 1,730
86837	191722T-0000000	13,530
91457	199331T-0000009	<u>3,255</u>
		\$ <u>18,515</u>

Cause: The cause of this condition appears to be the lack of understanding of procurement requirements.

Effect: The effect of this condition is questioned costs, which when projected, exceed the threshold.

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

Views of Auditee and Planned Corrective Actions: The State agrees with this finding and describes corrective action in the Corrective Action Plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2017

Finding No.: 2017-003  
Area: External Financial Reporting

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

Condition: A fiscal year 2017 financial audit of the following component unit was not completed in a timely manner due to delayed reconciliations and year-end closings:

Yap Fishing Authority

Cause: The cause of the above condition is the lack of policies and procedures requiring regular monitoring of component unit financial statements and of the audit progress for the respective entities.

Effect: The effect of the above condition is noncompliance with GASB Statement No. 14, as amended, and lack of audited financial statements for inclusion in the State's general purpose financial statements. Yap Fishing Authority did not incur federal program expenditures during the year ended September 30, 2017.

Identification as a Repeat Finding: 2016-005

Recommendation: We recommend that the State establish policies and procedures to facilitate compliance with GASB Statement No. 14, as amended.

Views of Auditee and Planned Corrective Actions: The State agrees with this finding and describes corrective action in the Corrective Action Plan.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Prior Year Findings and Questioned Costs  
Year Ended September 30, 2017

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

	Questioned Costs Set Forth in Prior Audit Report <u>2016</u>	Questioned Costs Resolved in Fiscal Year <u>2017</u>	Questioned Costs at <u>September 30, 2017</u>
Unresolved Questioned Costs FY 08	\$ 69,590	\$ -	\$ 69,590
Unresolved Questioned Costs FY 09	376,295	338,585	37,710
Unresolved Questioned Costs FY 10	150,534	150,534	-
Unresolved Questioned Costs FY 11	222,064	222,064	-
Unresolved Questioned Costs FY 13	45,776	-	45,776
Unresolved Questioned Costs FY 14	129,385	100,472	28,913
Unresolved Questioned Costs FY 15	30,354	30,354	-
Unresolved Questioned Costs FY 16	<u>74,514</u>	<u>74,514</u>	<u>-</u>
Questioned Costs FY 17	\$ <u>1,098,512</u>	\$ <u>916,523</u>	181,989 <u>95,055</u>
Total Questioned Costs			\$ <u>277,044</u>



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PROPERTY: 350-2271/2370  
PERSONNEL: 350-2145  
REVENUE: 350-2472

**CORRECTIVE ACTION PLAN**  
**2 CFR § 200.511(c)**  
**Year Ended September 30, 2017**

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person
2017-001	<p>We agree with this finding. Due to limited the number of vendors and service centers, government agencies tend to purchase goods and products to which they have had prior experience and are familiar with. We will however, work with the departments, offices and agencies to ensure this regulation is being complied with.</p> <p>We will assess ways to strengthen our procurement processes and work collaboratively with all departments, offices and agencies to ensure that all procurement regulations are being adhered to.</p>	December 31, 2018	Chief of Procurement (691)350-2142 Ppm.oas@gmail.com
2017-002	<p>We agree with this finding. Due to the limited number of vendors and service centers, government agencies tend to purchase goods and products to which they have had prior experience and are familiar with. We will however, work with the departments, offices and agencies to ensure this regulation is being complied with.</p> <p>We will assess ways to strengthen our procurement processes and work collaboratively with all departments, offices and agencies to ensure that all procurement regulations are being adhered to.</p>	December 31, 2018	Chief of Procurement (691)350-2142 Ppm.oas@gmail.com
2017-003	<p>We agree with this finding. This has been a repeat finding for a number of years, however, OAS does not have the authority to correct this finding. As such, we will bring it to the attention of the proper authority for its review.</p> <p>We will bring it to the proper authority for a hopeful review and resolution.</p>	September 30, 2018	Acting Director, OAS (691)350-2142 oasyap@mail.fm