

Public Transportation System

Financial Statements and
Independent Auditor's Report

September 30, 2016 and 2015



**Office of the Public Auditor
State of Yap**

Federated States of Micronesia



OFFICE OF THE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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October 16, 2017

Alphonsus Ruwema, Chairman of the Board
Jeffrey Adalbai, General Manager
Honorable Tony Ganngiyan, Governor, State of Yap
Honorable Theodore (Ted) Rutun, Speaker, Yap State Legislature

RE: Audit of Public Transportation System

This report presents the results of our audit of the financial statements for the Public Transportation System (PTS) for the years ended September 30, 2016 and 2015. These financial statements are the responsibility of management of PTS.

The purpose of our audit was to express our opinion on the financial statements of PTS for the years indicated, which in the auditors' opinion the financial statements presented on pages 4 through 6 is unqualified (clean opinion). The financial statements present fairly, in all material respect the financial position of PTS as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

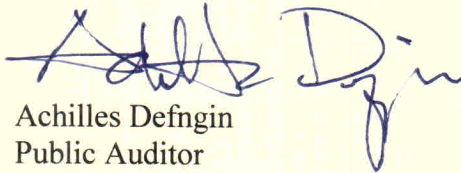
The audit was performed by the Office of the Yap State Public Auditor pursuant to the provisions of Title 13, Chapter 7, § 703 of the Yap State Code, and in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our report on our consideration of PTS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters required for audits of financial statements performed in accordance with *Government Auditing Standards* on pages 16 to 17 discusses reportable conditions at PTS. These conditions and our recommendations are basically presented for the information of PTS management in the Schedule of Findings. Since neither material weakness nor significant deficiency was noted during our audit, and since the results of our tests did not disclose any instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, no Schedule of Findings was presented.

A copy of the draft report was provided to the Chairman of the Board and the General Manager, the contents of which were discussed with the Board of Directors, management, and key personnel on June 22, 2017.

We would like to take this opportunity to thank the Board of Directors, the management and staff of Public Transportation System for their assistance and cooperation during the course of our audit.

Respectfully submitted,



Achilles Defngin
Public Auditor

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PUBLIC TRANSPORTATION SYSTEM

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Public Transportation System:

We have audited the accompanying balance sheets of Public Transportation System (PTS) as of September 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the PTS management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

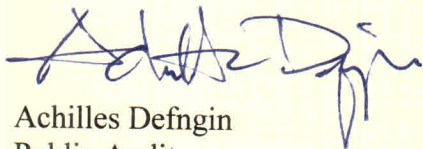
In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of the Public Transportation System as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 22, 2017 on our consideration of the Public Transportation System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of any audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our mission is to serve the public interest by providing independent assessments that promote accountability, transparency, and excellence in governance within the programs, operations, and management of the Government of the State of Yap.

Accounting principles generally accepted in the United States of America require that Management's discussion and analysis on page 3 be presented to supplement the basic financial statements. Such information, though not part of the basic financial statements, is required by the Governmental Accounting Standard's Board, who consider 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 methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the results of the limited procedures have raised doubts whether the material modifications should be made to management's discussion and analysis for it to be presented in accordance with the guidelines established by the GASB.

Our audit was conducted for the purpose of forming opinions on the financial statements of PTS taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Achilles Defngin
Public Auditor

May 22, 2017

PUBLIC TRANSPORTATION SYSTEM
Management Discussion and Analysis
Years Ended September 30, 2016 and 2015



Public Transportation System
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Management's Discussion and Analysis
September 30, 2016

Yap State Public Transportation System is the only public bus transportation operation that provides transportation to the public and private school students as well as the general public. The system was established in 1984 under Yap State Law No. 1-170 as a component unit, an entity which the government is financially accountable and was tasked to provide reliable and affordable transportation for people living within and outside the Colonia area.

This section of the Public Transportation System annual financial statement report presents our discussion and analysis of the System's financial performance for the year ended September 30, 2016. Financial statement for PTS is attached hereto.

In addition to the financial difficulties that Public Transportation System faces annually, the high cost of fuel still remain a challenge and the ever increasing cost of parts and supplies.

As repeated from our previous year Management's Discussion and Analysis, half of the bus fleet was replace with new buses, the first purchase units are now 10 years in service with 4 units which are fully depreciated and have been in service for more than 15 years in which has been very costly to operate.

There are significant figures noticed in our financial statement. PTS shows again an increase of sales in our automotive service department at about 17% compare to FY2015. Our bottom line this period indicates 6% increase of gross profit exclusive of subsidy. Our overall sales, shop and other income sales is about \$255,195.00. As does every year, PTS continue to show negative bottom line, which this year is about \$10K. The automotive service department has greatly kept PTS going each year.

PTS has been and will continue to work toward becoming self-sustainable. Included in the discussion of the Board and management, developing plan that would entail diversifying of PTS operation. Opening other revenue generating service to subsidize the operation and hopefully having PTS be self sustainable and gradually reduce the depleting government subsidy.

The accompanying financial statements present the financial condition and operation of the Public Transportation System for the fiscal year 2016.

PUBLIC TRANSPORTATION SYSTEM

Statements of Net Assets September 30, 2016 and 2015

ASSETS :	<u>2016</u>	<u>2015</u>
Current Assets		
Cash	\$ 86,428	\$ 86,485
Trade receivables, net (note 3)	14,049	10,852
Prepaid expenses	12,045	13,077
Purchase Order Advance	1,676	0
Inventory	<u>208,894</u>	<u>116,490</u>
Total current assets	323,091	226,903
Property and equipment, net (note 4)	<u>182,585</u>	<u>281,470</u>
TOTAL ASSETS	<u>\$ 505,676</u>	<u>\$ 508,373</u>
LIABILITIES AND NET ASSETS :		
Current liabilities:		
Accounts payable - trade	\$ 16,059	\$ 9,368
Customer deposits	22,380	6,935
Accrued payroll and others	<u>9,170</u>	<u>24,452</u>
Total current liabilities	47,609	40,755
Net Assets		
Invested in capital assets	182,585	281,470
Unrestricted	<u>275,482</u>	<u>186,148</u>
Total net assets	<u>458,068</u>	<u>467,618</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 505,676</u>	<u>\$ 508,373</u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Charges for transportation services	\$ 160,022	\$ 149,370
Auto shop service income	144,747	123,474
Fuel, parts & accessories sales	85,416	91,982
Other sales	3,532	6,015
	393,717	370,841
Cost of sales	138,522	131,056
Gross margin	255,195	239,786
Selling, general and administrative expenses		
Personnel services	156,507	146,014
Insurance	17,093	14,385
Miscellaneous	18,725	10,125
Parts, supplies & materials	6,461	6,491
Utilities	10,533	9,198
Depreciation	113,192	136,141
Travel	17,150	4,199
Fuel, oil and lubricants	60,370	71,603
Repair and maintenance	21,957	20,326
	421,987	418,481
Loss from operations	(166,792)	(178,696)
Nonoperating revenues/(expenses)		
Yap State operating subsidy	157,242	92,668
Interest	0	6
	157,242	92,674
Changes in net assets	(9,550)	(86,022)
Net assets at beginning of year	467,618	553,640
Net assets - end of year	\$ 458,068	\$ 467,618

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

Statements of Cash Flows September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Receipts from customers	\$ 404,289	\$ 374,334
Cash payments for goods and services	(375,491)	(265,772)
Cash payments to employees	<u>(171,789)</u>	<u>(129,125)</u>
Net cash used for operating activities	(142,991)	(20,563)
 Cash flows from noncapital financing activities		
Operating subsidy from Yap State Government	157,242	92,668
Other Income/Expense	<u>0</u>	<u>6</u>
Net cash from non-capital financing activities	157,242	92,674
 Cash flows used for investing activities		
Other Income	0	0
Acquisition of fixed assets	<u>(14,308)</u>	<u>(12,770)</u>
Net cash used for investing activities	(14,308)	(12,770)
Net increase/(decrease) in cash	(57)	59,341
Cash, beginning of year	<u>86,485</u>	<u>27,144</u>
 Cash, end of year	<u>\$ 86,428</u>	<u>\$ 86,485</u>
 Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	(166,792)	(178,696)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	113,192	136,141
(Increase)/Decrease in assets		
Trade receivables, net	(3,197)	1,494
Purchase Order Advance, net	(1,676)	0
Prepaid insurance	1,032	(1,308)
Inventory	(92,404)	2,147
Increase/(Decrease) in liabilities		
Accounts payable	6,691	768
Customer deposits	15,445	1,999
Accrued expenses	<u>(15,283)</u>	<u>16,892</u>
Net cash used in operating activities	<u>\$ (142,991)</u>	<u>\$ (20,563)</u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements September 30, 2016 and 2015

(1) Organization

Public Transportation System (PTS), a component unit of the State of Yap, was created by Yap State Law (YSL) No. 1-170 and is responsible for providing reliable and inexpensive transportation to the general public based on established routes and fares. Other services provided by PTS include charter transportation by way of commercial leasing of PTS equipment and auto repair sales and services to individuals and organizations. 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.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of PTS have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Governmental Accounting Standards Board (GASB) Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. PTS has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

- (a) *Invested in capital assets, net of related debt* – Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- (b) *Nonexpendable*- Net assets subject to externally imposed stipulations that require PTS to maintain them permanently.

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements September 30, 2016 and 2015

- (c) *Expendable*- Net assets whose use by PTS is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time.
- (d) *Unrestricted* – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

New Accounting Standards

During fiscal years ended September 30, 2016 and 2015, PTS implemented the following pronouncements:

- GASB Statement No.68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.
- GASB Statement No. 69, *Government Combination and Disposal of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. A disposal of government operations can occur through a transfer to another government or a sale.
- GASB Statement No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (an amendment of GASB Statement No. 68), which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The management believes that the implementation of these statements did not have a material effect on the financial statements of PTS.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. The implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The

PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements September 30, 2016 and 2015

management does not believe that the implementation of this statement has a material effect on the financial statements of PTS.

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

In June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which replaces Statement No. 43, *Financial Reporting for Postemployment Benefit 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 (postemployment benefits or OPEB). The provisions of Statement 74 are effective for fiscal years beginning after June 15, 2016. The management does not believe that the implementation of this statement has a material effect on the financial statements of PTS.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans*, as amended, and Statement 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 (postemployment benefits or OPEB). The provisions of Statement No. 75 are effective for fiscal years beginning after June 15, 2016. The management does not believe the implementation of this Statement has a material effect on the financial statements of PTS.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies in the context of the current governmental financial reporting environment the hierarchy of generally accepted accounting principles (GAAP). This Statement eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by GASB Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15,

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Notes to Financial Statements

September 30, 2016 and 2015

2015. The management does not believe that the implementation of this statement has a material effect on the financial statements of PTS.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. The management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which amends the scope and applicability of GASB Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The provisions of Statement 78 are effective for fiscal years beginning after December 15, 2015. The management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Provisions of this statement are effective for fiscal years beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for fiscal years beginning after December 15, 2015. The management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*, which amends the blending requirements established in paragraph 53 of Statement No. 14. This statement enhances the comparability of financial statement among governments. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. The management does not believe that the implementation of this statement has a material effect on the financial statements of PTS.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognizes assets, liabilities, and deferred inflows of resources at the inception of the agreement. This Statement also requires that a government recognizes revenue when the resources become applicable to the reporting period. The Statement enhances the decision-

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Notes to Financial Statements September 30, 2016 and 2015

usefulness of general purpose external financial reports and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. The management does not believe that the implementation of this statement will have a material effect on the financial statement of PTS.

In March 2016, GASB issued Statement No. 82, *Pension issues* (an amendment of GASB No. 67, No. 68 and No.73), which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. The management does not believe that the implementation of this statement will have a material effect on the financial statements.

Cash

For purposes of the Statement of Net Assets and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All of the balances at September 30, 2016 and 2015 are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

Inventory

Inventory is stated based on average costs and consists primarily of spare parts for the buses and mechanics auto shop.

Depreciation

Property and equipment is stated at cost less accumulated depreciation and depreciation is recorded in the financial statements under the straight-line method based on the estimated useful lives of the assets as follows:

Buildings	10	-	25	Years
Vehicles	4	-	7	Years
Shop Equipment	2	-	10	Years
Office Furniture and Equipment	3	-	10	Years
Land Improvement	2	-	10	Years

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Notes to Financial Statements September 30, 2016 and 2015

Use of Estimates

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

(3) Trade Receivables

A summary of trade receivables at September 30, 2016 and 2015 is presented below:

	2016	2015
Current and former employees	\$ 1,836	\$ 1,413
Current and former board members	4,027	4,027
State departments and agencies	3,553	3,002
Other trade customers	17,447	14,414
	<u>\$ 26,863</u>	<u>\$ 22,856</u>
Less: Allowance for doubtful accounts	<u>(12,814)</u>	<u>(12,004)</u>
	<u>\$ 14,049</u>	<u>\$ 10,852</u>

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Notes to Financial Statements September 30, 2016 and 2015

(4) Property, Plant and Equipment

A summary of property and equipment as of September 30, 2016 and 2015 follows:

	Beginning balance October 1, 2015	Transfers And Additions	Transfers And Disposals	Ending balance September 30, 2016
Buildings	\$ 120,849	\$ 2,150	\$ --	\$ 122,999
Vehicles	1,089,906	1,000	--	1,090,906
Shop equipment	73,059	3,244	(259)	76,044
Office equipment	108,015	6,891		114,906
Land Improvement	--	1,282	--	1,230
	1,391,829	14,567	(259)	1,406,137
Less accumulated depreciation	(1,110,360)	(113,192)	--	(1,223,552)
	\$ 281,469	\$	\$ --	\$ 182,585
	Beginning balance October 1, 2014	Transfers And Additions	Transfers And Disposals	Ending balance September 30, 2015
Buildings	\$ 119,893	\$ 957	--	\$ 120,849
Vehicles	1,089,906	-	--	1,089,906
Shop equipment	65,661	7,397	--	73,059
Office equipment	103,599	4,416	--	108,015
	1,379,059	12,770	--	1,391,829
Less accumulated depreciation	(974,218)	(136,145)		(1,110,360)
	\$ 404,841	\$	\$ --	\$ 281,469

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Notes to Financial Statements September 30, 2016 and 2015

(5) Cost of sales

The detail of cost of sales for the year ended September 30, 2016 is as follows:

Purchases	\$ 114,829
Other Expense	<u>23,693</u>
	\$ 138,522

(6) Yap State Operating Subsidies

PTS received operating subsidies for the years ended September 30, 2016 and 2015 in the amount of \$157,242 and \$92,668 respectively, from the Yap State Government under which eligible expenditures could be reimbursed. The operating subsidies were funded by the General Fund-Local Revenue, Compact Capital Projects and Education Sector grants.

During the years ended September 30, 2016 and 2015, PTS has eligible expenditures of \$157,242 and \$92,668.

(7) Related Parties

In the ordinary course of business, PTS enters into transactions with private businesses and State agencies in which certain Board members and officers hold positions and other positions of influence with the State. Related party transactions for the years ended September 30, 2016 and 2015 were \$5,863 and \$5,440 respectively.

(8) Risk management

PTS carries general liability insurance on its bus fleet and its passengers, but is self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

PUBLIC TRANSPORTATION SYSTEM

Schedule of Expenditures of Federal Awards
Years Ended September 30, 2016 and 2015

Grantor/CFDA Grantor's Program Title	Federal CFDA #	Expenditures	
		<u>FY 2016</u>	<u>FY 2015</u>
Amended Compact - Education Sector Grant	15.875	<u>\$ 63,686</u>	<u>\$ 63,112</u>
Total Federal awards expended		<u>\$ 63,686</u>	<u>\$ 63,112</u>

Note

(1) *The Education Sector Grant is passed through the FSM National Government to the State of Yap.*

(2) *The schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.*



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors of
Public Transportation System:

We have audited the financial statements of the Public Transportation System (PTS) as of and for the years then ended September 30, 2016 and 2015, and have issued our report thereon dated May 22, 2017. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PTS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PTS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PTS's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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 PTS' financial statements will not be prevented, or detected and corrected on a timely basis. No material weaknesses were noted during our audit.


A significant deficiency is a deficiency or 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. No significant deficiency was noted during our audit.

Our mission is to serve the public interest by providing independent assessments that promote accountability, transparency, and excellence in governance within the programs, operations, and management of the Government of the State of Yap.

Compliance and Other Matters

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

This report is intended for the information of the Board of Directors and management, awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Achilles Defngin
Public Auditor

May 22, 2017