

**State of Yap
Federated States of Micronesia**

Financial Statements and
Independent Auditors' Reports
as of and for the years ended
September 30, 2009 and 2008



Fortenberry & Ballard, PC
Certified Public Accountants

State of Yap
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FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia

We have audited the accompanying statement of governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State) as of and for the year ended September 30, 2009, which collectively comprise the State's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We did not audit the financial statements of Public Transportation System, which represents less than 1% of the assets, net assets/fund balances, and revenues (including primary government and discretely presented component units) of the State. The financial statements of Public Transportation System represent 100% of the business-type activities included in the State's basic financial statements. We also did not audit the financial statements of Yap Fishing Authority, which also represents less than one percent of the assets, net assets/fund balances, and revenues (including primary government and discretely presented component units) of the State. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Public Transportation System, and Yap Fishing Authority, is based on the report of 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The Management's Discussion and Analysis on pages 6-13, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual—General Fund and notes thereto on pages 62-63 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the State. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the State's respective financial statements that collectively comprise the State's basic financial statements. The accompanying combining and individual fund financial statements and schedules, as set forth in Section IV of the foregoing table of contents, which includes the Schedule of Expenditures of Federal Awards, which are also the responsibility of the management of the State, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the State. Such additional information has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2010 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

FORTENBERRY & BALLARD, PC |

Fortenberry & Ballard, PC
April 13, 2010

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

YAP STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
Management's Discussion and Analysis
September 30, 2009

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, 2009. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2008 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, 2009, Yap State's total net assets increased by \$464,135 to \$94.93 million, from \$92.38 million in the prior year, with a prior period adjustment of \$2.1 million to adjust loans receivable to the actual amount.
- In comparison to fiscal year 2008, revenues increased by \$13.7 million, while total expenditures decreased a little over 10%. The large increase in revenue is primarily due to a gain on investments when compared with prior year significant losses.
- In fiscal year 2009, revenues available for appropriation were \$5.3 million more than budgeted for the general. Actual expenditures were \$770,572 more than the final budgeted amount.
- The unreserved surplus of the General Fund increased by \$10.86 million; an increase from the \$27.60 million balance in the prior year to \$38.46 million in fiscal year 2009. The increase is attributable mainly to the gains on Yap State's investment portfolio when compared with the significant losses in 2008, and a transfer in of funds from the Compact Capital Projects Fund, prescribed by law. Investment gains realized on Yap State's general fund investments totaled \$3.96 million in fiscal year 2009, compared with the losses of \$8.75 million in fiscal year 2008, resulting in a turnaround of \$12.71 million.

Financial Statements Overview

This discussion and analysis is intended to serve as an introduction to Yap State's basic financial statements. Yap State's basic financial statements are comprised of 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 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.

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

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

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

- **Governmental Activities** – Most of Yap State's basic services are included here, such as education, health, special appropriations, finance, judiciary, and general administration. Federal grants finance most of these activities.
- **Business-type Activities** – Yap State reports the operations of its Public Transportation System, which charges tariffs to help cover the costs of the transportation services it provides.
- **Components Units** – Yap State includes the operating results of the Yap Visitor's Bureau, the Yap State Public Service Corporation, the Yap Fishing Authority, 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 the 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 that explains and reconciles the relationship (or differences) between them.
- **Proprietary funds.** Services for which Yap state charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

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FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE

Net assets may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2009, Yap State's assets exceeded liabilities by \$94.93 million. Of its total net assets, \$36.2 million is restricted as to the purposes the money can be used for. Another \$34.86 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 assets as of September 30, 2009 with comparative figures for the prior year:

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current and other non-capital assets	\$ 70,682,888	\$ 66,574,330
Capital assets	<u>34,862,284</u>	<u>37,215,377</u>
Total assets	<u>105,545,172</u>	<u>103,789,707</u>
 <u>Liabilities</u>		
Other liabilities	4,764,925	5,484,300
Long-term liabilities	<u>5,852,955</u>	<u>5,923,861</u>
Total liabilities	<u>10,617,880</u>	<u>11,408,161</u>
 <u>Net assets</u>		
Invested in capital assets, net of related debt	34,862,284	37,215,377
Restricted	36,198,352	26,883,226
Unrestricted	<u>23,866,656</u>	<u>28,282,943</u>
Total net assets	<u>\$ 94,927,292</u>	<u>\$ 92,381,546</u>

At the end of fiscal year 2009, Yap State's unrestricted assets show a surplus of \$23.87 million of total net assets. These funds are included in Yap State's investment portfolio and are available for discretionary purposes subject to appropriation by the Yap State Legislature. Yap State's assets increased by \$1.75 million from fiscal year 2008 levels. Key elements of the increase and the differences from the prior year are shown in the following schedule:

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September 30, 2009

	<u>2009</u>	<u>2008</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 1,689,662	\$ 1,208,295
Operating grants and contributions	15,914,296	18,240,757
Capital Grants and contributions	-	(673,338)
General Revenues:		
Taxes	3,527,968	3,470,109
Unrestricted investment (losses) earnings	4,072,139	(8,754,261)
Other	18,519	50,517
Total revenues	<u>25,222,584</u>	<u>13,542,079</u>
Expenses:		
General government	3,521,092	5,612,320
Health Services	4,701,131	4,613,794
Education	6,283,400	7,384,012
Economic development	1,251,353	1,408,700
Public Safety	720,191	449,874
Public works and transportation	4,580,462	5,458,934
Community affairs	732,286	1,106,162
Boards and commissions	555,702	50,941
Payments to components	1,017,764	1,030,916
Judiciary	249,283	189,338
Public auditor	113,799	(3,406)
Other	1,031,986	468,694
Total expenses	<u>24,758,449</u>	<u>27,770,279</u>
Change in net assets	464,135	(14,228,200)
Net assets at the beginning of the year	92,381,546	106,609,746
Prior period adjustment	2,081,611	-
Net assets at the end of the year	<u>\$ 94,927,292</u>	<u>\$ 92,381,546</u>

Total fiscal year 2009 revenues of \$25.2 million are an increase from the prior year's \$13.54 million, primarily due to gains in investments.

Total fiscal year 2009 expenses of \$24.76 million was a decrease from fiscal year 2008's level of \$27.77 million.

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FINANCIAL ANALYSIS OF YAP STATE'S 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 2009, Yap State's governmental funds reported a combined fund balance of \$66.0 million, which represents an increase of \$4.8 million in comparison with fiscal year 2008. Part of this increase is attributable to the prior period adjustment of \$2.1 million, which was made to adjust loans to their correct balances. The other part of the increase is partly attributable to a gain on investments, especially when compared with a large loss in the value of investments in the prior year. Of the total fund balance, \$25.91 million is reserved to indicate that it is not available for new spending because it has already been committed: 1) to generate income for future operations (\$15.52 million); 2) to liquidate contracts and purchase orders of the prior period (\$5.16 million); to fund specific general fund and compact CIP-related activities (\$5.23 million). The unreserved combined fund balance is \$45.68 million, an increase of \$4.8 million from fiscal year 2008.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$38.46 million as compared with the prior year ending unreserved fund balance of \$27.6 million, an increase of \$10.86 million, while the total fund balance was \$54.6 million compared with a total fund balance of \$35.8 million at the end of the prior fiscal year, an increase of \$18.8 million. The increase in the overall fund balance of the General Fund was primarily the result of the gain on investments, when compared with the significant losses in the prior year, and a transfer in of funds from the Compact Capital Projects Fund, which was prescribed by law.

The Foreign Assistance Grants Fund has a total fund balance of \$5.33 million, which primarily represents Compact Sector grant revenues received not yet expended at year end. The net increase in fund balance during the current year in the Foreign Assistance Grants Fund was \$1.49 million, which primarily was the result of decreased general government expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

Yap State recovered from the prior year market downturn to recognize a gain on investments of \$4 million, which helped the State with a \$4.54 million positive variance in revenues over expenditures. The State's unreserved general fund budget surplus increased \$10.86 million in fiscal year 2009, to \$38.46 million from \$27.6 million in 2008.

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FEDERATED STATES OF MICRONESIA**
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September 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2009, amounted to \$111.17 million, net of accumulated depreciation of \$76.65 million, leaving a net book value of \$34.52 million. This represents a net decrease of \$2.58 million from fiscal year 2008. The table below summarizes Yap State's capital assets:

	2009	2008
Land	\$ 3,120,610	\$ 3,120,610
Buildings	6,032,465	6,525,611
Equipment	1,903,321	1,725,633
Furniture and Fixtures	179,741	20,033
Vehicles	565,448	716,799
Boats	3,453,017	3,672,235
Infrastructure	19,261,575	21,313,868
	<u>\$ 34,516,177</u>	<u>\$ 37,094,789</u>

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

Long-Term Debt

Long-term debt obligations of the Yap State primary government total \$6.05 million at September 30, 2009. The debt is comprised of the non-current portion of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, and the Basic Social Services Loan with all three adding to \$5.24 million, liability for compensated absences of \$553,860 and long-term payments due under land purchase agreements of \$249,607. Principal repayments on the outstanding ADB loans began in 2008 and are partially covered by \$1.93 million deposited in a restricted investment account jointly held with the FSM National Government.

Additional information on Yap States long-term debt obligations can be found in note 7 to the financial statements.

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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Yap State ended fiscal year 2009 with a stronger financial position as reflected in its increased unreserved general fund surplus when compared to the previous year. The global economic downturn seen in 2008 made an upswing in 2009, with the government showing unexpected economic growth in its investments, with a total turnaround of \$13.9 million, going from a decrease of \$8.75 million in its fair value of investments in 2008 to an increase of \$4 million in 2009. Other economic factors in the local economy remain relatively stagnant. No material growth in local taxes or fees is expected, except for the potential income that new Compact Infrastructure may generate when such projects are implemented.

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 46% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of Interior in its interpretation of the *Fiscal Procedures Agreement* – continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2010 and beyond.

Yap State's investment is subject to the uncertain financial climate in the U.S. financial markets. The increase referred to above certainly helped the State with its financial position during 2009. With these uncertainties in the financial market and in the global economy expected to continue in the near future, Yap State's strong hold on fiscal discipline is now most needed for continued sound operating results and stable financial position during fiscal year 2010.

CURRENT ISSUES AND OTHER INFORMATION

Yap State Government is financially stable. The State has committed itself to financial excellence for many years. The State's system of financial planning, budgeting and internal financial controls is well regarded and the State plans to continue its sound fiscal management to meet the challenges of the future.

The State actively pursues economic development and efficiency in order to obtain the goal of self-sufficiency.

CONTACTING YAP STATE'S FINANCIAL MANAGEMENT

If you have questions about this report, contact Robert Fathaltamanbay at the Yap State Office of Administrative Services, Colonia, Yap 96943.

FINANCIAL STATEMENTS

YAP STATE GOVERNMENT

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 561,487	\$ 59,941	\$ 621,428	\$ 4,563,652
Investments	53,143,069	--	53,143,069	616,896
Receivables, net of allowance for uncollectibles	2,037,436	152,853	2,190,289	1,469,045
Advances	1,122,842	--	1,122,842	--
Inventories	--	50,380	50,380	794,037
Other current assets	--	12,772	12,772	78,911
Total Current Assets	<u>56,864,834</u>	<u>275,946</u>	<u>57,140,780</u>	<u>7,522,541</u>
Noncurrent Assets:				
Restricted assets:				
Cash and cash equivalents	--	--	--	2,252,380
Investments	5,374,449	--	5,374,449	--
Investments	3,928,753	--	3,928,753	--
Loans receivable	4,238,906	--	4,238,906	--
Capital assets, net of accumulated depreciation	34,516,177	346,107	34,862,284	12,896,754
Total Noncurrent Assets	<u>48,058,285</u>	<u>346,107</u>	<u>48,404,392</u>	<u>15,149,134</u>
Total Assets	<u>104,923,119</u>	<u>622,053</u>	<u>105,545,172</u>	<u>22,671,675</u>
LIABILITIES & NET ASSETS:				
Current Liabilities:				
Current portion of long-term debt	192,898	--	192,898	1,230,250
Accounts payable	1,698,116	6,114	1,704,230	1,318,043
Other current liabilities and accruals	336,900	18,899	355,799	560,337
Deferred revenue	2,361,726	150,272	2,511,998	--
Total Current Liabilities	<u>4,589,640</u>	<u>175,285</u>	<u>4,764,925</u>	<u>3,108,630</u>
Noncurrent Liabilities:				
Noncurrent portion of long-term debt	5,382,173	--	5,382,173	6,415,826
Compensated absences payable	470,782	--	470,782	--
Total Noncurrent Liabilities	<u>5,852,955</u>	<u>--</u>	<u>5,852,955</u>	<u>6,415,826</u>
Total Liabilities	<u>10,442,595</u>	<u>175,285</u>	<u>10,617,880</u>	<u>9,524,456</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	34,516,177	346,107	34,862,284	7,681,285
Restricted For:				
Debt Service	1,928,753	--	1,928,753	--
Future operations	5,374,449	--	5,374,449	--
Compact related	28,485,049	--	28,485,049	--
Other Purposes	410,101	--	410,101	2,052,380
Unrestricted	23,765,995	100,661	23,866,656	3,413,554
Total Net Assets	<u>\$ 94,480,524</u>	<u>\$ 446,768</u>	<u>\$ 94,927,292</u>	<u>\$ 13,147,219</u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental activities:			
Judiciary	249,283	144	140,019
Councils of traditional leaders	486,908	--	693
Public auditor	113,799	--	--
General government	3,521,092	528,388	3,210,765
Economic development	1,215,613	--	239,241
Public safety	720,191	--	--
Community affairs	732,286	2,100	40,975
Education	6,283,400	--	6,777,137
Public works and transportation	4,580,462	416,386	304,401
Health services	4,701,131	399,100	3,901,653
Boards and commissions	555,702	--	295,138
Payments to components	1,017,764	22,708	1,004,274
Other appropriations	496,026	--	--
Interest expense	35,740	--	--
Total Governmental Activities	<u>24,709,397</u>	<u>1,368,826</u>	<u>15,914,296</u>
Business-type Activities:			
Public Transportation System	49,052	320,836	--
Total Primary Government	<u>\$ 24,758,449</u>	<u>\$ 1,689,662</u>	<u>\$ 15,914,296</u>
COMPONENT UNITS:			
Yap Visitor's Bureau	\$ 286,349	\$ 2,322	\$ --
Yap State Public Service Corporation	6,071,738	5,053,044	--
Yap Fishing Authority	463,273	279,987	--
The Diving Seagull, Inc.	5,757,484	6,104,827	--
Total Component Units	<u>\$ 12,578,844</u>	<u>\$ 11,440,180</u>	<u>\$ --</u>

General Revenues:
Taxes:
 Revenue sharing
 Excise taxes
Unrestricted investment earnings
Contributions from the primary government
Other

Total general revenues
Change in Net Assets
Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Units
(109,120)		(109,120)	
(486,215)		(486,215)	
(113,799)		(113,799)	
218,061		218,061	
(976,372)		(976,372)	
(720,191)		(720,191)	
(689,211)		(689,211)	
493,737		493,737	
(3,859,675)		(3,859,675)	
(400,378)		(400,378)	
(260,564)		(260,564)	
9,218		9,218	
(496,026)		(496,026)	
(35,740)		(35,740)	
(7,426,275)		(7,426,275)	
--	\$ 271,784	271,784	
(7,426,275)	271,784	(7,154,491)	
			\$ (284,027)
			(1,018,694)
			(183,286)
			347,343
			(1,138,664)
2,212,339	--	2,212,339	--
1,315,629	--	1,315,629	--
4,064,943	7,196	4,072,139	91,672
--	--	--	271,058
18,519	--	18,519	1,852,604
7,611,430	7,196	7,618,626	2,215,334
185,155	278,980	464,135	1,076,670
92,213,758	167,788	92,381,546	12,070,549
2,081,611	--	2,081,611	--
\$ 94,480,524	\$ 446,768	\$ 94,927,292	\$ 13,147,219

YAP STATE GOVERNMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

	General Fund	Foreign Assistance Grant Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 561,487	\$ --	\$ --	\$ 561,487
Equity interest in internal investment pool	49,708,523	3,226,092	--	52,934,615
Investments	2,000,000	--	208,454	2,208,454
Receivables (net of allowances for uncollectibles):				
Loans	4,238,906	--	--	4,238,906
Federal agencies	--	82,504	--	82,504
FSM national government	126,394	1,506,115	106,041	1,738,550
Taxes	99,391	--	--	99,391
Other	116,992	--	--	116,992
Due from other funds	2,363,403	5,550,449	801,961	8,715,813
Advances	393,048	729,794	--	1,122,842
Restricted assets:	--	--	--	--
Pooled investments	1,928,753	--	--	1,928,753
Investments	--	--	5,374,449	5,374,449
 Total Assets	 <u>\$ 61,536,897</u>	 <u>\$ 11,094,954</u>	 <u>\$ 6,490,905</u>	 <u>\$ 79,122,756</u>
 <u>LIABILITIES AND FUND BALANCES:</u>				
Liabilities:				
Accounts payable	\$ 294,981	\$ 1,244,202	\$ 158,933	\$ 1,698,116
Other liabilities and accruals	248,594	83,680	4,627	336,901
Deferred revenue	175,818	2,139,630	46,277	2,361,725
Due to other funds	6,218,348	2,297,481	199,984	8,715,813
 Total Liabilities	 <u>6,937,741</u>	 <u>5,764,993</u>	 <u>409,821</u>	 <u>13,112,555</u>
 Fund Balances (Deficits):				
Reserved for:				
Related assets	9,738,906	--	5,784,550	15,523,456
Encumbrances	1,316,795	3,632,301	211,951	5,161,047
Continuing appropriations	5,082,983	150,000	--	5,232,983
Unreserved:				
General fund	38,460,472	--	--	44,047,883
Special revenue funds	--	1,547,660	531,062	2,078,722
Capital projects funds	--	--	(446,479)	(446,479)
 Total Fund Balance	 <u>54,599,156</u>	 <u>5,329,961</u>	 <u>6,081,084</u>	 <u>66,010,201</u>
 Total Liabilities and Fund Balance	 <u>\$ 61,536,897</u>	 <u>\$ 11,094,954</u>	 <u>\$ 6,490,905</u>	 <u>\$ 79,122,756</u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

Total fund balances - governmental funds balance sheet	\$ 66,010,201
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	34,516,177
Payables for notes which are not due in the current period are not reported in the funds.	(5,242,385)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(553,861)
Payables for contracts which are not due in the current period are not reported in the funds.	(249,607)
Rounding difference	(1)
	<hr/>
Net assets of governmental activities - statement of net assets	<u>\$ 94,480,524</u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Foreign Assistance Grant Fund	Other Governmental Funds	Total Governmental Funds
Revenue:				
Compact funding	\$ --	\$ 11,501,205	\$ --	\$ 11,501,205
Net increase in the fair value of investments	3,959,368	--	--	3,959,368
Federal contributions and other grants	--	3,781,884	--	3,781,884
Revenue sharing	2,212,339	--	--	2,212,339
Excise taxes	1,289,512	--	118,907	1,408,419
CFSM grants	--	51,395	377,731	429,126
Fees and charges	89,800	--	144,464	234,264
Departmental charges	1,081,421	19,039	11,394	1,111,854
Other	141,760	112,717	1,617	256,094
Total revenues	<u>8,774,200</u>	<u>15,466,240</u>	<u>654,113</u>	<u>24,894,553</u>
Expenditures:				
Current:				
Judiciary	177,341	65,653	--	242,994
Councils of traditional leaders	479,830	--	1,617	481,447
General government	1,111,174	1,169,488	1,153,173	3,433,835
Economic development	91,203	1,047,857	76,553	1,215,613
Public safety	646,834	58,783	--	705,617
Community affairs	340,929	66,627	--	407,556
Education	--	5,923,432	29,000	5,952,432
Public works and transportation	1,597,927	119,734	555,141	2,272,802
Health services	230,827	4,590,629	--	4,821,456
Boards and commissions	198,994	327,982	22,115	549,091
Payments to component units	783,340	519,791	239,370	1,542,501
Principal payments on long-term debt	--	115,205	--	115,205
Interest payments on long-term debt	--	35,740	--	35,740
Other appropriations	203,180	156,117	136,729	496,026
Total expenditures	<u>5,861,579</u>	<u>14,197,038</u>	<u>2,213,698</u>	<u>22,272,315</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,912,621</u>	<u>1,269,202</u>	<u>(1,559,585)</u>	<u>2,622,238</u>
Other Financing Sources (Uses):				
Loan proceeds	--	108,017	--	108,017
Operating transfers in	13,779,207	111,923	--	13,891,130
Operating transfers out	(4,121)	--	(13,887,009)	(13,891,130)
Total Other Financing Sources (Uses)	<u>13,775,086</u>	<u>219,940</u>	<u>(13,887,009)</u>	<u>108,017</u>
Net Change in Fund Balances	<u>16,687,707</u>	<u>1,489,142</u>	<u>(15,446,594)</u>	<u>2,730,255</u>
Fund Balances - Beginning	35,829,838	3,840,819	21,527,678	61,198,335
Prior Period Adjustment	2,081,611	--	--	2,081,611
Fund Balances - Ending	<u>\$ 54,599,156</u>	<u>\$ 5,329,961</u>	<u>\$ 6,081,084</u>	<u>\$ 66,010,201</u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009*

Net change in fund balances - total governmental funds	\$ 2,730,254
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	750,295
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,328,907)
The change in compensated absences payable from year to year is not reported in the funds.	26,326
Repayment of the ADB loan is an expenditure in the funds but is not an expense in the SOA.	115,205
Additions to ADB loan is recognized as other financial resources in the funds but not revenue in the SOA.	(108,017)
Rounding difference	<u>(1)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 185,155</u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT

Statement of Net Assets

Proprietary Fund

September 30, 2009

	<u>Public Transportation System</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 59,941
Receivables, net of allowance for uncollectibles	152,853
Other current assets	<u>63,152</u>
Total current assets	<u>275,946</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>346,107</u>
Total assets	<u><u>\$ 622,053</u></u>
<u>Liabilities</u>	
Current liabilities:	
Account payable	\$ 6,114
Other liabilities and accruals	18,899
Deferred revenue	<u>150,272</u>
Total liabilities	<u>175,285</u>
<u>Net Assets</u>	
Invested in capital assets	346,107
Unrestricted	<u>100,661</u>
Total net assets	<u>446,768</u>
Total liabilities and net assets	<u><u>\$ 622,053</u></u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year Ended September 30, 2009

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 230,670
Sales	<u>90,165</u>
Total operating revenues	<u>320,836</u>
Operating expenses:	
Cost of services	115,271
Administration costs	238,784
Depreciation and amortization	<u>39,094</u>
Total operating expenses	<u>393,148</u>
Operating loss	<u>(72,313)</u>
Nonoperating revenues:	
Other revenues	<u>351,294</u>
Total nonoperating expenses	<u>351,294</u>
Change in net assets	278,982
Net assets at the beginning of the year	<u>167,788</u>
Net assets at the end of the year	<u>\$ 446,770</u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT

Statement of Cash Flows

Proprietary Funds

Year Ended September 30, 2009

	<u>Public Transportation System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 277,128
Cash payments to employees	(111,963)
Cash payments to suppliers	<u>(251,958)</u>
Net cash used in operating activities	<u>(86,793)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>290,462</u>
Net cash provided by noncapital financing activities	<u>290,462</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(264,612)</u>
Net cash used in capital and related financing activities	<u>(264,612)</u>
Net change in cash and equivalents	(60,943)
Cash and cash equivalents at the beginning of the year	<u>120,884</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 59,941</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (118,223)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	39,094
Changes in assets and liabilities:	
Receivables, net	3,469
Other current assets	(10,774)
Accounts payable	(127)
Other current liabilities	<u>(232)</u>
Net cash used in operating activities	<u><u>\$ (86,793)</u></u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT

Combining Statement of Net Assets

Component Units

September 30, 2009

	Yap Visitor's Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 38,750	\$ 612,649	\$ 44,527	\$ 301,726	\$ 997,652
Time certificates of deposit	-	-	-	3,566,000	3,566,000
Investments	150,000	-	-	466,896	616,896
Receivables, net:					
General	87	827,876	15,184	534,846	1,377,993
Other	-	27,036	-	64,016	91,052
Inventories	-	695,565	98,472	-	794,037
Other current assets	-	43,739	-	35,172	78,911
Total current assets	<u>188,837</u>	<u>2,206,865</u>	<u>158,183</u>	<u>4,968,656</u>	<u>7,522,541</u>
Noncurrent assets:					
Restricted cash and cash equivalents	-	-	-	2,252,380	2,252,380
Capital assets, net of accumulated depreciation	35,439	9,107,112	2,199,609	1,554,594	12,896,754
Total noncurrent assets	<u>35,439</u>	<u>9,107,112</u>	<u>2,199,609</u>	<u>3,806,974</u>	<u>15,149,134</u>
Total assets	<u>\$ 224,276</u>	<u>\$ 11,313,977</u>	<u>\$ 2,357,792</u>	<u>\$ 8,775,630</u>	<u>\$ 22,671,675</u>
LIABILITIES					
Current liabilities:					
Current portion of long-term debt	\$ -	\$ 213,533	\$ -	\$ 1,016,717	\$ 1,230,250
Accounts payable	137	1,011,834	18,944	287,128	1,318,043
Other liabilities and accruals	463	190,745	87,733	281,396	560,337
Total current liabilities	<u>600</u>	<u>1,416,112</u>	<u>106,677</u>	<u>1,585,241</u>	<u>3,108,630</u>
Noncurrent liabilities:					
Noncurrent portion of long-term debt	-	4,065,899	-	2,349,927	6,415,826
Total liabilities	<u>600</u>	<u>5,482,011</u>	<u>106,677</u>	<u>3,935,168</u>	<u>9,524,456</u>
NET ASSETS					
Invested in capital assets, net of related debt	35,439	4,827,680	2,199,609	618,667	7,681,396
Restricted, expendable	-	-	-	2,052,380	2,052,380
Unrestricted	188,237	1,004,286	51,506	2,169,415	3,413,443
Total net assets	<u>223,676</u>	<u>5,831,966</u>	<u>2,251,115</u>	<u>4,840,462</u>	<u>13,147,219</u>
Total liabilities and net assets	<u>\$ 224,276</u>	<u>\$ 11,313,977</u>	<u>\$ 2,357,792</u>	<u>\$ 8,775,630</u>	<u>\$ 22,671,675</u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Component Units

Year Ended September 30, 2009

	Yap Visitor's Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
Operating revenues:					
Charges for services	\$ 2,202	\$ 4,618,148	\$ -	\$ 6,104,827	\$ 10,725,177
Sales	120	434,896	279,987	-	715,003
Total operating revenues	<u>2,322</u>	<u>5,053,044</u>	<u>279,987</u>	<u>6,104,827</u>	<u>11,440,180</u>
Operating expenses:					
Cost of services	-	5,124,323	69,207	4,781,613	9,975,143
Administration costs	279,302	187,533	215,456	475,456	1,157,747
Depreciation and amortization	7,046	732,812	178,610	386,249	1,304,717
Total operating expenses	<u>286,349</u>	<u>6,044,668</u>	<u>463,273</u>	<u>5,643,318</u>	<u>12,437,607</u>
Operating income (loss)	<u>(284,027)</u>	<u>(991,624)</u>	<u>(183,286)</u>	<u>461,509</u>	<u>(997,427)</u>
Nonoperating revenues(expenses):					
Contributions from the primary government	271,058	1,265,911	296,670	-	1,833,639
Interest income	-	4,901	-	86,771	91,672
Interest expense	-	(27,070)	-	(114,166)	(141,236)
Other	649	107,157	108,032	74,185	290,023
Total nonoperating revenues(expenses), net	<u>71,707</u>	<u>1,350,899</u>	<u>404,702</u>	<u>46,790</u>	<u>2,074,098</u>
Change in net assets	(12,320)	359,275	221,416	508,299	1,076,670
Net assets at the beginning of the year	<u>235,996</u>	<u>5,472,691</u>	<u>2,029,699</u>	<u>4,332,163</u>	<u>12,070,549</u>
Net assets at the end of the year	<u>\$ 223,676</u>	<u>\$ 5,831,966</u>	<u>\$ 2,251,115</u>	<u>\$ 4,840,462</u>	<u>\$ 13,147,219</u>

The accompanying notes are an integral part of this statement.

State of Yap
Federated States of Micronesia
Notes to the Financial Statements
Year Ended September 30, 2009

**YAP STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2009

1. Summary of Significant Account Policies

The accompanying financial statements of the State of Yap (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 ten 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 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 who serve in the Council of Pilung and the Council of Tamol and 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:

i. 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.

Yap State Public Service Corporation (YSPSC): YSPSC was created by YSL No. 4-4 and is responsible for electricity, water and sewer service 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.

Yap Fishing Authority (YFA): YFA was created by Yap District Law (YDL) No. 6-13 and is responsible for the promotion and development of the 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 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 seven-member Board of Directors.

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'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

ii. Omitted Component Units

The following component units have been omitted from the basic 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 basic financial statements.

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 basic financial statements.

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 basic financial statements.

B. Government-Wide Financial Statements

The Statement of Net Assets 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.

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 Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt 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 assets – 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 assets – 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 assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Assets reports \$36,198,352 of restricted net assets.

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.

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 with a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

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.

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 sixty 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. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. 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, claims, and judgments are recorded only when payment is due.

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.

Discretely presented component units distinguish operating revenues and expenses from non-operating items. Operating revenues generally result from providing services and producing and delivering goods in connection with principal ongoing operations. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The State reports the following fund types:

Governmental Funds

- i. 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.
- ii Special Revenue Funds – These funds account for specific revenue sources that have been aggregated according to enabling legislation to support specific governmental activities.
- iii Capital Projects Funds – These funds account for the acquisition or construction of major State capital facilities financed primarily from loans and federal reimbursements.
- iv Permanent Fund – This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government.

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 non-major funds are combined in a column in the fund financial statements.

In addition to the General Fund, the State reports the following major fund:

Foreign Assistance Grants Fund, a Governmental Fund Type Special Revenue Fund. This fund accounts for funds received under sector grants pursuant to the Amended Compact of Free Association; all financial transactions of federally assisted funds, which are sub granted to the Yap State Government, as well as other direct federal grants that the State received from the United States government, and foreign assistance grants.

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the State’s proprietary funds and discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

F. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents 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 assets/balance sheet.

G. Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. When market prices of equity investments in companies are not readily determinable, the investments are carried at cost if less than twenty percent of the companies' total equity is owned, on the equity method if greater than twenty percent and less than fifty percent is owned, and on a consolidated basis if greater than fifty percent is owned.

H. 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 measureable 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 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.

I. Prepaid Items and Inventories

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.

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-out method (FIFO).

J. 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.

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 pooled investments from Asian Development Bank loan proceeds and earnings in the amount of \$1,928,753 for the Yap State Early Retirement Scheme. Furthermore, investments in the amount of \$5,374,449 are restricted under the Compact of Free Association in that they are not available for distribution until October 2023.

L. 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

M. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements deferred revenue represents 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 deferred revenue in the

governmental fund types, primarily as a result of federal funds, is received in advance of eligible expenditures.

N. 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.

O. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2009 is represented by the following assets:

	General	Other Governmental Funds	Total
Equity interest in internal investment pool	\$ 1,571,247	\$ -	\$ 1,571,247
Investments	2,000,000	-	2,000,000
Receivables:	4,238,906	410,101	4,238,906
Restricted assets:			
Pooled investments	1,928,753	-	1,928,753
Investments	-	5,374,449	5,784,550
	<u>\$ 9,738,906</u>	<u>\$ 5,784,550</u>	<u>\$ 15,523,456</u>

The reserve for related assets within the General Fund includes the amount of \$3,500,000 set aside for future repayment of the Early Retirement Program Loan.

P. 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.

Q. Estimates

The preparation of financial statements in conformity with GAAP 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, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

R. New Accounting Standards

During fiscal year 2009, the State implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In November 2007, GASB issued Statement No. 52, *Land and other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

S. 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, 2008 from which summarized information was derived.

T. Reclassification

Due to the provisions of GASB Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, major funds presented in the previous year may not be major funds presented in the current year. Concurrently, major funds presented in the current year may not be major funds presented in the previous year. The State does not show the Compact Trust fund, a Permanent fund, as a major fund in the current year, whereas it did qualify as a major fund in the prior year.

2. Deposits and Investments

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

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:

- 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 by Standard & Poor's, P1 by Moody's Investor Services, or higher; 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%.
- 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.
- 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

The State pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable.

Custodial Credit Risk—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 but not in the depositor-government's name. The State does not have a deposit policy for custodial credit risk.

As of September 30, 2009, the carrying amount of the primary government's total cash and cash equivalents was \$561,486 and the corresponding bank balance was \$1,417,806, which is maintained in financial institutions subject to Federal Deposit

Insurance Corporation (FDIC) insurance. As of September 30, 2009, bank deposits in the amount of \$250,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, \$1,167,806 is uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

The State has invested the majority of 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. Investment income originating from the pool accrues to the General Fund.

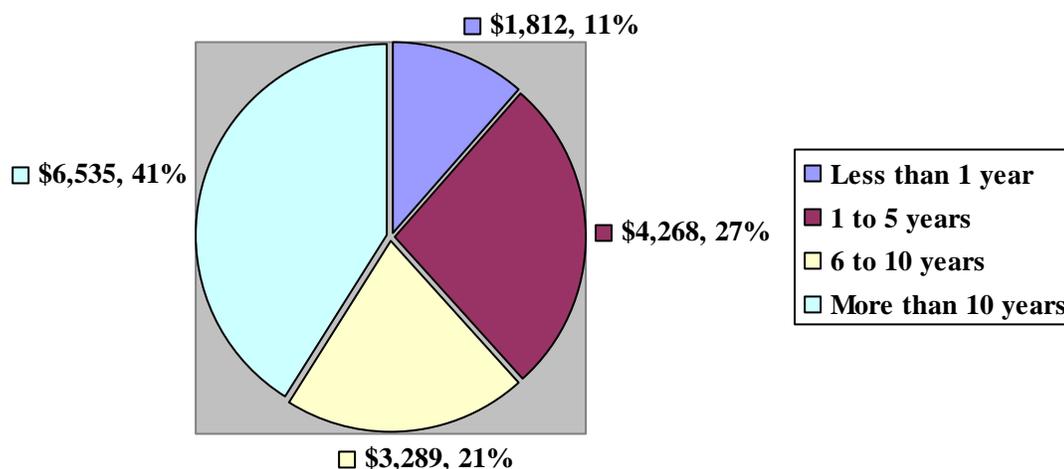
Interest Rate Risk. Interest Rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The State does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following table provides information about the interest rate risks associated with the State's investments. The investments include certain short-term cash equivalents, various long-term items, and restricted assets by maturity in years.

Investment Type	Fair Value	Investment Maturities (in years)				
		Less than 1	1 to 5	6 to 10	More than 10	No Maturity
U.S. Treasury Securities	\$ 2,696,674	\$ 1,642,313	\$ 301,125	\$ 663,066	\$ 90,170	\$
U.S. Government Backed						
Mortgage Securities	1,710,807				1,710,807	
Federal Home Loan Mortgage Corp.	3,507,830		370,113		3,137,717	
California State Government						
Backed Bonds	66,688				66,688	
Corporate Notes & Bonds	7,752,695	91,304	3,559,550	2,572,595	1,529,247	
Foreign Bonds, Notes						
and Debentures	169,369	78,267	38,140	52,961		
Equity Mutual Funds	1,137,987					1,137,987
Fixed Income Mutual Funds	36,935					36,935
Mixed Funds: CIA-other	2,611,712					2,611,712
Equity securities- domestic	39,825,480					39,825,480
Equity securities- foreign	1,245,476					1,245,476
Cash	1,576,255					1,576,255
Cash Management Account	108,362					108,362
Total	<u>\$ 62,446,271</u>	<u>\$ 1,811,885</u>	<u>\$ 4,268,928</u>	<u>\$ 3,288,622</u>	<u>\$ 6,534,628</u>	<u>\$ 46,542,208</u>

A chart showing the State's investments by maturity date is shown below.

Investments (in millions) by Maturity



Concentration of Credit Risk. 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. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of September 30, 2009, the State's investment in agency obligations of the Federal National Mortgage Association constituted 5.62% of its total investments.

Credit Risk. 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 guaranteed by the United States government, all other investments must be rated in accordance with the State's investment policy.

Custodial Credit Risk - Investments. 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 custodial financial institutions at September 30, 2009.

Investment Type	Fair Value	Moody's	S & P	% of Total Investments
U.S. Treasury Securities	\$ 2,696,674	Aaa	AAA	4.32%
U.S. Government Backed Mortgage Securities	1,710,807		AAA	2.74%
Federal Home Loan Mortgage Corp.	3,507,830	Aaa	AAA	5.62%
California State Government Backed Bonds	66,688	Baa1	A	0.11%
Corporate Notes & Bonds	753,385		BBB	1.21%

Investment Type	Fair Value	Moody's	S & P	% of Total Investments
Corporate Notes & Bonds	987,259		BBB+	1.58%
Corporate Notes & Bonds	513,687		BBB-	0.82%
Corporate Notes & Bonds	1,047,033		A-	1.68%
Corporate Notes & Bonds	747,376		A+	1.20%
Corporate Notes & Bonds	1,244,803		A	1.99%
Corporate Notes & Bonds	617,178		AA	0.99%
Corporate Notes & Bonds	561,392		AA-	0.90%
Corporate Notes & Bonds	195,609	Baa2		0.31%
Corporate Notes & Bonds	64,115	Aa1		0.10%
Corporate Notes & Bonds	81,488	Baa1		0.13%
Corporate Notes & Bonds	166,312		AA+	0.27%
Corporate Notes & Bonds	46,515	A2		0.07%
Corporate Notes & Bonds	53,717	A1		0.09%
Corporate Notes & Bonds	93,508	A3		0.15%
Corporate Notes & Bonds	44,633	Baa3		0.07%
Corporate Notes & Bonds	57,620		CCC+	0.09%
Corporate Notes & Bonds	130,893		AAA	0.21%
Corporate Notes & Bonds	183,111		AAA-	0.29%
Corporate Notes & Bonds	163,061	unrated	unrated	0.26%
Total Corporate Notes & Bonds	7,752,695			12.41%
Foreign Bonds, Notes & Debentures	91,101		AAA	0.15%
Foreign Bonds, Notes & Debentures	78,268		A-	0.13%
Total Foreign Bonds, Notes & Debentures	169,369			0.27%
Equity Mutual Funds	13,214		BBB-	0.02%
Equity Mutual Funds	132,768		AAAm	0.21%
Equity Mutual Funds	992,005		unrated	1.59%
Total Equity Mutual Funds	1,137,987			1.82%
Fixed Income Mutual Funds	9,315		A	0.01%
Fixed Income Mutual Funds	27,620		AAAm	0.04%
Total Fixed Income Mutual Funds	36,935			0.06%
Mixed Funds: CIA-other	2,611,712		unrated	4.18%
Equity securities- domestic	39,825,480		unrated	63.78%
Equity securities- foreign	1,245,476		unrated	1.99%
Cash	1,384,070			2.22%
Cash—Foreign Currency	192,185			0.31%
Cash Management Account	108,362		AAAm	0.17%
Total	\$ 62,446,271			100.00%

As of September 30, 2009, the General Fund holds 10.7% of the shares of the Bank of the Federated States of Micronesia in the amount of \$1,000,000, 24.5% of the shares of the Pacific Islands Development Bank in the amount of \$1,000,000, and an equity investment in Palau Micronesia Air (PMA) in the amount of \$500,000. As the fair

market value of these investments, except for PMA, is not readily available, such have been recorded at cost. The shares in Palau Micronesia Air have been fully reserved for through an impairment loss.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The following table provides information on investments held in various foreign currencies, which are stated in U. S. dollars.

<u>Currency</u>	<u>Short-term</u>
U.K. Pound	\$ 96,276
Swedish Krona	3,301
Japanese Yen	2,817
Hong Kong Dollar	2,669
Euro	82,956
Australian Dollar	4,166
Total	<u>\$ 192,185</u>

i. Discretely Presented Component Units

The Yap Fishing Authority (YFA) holds on investment of 50% interest in Yap Fresh Tuna, Inc., an unconsolidated entity that should be consolidated in YFA in accordance with accounting principles generally accepted in the United States of America for which a related impairment loss of \$398,016 has been recognized.

3 Receivables

Receivables as of September 30, 2009, 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>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:				
Loans	\$ 11,638,906	\$ -	\$ 2,000,000	\$ 13,638,906
Federal agencies	-	82,504	-	82,504
FSM National Government	126,394	4,887,630	-	5,014,024
Taxes	165,190	-	-	165,190
Other	303,434	-	919,782	1,223,216
	<u>12,233,924</u>	<u>4,970,134</u>	<u>2,919,782</u>	<u>20,123,840</u>
Less: allowance for doubtful accounts	<u>(7,652,241)</u>	<u>(3,381,515)</u>	<u>(2,813,741)</u>	<u>(13,847,497)</u>
Net receivables	<u>\$ 4,581,683</u>	<u>\$ 1,588,619</u>	<u>\$ 106,041</u>	<u>\$ 6,276,343</u>

Loans receivable of the primary government as of September 30, 2009 are as follows:

Major Governmental Funds

General Fund:

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 2-96, uncollateralized, due and payable on or before June 11, 2004. This note has been fully provided for in the allowance for doubtful accounts.	\$ 6,400,000
Note receivable from the Yap Fishing Corporation, appropriated under YSL NO. 3-8, uncollateralized, due September 30, 2004, interest at 6% per annum. This note has been fully provided for in the allowance for doubtful accounts.	1,000,000
Note receivable from the Yap State Public Service Corporation, uncollateralized, due in quarterly interest only payments through March 2003; monthly principal and interest payments of \$5,651 starting June 1, 2003; interest at 2% maturing in May 2017.	481,611
Note receivable from Yap State Public Service Corporation, uncollateralized, original principal of \$1,600,000 due in principal and interest payments of \$10,202 starting November 1, 2009; interest at 1%, maturing in October 2023. The proceeds of the note were used for the repayment to prior non-government utility customers pursuant to YSL Bill # 7-38 & 7-79.	1,600,000
Note receivable from Yap State Public Service Corporation, original principal of \$2,270,837 payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% on the outstanding balance; however, Yap state has waived the interest payment requirement. The loan is repayable in Special Drawing Rights commencing August 2007 with the final payment due in February 2032. The loan is collateralized by the guarantee of the FSM National Government.	2,157,295
	<u>\$ 11,638,906</u>

Nonmajor Governmental Funds

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 3-67, uncollateralized, non-interest bearing and payable on demand. This note has been fully provided for in the allowance for doubtful accounts.	<u>\$ 2,000,000</u>
	<u><u>\$ 13,638,906</u></u>

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

	Yap Visitors Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
Receivables:					
General	\$ 62,452	\$ 971,546	\$ 22,768	\$ 534,846	\$ 1,568,844
Other	-	27,036	-	67,655	94,691
	<u>62,452</u>	<u>998,582</u>	<u>22,768</u>	<u>602,501</u>	<u>1,663,535</u>
Less: allowance for uncollectible accounts	<u>(62,365)</u>	<u>(143,670)</u>	<u>(7,584)</u>	<u>(3,639)</u>	<u>(209,674)</u>
Net receivables	<u>\$ 87</u>	<u>\$ 854,912</u>	<u>\$ 15,184</u>	<u>\$ 598,862</u>	<u>\$ 1,453,861</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, 2009, are summarized as follows:

Receivable Fund	Payable Fund	Amount
General	Foreign Assistance Grants	\$ 5,550,450
General	Nonmajor governmental funds	801,959
Foreign Assistance Grants	General	2,299,034
Nonmajor governmental funds	General	<u>64,370</u>
		<u>\$ 8,715,813</u>

5. Fixed Assets

Capital asset activities of the primary government for the year ended September 30, 2009, are as follows:

	Balance, October 1, 2008	Additions	Retirements	Balance, September 30, 2009
Governmental activities:				
Non-depreciable capital assets:				
Land	<u>\$ 3,120,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,120,610</u>
	<u>3,120,610</u>	<u>-</u>	<u>-</u>	<u>3,120,610</u>
Depreciable capital assets:				
Buildings	13,424,788	-	-	13,424,788
Heavy equipment	4,704,475	524,737	-	5,229,212
Furniture and Fixtures	23,411	164,270	-	187,681
Vehicles	1,705,538	59,738	-	1,765,276
Boats	5,122,272	1,550	-	5,123,822
Infrastructure	<u>82,316,716</u>	<u>-</u>	<u>-</u>	<u>82,316,716</u>
Total depreciable assets	<u>107,297,200</u>	<u>750,295</u>	<u>-</u>	<u>108,047,495</u>

Less accumulated depreciation for:				
Buildings	(6,899,177)	(493,146)	-	(7,392,323)
Heavy equipment	(2,978,842)	(347,049)	-	(3,325,891)
Furniture and Fixtures	(3,378)	(4,562)	-	(7,940)
Vehicles	(988,739)	(211,089)	-	(1,199,828)
Boats	(1,450,037)	(220,768)	-	(1,670,805)
Infrastructure	<u>(61,002,848)</u>	<u>(2,052,293)</u>	-	<u>(63,055,141)</u>
Total accumulated depreciation	<u>(73,323,021)</u>	<u>(3,328,907)</u>	-	<u>(76,651,928)</u>
Total net depreciable capital assets	<u>33,974,179</u>	<u>(2,578,612)</u>	-	<u>31,395,567</u>
Total net governmental activities capital assets	<u>\$ 37,094,789</u>	<u>\$(2,578,612)</u>	<u>\$ -</u>	<u>\$ 34,516,177</u>

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

Judiciary	\$ 6,289
Council of traditional leaders	5,461
Public auditor	2,222
General government	70,174
Economic development	128,661
Public safety	14,574
Community affairs	324,730
Education	330,968
Public works and transportation	2,333,984
Health services	105,233
Boards and commissions	<u>6,611</u>
	<u>\$ 3,328,907</u>

6. Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2009 are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
Major Governmental Funds			
General	Foreign Assistance Grants	\$ 111,923	\$ 111,923
Compact Capital Projects	General	<u>13,779,207</u>	<u>13,779,207</u>
Total Transfers In/Out		<u>\$ 13,891,130</u>	<u>\$ 13,891,130</u>

Transfers are used to: 1) move revenues pursuant to enabling legislation or budgetary requirement, 2) move unrestricted revenues collected in the General Fund in order to finance programs accounted for in other funds in accordance with budgetary authorizations or U.S. federal matching requirements, or 3) record reductions in interfund loans for amounts that are not expected to be repaid.

7. Long-Term Obligations

Primary Government

Land Acquisition Claims Payable

As of September 30, 2009, \$249,607 in long-term payments 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 heir ship disputes.

Asian Development Bank (ADB) Early Retirement Program Loan

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 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. As of September 30, 2009, the outstanding balance is \$3,352,449.

Asian Development Bank (ADB) FSM Program Loan

The State entered into an agreement with the Federated States of Micronesia National Government (FSM) to borrow a portion of the proceeds of the FSM Program Loan with 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 to 1½ %. 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, 2009, the State drew down an additional \$62,186 of the \$1,433,097 total borrowing.

Asian Development Bank (ADB) Basic Social Services Loan

The State entered into an agreement with the FSM to borrow a portion of the proceeds of the Basic Social Services Program Loan with 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, 2009 the State drew down an additional \$45,831 of the \$456,840 borrowing.

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

Year Ending September 30,	Principal	Interest	Total
2010	\$ 109,819	\$ 56,729	\$ 166,548
2011	151,264	65,824	217,088
2012	193,632	73,996	267,628
2013	196,547	71,081	267,628
2014	199,506	68,122	267,628
2015-2019	1,043,503	294,636	1,338,139
2020-2024	1,124,461	213,678	1,338,139
2025-2029	955,180	130,258	1,085,439
2030-2034	715,350	70,270	785,620
2035-	<u>553,122</u>	<u>18,831</u>	<u>571,954</u>
	<u>\$ 5,242,385</u>	<u>\$ 1,063,423</u>	<u>\$ 6,305,809</u>

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. \$3,500,000 identified for future debt service payments is included in the General Fund reserve for related assets of which \$1,928,753 is actually deposited in an investment account held jointly with the FSM National Government. That investment is restricted for the repayment of this debt.

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2009, the following changes occurred in the primary government's long-term liabilities in the statement of net assets:

	Balance, 10/1/08	Additions	Reductions	Balance, 9/30/09	Due within one year
Loan Payable:					
ADB loan	<u>\$ 5,249,573</u>	<u>\$ 108,017</u>	<u>\$ 115,205</u>	<u>\$ 5,242,385</u>	<u>\$ 109,819</u>
Other:					
Compensated absences	580,186	56,753	83,078	553,861	83,079
Land acquisition claims	<u>249,607</u>	<u>-</u>	<u>-</u>	<u>249,607</u>	<u>-</u>
	<u>829,793</u>	<u>56,753</u>	<u>83,079</u>	<u>803,468</u>	<u>83,079</u>
Total	<u>\$ 6,079,366</u>	<u>\$ 164,770</u>	<u>\$ 198,283</u>	<u>\$ 6,045,853</u>	<u>\$ 192,898</u>

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC)

Loan of original principal of \$2,270,837 payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) and Yap State for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% on the outstanding balance; however, Yap state has waived the interest payment requirement. The loan is repayable in Special Drawing Rights commencing August 2007 with the final payment due in February 2032. The loan is collateralized by the guarantee of the FSM National Government.

\$ 2,157,295

Uncollateralized note of original principal of \$824,420 payable to Yap State in quarterly interest only payments through March 2003; monthly principal and interest payment of \$5,651 starting June 1, 2003; interest at 2%, maturing in May 2017. The proceeds of the note were used for the construction of the warehouse facility and main office.

481,611

Uncollateralized note of original principal of \$1,600,000 payable to Yap State in monthly principal and interest payments of \$10,202 starting November 1, 2009; interest at 1%, maturing in October 2023. The proceeds of the note were used for the repayment to prior non-government utility customers pursuant to YSL Bill # 7-38 & 7-79.

1,600,000

Note of original principal of \$103,000 payable to United States of America, acting through the Rural Housing Service, for the construction of the warehouse facility and main office. The note is payable in monthly installments of \$1075 including interest at 4.625% starting March 26, 2003 and maturing in September 2013. The note is collateralized by equipment, furniture, and fixtures located at YSPSC's office.

40,526

Total for Yap State Public Service Corporation (YSPSC) \$ 4,279,432

The Diving Seagull, Inc.

On July 28, 2006, the Company signed a five-year loan agreement with the Federated States of Micronesia Development Bank (FSMDB) authorizing a maximum loan of \$1,300,000 to cover the dry-dock costs of the fishing vessel. The agreement stipulates a 1.5% loan fee and interest rate of 9%. Interest is due monthly during the six-month grace period. Interest and principal are payable in monthly installments of \$26,986 beginning January 30, 2007. Part of the agreement requires the Company to establish a joint account with FSMDB and to make deposits therein as required by that agreement. On February 16, 2007, a new loan was granted by FSMDB amounting to \$1,370,000, to cover additional dry dock costs of the fishing vessel at an interest rate of 9%. Interest and principal are payable in monthly installments of \$28,606 beginning June 15, 2007.

1,366,644

On September 29, 2009, a new loan in the amount of \$2,000,000 was granted by the Bank of Guam, with an interest rate of 2.755%, to assist in the purchase of a new vessel after the end of the fiscal year. The proceeds from this loan are shown as restricted cash in the Statement of Net Assets. Interest and principal are payable in monthly installments of \$35,777.94, beginning on October 29, 2009.

2,000,000

Total for The Diving Seagull, Inc.

\$ 3,366,644

Total for Discretely Presented Component Units

\$ 7,646,076

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

Year ending September 30,	Principal	Interest	Total
2010	\$ 1,160,011	\$ 190,121	\$ 1,350,132
2011	1,246,471	114,058	1,360,529
2012	766,172	52,203	818,375
2013	634,748	35,425	670,173
2014	669,738	21,528	691,266
2015 through 2019	1,165,556	43,514	1,209,070
2020 through 2024	1,095,159	10,120	1,105,279
2025 through 2029	605,632	-	605,632
2030 through 2034	302,589	-	302,589
	<u>\$ 7,646,076</u>	<u>\$ 466,968</u>	<u>\$ 8,113,044</u>

During the year ended September 30, 2009, the following changes occurred in the State's discretely presented component unit's long term liabilities.

	Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009	Due Within One Year
Loan Payable:					
YSPSC	\$ 2,793,155	\$ 1,600,000	\$ 113,723	\$ 4,279,432	\$ 213,557
Diving Seagull	1,984,612	2,000,000	617,968	3,366,644	946,454
	<u>\$ 4,777,767</u>	<u>\$ 3,600,000</u>	<u>\$ 731,691</u>	<u>\$ 7,646,076</u>	<u>\$ 1,160,011</u>

8. Continuing Appropriations

Continuing appropriations as of September 30, 2009, are as follows:

Major Governmental Funds

General Fund:

Autopsies (YSL No. 5-47)	\$ 18,191
Disaster/Search and Rescue (YSL No.5-84)	1,563

YWA Daycare Bldg Matching/Yap State Acholarship (YSL No. 6-48)	13,930
	<u>33,684</u>
<u>Foreign Assistance Grants</u>	
Yap Community Development Program Matching (YSL No. 5-34)	150,000
<u>Compact Capital Projects Fund:</u>	
Yap State Development Investment Loan (YSL No. 5-1)	200,000
Mobil fuel Farm Retaining Wall (YSL No. 6-81)	397,465
Infrastructure Maintenance Fund (YSL No. 7-14)	381,547
Road elevation and resurfacing, hospital to Tagreng, (YSL No. 7-43)	3,374,375
Infrastructure Maintenance Fund (YSL No. 7-43)	326,112
Infrastructure Maintenance Fund (YSL No. 7-44)	192,155
Infrastructure Maintenance Fund (YSL No. 7-47)	173,378
Food Crops Production (YSL No. 7-47)	4,267
	<u>5,049,299</u>
Total Continuing Appropriations	<u>\$ 5,232,983</u>

9. Contingencies

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 of \$2,117,954 relating to fiscal years 2007 through 2008 have been set forth in the State's Single Audit Report for the year ended September 30, 2009. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Litigation:

The State is party to several legal proceedings arising from governmental operations. Claims are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. At September 30, 2009, Yap State was the defendant in several pending matters in litigation. Management has not provided for such claims in the accompanying financial statements as it is not currently possible to estimate the outcome nor the State's potential liability, if any, arising from such

claims. However 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 for these indefinite land use sites. The State is actively attempting to negotiate purchase prices for these properties.

10. Creation of a Trust Fund

During fiscal year 2008, the Yap State Legislature, through YSL 7-17, allowed for the creation of a State Trust Fund, to which \$30 million of State cash and investments could be transferred. The specific assets to be transferred were not cited in the enabling legislation and therefore have yet to be transferred as of the date of this audit report.

11. Prior Period Adjustment

The prior period adjustment of \$2,081,611 on the Statement of Activities and the Statement of Revenue, Expenditures and Changes in Fund Balance was made to adjust loans receivable and the accompanying allowance for doubtful accounts to the correct balances.

State of Yap
Federated States of Micronesia
Required Supplementary Information
Year Ended September 30, 2009

YAP STATE GOVERNMENT

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual – General Fund

Year Ended September 30, 2009

	<u>Budgeted Amounts</u>		Actual-	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>	Budgetary Basis (see Note 1)	
Revenues:				
Net decrease in the fair value of investments	\$ -	\$ -	\$ 3,959,368	\$ 3,959,368
Other	<u>4,663,555</u>	<u>3,463,302</u>	<u>4,814,832</u>	<u>1,351,530</u>
Total revenues	<u>4,663,555</u>	<u>3,463,302</u>	<u>8,774,200</u>	<u>5,310,898</u>
Expenditures:				
Current:				
Judiciary	181,124	172,367	117,901	54,466
Council of traditional leaders	593,982	511,373	460,797	50,576
General government	387,789	380,307	915,197	(534,890)
Economic development	82,163	79,310	102,992	(23,682)
Public safety	1,151,113	575,651	532,758	42,893
Community affairs	318,275	233,782	217,324	16,457
Public works and transportation	1,219,359	1,045,451	1,069,020	(23,569)
Health services	205,597	174,885	53,334	121,552
Boards and commissions	330,588	244,717	204,055	40,663
Payments to component units	346,628	189,214	689,723	(500,509)
Other appropriations	<u>189,149</u>	<u>109,969</u>	<u>124,497</u>	<u>(14,529)</u>
Total expenditures	<u>5,005,769</u>	<u>3,717,026</u>	<u>4,487,598</u>	<u>(770,572)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(342,214)</u>	<u>(253,724)</u>	<u>4,286,602</u>	<u>4,540,326</u>
Other financing sources (uses):				
Operating transfers in	13,779,207	13,779,207	13,779,207	-
Operating transfers out	<u>(4,121)</u>	<u>(4,121)</u>	<u>(4,121)</u>	<u>-</u>
Total other financing sources (uses), net	<u>13,775,086</u>	<u>13,775,086</u>	<u>13,775,086</u>	<u>-</u>
Net change in unreserved fund balance			18,061,688	18,061,688
Other changes in unreserved fund balance:				
Increase in reserve for related assets	-	-	(1,263,779)	(1,263,779)
Decrease in reserve for continuing appropriations	-	-	(6,326)	(6,326)
Unreserved fund balance at the beginning of the year	<u>27,597,963</u>	<u>27,597,963</u>	<u>27,597,963</u>	
Prior period adjustment			2,081,611	2,081,611
Unreserved fund balance at the end of the year	<u>\$ 27,597,963</u>	<u>\$ 27,597,963</u>	<u>\$ 46,471,157</u>	<u>\$ 18,873,194</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, 2009

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 the unreserved fund balance section of that statement.

2. Reconciliation – GAAP and Budgetary Bases of Accounting

Encumbrance accounting is employed in government funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year.

Net change in fund balance	\$ 16,687,706
Decrease in encumbrances	<u>1,373,982</u>
Net change in unreserved fund balance	<u><u>\$ 18,061,688</u></u>

State of Yap
Federated States of Micronesia
Other Supplementary Information
Year Ended September 30, 2009

YAP STATE GOVERNMENT

Combining Schedule of Expenditures by Account

Governmental Funds

Year Ended September 30, 2009

(With comparative totals for the year ended September 30, 2008)

	General	Special Revenue	Other Governmental Funds	Totals	
		Foreign Assistance Grants		2009	2008
Expenditures:					
Salaries and wages	\$ 2,309,033	\$ 5,670,010	\$ 60,085	\$ 8,039,128	\$ 7,802,610
Grants and subsidies	41,580	-	102,928	144,508	854,367
Utilities	625,548	1,232,042	5,279	1,862,869	1,185,196
Contractual services	206,947	720,896	380,622	1,308,465	1,690,623
Supplies and materials	75,162	292,200	1,405	368,767	1,191,210
Construction	5,000	397,236	-	402,236	1,478,589
Scholarship and training	9,300	51,828	-	61,128	487,451
Travel	403,606	824,779	6,530	1,234,915	1,060,007
Capital outlay	107,457	1,294,907	192,474	1,594,838	1,919,009
Rentals	1,130	18,712	630	20,472	17,384
Food stuffs	50,321	217,690	212	268,223	243,744
Communications	114,259	194,048	3,052	311,359	272,933
Printing and reproduction	16,643	54,907	1,571	73,121	149,063
Medical supplies	3,825	836,418	-	840,243	942,689
Medical referral	189,434	25,900	-	215,334	534,571
Repairs and maintenance	40,358	127,571	17,819	185,748	708,064
Freight	85,579	155,704	18,084	259,367	252,535
Professional services	133,583	229,413	101,980	464,976	302,409
POL	1,070,559	264,610	944,587	2,279,756	2,102,243
Allowances	150,497	8,175	-	158,672	126,215
Leased housing	27,535	216,480	-	244,015	268,861
Other	194,223	1,363,512	376,440	1,934,175	1,894,341
	<u>\$ 5,861,579</u>	<u>\$ 14,197,038</u>	<u>\$ 2,213,698</u>	<u>\$ 22,272,315</u>	<u>\$ 25,484,114</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

General Fund

September 30, 2009

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.

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YAP STATE GOVERNMENT

Statement of Revenues, Expenditures by Function,

And Changes in Fund Balance – General Fund

Year Ended September 30, 2009

(with comparative totals for the year ended September 30, 2008)

	2009	2008
Revenues:		
Revenue sharing:		
Import tax	\$ 864,525	\$ 824,311
Fuel tax	94,784	84,950
Income tax	378,264	502,231
Business gross receipts tax	873,111	752,271
Unallocated	1,655	-
	<u>2,212,339</u>	<u>2,163,763</u>
Excise taxes:		
Alcoholic beverages	419,286	359,493
Gasoline and diesel	100,415	83,281
Tobacco	237,043	228,050
Other excise taxes	532,768	453,706
	<u>1,289,512</u>	<u>1,124,530</u>
Fees and charges:		
Licenses and permits	89,800	92,660
Fines/sale of confiscated property	150,524	61,104
Leases and other rentals	136,803	194,139
	<u>377,127</u>	<u>347,903</u>
Departmental charges:		
Sea transportation	171,786	181,410
Air Transportation	38,556	-
Hospital services	370,861	264,303
Other	212,891	27,484
	<u>794,094</u>	<u>473,197</u>
Interest and dividends	123,241	19,566
Net (decrease) increase in the fair value of investments	3,959,368	(8,773,827)
Other revenues	18,519	44,818
Total revenues	<u>8,774,200</u>	<u>(4,600,050)</u>
Expenditures:		
Judiciary	<u>177,341</u>	<u>209,797</u>
Councils of Traditional Leaders:		
Council of Pilung	99,141	100,321
Council of Tamol	380,689	108,912
	<u>479,830</u>	<u>209,233</u>
Public Auditor	<u>2,453</u>	<u>-</u>
General government:		
Office of the governor	184,300	198,210
State Legislature	393,670	395,642
Office of Administrative Services	403,667	164,482
Office of Planning, Budget and Statistics	127,084	110,160
	<u>1,108,721</u>	<u>868,494</u>
Economic Development:		
Department of Resources and Development	<u>91,203</u>	<u>826</u>
Public Safety:		

YAP STATE GOVERNMENT

*Statement of Revenues, Expenditures by Function,
And Changes in Fund Balance – General Fund (continued)
Year Ended September 30, 2009
(with comparative totals for the year ended September 30, 2008)*

Department of Public Safety/Attorney General	646,834	505,551
Community Affairs		
Department of Public Affairs	340,929	307,938
Education:		
Department of Education	-	118,979
Public Works and Transportation		
Department of Public Works and Transportation	1,597,927	1,873,490
Health Services:		
Department of Health Services	230,827	526,160
Boards and Commissions:		
EPA Administration Board	1,487	468
Farmers Home Administration	15,581	21,208
Historic Preservation Office	114,844	10,243
Election Commissioner	37,581	-
Small Business Development Center	9,838	-
Yap Investment Trust	19,663	22,110
	<u>198,994</u>	<u>54,029</u>
Payments to component units:		
Yap State Public Service Corporation	760,456	499,676
Public Transportation System	22,884	-
	<u>783,340</u>	<u>499,676</u>
Other appropriations:		
Micronesia Legal Services Corporation	41,280	41,280
Japan Overseas Cooperation Volunteers	10,575	10,853
Peace Corps Program	15,950	17,550
Yap Community Action Program	135,375	197,429
	<u>203,180</u>	<u>267,112</u>
Total expenditures	<u>5,861,579</u>	<u>5,441,285</u>
Excess of revenues over expenditures	<u>2,912,621</u>	<u>(10,041,335)</u>
Other financing sources (uses):		
Operating transfers in	13,779,207	-
Operating transfers out	(4,121)	(146,324)
Total other financing sources (uses), net	<u>13,775,086</u>	<u>(146,324)</u>
Net change in fund balance	16,687,707	(10,187,659)
Fund balance at the beginning of the year	<u>35,829,838</u>	<u>46,017,497</u>
Prior Period Adjustment	2,081,611	-
Fund balance at the end of the year	<u>\$ 54,599,156</u>	<u>\$ 35,829,838</u>

YAP STATE GOVERNMENT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Revenue sharing	\$2,880,402	\$2,139,077	\$2,212,339	\$73,262
Excise taxes	914,821	679,375	1,289,512	610,137
Fees and charges	252,979	187,870	377,127	189,257
Departmental charges	532,682	395,586	794,094	398,508
Interest and dividends	82,671	61,394	123,241	61,847
Net increase in fair value of investments	--	--	3,959,368	3,959,368
Other revenues	--	--	18,519	18,519
Total Revenues	4,663,555	3,463,302	8,774,200	5,310,898
Expenditures:				
Judiciary	181,124	172,367	117,901	54,466
Councils of Traditional Leaders:				
Council of Pilung	122,727	105,658	95,208	10,450
Council of Tamol	471,255	405,715	365,589	40,126
Total councils of Traditional Leaders	593,982	511,373	460,797	50,576
Public auditor	856	840	2,020	(1,180)
General government:				
Office of the Governor	64,319	63,078	151,795	(88,717)
State Legislature	137,387	134,736	324,239	(189,503)
Office of Administrative Services	140,876	138,158	332,474	(194,316)
Office of Planning, Budget & Statistics	44,351	43,495	104,669	(61,174)
Total general government	386,933	379,467	913,177	(533,710)
Public Safety:				
Department of Public Safety/ Attorney General	1,151,113	575,651	532,758	42,893
Economic Development:				
Department of Resources & Development	82,163	79,310	102,992	(23,682)
Community Affairs:				
Department of Public Affairs	318,275	233,782	217,324	16,458
Health Services:				
Department of Health Services	205,597	174,885	53,334	121,551
Public Works and Transportation:				
Department of Public Works and Transportation	1,219,359	1,045,451	1,069,020	(23,569)
Boards and Commissions:				
Election Commissioner	62,433	46,216	38,537	7,679
Yap Investment Trust	32,666	24,181	20,163	4,018
Farmers Home Administration	25,885	19,161	15,977	3,184
EPA Administration Board	2,470	1,829	1,525	304
Small Business Development Center	16,344	12,098	10,088	2,010
Historic Preservation Office	190,790	141,232	117,765	23,467
Total Boards and Commissions	330,588	244,717	204,055	40,662

YAP STATE GOVERNMENT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Payments to component units:				
Public Transportation System	10,126	5,528	20,149	(14,621)
Yap State Public Service Corporation	336,502	183,686	669,574	(485,888)
Total payments to component units	<u>346,628</u>	<u>189,214</u>	<u>689,723</u>	<u>(500,509)</u>
Other appropriations:				
Yap Community Action Program	126,026	73,270	82,950	(9,680)
Micronesia Legal Services Corporation	38,429	22,342	25,294	(2,952)
Japan Overseas Cooperation Volunteers	9,845	5,724	6,480	(756)
U.S. Peace Corps Programs	14,849	8,633	9,773	(1,140)
Total other appropriations	<u>189,149</u>	<u>109,969</u>	<u>124,497</u>	<u>(14,528)</u>
 Total expenditures	<u>5,005,767</u>	<u>3,717,026</u>	<u>4,487,598</u>	<u>(770,572)</u>
 Excess of revenues over expenditures	<u>(342,212)</u>	<u>(253,724)</u>	<u>4,286,602</u>	<u>(4,540,326)</u>
Other financing sources (uses):				
Operating transfers in	--	--	13,779,207	(13,779,207)
Operating transfers out	--	--	(4,121)	4,121
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>13,775,086</u>	<u>(13,775,086)</u>
 Net Change in Fund Balances	<u>(342,212)</u>	<u>(253,724)</u>	<u>18,061,688</u>	<u>18,315,412</u>
Other changes in unreserved fund balance:				
Increase in reserve for related assets			(1,263,779)	
Decrease in reserve for continuing appropriations			(6,326)	
Fund Balances - Beginning	--	--	27,597,963	34,455,857
Prior Period Adjustment	--	--	2,081,611	2,081,611
Fund Balances - Ending	<u>\$ (342,212)</u>	<u>\$ (253,724)</u>	<u>\$ 46,471,157</u>	<u>\$ 54,852,880</u>

YAP STATE GOVERNMENT

Combining Balance Sheet

Nonmajor Governmental Funds

Year Ended September 30, 2009

(with comparative totals at September 30, 2008)

	Other Special Revenue	Other Capital Projects	Permanent Fund	Total	
				2009	2008
<u>Assets</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 229,545
Investments	208,454	-	-	208,454	-
Receivables, net:					
CFSM	-	106,041	-	106,041	35,563
Due from other funds	372,992	18,868	410,101	801,961	338,552
Restricted assets: investments	-	-	5,374,449	5,374,449	5,784,550
Total assets	<u>\$ 581,446</u>	<u>\$ 124,909</u>	<u>\$ 5,784,550</u>	<u>\$ 6,490,905</u>	<u>\$ 6,388,210</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 34,282	\$ 124,651	\$ -	158,933	\$ 31,666
Other liabilities and accruals	4,454	173	-	4,627	41,026
Deferred revenue	-	46,278	-	46,278	-
Due to other funds	-	199,983	-	199,983	64,369
Total liabilities	<u>38,736</u>	<u>371,085</u>	<u>-</u>	<u>409,821</u>	<u>137,061</u>
Fund balances:					
Reserved for:					
Related assets	-	-	5,784,550	5,784,550	5,784,550
Encumbrances	11,648	200,303	-	211,951	187,270
Unreserved:					
Special revenue funds	531,062	-	-	531,062	464,570
Capital projects funds	-	(446,479)	-	(446,479)	(185,241)
Total fund balance	<u>542,710</u>	<u>(246,176)</u>	<u>5,784,550</u>	<u>6,081,084</u>	<u>6,251,149</u>
Total liabilities and fund balance	<u>\$ 581,446</u>	<u>\$ 124,909</u>	<u>\$ 5,784,550</u>	<u>\$ 6,490,905</u>	<u>\$ 6,388,210</u>

YAP STATE GOVERNMENT

Combined Statement of Revenues, Expenditures by Function,

And Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended September 30, 2009

(with comparative totals for the year ended September 30, 2008)

	Other Special Revenue	Other Capital Projects	Permanent Fund	Total	
				2009	2008
Revenues:					
CFSM grants	\$ -	\$ 377,731	\$ -	\$ 377,731	\$ 548,503
Excise taxes	118,907	-	-	118,907	181,816
Fees and charges	144,464	-	-	144,464	13,370
Departmental charges	11,394	-	-	11,394	-
Investment earnings	-	-	-	-	(1,221,841)
Other revenues	(21,091)	22,708	-	1,617	-
Total revenues	<u>253,674</u>	<u>400,439</u>	<u>-</u>	<u>654,113</u>	<u>(478,152)</u>
Expenditures by function:					
Councils of traditional leaders	-	1,617	-	1,617	-
General government	83,924	1,069,249	-	1,153,173	201,710
Community affairs	-	-	-	-	452,432
Economic development	-	76,553	-	76,553	56,234
Public safety	-	-	-	-	-
Education	-	29,000	-	29,000	-
Public works and transportation	-	555,141	-	555,141	50,654
Boards and comissions	-	22,115	-	22,115	-
Payment to component units	-	239,370	-	239,370	-
Other appropriations	92,789	43,940	-	136,729	-
Total expenditures	<u>176,713</u>	<u>2,036,985</u>	<u>-</u>	<u>2,213,698</u>	<u>761,030</u>
Net change in fund balances	76,961	(1,636,546)	-	(1,559,585)	(1,239,182)
Other financing uses:					
Transfers out	-	(13,887,009)	-	(13,887,009)	-
Fund balances at the beginning of the year	<u>465,749</u>	<u>15,277,379</u>	<u>5,784,550</u>	<u>21,527,678</u>	<u>7,490,331</u>
Fund balances at the end year	<u>\$ 542,710</u>	<u>\$ (246,176)</u>	<u>\$ 5,784,550</u>	<u>\$ 6,081,084</u>	<u>\$ 6,251,149</u>

YAP STATE GOVERNMENT

Combined Statement of Revenues, Expenditures by Account,

And Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended September 30, 2009

(with comparative totals for the year ended September 30, 2008)

	Other Special Revenue	Other Capital Projects	Permanent Fund	Total	
				2009	2008
Revenues:					
CFSM grants	\$ -	\$ 377,731	\$ -	\$ 377,731	\$ 548,503
Excise taxes	118,907	-	-	118,907	181,816
Fees and charges	144,464	-	-	144,464	13,370
Departmental charges	11,394	-	-	11,394	-
Investment earnings	-	-	-	-	(1,221,841)
Other revenues	(21,091)	22,708	-	1,617	-
Total revenues	<u>253,674</u>	<u>400,439</u>	<u>-</u>	<u>654,113</u>	<u>(478,152)</u>
Expenditures by account:					
Salaries and wages	-	60,085	-	60,085	1,091
Grants and subsidies	92,789	7,008	-	99,797	177,616
Contractual services	-	214,050	-	214,050	268,402
Travel	-	6,530	-	6,530	-
Capital outlay	11,348	42,307	-	53,655	46,594
Repairs and maintenance	16,413	1,406	-	17,819	9,889
Freight	-	18,084	-	18,084	60
Professional services	-	251,787	-	251,787	-
POL	-	944,587	-	944,587	80,180
Other	56,163	491,141	-	547,304	177,198
Total expenditures	<u>176,713</u>	<u>2,036,985</u>	<u>-</u>	<u>2,213,698</u>	<u>761,030</u>
Net change in fund balances	76,961	(1,636,546)	-	(1,559,585)	(1,239,182)
Other financing uses:					
Transfers out	-	(13,887,009)	-	(13,887,009)	-
Fund balance at the beginning of the year	<u>465,750</u>	<u>15,277,379</u>	<u>5,784,550</u>	<u>21,527,678</u>	<u>7,490,331</u>
Fund balance at the end of the year	<u>\$ 542,711</u>	<u>\$ (246,176)</u>	<u>\$ 5,784,550</u>	<u>\$ 6,081,084</u>	<u>\$ 6,251,149</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Nonmajor Governmental Funds – Special Revenue Funds
September 30, 2009

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, 2009, follows:

Sports Development Fund

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

General Services Agency Fund

This fund accounts for funds dedicated to the acquisition of certain supplies for the State.

Other Special Revenue Funds

These funds account for funds dedicated to certain special purposes.

YAP STATE GOVERNMENT
Nonmajor Governmental Funds
Special Revenue Funds

Combining Balance Sheet

September 30, 2009

(with comparative totals as of September 30, 2008)

	Sports Development	General Services Agency	Other Special Revenue	Total	
				2009	2008
<u>Assets</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 229,545
Investment pool	-	-	208,454	208,454	-
Due from other funds	66,555	48,946	257,490	372,991	254,077
Total assets	<u>\$ 66,555</u>	<u>\$ 48,946</u>	<u>\$ 465,944</u>	<u>\$ 581,445</u>	<u>\$ 483,622</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 30,824	\$ 2,800	\$ 657	\$ 34,281	\$ 13,418
Other liabilities and accruals	-	4,454	-	4,454	4,454
Total liabilities	<u>30,824</u>	<u>7,254</u>	<u>657</u>	<u>38,735</u>	<u>17,872</u>
Fund balances:					
Reserved for:					
Encumbrances	-	10,467	1,181	11,648	1,180
Unreserved	35,731	31,225	464,106	531,062	464,570
Total fund balances	<u>35,731</u>	<u>41,692</u>	<u>465,287</u>	<u>542,710</u>	<u>465,750</u>
Total liabilities and fund balances	<u>\$ 66,555</u>	<u>\$ 48,946</u>	<u>\$ 465,944</u>	<u>\$ 581,445</u>	<u>\$ 483,622</u>

YAP STATE GOVERNMENT
Nonmajor Governmental Funds
Special Revenue Funds

*Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits)*

Year Ended September 30, 2009

(with comparative totals for the year ended September 30, 2008)

	Sports Development	General Services Agency	Other Special Revenue	Total	
				2009	2008
Revenues:					
Excise taxes	\$ 92,790	\$ -	\$ 26,117	\$ 118,907	\$ 181,816
Fees and charges	-	-	144,464	144,464	
Departmental charges	-	11,394	-	11,394	13,370
Other	-	-	(21,091)	(21,091)	
Total revenues	<u>92,790</u>	<u>11,394</u>	<u>149,490</u>	<u>253,674</u>	<u>195,186</u>
Expenditures by function:					
General government	-	29,870	54,054	83,924	106,852
Economic development	-	-	-	-	56,234
Other appropriations	<u>92,789</u>	-	-	<u>92,789</u>	-
Total expenditures	<u>92,789</u>	<u>29,870</u>	<u>54,054</u>	<u>176,713</u>	<u>163,086</u>
Net change in fund balances	1	(18,476)	95,436	76,961	32,100
Fund balances at the					
beginning of the year	<u>35,732</u>	<u>60,168</u>	<u>369,850</u>	<u>465,750</u>	<u>433,650</u>
Fund balances at the end of the year	<u>\$ 35,733</u>	<u>\$ 41,692</u>	<u>\$ 465,286</u>	<u>\$ 542,711</u>	<u>\$ 465,750</u>

YAP STATE GOVERNMENT
Nonmajor Governmental Funds
Special Revenue Funds

*Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficits)*

Year Ended September 30, 2009

(with comparative totals for the year ended September 30, 2008)

	Sports	General	Other	Total	
	Development	Services Agency	Special Revenue	2009	2008
Revenues:					
Excise taxes	\$ 92,790	\$ -	\$ 26,117	\$ 118,907	\$ 181,816
Fees and charges	-	-	122,373	122,373	
Departmental charges	-	11,394	-	11,394	13,370
Total revenues	92,790	11,394	148,490	252,674	195,186
Expenditures by account:					
Grants and subsidies	92,789	-	-	92,789	77,616
Capital outlay	-	11,348	-	11,348	16,419
Repairs and maintenance	-	16,413	-	16,413	8,911
Other	-	2,109	54,054	56,163	60,140
Total expenditures	92,789	29,870	54,054	176,713	163,086
Net change in fund balances	1	(18,476)	94,436	75,961	32,100
Fund balances at the beginning of the year	35,732	60,168	369,850	465,750	433,650
Fund balances at the end of the year	\$ 35,733	\$ 41,692	\$ 464,286	\$ 541,711	\$ 465,750

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Nonmajor Governmental Funds – Capital Projects Funds

September 30, 2009

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, 2009, follows:

Public Infrastructure Development 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.

Yap State Public Projects Fund

This fund is used to account for an appropriation from the FSM National Government which initially has been loaned to the Yap Fishing Corporation (through YEDA) and after repayment will be used to fund certain capital projects. Appropriations by the State's Legislature for capital improvement projects funded by the General Fund are also accounted for within this fund.

Water Development Projects Revolving Fund

This fund was established pursuant to YSL No. 4-69 to account for loan proceeds and other funds designated for State Water Development Projects.

YAP STATE GOVERNMENT
Nonmajor Governmental Funds
Capital Projects Funds
Combining Balance Sheet
September 30, 2009
(with comparative totals as of September 30, 2008)

	Public	Other	CFSM	Yap State	Water	Total	
	Infrastructure	Capital	Capital	Public	Development		
	Development	Projects	Projects	Projects	Projects	2009	2008
					Revolving		
ASSETS							
Receivables:							
CFSM	\$ -	\$ -	\$ 106,041	\$ -	\$ -	\$ 106,041	\$ 35,563
Due from other funds	2	-	18,866	-	-	18,868	84,475
Total assets	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 124,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,909</u>	<u>\$ 120,038</u>
LIABILITIES AND FUND							
BALANCES (DEFICITS)							
Liabilities:							
Accounts payable	\$ -	\$ -	\$ 83,273	\$ -	\$ 41,378	\$ 124,651	\$ 18,248
Other liabilities and accruals	-	-	173	-	-	173	36,572
Deferred revenue	-	-	46,278	-	-	46,278	
Due to other funds	-	-	-	64,369	135,614	199,983	64,369
Total liabilities	<u>-</u>	<u>-</u>	<u>129,724</u>	<u>64,369</u>	<u>176,992</u>	<u>371,085</u>	<u>119,189</u>
Fund balances (deficits):							
Reserved for:							
Encumbrances	-	-	200,303	-	-	200,303	186,090
Unreserved	2	-	(205,120)	(64,369)	(176,992)	(446,479)	(185,241)
Total fund balances (deficits)	<u>2</u>	<u>-</u>	<u>(4,817)</u>	<u>(64,369)</u>	<u>(176,992)</u>	<u>(246,176)</u>	<u>849</u>
Total liabilities and fund							
balances (deficits)	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 124,907</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,909</u>	<u>\$ 120,038</u>

YAP STATE GOVERNMENT
Nonmajor Governmental Funds
Capital Projects Funds

*Statement of Revenues, Expenditures by Function,
And Changes in Fund Balances (Deficits)
Year Ended September 30, 2009*

(with comparative totals for the year ended September 30, 2008)

	Public	Other	CFSM	Yap State	Water	Total	
	Infrastructure Development	Capital Projects	Capital Projects	Public Projects	Development Projects Revolving	2009	2008
Revenues:							
CFSM grants	\$ -	\$ -	\$ 77,731	\$ -	\$ -	\$ 377,731	\$ 548,503
Other	-	-	-	-	22,708	22,708	-
Total revenues	-	-	377,731	-	22,708	400,439	548,503
Expenditures by function:							
Councils of traditional leaders	-	-	1,617	-	-	1,617	
General government	-	919,024	150,225	-	-	1,069,249	94,858
Economic development	-	64,975	11,578	-	-	76,553	
Education	-	-	29,000	-	-	29,000	
Community affairs	-	-	-	-	-	-	452,432
Public works and transportation	-	383,406	171,735	-	-	555,141	50,654
Boards and commissions	-	22,115				22,115	
Payments to component units	-	-	-		239,370	239,370	
Other appropriations	-	-	43,940			43,940	-
Total expenditures	-	1,389,520	408,095	-	239,370	2,036,985	597,944
Net change in fund balances (deficits)	-	(1,389,520)	(30,364)	-	(216,662)	(1,636,546)	(49,441)
Other financing uses:							
Transfers out	-	(13,887,009)	-	-	-	(13,887,009)	
Fund balances (deficits) at the beginning of the year	2	15,276,529	25,547	(64,369)	39,670	15,277,379	50,290
Fund balances (deficits) at the end of the year	\$ 2	\$ -	\$ (4,817)	\$ (64,369)	\$ (176,992)	\$ (246,176)	\$ 849

YAP STATE GOVERNMENT
Nonmajor Governmental Funds
Capital Projects Funds

*Statement of Revenues, Expenditures by Account,
And Changes in Fund Balances (Deficits)
Year Ended September 30, 2009*

(with comparative totals for the year ended September 30, 2008)

	Public Infrastructure Development	Other Capital Projects	CFSM Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Total	
						2009	2008
Revenues:							
CFSM grants	\$ -	\$ -	\$ 377,731	\$ -	\$ -	\$ 377,731	\$ 548,503
Other	-	-	-	-	22,708	22,708	
Total revenues	-	-	377,731	-	22,708	400,439	548,503
Expenditures by account:							
Contractual services	-	-	214,050	-	-	214,050	268,402
Capital outlay	-	-	42,307	-	-	42,307	30,175
Construction	-	-	-	-	-	-	-
Grants and subsidies	-	4,869	2,139	-	-	7,008	100,000
Salaries and wages	-	52,202	7,883	-	-	60,085	1,091
Repairs and maintenance	-	-	1,406	-	-	1,406	978
Freight	-	9,755	8,329	-	-	18,084	60
Professional services	-	171,441	80,346	-	-	251,787	-
POL	-	942,446	2,141	-	-	944,587	80,180
Travel	-	1,361	5,169	-	-	6,530	-
Other	-	207,446	44,325	-	239,370	491,141	117,058
Total expenditures	-	1,389,520	408,095	-	239,370	2,036,985	597,944
Net change in fund balances (deficits)	-	(1,389,520)	(30,364)	-	(216,662)	(1,636,546)	(49,441)
Other financing uses:							
Transfers out		(13,887,009)				(13,887,009)	
Fund balances (deficits) at the beginning of the year	2	15,276,529	25,547	(64,369)	39,670	15,277,379	50,290
Fund balances (deficits) at the end of the year	\$ 2	\$13,887,009	\$ (4,817)	\$ (64,369)	\$ (176,992)	\$ (246,176)	\$ 849

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YAP STATE GOVERNMENT
FOREIGN ASSISTANCE GRANT FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2009

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education
ASSETS							
Equity interest in internal investment pool	\$ 3,226,092	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Receivables (net of allowances for uncollectibles):							
Federal agencies	--	--	--	--	82,504	--	--
FSM national government	--	1,528,232	--	--	--	--	--
Due from other funds	--	--	683,337	299,204	310,762	781,129	357,474
Advances	--	63,377	300,232	8,293	29,131	132,957	93,728
Total Assets	\$ 3,226,092	\$ 1,591,609	\$ 983,569	\$ 307,497	\$ 422,397	\$ 914,086	\$ 451,202
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts payable	\$ 1,098	\$ 362,042	\$ 434,124	\$ 12,722	\$ 44,151	\$ 54,876	\$ 115,386
Other liabilities and accruals	12,636	21,525	15,914	1,709	2,476	1,428	10,284
Deferred revenue	--	--	386,723	42,371	--	627,833	329,565
Due to other funds	1,434,376	744,302	--	--	--	--	--
Total Liabilities	1,448,110	1,127,869	836,761	56,802	46,627	684,137	455,235
Fund Balances (Deficits):							
Reserved for:							
Encumbrances	3,632,301	--	--	--	--	--	--
Continuing appropriations	150,000	--	--	--	--	--	--
Unreserved:							
Special revenue funds	(2,004,319)	463,740	146,808	250,695	375,770	229,949	(4,033)
Total Fund Balance	1,777,982	463,740	146,808	250,695	375,770	229,949	(4,033)
Total Liabilities and Fund Balance	\$ 3,226,092	\$ 1,591,609	\$ 983,569	\$ 307,497	\$ 422,397	\$ 914,086	\$ 451,202

Infrastructure Maintenance	Infrastructure	U. S. Grants through FSM	Direct U. S. Grants	FEMA Grants	Non-U.S. Grants	CFSM Grants	Total
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 3,226,092
--	--	--	--	--	--	--	82,504
--	--	(119,156)	--	--	--	97,039	1,506,115
--	251,244	782,595	--	1,982,180	102,524	--	5,550,449
--	102,076	--	--	--	--	--	729,794
<u>\$ --</u>	<u>\$ 353,320</u>	<u>\$ 663,439</u>	<u>\$ --</u>	<u>\$ 1,982,180</u>	<u>\$ 102,524</u>	<u>\$ 97,039</u>	<u>\$ 11,094,954</u>
\$ 10,946	\$ --	\$ 69,083	\$ 36,328	\$ 67,238	\$ 21,851	\$ 14,357	\$ 1,244,202
--	--	15,109	(1,906)	2,503	64	1,938	83,680
(28,701)	258,445	337,143	--	6,902	176,354	2,995	2,139,630
28,139	--	--	62,033	--	--	28,631	2,297,481
10,384	258,445	421,335	96,455	76,643	198,269	47,921	5,764,993
--	--	--	--	--	--	--	3,632,301
--	--	--	--	--	--	--	150,000
(10,384)	94,875	242,104	(96,455)	1,905,537	(95,745)	49,118	1,547,660
<u>(10,384)</u>	<u>94,875</u>	<u>242,104</u>	<u>(96,455)</u>	<u>1,905,537</u>	<u>(95,745)</u>	<u>49,118</u>	<u>5,329,961</u>
<u>\$ --</u>	<u>\$ 353,320</u>	<u>\$ 663,439</u>	<u>\$ --</u>	<u>\$ 1,982,180</u>	<u>\$ 102,524</u>	<u>\$ 97,039</u>	<u>\$ 11,094,954</u>

YAP STATE GOVERNMENT
FOREIGN ASSISTANCE GRANTS FUND
COMBINING STATEMENT OF REVENUES,
EXPENDITURES BY FUNCTION, AND CHANGES
IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education
Revenue:							
Compact funding	\$ --	\$ 4,937,606	\$ 2,971,092	\$ 503,706	\$ 884,890	\$ 512,760	\$ 1,485,895
Federal contributions and other grants	--	--	--	--	--	--	--
CFSM grants	--	--	--	--	--	--	--
Departmental charges	--	--	--	--	--	--	--
Other	--	914	741	49	198	173	395
Total revenues	<u>--</u>	<u>4,938,520</u>	<u>2,971,833</u>	<u>503,755</u>	<u>885,088</u>	<u>512,933</u>	<u>1,486,290</u>
Expenditures:							
Current:							
Judiciary	--	--	--	--	--	38,552	--
General government	--	--	--	--	--	352,109	--
Economic development	--	457,092	--	86,153	325,612	--	--
Public safety	--	--	--	--	--	34,439	--
Community affairs	--	--	--	--	--	35,014	--
Education	--	3,687,426	--	--	--	--	1,490,322
Public works and transportation	--	--	31,494	1,246	--	29,657	--
Health services	--	--	3,550,766	--	--	--	--
Boards and commissions	--	--	--	115,268	163,932	--	--
Payments to component units	--	253,464	--	--	266,327	--	--
Principal payments on long-term debt	--	--	--	--	--	--	--
Interest payments on long-term debt	--	--	--	--	--	--	--
Other appropriations	--	83,440	--	72,677	--	--	--
Total expenditures	<u>--</u>	<u>4,481,422</u>	<u>3,582,260</u>	<u>275,344</u>	<u>755,871</u>	<u>489,771</u>	<u>1,490,322</u>
Excess (deficiency) of revenues over (under) expenditures	<u>--</u>	<u>457,098</u>	<u>(610,427)</u>	<u>228,411</u>	<u>129,217</u>	<u>23,162</u>	<u>(4,032)</u>
Other Financing Sources (Uses):							
Loan proceeds	--	--	--	--	--	--	--
Operating transfers in	--	--	--	--	--	--	--
Operating transfers out	--	--	--	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	<u>--</u>	<u>457,098</u>	<u>(610,427)</u>	<u>228,411</u>	<u>129,217</u>	<u>23,162</u>	<u>(4,032)</u>
Fund Balances - Beginning	<u>1,777,982</u>	<u>6,642</u>	<u>757,235</u>	<u>22,284</u>	<u>246,553</u>	<u>206,787</u>	<u>(1)</u>
Fund Balances - Ending	<u>\$ 1,777,982</u>	<u>\$ 463,740</u>	<u>\$ 146,808</u>	<u>\$ 250,695</u>	<u>\$ 375,770</u>	<u>\$ 229,949</u>	<u>\$ (4,033)</u>

Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U. S. Grants	FEMA Grants	Non- U. S. Grants	CFSM Grants	Total
\$ 88,701	\$ 116,555	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 11,501,205
--	--	662,134	537,239	2,581,511	1,000	--	3,781,884
--	--	--	--	--	--	51,395	51,395
--	--	--	19,039	--	--	--	19,039
955	--	--	--	--	109,292	--	112,717
<u>89,656</u>	<u>116,555</u>	<u>662,134</u>	<u>556,278</u>	<u>2,581,511</u>	<u>110,292</u>	<u>51,395</u>	<u>15,466,240</u>
--	--	--	--	--	--	27,101	65,653
22,769	--	--	--	787,897	6,713	--	1,169,488
--	--	33,752	--	--	145,248	--	1,047,857
--	50	--	--	--	--	24,294	58,783
--	--	17,437	232	--	13,944	--	66,627
40,869	695	633,797	--	--	70,323	--	5,923,432
36,402	20,935	--	--	--	--	--	119,734
--	--	357,382	652,501	--	29,980	--	4,590,629
--	--	45,017	--	--	3,765	--	327,982
--	--	--	--	--	--	--	519,791
--	--	--	--	--	115,205	--	115,205
--	--	--	--	--	35,740	--	35,740
--	--	--	--	--	--	--	156,117
<u>100,040</u>	<u>21,680</u>	<u>1,087,385</u>	<u>652,733</u>	<u>787,897</u>	<u>420,918</u>	<u>51,395</u>	<u>14,197,038</u>
(10,384)	94,875	(425,251)	(96,455)	1,793,614	(310,626)	--	1,269,202
--	--	--	--	--	108,017	--	108,017
--	--	--	--	111,923	--	--	111,923
--	--	--	--	111,923	108,017	--	219,940
(10,384)	94,875	(425,251)	(96,455)	1,905,537	(202,609)	--	1,489,142
--	--	667,355	--	--	106,864	49,118	3,840,819
<u>(10,384)</u>	<u>94,875</u>	<u>242,104</u>	<u>(96,455)</u>	<u>1,905,537</u>	<u>(95,745)</u>	<u>49,118</u>	<u>5,329,961</u>

YAP STATE GOVERNMENT
FOREIGN ASSISTANCE GRANTS FUND
COMBINING STATEMENT OF REVENUES,
EXPENDITURES BY ACCOUNT, AND CHANGES
IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Environment Sector	Private Sector Development	Capacity Building Sector	Supplemental Education
Revenue:							
Compact funding	\$ --	\$ 4,937,606	\$ 2,971,092	\$ 503,706	\$ 884,890	\$ 512,760	\$ 1,485,895
Federal contributions and other grants	--	--	--	--	--	--	--
CFSM grants	--	--	--	--	--	--	--
Departmental charges	--	--	--	--	--	--	--
Other	--	914	741	49	198	173	395
Total revenues	<u>--</u>	<u>4,938,520</u>	<u>2,971,833</u>	<u>503,755</u>	<u>885,088</u>	<u>512,933</u>	<u>1,486,290</u>
Expenditures:							
Salaries and wages	-	1,917,200	1,103,940	186,086	306,279	148,616	828,487
Utilities	-	600,914	488,503	15,247	56,136	1,559	24,717
Contractual services	-	91,158	152,792	7,446	112,551	1,500	2,125
Supplies and materials	-	160,517	13,404	2,539	18,924	7,595	44,026
Construction	-	53,980	-	-	-	-	-
Scholarship and training	-	-	-	-	34,279	50	7,707
Travel	-	101,563	57,268	3,308	76,854	175,261	174,928
Capital outlay	-	536,024	468,403	12,036	23,024	63,545	58,642
Rentals	-	1,378	90	63	-	11,905	465
Food stuffs	-	88,655	13,440	-	150	-	112,140
Communications	-	79,621	13,354	15,033	34,254	7,616	27,860
Printing and reproduction	-	4,627	5,550	2,649	7,319	1,639	11,240
Medical supplies	-	-	815,043	-	-	-	-
Medical referral	-	-	25,900	-	-	-	-
Repairs and maintenance	-	47,683	8,620	4,738	2,844	532	1,244
Freight	-	17,343	119,779	635	4,711	126	4,919
Professional services	-	11,738	4,794	-	20,879	50,201	77,756
POL	-	110,648	84,832	9,007	3,882	190	21,139
Allowances	-	-	-	225	-	-	-
Leased housing	-	88,860	68,640	-	1,650	18,050	39,280
Other	-	569,513	137,908	16,332	52,135	1,386	53,647
Total expenditures	<u>-</u>	<u>4,481,422</u>	<u>3,582,260</u>	<u>275,344</u>	<u>755,871</u>	<u>489,771</u>	<u>1,490,322</u>
Excess (deficiency) of revenues over (under) expenditures	--	457,098	(610,427)	228,411	129,217	23,162	(4,032)
Other Financing Sources (Uses):							
Loan proceeds	--	--	--	--	--	--	--
Operating transfers in	--	--	--	--	--	--	--
Operating transfers out	--	--	--	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	<u>--</u>	<u>457,098</u>	<u>(610,427)</u>	<u>228,411</u>	<u>129,217</u>	<u>23,162</u>	<u>(4,032)</u>
Fund Balances - Beginning	<u>1,777,982</u>	<u>6,642</u>	<u>757,235</u>	<u>22,284</u>	<u>246,553</u>	<u>206,787</u>	<u>(1)</u>
Fund Balances - Ending	<u>\$ 1,777,982</u>	<u>\$ 463,740</u>	<u>\$ 146,808</u>	<u>\$ 250,695</u>	<u>\$ 375,770</u>	<u>\$ 229,949</u>	<u>\$ (4,033)</u>

	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U. S. Grants	FEMA Grants	Non- U. S. Grants	CFSM Grants	Total
\$	88,701	\$ 116,555	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 11,501,205
	--	--	662,134	537,239	2,581,511	1,000	--	3,781,884
	--	--	--	--	--	--	51,395	51,395
	--	--	--	19,039	--	--	--	19,039
	955	--	--	--	--	109,292	--	112,717
	<u>89,656</u>	<u>116,555</u>	<u>662,134</u>	<u>556,278</u>	<u>2,581,511</u>	<u>110,292</u>	<u>51,395</u>	<u>15,466,240</u>
	3,289	1,950	722,886	364,563	69,583	6,150	10,981	5,670,010
	-	-	14,390	25,799	1,924	2,853	-	1,232,042
	55,791	-	65,185	12,090	193,469	26,396	393	720,896
	-	-	27,896	10,781	2,611	2,980	927	292,200
	35,760	19,680	-	-	287,816	-	-	397,236
	-	-	760	7,432	-	1,600	-	51,828
	-	-	146,276	75,261	898	13,162	-	824,779
	2,650	50	11,729	36,041	4,789	50,174	27,800	1,294,907
	-	-	2,915	646	1,200	-	50	18,712
	-	-	-	3,054	-	251	-	217,690
	-	-	6,060	2,493	7,757	-	-	194,048
	-	-	13,159	4,424	-	4,300	-	54,907
	-	-	2,453	18,922	-	-	-	836,418
	-	-	-	-	-	-	-	25,900
	2,550	-	4,551	13,374	40,200	98	1,137	127,571
	-	-	4,216	2,950	-	1,025	-	155,704
	-	-	5,000	21,600	-	37,445	-	229,413
	-	-	15,446	10,282	2,584	227	6,373	264,610
	-	-	7,350	600	-	-	-	8,175
	-	-	-	-	-	-	-	216,480
	-	-	37,113	42,421	175,066	274,257	3,734	1,363,512
	<u>100,040</u>	<u>21,680</u>	<u>1,087,385</u>	<u>652,733</u>	<u>787,897</u>	<u>420,918</u>	<u>51,395</u>	<u>14,197,038</u>
	(10,384)	94,875	(425,251)	(96,455)	1,793,614	(310,626)	--	1,269,202
	--	--	--	--	--	108,017	--	108,017
	--	--	--	--	111,923	--	--	111,923
	--	--	--	--	--	--	--	-
	--	--	--	--	111,923	108,017	--	219,940
	<u>(10,384)</u>	<u>94,875</u>	<u>(425,251)</u>	<u>(96,455)</u>	<u>1,905,537</u>	<u>(202,609)</u>	<u>--</u>	<u>1,489,142</u>
	--	--	667,355	--	--	106,864	49,118	3,840,819
\$	<u>(10,384)</u>	<u>\$ 94,875</u>	<u>\$ 242,104</u>	<u>\$ (96,455)</u>	<u>\$ 1,905,537</u>	<u>\$ (95,745)</u>	<u>\$ 49,118</u>	<u>\$ 5,329,961</u>

REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS* AND BY OFFICE OF
MANAGEMENT AND BUDGET (*OMB*) *CIRCULAR A-133*

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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 Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State), as of and for the year ended September 30, 2009, which collectively comprise the State's basic financial statements and have issued our report thereon dated April 13, 2010. We did not audit the financial statements of Public Transportation System and Yap Fishing Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Public Transportation System and Yap Fishing Authority, is based 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.

For the 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 Yap State Public Service Corporation, the Yap Visitors Bureau, and The Diving Seagull, Inc., 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. The findings, if any, included in those reports are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State'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 the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or

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combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2009-01 through 2009-04 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2009-01, 2009-02 and 2009-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State'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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. Please refer to finding number 2009-07 in the accompanying Schedule of Findings and Questioned Costs.

We noted certain matters that we have reported to management of the State in a separate letter dated April 13, 2010, which is included in this document.

The State's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended for the information and use of the management of the State, others within the entity, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
April 13, 2010

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE WITH *OMB CIRCULAR A-133* AND ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Honorable Sebastian Anafel
Governor, State of Yap
Federated States of Micronesia

Compliance

We have audited the compliance of the State of Yap (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The State's major federal programs are identified in the summary of the auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the State'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, 2009. Our audit, as described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

As described in items 2009-05 through 2009-07 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding Procurement and Suspension and Debarment and items 2009-08 and 2009-09 did not comply with allowable costs/cost principles that are applicable to its major programs, as described in the Federal Awards Findings and Questioned Costs Section of the accompanying Schedule of

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Findings and Questioned Costs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to its CFDA #15.875, Compact of Free Association Sector Grants major program; its CFDA #97.036, Disaster Grants; its CFDA #97.039, Hazard Mitigation Grant major programs; its CFDA #84.027, Special Education Grants to States major programs; and its CFDA #93.224, Consolidated Health Centers major program.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the State's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the State's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-10 and 2009-11 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over noncompliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-10 and 2009-11 to be material weaknesses.

The State's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State's responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended September 30, 2009, and have issued our report thereon dated April 13, 2010. We did not audit the financial statements of Public Transportation System and Yap Fishing Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Public Transportation System and Yap Fishing Authority, is based on the report of the other auditors. Our audit, and the report of other auditors, was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Yap's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the State. Such information has been subjected to the auditing procedures, by us and other auditors, applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the State, others within this entity, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be and should not be, used by anyone other than those specified parties.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
April 13, 2010

Certified Public Accountants

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Foreign Assistance Grants Fund
Year Ended September 30, 2009

Grantor Program Title	CFDA No./ Grant No	2009 FY Expenditures
<u>U. S. Department of Education:</u>		
Special Education-Grants to States	84.027	\$ 633,797
Total U. S. Department of Education		<u>633,797</u>
<u>U. S. Department of Agriculture:</u>		
Cooperative Forestry Assistance	10.664	33,752
Total U. S. Department of Agriculture		<u>33,752</u>
<u>U. S. Department of the Interior:</u>		
Historic Prevention Fund Grant-in-Aid	15.904	45,017
Compact of Free Association, Sector Grants	15.875	10,529,160
Total U. S. Department of the Interior		<u>10,574,177</u>
<u>U. S. Department of Health and Human Services:</u>		
Project Genets and Cooperative Agreements for Tuberculosis Control Programs	93.116	22,442
Family Planning-Services	93.217	40,602
Consolidated Health Centers	93.224	665,568
Immunization Grants	93.268	33,192
HIV Care Formula Grants	93.917	200
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	21,706
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	11,292
Preventive Health Services Block Grant	93.991	9,078
Maternal and Child Health Services Block Grant to the States	93.994	68,472
CDC and Prevention - Investigation and Technical Assistance	93.283	90,078
Block Grants for Prevention and Treatment of Substance Abuse	93.959	67,275
Total U. S. Department of Health and Human Services		<u>1,029,905</u>
<u>U. S. Department of Homeland Security:</u>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1,172,116
Hazard Mitigation Grant	97.039	280,978
Total U. S. Department of Homeland Security		<u>1,453,094</u>
Total Expenditures of Federal Awards		<u><u>13,724,725</u></u>
Reconciliation to financial statements:		
Foreign Assistance Grant Fund		14,197,038
Less:		
Non-U. S. Grants Fund		(420,918)
CFSM Grants Fund		(51,395)
		<u><u>\$ 13,724,725</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

1. Scope of Audit

The Yap State Government is a governmental entity governed by its own Constitution. All significant operations of the State of Yap are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for the Single Audit.

A. Programs Subject to Single Audit

- U.S. Department of Agriculture
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of the Interior
- U.S. Department of Labor

2. Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

B. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the State's reporting entity is defined in Note 1A to its September 30, 2009 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the State, as defined above, for the year ended September 30, 2009.

C. 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 as major programs.

**STATE OF YAP
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

D. Sub-recipient Capacity

With the exception of CFDA #93.224, which is received in a direct capacity from the U.S. Department of Health and Human Services, all awards are received in a sub-recipient capacity through the FSM National Government. Additionally, expenditures reported under the Department of Homeland Security represent the federal share of expenditures, net of the State of Yap's matching share.

3. Component Units

The Yap State Public Service Corporation (YSPSC) is a component unit of Yap State, and received Federal Awards in a sub recipient capacity during the fiscal year ended September 30, 2009. Those expenditures were reported in their Single Audit Act report for that year.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for
Audit in Accordance With OMB Circular A-133
Year Ended September 30, 2009

Grantor Program Title	CFDA No. Grant No.	2009 Fiscal Year Expenditures
<u>U. S. Department of the Interior</u>		
Economic, Social and Political Development of the Territories:		
Compact of Free Association, Sector Grants	15.875	\$ 10,529,160
<u>U. S. Department of Education</u>		
Special Education - Grants to States	84.027	633,797
<u>U. S. Department of Health and Human Services</u>		
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the homeless, Public Housing Primary Care, and School Based Health Centers)		
	93.224	665,568
<u>U. S. Department of Homeland Security</u>		
Disaster Grants - Public Assistance (Presidentially Declared Diasters)	97.036	<u>1,172,116</u>
Total U. S. Federal program expenditures selected		<u>13,000,641</u>
Total U. S. Federal program expenditures		<u>\$ 13,724,725</u>
% of total U. S. Federal expenditures covered by major programs		95%

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Part I – Summary of Auditors’ Results Section

Financial Statements

- | | |
|---|-------------|
| 1. Type of auditors’ report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Yes |
| b. Significant deficiency(ies) identified that is (are) not considered to be a material weakness? | Yes |
| 3. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | |
|--|-----------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? | Yes |
| b. Significant deficiency(ies) identified that is (are) not considered to be a material weakness? | Yes |
| 5. Type of auditors’ report issued on compliance for major programs: | Qualified |
| 6. Any audit finds disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |

7. The State’s major programs were as follows:

<u>CFDA Number</u>	<u>Federal Program</u>
	Economic, Social & Political Development of the Territories:
15.875	Compact of Free Association—Sector Grants
84.027	Special Education—Grants to States
93.224	Consolidated Health Centers
97.036	Disaster Grants—Public Assistance (Presidentially Declared Disasters)

- | | |
|---|-----------|
| 8. Dollar threshold used to distinguish between type A and Type B Programs, as those terms are defined in OMB circular A-133: | \$364,940 |
| 9. The State qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

Part II—Financial Statement Findings Section

<u>Finding #</u>	<u>Findings</u>
2009-01	Timely completion of bank reconciliations
2009-02	Prior year internal control findings
2009-03	Bank account activity not included in financial records
2009-04	SAS 112 Monitoring did not take place

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Finding Number: 2009-1

Area: Timely completion of bank reconciliations.

Criteria: A functioning system of internal controls requires that bank reconciliations be prepared on a monthly basis to allow for the accurate presentation of financial statements to the Director and management and to allow timely remedy of any error, fraud or noncompliance which may have occurred. Any financial reports utilized before the completion of these vital monthly bank reconciliations might prove inaccurate.

Condition: As of October 2009, the payroll bank reconciliation was not performed for the prior ten months.

Cause: The cause of this condition is that the Office of Administrative Services did not emphasize timeliness as a part of their quality control system during fiscal year 2009.

Effect: The effect of this condition is that there was no timely identification and resolution of irregularities and adjustments, if any, to the financial statements on which the Director, management and oversight agencies relied.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: The Office of Administrative Services has taken efforts to resolve this issue. However, monthly monitoring needs to ensure that corrective action has in fact occurred.

Auditee Response and Corrective Action Plan: We agree with this finding. Chief Accountant will bring bank reconciliation up to date and internal procedure to maintain monthly updates will be enforced by the Director.

Responsible Party: Koncy Tharngan

Finding Number: 2009-2

Area: Prior year internal control findings

Criteria: Prior year internal control findings should be resolved through appropriate corrective action.

Condition: The following internal control findings from fiscal year 2005 have not been corrected during the year ended September 30, 2009:

Finding 2005-02 Equipment and Real Property Management

Finding 2005-04 Travel Advances

Finding 2005-05 Approval of Payroll Master File Changes

Finding 2005-08 Purchase Advances

Cause: The cause of this condition is that inadequate corrective action occurred during fiscal year 2009.

**STATE OF YAP
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Effect: The effect of this condition is the same cited in each of the above mentioned prior year internal control findings.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: The Office of Administrative Services should ensure that corrective action will occur to resolve the above mentioned issues.

Auditee Response and Corrective Action Plan: We agree with this finding. Certain procedures had been undertaken to address these findings.

Responsible Party: Maria Laaw

Finding Number: 2009-03

Area: Bank account activity was not included in the State's financial records

Criteria: A functioning system of internal controls requires that all transactions of a government be recorded on a monthly basis to allow for the accurate presentation of budgets and financial statements to the Director and management and to allow for timely remedy of any noncompliance, errors, or fraud that may occur.

Condition: The Governor's Representation Account was not recorded in the State's financial records, nor was the supporting documentation of the \$14,181.61 in expenditures during the year on hand.

Cause: The cause of this condition is that the Office of Administrative Services did not require the bank account to be reconciled to the State's financial records.

Effect: The effect of this condition was that there was no accountability for expenditures made through this bank account.

Recommendation: The Office of Administrative Services has taken efforts to resolve this issue. However, monthly monitoring through routine bank reconciliations would ensure that corrective action has in fact occurred.

Auditee Response and Corrective Action Plan: We agree in part with this finding. The budgeted amount that is approved for the representation account is included in the Governor's annual budget. Upon request from the Governor's staff, Finance would expense the budget account as "other consumable expense" and write a check payable to the representation bank account. We will improve this practice by requiring that Finance reconcile invoices on file with bank statements.

Responsible Party: Koncy Tharngan

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Finding Number: 2009-04

Area: SAS 112 monitoring did not take place

Criteria: SAS 112 requires a monitoring process over financial accounts and reporting which is not dependent on an external auditor. Administrators and management are charged with the responsibility of establishing a network of processes with the objective of controlling operations in a manner which provide the Governor, Department and Division Heads with reasonable assurance that published data and information is timely, accurate, reliable, and complete. Thus, Yap State internal controls should promote the achievement of state plans, programs, goals, and objectives.

Condition: A monitoring process, as required by SAS 112, has not been placed into effect in the areas of processing, financial statement accounting and reporting. In the event of personnel changes, illness or during periods of heavy workloads, valuable procedures are neglected resulting in misstatements and temporary work stoppages until the condition is corrected. In such periods, Departments and Divisions could receive incomplete or incorrect financial statements with which to make decisions.

Cause: Yap State has only one position, the Chief of Finance, who is trained and performing specialized duties including the recording and presentation of numerous accounts without review or support. The Chief of Finance is the only accountant trained in areas of general ledger, accrual and modified accrual accounting, as well as GASB 34 report preparation and federal reporting requirements. There are no other trained personnel available for review or the timely performance of these duties in the event of work overloads, vacation or illness.

Effect: Financial account balances, including cash and advances, were not maintained in a timely manner in order that Department and Divisions Heads might receive complete, current and accurate financial statements with which to make decisions.

Recommendation: Yap State should establish a written review process approved by the Director of the Office of Administrative Services. This written review should include the monitoring and quick resolution of any untimely financial account balance reconciliations as well as other corroborating duties such as bank reconciliations, investment reconciliations, budgetary comparisons, open travel and supply advances reconciliations on a monthly basis. Select staff should be further trained in accrual and modified accounting, GASB 34 reporting, and OMB 133 requirements while the Chief of Finance should assume a role of a reviewer and monitor.

Auditee Response and Corrective Action Plan: We agree in part with this finding. The Chief of Finance has held on to certain accounting tasks, mainly due to understaffing. The Chief had noted that he can delegate certain of those tasks leaving him with the proper role monitoring and oversight. At present we have retained accounting consultant services to assist Finance staff.

Responsible Party: Maria Laaw

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Part III—Federal Awards Findings and Questioned Costs Section

<u>Finding #</u>	<u>CFDA#</u>	<u>Findings</u>	<u>Questioned Costs</u>
2009-05	15.875 CSG	Procurement Suspension and Debarment	\$ -
	84.027	Procurement Suspension and Debarment	\$ -
	93.224	Procurement Suspension and Debarment	\$ -
	97.036	Procurement Suspension and Debarment	\$ -
	97.039	Procurement Suspension and Debarment	\$ -
2009-06	15.875 CSG	Procurement Suspension and Debarment	
	84.027	Procurement Suspension and Debarment	
	93.224	Procurement Suspension and Debarment	
	97.036	Procurement Suspension and Debarment	
	97.039	Procurement Suspension and Debarment	\$ 47,460.00
2009-07	97.036	Procurement Suspension and Debarment	\$ 37,710.00
2009-08	15.875 CSG	Allowable Costs/ Cost Principles	\$ 235,366.92
2009-09	15.875	Allowable Costs/ Cost Principles	\$ 55,757.82
2009-10	15.875 CSG	Equipment and Real Property Management	\$ -
	93.224	Equipment and Real Property Management	\$ -
	97.036	Equipment and Real Property Management	\$ -
2009-11	15.875 CSG	Reporting	\$ -
	84.027	Reporting	\$ -
	93.224	Reporting	\$ -
	97.036	Reporting	\$ -
	97.039	Reporting	\$ -

Finding Number: **2009-05**
Federal Agency: U.S. Department of Interior
CFDA Program: 15.875 Economic, Social, and Political Development of Territories
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education-Grants to States
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants- Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Homeland Security
Requirement: Procurement Suspension and Debarment
Questioned Costs: \$0

Criteria: In accordance with applicable procurement requirements the following provisions should be included, as applicable, for all contracts:

- i. For contracts in excess of \$100,000, administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and the provision of such sanctions and penalties, as appropriate;

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

- ii. For contracts in excess of \$100,000, termination for cause and for convenience by the Grantee or Sub-Grantee, including the manner by which it will be affected and the basis for settlement;
- iii. Compliance with local statutes regarding kickbacks and corrupt practices;
- iv. Access by the Government of the Federated States of Micronesia and its Sub-Grantees, the Government of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to the contract for the purpose of making audit, examination, excerpts, and transcriptions;
- v. Retention of all required records for three years after Grantees or Sub-Grantees complete the final payment and all other pending matters are closed; and
- vi. Compliance with all applicable standards, orders, or requirements issued under local environmental laws.

Condition: Many of the contracts entered into by the State do not include contract provisions (iii) to (v). For contracts that we examined that were in excess of \$100,000, we noted contract provision (ii) is also generally not included.

Cause: The State did not ensure compliance with applicable procurement requirements.

Effect: The State is not in compliance with the criteria. However, the conditions cited relate to the provisions in the contracts and not to the amounts incurred, and therefore, no questioned costs resulted.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: We recommend that the State strengthen controls over contracts to ensure that compliance with the criteria occurs.

Auditee Response and Corrective Action Plan: We agree with this finding. This particular item was brought to the attention of the Attorney General. The Director will again bring this issue to the Attorney General's attention.

Responsible Party: Attorney General

Finding Number: **2009-06**
Federal Agency: U.S. Department of Interior
CFDA Program: 15.875 Economic, Social, and Political Development of Territories
Requirement: Procurement Suspension and Debarment
Questioned Costs: \$47,460

Criteria: In accordance with applicable procurement requirements, procurements shall provide for full and open competition among vendors, and allowable exceptions should be approved and be documented in the procurement files.

**STATE OF YAP
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Condition: For 2 of 35 non-payroll expenditures tested, there was insufficient documentation, or none was provided, to support competitive procurement requirements.

Account A5 10 60-60-101000-05 8610, date 1.29.09 & 10.2.09, transaction 42544 & 52528, each \$23,730.00.

Cause: The State did not ensure compliance with applicable costs/cost principles and procurement requirements.

Effect: The State is not in compliance with the criteria.

Recommendation: We recommend that the State comply with the criteria and that documentation supporting competitive procurement be on file. Additionally, we recommend that documentation be on file to support compliance with State requirements.

Auditee Response and Corrective Action Plan: We agree with this finding. Finance will work with the relevant departments/offices to determine if there is documentation to support compliance with this criteria.

Responsible Party: Robert Fathaltamanbay

<u>Finding Number:</u>	<u>2009-07</u>
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants-Public Assistance (Presidentially Declared Disasters)
Requirement:	Procurement Suspension and Debarment
Questioned Costs:	\$37,710

Criteria: In accordance with applicable procurement requirements, procurements shall provide for full and open competition among vendors, and allowable exceptions should be approved and be documented in the procurement files.

Condition: For 1 of 6 non-payroll expenditures tested, there was insufficient documentation to support competitive procurement requirements.

Account A5 22 11-31-31423-04 8614, date 1.13.09, transaction 51630, \$37,710.

Cause: The State did not ensure compliance with applicable costs/cost principles and procurement requirements.

Effect: The State is not in compliance with the criteria.

Recommendation: We recommend that the State comply with the criteria and that documentation supporting competitive procurement be on file. Additionally, we recommend that documentation be on file to support compliance with State requirements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Auditee Response and Corrective Action Plan: We agree with this finding. Finance will work with the relevant departments/offices to determine if there is documentation to support compliance with this criteria.

Responsible Party: Robert Fathaltamanbay

Finding Number: **2009-08**
Federal Agency: U.S. Department of Interior
CFDA Program: 15.875 Economic, Social and Political Development of Territories
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$235,366.92

Criteria: In accordance with applicable allowable costs/cost principles requirements, for supplier and travel-related expenditures, supplier and travel advance policies should be followed, advances should be timely liquidated and balances owed from employees should be timely collected.

Condition:

1. At September 30, 2009, there were supplier advances of \$152,383.60 that were over one year old. These advances were advanced out of the general fund and the State believes these advances were closed but misclassified, and therefore allowing the advance to remain open on the State's financial records.
2. At September 30, 2009 there were travel advances of \$82,983.32 that were over one year old. These advances were advanced out of the general fund and the State believes these advances were closed but misclassified, and therefore allowing the advance to remain open on the State's financial records.

Cause: The State did not ensure compliance with applicable allowable costs/cost principles requirements and procurement requirements.

Effect: The State is not in compliance with the criteria and questioned costs resulted.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: We recommend that the State comply with the criteria and that documentation supporting competitive procurement be on file. Additionally, we recommend that documentation be on file.

Auditee Response and Corrective Action Plan: We agree with this finding. The Chief of Finance had confirmed that the adjustments to correct the misclassifications had been done subsequent to 09/30/09.

Responsible Party: Robert Fathaltamanbay

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Finding Number: **2009-09**
Federal Agency: U.S. Department of Interior
CFDA Program: 15.875 Economic, Social and Political Development of Territories
Requirement: Allowable Cost/Cost Principle
Questioned Costs: \$55,757.82

Criteria: Per page 140 of the Fiscal Procedures Agreement, applicable cost principles and grant terms shall be followed in determining the reasonableness and the allowing of costs. Accounting records shall be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contract and sub-award documents, and other financial data.

Condition: As of October 2009, the payroll bank reconciliation was not performed for the prior ten months and an adjusting journal entry had to be made to reconcile the bank statements to the financial records of the State.

Cause: The cause of this condition is that the Office of Administrative Services did not emphasize timeliness as a part of their quality control system during fiscal year 2009.

Effect: The effect of this condition is that there was no documentation for the difference in cash reported by the bank and the financial statements on which the Director, Division and Department heads relied.

Recommendation: The Office of Administrative Services has taken efforts to resolve this issue. However, monthly monitoring needs to ensure that corrective action has in fact occurred.

Auditee Response and Corrective Action Plan: We agree with this finding. The Chief Accountant will bring bank reconciliation up to date and internal procedure to maintain monthly updates will be enforced by the Director.

Responsible Party: Koncy Tharngan

Finding Number: **2009-10**
Federal Agency: U.S. Department of Interior
CFDA Program: 15.875 Economic, Social and Political Development of Territories
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants-Public Assistance (Presidentially Declared Disasters)
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: In accordance with applicable equipment management requirements, adequate maintenance procedures shall be developed to keep property in good condition. Additionally, an annual inventory should be conducted and the results reconciled with underlying fixed asset records.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Condition: Formal maintenance procedures for equipment are not established and we could not determine the manner in which maintenance responsibilities were carried out; asset inventory additions and deletions were not updated as of February 1, 2010; and, the State has not conducted an inventory of capital assets in the last three years.

Cause: It appears that a formal maintenance policy has not been adopted, an annual inventory has not been conducted, and the last prior inventory has yet to be reconciled to fixed asset records.

Effect: The effect of this condition is noncompliance with equipment management requirements. We are unable to quantify resulting questioned costs, if any.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: A formal maintenance program should be developed in accordance with federal compliance requirements. Additionally an inventory of fixed assets should be conducted and be reconciled with underlying records.

Auditee Response and Corrective Action Plan: We agree with this finding. Each department is expected to maintain and repair property under their use and care through annual budget requests. A physical inventory completed in June 2010 provides a basis for a property list once it is compiled into an adequate registry. This registry will be completed in July 2010.

Responsible Party: Maria Laaw

<u>Finding Number:</u>	<u>2009-11</u>
Federal Agency:	U.S. Department of Interior
CFDA Program:	15.875 Economic, Social and Political Development of Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education-Grants to States
Federal Agency:	U.S. Department of Health and Human Services
CFDA Program:	93.224 Consolidated Health Centers
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants-Public Assistance (Presidentially Declared Disasters)
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.039 Hazard Mitigation Grant
Requirement:	Reporting
Questioned Costs:	\$0

Criteria: A functioning system of internal controls requires that reconciliations of the general ledger to supporting registers allow for accurate federal reports from the underlying financial system and provide a resource to management for control and compliance procedures.

Condition: As of February 1, 2010, the Schedule of Federal Expenditures was not reconciled to the general ledger records.

**STATE OF YAP
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Cause: The cause of this condition is that the Office of Administrative Services did not emphasize timeliness as a component of their quality control system during fiscal year 2009.

Effect: The effect of this condition is that there was no timely identification and resolution of misclassifications or adjustments, if any, that might have affected federal reporting, including the SF-269, SF-270, SF-271, and SF-272, to oversight agencies. Because of the lower emphasis placed on timeliness, noncompliance could occur with requirements of the awarding federal program.

Prior Year Status: This condition was cited in the 2008 Single Audit.

Recommendation: The Office of Administrative Services should take steps to resolve this issue and include monthly monitoring to reconcile the Yap State and FSM National government's inter-government transactions.

Auditee Response and Corrective Action Plan: We agree with this finding. The Chief of Finance has identified staff to take responsibility for updating the supporting schedules. The Chief Accountant will be responsible to do the monthly reconciliations.

Responsible Party: Koncy Tharnagan

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

QUESTIONED COSTS

For the year ended September 30, 2009, the following questioned costs remain unresolved:

	Questioned Costs Set Forth in Prior Year Audit Report 2008	Questioned Costs Resolved	Questioned Costs at Sept. 30,2009
Unresolved Questions FY 07	\$ 937,696	\$ 5,000	\$ 932,696
Unresolved Questions FY 08	<u>1,862,194</u>	<u>676,936</u>	<u>1,185,258</u>
	<u>\$ 2,799,890</u>	<u>\$ 681,936</u>	2,117,954
Questioned Costs FY09			<u>376,295</u>
			<u>\$ 2,494,249</u>

The prior year status of findings is contained in the accompanying Schedule of Findings and Questioned Costs.