

**State of Yap
Federated States of Micronesia**

Financial Statements and
Independent Auditors' Reports
as of and for the years ended
September 30, 2010 and 2009



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, 2010, 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 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 provides a reasonable basis for our opinions.

We did not audit the financial statements of Public Transportation System. 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 represents 10%, 2%, and 2%, respectively, of the assets, net assets, and operating revenues of the discretely presented component units. 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 reports of the other auditors.

In our opinion, based on our audit and the reports 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, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-12, as well as the budgetary comparison information on pages and notes thereto on pages 53-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is

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

Our audit was conducted for the purpose of forming opinions on the State's financial statements that collectively comprise the State's financial statements as a whole. The accompanying combining and individual fund financial statements and schedules, as set forth in Section IV of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the State. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. 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 May 11, 2011, 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
May 11, 2011

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2010

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, 2010. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2009 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, 2010, Yap State's total net assets increased by \$539,551 (or 0.57%) from \$94.92 million in the prior year to \$95.46 million.
- In comparison to fiscal year 2009, revenues increased \$457,443 (or 1.8%), and total expenditures decreased \$1.76 million (or 7.1%). The increase in revenue is due to investment income.
- Fiscal year 2010 revenues available for appropriation were \$2.0 million more than budgeted for the general fund. Actual expenditures were \$957,702 less than the final budgeted amount.
- During the fiscal year, the Yap State Trust Fund was established as mandated by YSL No. 7-17 which required that \$30 million of the state's reserves be set aside for future purposes. At the end of the fiscal year, the trust fund reported a balance of \$31.72 million.
- At the end of the fiscal year, the unreserved balance of the general fund was \$15.7 million. The significant decrease in the general fund balance is due to the transfer of available reserves to the trust fund. During the year, investment income of \$1.93 million was realized in the general fund and \$1.53 million in the Yap State Trust Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2010

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.

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

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

- Governmental activities -- Most of Yap State's basic services are included here, such as education, health, special appropriations, finance, judiciary, and general administration. Federal grants finance most of these activities.
- Business-type activities -- Yap State reports the operations of its Public Transportation System, which charges tariffs to help cover the costs of the transportation services it provides.
- Component Units -- Yap State includes the operating results of the Yap Visitor's Bureau, the Yap State Public Service Corporation, 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 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 be readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Yap State programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains and reconciles the relationship (or differences) between them.

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2010

- 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.

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 2010, Yap State's assets exceeded liabilities by \$95.46 million. Of its total net assets, \$60.7 million is restricted for specific uses. Another \$32.97 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, 2010 with comparative figures for the prior year:

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current and other non-capital assets	\$ 73,137,244	\$ 70,682,888
Capital assets	<u>32,975,713</u>	<u>34,862,284</u>
Total assets	<u>106,112,957</u>	<u>105,545,172</u>
<u>Liabilities</u>		
Other liabilities	4,436,205	4,764,925
Long-term liabilities	<u>6,209,909</u>	<u>5,852,955</u>
Total liabilities	<u>10,646,114</u>	<u>10,617,880</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	32,975,713	34,862,284
Restricted	60,693,493	36,198,352
Unrestricted	<u>1,797,637</u>	<u>23,866,656</u>
Total net assets	<u>\$ 95,466,843</u>	<u>\$ 94,927,292</u>

At the end of fiscal year 2010, Yap State's unrestricted assets show a surplus of \$1.79 million (1.9% of total net assets). These funds remain after the shift of available reserves to the trust fund. This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2009, Yap State's assets increased by \$567,785. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	<u>2010</u>	<u>2009</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 1,386,738	\$ 1,689,662

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2010

Operating grants and contributions	15,159,299	15,914,296
General Revenues:		
Taxes	3,880,885	3,527,968
Unrestricted investment (losses) earnings	4,126,615	4,072,139
Other	<u>1,126,490</u>	<u>18,519</u>
Total revenues	<u>25,680,027</u>	<u>25,222,584</u>
Expenses:		
General government	2,759,245	3,521,092
Health Services	4,814,805	4,701,131
Education	5,889,725	6,283,400
Economic development	1,303,166	1,251,353
Public Safety	759,729	720,191
Public works and transportation	4,888,442	4,580,462
Community affairs	687,869	732,286
Boards and commissions	570,371	555,702
Payments to components	428,891	1,017,764
Judiciary	261,940	249,283
Public auditor	207,521	113,799
Other	<u>427,633</u>	<u>1,031,986</u>
Total expenses	<u>22,999,327</u>	<u>24,758,449</u>
Change in net assets	2,680,692	464,135
Net assets at the beginning of the year	94,927,292	92,381,546
Prior period adjustment	<u>(2,141,141)</u>	<u>2,081,611</u>
Net assets at the end of the year	<u>\$ 95,466,843</u>	<u>\$ 94,927,292</u>

Total revenues in fiscal year 2010 of \$5.68 million increased from the prior year's \$25.22 million due to investment earnings.

Total expenses in fiscal year 2010 of \$22.99 million decreased from fiscal year 2009's level of \$24.75 million.

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 2010, Yap State's governmental funds reported a combined fund balance of \$68.84 million, which represents an increase of \$2.83 million in comparison with fiscal year 2009. Of the total fund balance, \$53.77 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 (\$45.51 million); 2) to liquidate contracts and purchase orders of the prior period (\$4.57 million). The unreserved combined fund balance is \$15.05 million, a decrease of \$32.55 million from fiscal year

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2010

2009. The significant difference is mainly accounted for by the transfer of unreserved funds to establish the trust fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Yap State continued to benefit from the market recovery during the fiscal year and recognized a gain on investment of \$1.93 million which helped the state with a positive variance in revenues over expenditures of \$149,943.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2010, amounted to \$112.77 million, net of accumulated depreciation of \$80.32 million, leaving a net book value of \$32.44 million. This represents a net decrease of \$2.07 million from fiscal year 2009. The table below summarizes Yap State's capital assets:

	2010	2009
Land	\$ 3,170,610	\$ 3,120,610
Buildings	5,555,054	6,032,465
Equipment	2,280,221	1,903,321
Furniture and Fixtures	186,829	179,741
Vehicles	754,582	565,448
Boats	3,267,792	3,453,017
Infrastructure	17,233,602	19,261,575
	<u>\$ 32,448,690</u>	<u>\$ 34,516,177</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 \$6.43 million at September 30, 2010. This 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 \$5.62 million, liability for compensated absences of \$0.56 million and long-term payments due under land purchase agreements of \$0.24 million. Principal payments on the outstanding ADB loans began in 2008 and are partially covered by \$1.85 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.

YAP STATE GOVERNMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Yap State ended fiscal year 2010 with a significant shift in its financial position. With the transfer and establishment of the Yap State Trust Fund, the unreserved general fund surplus is significantly reduced as compared to previous years. The upswing in the global economy allowed the government to recognize investment income during the year, however, other economic factors in the local economy remained relatively stagnant. No new growth in local taxes or fees are expected for fiscal year 2011, except for the potential income that new Compact Infrastructure projects 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 34% 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 2011 and beyond.

Yap State Government continued its commitment to sound financial discipline by mandating that a significant portion of its surplus be transferred into a trust fund. The State's system of financial planning, budgeting and internal financial controls must now improve their coordinated effort to meet the changes and challenges of the future.

CONTACTING YAP STATE'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

YAP STATE GOVERNMENT

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 536,424	\$ 26,659	\$ 563,083	\$ 4,501,706
Investments	26,793,895	--	26,793,895	475,598
Receivables, net of allowance for uncollectibles	3,745,464	209,543	3,955,007	1,046,334
Advances	1,500,179	--	1,500,179	--
Inventories	--	74,362	74,362	910,181
Other current assets	--	12,926	12,926	97,146
Total Current Assets	<u>32,575,962</u>	<u>323,490</u>	<u>32,899,452</u>	<u>7,030,965</u>
Noncurrent Assets:				
Restricted assets:				
Cash and cash equivalents	--	--	--	54,927
Investments	6,667,480	--	6,667,480	--
Pooled investments	33,570,312	--	33,570,312	--
Investments	--	--	--	150,000
Capital assets, net of accumulated depreciation	32,448,690	527,023	32,975,713	16,235,268
Total Noncurrent Assets	<u>72,686,482</u>	<u>527,023</u>	<u>73,213,505</u>	<u>16,440,195</u>
Total Assets	<u>105,262,444</u>	<u>850,513</u>	<u>106,112,957</u>	<u>23,471,160</u>
LIABILITIES:				
Current Liabilities:				
Current portion of long-term debt	226,233	--	226,233	1,473,331
Accounts payable	1,539,015	27,979	1,566,994	1,868,164
Other current liabilities and accruals	126,485	7,145	133,630	150,000
Deferred revenue	2,305,652	203,696	2,509,348	--
Total Current Liabilities	<u>4,197,385</u>	<u>238,820</u>	<u>4,436,205</u>	<u>3,491,495</u>
Noncurrent Liabilities:				
Noncurrent portion of long-term debt	5,728,590	--	5,728,590	7,973,379
Compensated absences payable	481,319	--	481,319	--
Total Noncurrent Liabilities	<u>6,209,909</u>	<u>--</u>	<u>6,209,909</u>	<u>7,973,379</u>
Total Liabilities	<u>10,407,294</u>	<u>238,820</u>	<u>10,646,114</u>	<u>11,464,874</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	32,448,690	527,023	32,975,713	10,277,454
Restricted For:				
Expendable:				
Debt service	1,850,127	--	1,850,127	--
Continuing appropriations	4,404,500	--	4,404,500	--
Future operations	6,373,137	--	6,373,137	--
Compact related	16,345,544	--	16,345,544	--
Nonexpendable	31,720,185	--	31,720,185	--
Unrestricted	1,712,967	84,670	1,797,637	1,728,832
Total Net Assets	<u>\$ 94,855,150</u>	<u>\$ 611,693</u>	<u>\$ 95,466,843</u>	<u>\$ 12,006,286</u>

The accompanying notes are an integral part of this statement.

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YAP STATE GOVERNMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental activities:			
Judiciary	261,940	--	44,783
Councils of traditional leaders	199,047	--	15,786
Public auditor	207,521	--	--
General government	2,759,245	461,606	2,183,886
Economic development	1,303,166	--	212,872
Public safety	759,729	--	--
Community affairs	687,870	2,191	1,152
Education	5,889,725	--	5,422,786
Public works and transportation	3,994,664	245,905	1,483,958
Health services	4,814,805	370,452	5,381,932
Boards and commissions	570,371	--	--
Payments to components	428,891	68,125	412,144
Other appropriations	995,006	--	--
Interest expense	53,720	--	--
Total Governmental Activities	<u>22,925,700</u>	<u>1,148,279</u>	<u>15,159,299</u>
Business-type Activities:			
Public Transportation System	73,637	238,459	--
Total Primary Government	<u>\$ 22,999,337</u>	<u>\$ 1,386,738</u>	<u>\$ 15,159,299</u>
COMPONENT UNITS:			
Yap Visitors Bureau	\$ 314,359	\$ 1,276	\$ 283,736
Yap State Public Service Corporation	6,450,374	5,634,641	72,122
Yap Fishing Authority	448,422	266,420	112,726
The Diving Seagull, Inc.	8,395,809	7,051,872	--
Total Component Units	<u>\$ 15,608,964</u>	<u>\$ 12,954,209</u>	<u>\$ 468,584</u>

General Revenues:
Taxes:
 Revenue sharing
 Excise taxes
Unrestricted investment earnings
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
(217,157)		(217,157)	
(183,261)		(183,261)	
(207,521)		(207,521)	
(113,753)		(113,753)	
(1,090,294)		(1,090,294)	
(759,729)		(759,729)	
(684,527)		(684,527)	
(466,939)		(466,939)	
(2,264,801)		(2,264,801)	
937,579		937,579	
(570,371)		(570,371)	
51,378		51,378	
(995,006)		(995,006)	
(53,720)		(53,720)	
(6,618,122)		(6,618,122)	
--	\$ 164,822	164,822	
(6,618,122)	164,822	(6,453,300)	
			\$ (29,347)
			(743,611)
			(69,276)
			(1,343,937)
			(2,186,171)
2,712,021	--	2,712,021	--
1,168,864	--	1,168,864	--
4,126,514	101	4,126,615	107,110
1,126,490	--	1,126,490	790,849
9,133,889	101	9,133,990	897,959
2,515,767	164,923	2,680,690	(1,288,212)
94,480,524	446,770	94,927,294	13,147,249
(2,141,141)	--	(2,141,141)	147,249
\$ 94,855,150	\$ 611,693	\$ 95,466,843	\$ 12,006,286

YAP STATE GOVERNMENT
BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2010

	General Fund	Foreign Assistance Grant Fund
<u>ASSETS</u>		
Cash and cash equivalents	\$ 536,424	\$ --
Equity interest in internal investment pool	21,329,071	3,237,932
Investments	2,000,000	--
Receivables (net of allowances for uncollectibles):		
Loans	1,924,738	--
FSM national government	439,476	1,175,475
Taxes	88,568	--
Other	27,777	--
Due from other funds	--	3,714,848
Advances	719,812	780,367
Restricted assets:	--	--
Pooled investments	1,850,127	--
Investments	--	--
 Total Assets	 \$ 28,915,993	 \$ 8,908,622
<u>LIABILITIES AND FUND BALANCES:</u>		
Liabilities:		
Accounts payable	\$ 351,885	\$ 1,120,471
Other liabilities and accruals	--	121,734
Deferred revenue	177,175	1,252,679
Due to other funds	4,268,731	1
 Total Liabilities	 4,797,791	 2,494,885
Fund Balances (Deficits):		
Reserved for:		
Related assets	7,424,738	--
Encumbrances	968,772	2,447,107
Continuing appropriations	21,194	150,000
Unreserved:		
General fund	15,703,498	--
Special revenue funds	--	3,816,630
Capital projects funds	--	--
 Total Fund Balance	 24,118,202	 6,413,737
 Total Liabilities and Fund Balance	 \$ 28,915,993	 \$ 8,908,622

The accompanying notes are an integral part of this statement.

<u>Yap State Investment Trust Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ --	\$ --	\$ 536,424
--	--	24,567,003
--	226,892	2,226,892
--	--	1,924,738
--	89,430	1,704,381
--	--	88,568
--	--	27,777
--	833,174	4,548,022
--	--	1,500,179
--	--	--
31,720,185	--	33,570,312
--	6,667,480	6,667,480
<u>\$ 31,720,185</u>	<u>\$ 7,816,976</u>	<u>\$ 77,361,776</u>
\$ --	\$ 66,659	\$ 1,539,015
--	4,750	126,484
--	875,798	2,305,652
--	279,291	4,548,023
<u>--</u>	<u>1,226,498</u>	<u>8,519,174</u>
31,720,185	6,373,137	45,518,060
--	274,495	3,690,374
--	4,404,500	4,575,694
--	--	15,703,498
--	419,531	4,236,161
--	(4,881,185)	(4,881,185)
<u>31,720,185</u>	<u>6,590,478</u>	<u>68,842,602</u>
<u>\$ 31,720,185</u>	<u>\$ 7,816,976</u>	<u>\$ 77,361,776</u>

YAP STATE GOVERNMENT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

Total fund balances - governmental funds balance sheet	\$	68,842,602
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.		32,448,690
Payables for notes which are not due in the current period are not reported in the funds.		(5,954,824)
Payables for compensated absences which are not due in the current period are not reported in the funds.		(481,319)
Rounding difference		<u>1</u>
Net assets of governmental activities - Statement of Net Assets	\$	<u>94,855,150</u>

The accompanying notes are an integral part of this statement.

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YAP STATE GOVERNMENT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Foreign Assistance Grant Fund
Revenue:	<u> </u>	<u> </u>
Compact funding	\$ --	\$ 11,941,012
Unrestricted investment earnings	1,934,768	14,532
Federal contributions and other grants	--	2,608,435
Revenue sharing	2,712,021	--
Excise taxes	1,168,864	--
CFSM grants	--	44,783
Fees and charges	96,051	--
Departmental charges	766,196	20,956
Other	1,149,437	--
Total revenues	<u>7,827,337</u>	<u>14,629,718</u>
 Expenditures:		
Current:		
Judiciary	221,588	33,407
Councils of traditional leaders	183,953	--
General government	1,231,473	1,635,345
Economic development	122,688	1,112,457
Public safety	589,684	405,258
Community affairs	284,767	26,760
Education	--	5,524,222
Public works and transportation	1,431,754	443,865
Health services	325,339	4,596,892
Boards and commissions	179,228	370,694
Payments to component units	304,181	--
Principal payments on long-term debt	--	144,534
Interest payments on long-term debt	--	53,722
Other appropriations	301,624	504,918
Total expenditures	<u>5,176,279</u>	<u>14,852,074</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>2,651,058</u>	 <u>(222,356)</u>
 Other Financing Sources (Uses):		
Loan proceeds	--	508,964
Operating transfers in	--	797,168
Operating transfers out	(30,990,871)	--
Total Other Financing Sources (Uses)	<u>(30,990,871)</u>	<u>1,306,132</u>
 Net Change in Fund Balances	 (28,339,813)	 1,083,776
 Fund Balances - Beginning	 54,599,156	 5,329,961
Prior Period Adjustment	(2,141,141)	--
Fund Balances - Ending	<u>\$ 24,118,202</u>	<u>\$ 6,413,737</u>

The accompanying notes are an integral part of this statement.

Yap State Investment Trust Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 11,941,012
1,526,482	588,587	4,064,369
--	--	3,093,639
--	--	2,712,021
--	128,700	1,297,564
--	456,871	501,654
--	179,671	275,722
--	17,538	804,690
--	86,563	750,796
<u>1,526,482</u>	<u>1,457,930</u>	<u>25,441,467</u>
--	--	254,995
--	9,063	193,016
--	379,553	3,246,371
--	68,021	1,303,166
--	--	994,942
--	17,729	329,256
--	--	5,524,222
--	147,848	2,023,467
--	--	4,922,231
--	13,148	563,070
--	124,710	428,891
--	--	144,534
--	--	53,722
--	188,464	995,006
<u>--</u>	<u>948,536</u>	<u>20,976,889</u>
<u>1,526,482</u>	<u>509,394</u>	<u>4,464,578</u>
--	--	508,964
30,193,703	--	30,990,871
--	--	(30,990,871)
<u>30,193,703</u>	<u>--</u>	<u>508,964</u>
31,720,185	509,394	4,973,542
--	6,081,084	66,010,201
--	--	(2,141,141)
<u>\$ 31,720,185</u>	<u>\$ 6,590,478</u>	<u>\$ 68,842,602</u>

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, 2010*

Net change in fund balances - total governmental funds	\$ 4,973,542
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,595,303
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,676,261)
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	144,535
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(12,389)
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.	<u>(508,964)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ 2,515,767</u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2010

	<u>Public Transportation System</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 26,659
Receivables, net of allowance for uncollectibles	4,955
Other current assets	<u>291,876</u>
Total current assets	<u>323,490</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>527,023</u>
Total assets	<u><u>\$ 850,513</u></u>
<u>Liabilities</u>	
Current liabilities:	
Account payable	\$ 27,979
Other liabilities and accruals	7,145
Deferred revenue	<u>203,696</u>
Total liabilities	<u>238,820</u>
<u>Net Assets</u>	
Invested in capital assets	527,023
Unrestricted	<u>84,670</u>
Total net assets	<u>611,693</u>
Total liabilities and net assets	<u><u>\$ 850,513</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, 2010

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 205,983
Sales	<u>32,476</u>
Total operating revenues	<u>238,459</u>
Operating expenses:	
Cost of services	62,199
Administration costs	242,856
Depreciation	<u>72,662</u>
Total operating expenses	<u>377,717</u>
Operating loss	<u>(139,258)</u>
Non-operating revenues:	
Other revenues	<u>304,181</u>
Total non-operating expenses	<u>304,181</u>
Change in net assets	164,923
Net assets at the beginning of the year	<u>446,770</u>
Net assets at the end of the year	<u><u>\$ 611,693</u></u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2010

	<u>Public Transportation System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 178,759
Cash payments to employees	(124,484)
Cash payments to suppliers	<u>(203,736)</u>
Net cash used in operating activities	<u>(149,461)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	369,655
Interest received from short-term investments	<u>101</u>
Net cash provided by noncapital financing activities	<u>369,756</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(253,577)</u>
Net cash used in capital and related financing activities	<u>(253,577)</u>
Net change in cash and equivalents	(33,282)
Cash and cash equivalents at the beginning of the year	<u>59,941</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 26,659</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (139,258)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	72,662
(Increase)/Decrease in assets:	
Receivables, net	(2,374)
Other current assets	(78,452)
Increase/(Decrease) in liabilities:	
Accounts payable	656
Other current liabilities	<u>(2,695)</u>
Net cash used in operating activities	<u><u>\$ (149,461)</u></u>

The accompanying notes are an integral part of this statement.

YAP STATE GOVERNMENT
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
AS OF SEPTEMBER 30, 2010

	Yap Visitors Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 20,832	\$ 383,939	\$ 80,769	\$ 282,349	\$ 767,889
Time certificates of deposit	152,717	-	-	3,581,100	3,733,817
Investments	-	-	-	475,598	475,598
Receivables, net:					
Due from state government	7,757	-	-	-	7,757
General	87	889,919	-	-	890,006
Other	-	13,401	-	135,170	148,571
Inventories	-	793,694	116,487	-	910,181
Other current assets	-	37,847	19,015	40,284	97,146
Total current assets	181,393	2,118,800	216,271	4,514,501	7,030,965
Noncurrent assets:					
Restricted cash and cash equivalents	-	-	-	54,927	54,927
Loan receivable	150,000	-	-	-	150,000
Capital assets, net of accumulated depreciation	24,435	8,487,694	2,076,965	5,646,174	16,235,268
Total noncurrent assets	174,435	8,487,694	2,076,965	5,701,101	16,440,195
Total assets	\$ 355,828	\$ 10,606,494	\$ 2,293,236	\$ 10,215,602	\$ 23,471,160
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 7,757	\$ 29,960	\$ 22,613	\$ 430,348	\$ 490,678
Current portion of long-term debt	-	225,308	-	1,248,023	1,473,331
Amounts held in custody for others	150,000	-	-	-	150,000
Other liabilities and accruals	1,025	644,160	82,117	650,184	1,377,486
Total current liabilities	158,782	899,428	104,730	2,328,555	3,491,495
Noncurrent liabilities:					
Noncurrent portion of long-term debt	-	3,840,571	-	4,132,808	7,973,379
Total liabilities	158,782	4,739,999	104,730	6,461,363	11,464,874
NET ASSETS					
Invested in capital assets, net of related debt	24,435	4,421,815	2,076,965	3,754,239	10,277,454
Restricted, expendable	-	-	-	-	-
Unrestricted	172,611	1,444,680	111,541	-	1,728,832
Total net assets	197,046	5,866,495	2,188,506	3,754,239	12,006,286
Total liabilities and net assets	\$ 355,828	\$ 10,606,494	\$ 2,293,236	\$ 10,215,602	\$ 23,471,160

See accompanying notes to financial statements.

YAP STATE GOVERNMENT*COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**COMPONENT UNITS**FOR THE YEAR ENDED SEPTEMBER 30, 2010*

	Yap Visitors Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
Operating revenues:					
Charges for services	\$ -	\$ 5,164,759	\$ -	\$ -	\$ 5,164,759
Sales	1,276	469,882	266,420	7,051,872	7,789,450
Total operating revenues	1,276	5,634,641	266,420	7,051,872	12,954,209
Operating expenses:					
Cost of services	-	3,800,712	79,492	6,842,560	10,722,764
Administration costs	303,355	1,172,602	165,854	379,661	2,021,472
Depreciation and amortization	11,004	697,476	190,884	883,412	1,782,776
Total operating expenses	314,359	5,670,790	436,230	8,105,633	14,527,012
Operating income (loss)	(313,083)	(36,149)	(169,810)	(1,053,761)	(1,572,803)
Nonoperating revenues (expenses):					
Contributions from the primary government	283,736	72,122	112,726	-	468,584
Interest income	2,717	2,630	-	101,763	107,110
Interest expense	-	(26,148)	-	(290,176)	(316,324)
Other	-	22,044	(5,525)	8,702	25,221
Total nonoperating revenues (expenses), net	286,453	70,648	107,201	(179,711)	284,591
Change in net assets	(26,630)	34,499	(62,609)	(1,233,472)	(1,288,212)
Net assets at the beginning of the year	223,676	5,831,996	2,251,115	4,840,462	13,147,249
Prior period adjustment	-	-	-	147,249	147,249
Net assets at the end of the year	\$ 197,046	\$ 5,866,495	\$ 2,188,506	\$ 3,754,239	\$ 12,006,286

See accompanying notes to financial statements.

State of Yap
Federated States of Micronesia
Notes to the Financial Statements
Year Ended September 30, 2010

**YAP STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2010

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 as well as management and conservation of resources. 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 Piling, 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 \$60,693,493 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 funds:

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.

Yap State Investment Trust Fund, a Governmental Fund Type Permanent Fund. This fund accounts for some of the State’s invested funds in a way the future financial needs of the State can be met more appropriately. The earnings from the fund will be credited to the General Fund.

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 \$1,850,127 for the Yap State Early Retirement Scheme, \$31,720,185 is the amount the State has invested in the Yap State Trust Fund pursuant to YSL 7-17, and investments in the amount of \$6,667,480 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, 2010 is represented by the following assets:

	General	Yap State Investment Fund	Other Governmental Funds	Total
Equity interest in internal investment pool	\$ 1,649,873	\$ -	\$ -	\$ 1,649,873
Investments	2,000,000	-	-	2,000,000
Receivables: Loans	1,924,738	-	-	1,924,738
Restricted assets:				
Pooled investments	1,850,127	31,720,185	-	33,570,312
Investments	-	-	6,373,137	6,373,137
	<u>\$ 7,424,738</u>	<u>\$ 31,720,185</u>	<u>\$ 6,373,137</u>	<u>\$ 45,518,060</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.

As of September 30, 2010, the following funds have continuing appropriations representing amounts legally segregated for a specific future use from the applicable funds. Detailed continuing appropriations as of September 30, 2010, are as follows:

Major Funds:

General Fund:

Autopsies (YSL No. 5-47)	\$ 6,442
Disaster/Search and Rescue (YSL No.5-84)	822
YWA Daycare Bldg Matching/Yap State Scholarship (YSL No. 6-48)	<u>13,930</u>
	<u>21,194</u>

Foreign Assistance Grants

Yap Community Development Program Matching (YSL No. 5-34)	<u>150,000</u>
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Other Governmental Funds:

Compact Capital Projects Fund:

Yap State Development Investment Loan (YSL No. 5-1)	200,000
Mobil fuel Farm Retaining Wall (YSL No. 6-81)	397,465
Road elevation and resurfacing, hospital to Tagreng, (YSL No. 7-43)	3,145,843
Infrastructure Maintenance Fund (YSL No. 7-43)	7,659
Infrastructure Maintenance Fund (YSL No. 7-44)	192,155
Infrastructure Maintenance Fund (YSL No. 7-47)	173,378
Yyin Dredging Project (YSL No. 7-71)	123,000
Tomil Coastal Road Project (YSL 7-76)	<u>165,000</u>
	<u>4,404,500</u>
Total Continuing Appropriations	<u>\$ 4,575,694</u>

As of September 30, 2010, the fund balance reserved for encumbrances, which are reservations of expenditure authority, is \$3,690,374.

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

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. The implementation of this statement did not 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. The implementation of this statement did not 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, 2010. 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, 2009. The implementation of this statement did not have a material effect on the financial statements of the State.

In June 2009, 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, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes new categories for reporting fund balance and revises the definitions for governmental fund types. The requirements of this Statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements 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, 2009 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 shows the Yap State Investment Trust fund, a Permanent fund, as a major fund in the current year, whereas it did not exist prior to the year ended September 30, 2010.

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, 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, 2010, the carrying amount of the primary government’s total cash and cash equivalents was \$536,424 and the corresponding bank balance was \$1,301,454, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010, bank deposits in the amount of \$250,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, \$690,946 is uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

The State has invested its excess Compact Funds in a pooled investment fund which is managed under the control of the Federated Development Authority, an entity comprised of the FSM National Government and its four component states. The State has also invested its excess Compact Funds in the Yap State Investment Trust Fund, which was established in the current year to more appropriately account for its investments. The Legislature believes that the State may become more financially independent by placing its invested funds in a Trust account. Investment income originating from both the pool and the Trust fund 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)				No Maturity
		Less than 1	1 to 5	6 to 10	More than 10	
U.S. Treasury Securities	\$ 7,030,830	\$3,370,084	\$1,152,753	\$1,873,027	\$ 634,966	
U. S. Government Backed Mortgage Securities	144,683	-	-	-	144,683	
Federal Home Loan Mortgage Corp.	2,436,388	-	203,402	349,892	1,883,094	
California State Government Backed Bonds	65,373	-	-	-	65,373	
Corporate Notes & Bonds	8,593,032	368,421	3,681,130	2,784,166	1,759,315	

Foreign Bonds, Notes, and Debentures	673,971	-	-	-	-	673,971
Equity Mutual Funds	1,880,087	-	-	-	-	1,880,087
Fixed Income Mutual Funds	53,957	-	-	-	-	53,957
Mixed Funds: Other	2,639,993	-	-	-	-	2,639,993
Equity securities- domestic	34,697,030	-	-	-	-	34,697,030
Equity securities- foreign	7,306,282	-	-	-	-	7,306,282
Cash	259,115					259,115
Cash Foreign Currency	176,217					176,217
Cash Management Account	1,074,731					1,074,731
Total	<u>\$67,031,689</u>	<u>\$3,738,505</u>	<u>\$5,037,285</u>	<u>\$5,007,085</u>	<u>\$4,487,431</u>	<u>\$ 48,761,383</u>

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, 2010, the State did not have any investment in a single issue totaling more than 5% of its total investment.

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, 2010.

Investment Type	Fair Value	Moody's	S & P	% of Total Investments
U.S. Treasury Securities	\$ 7,030,830	Aaa	AAA	10.49%
U.S. Government Backed				
Mortgage Securities	144,683		AAA	0.22%
Federal Home Loan Mortgage Corp.	2,436,388	Aaa	AAA	3.63%
California State Government				
Backed Bonds	65,373	Baa1	A	0.10%
Corporate Notes & Bonds	1,405,529		BBB	2.10%
Corporate Notes & Bonds	1,373,069		BBB+	2.05%
Corporate Notes & Bonds	650,623		BBB-	0.97%
Corporate Notes & Bonds	1,192,979		A-	1.78%
Corporate Notes & Bonds	427,557		A+	0.64%
Corporate Notes & Bonds	1,153,920		A	1.72%
Corporate Notes & Bonds	434,231		AA	0.65%

Corporate Notes & Bonds	565,395		AA-	0.84%
Corporate Notes & Bonds	218,812	Baa2		0.33%
Corporate Notes & Bonds	308,715		AA+	0.46%
Corporate Notes & Bonds	124,199	A2		0.19%
Corporate Notes & Bonds	23,263	A1		0.03%
Corporate Notes & Bonds	36,241		CCC+	0.05%
Corporate Notes & Bonds	357,236		AAA	0.53%
Corporate Notes & Bonds	159,347		AAA-	0.24%
Corporate Notes & Bonds	<u>161,916</u>	unrated	unrated	0.24%
Total Corporate Notes & Bonds	<u>8,593,032</u>			12.82%
Foreign Bonds, Notes & Debentures	36,212		AAA	0.05%
Foreign Bonds, Notes & Debentures	190,985		BBB	0.28%
Foreign Bonds, Notes & Debentures	64,005		BBB+	0.10%
Foreign Bonds, Notes & Debentures	109,670		BBB-	0.16%
Foreign Bonds, Notes & Debentures	29,869		A	0.04%
Foreign Bonds, Notes & Debentures	81,161		A-	0.12%
Foreign Bonds, Notes & Debentures	52,587		A+	0.08%
Foreign Bonds, Notes & Debentures	<u>109,482</u>		AA-	0.16%
Total Foreign Bonds, Notes & Debentures	<u>673,971</u>			1.01%
Equity Mutual Funds	20,492		BBB-	0.03%
Equity Mutual Funds	29,574		A	
Equity Mutual Funds	1,732,365		AAAm	2.58%
Equity Mutual Funds	<u>97,656</u>		unrated	0.15%
Total Equity Mutual Funds	<u>1,880,087</u>			2.80%
Fixed Income Mutual Funds	<u>53,957</u>		A	0.08%
Mixed Funds: CIA-other	2,639,993		unrated	3.94%
Equity securities- domestic	34,697,030		unrated	51.76%
Equity securities- foreign	7,306,282		unrated	10.90%
Cash	259,115			0.50%
Cash-- Foreign Currency	176,217			0.15%
Cash Management Account	<u>1,074,731</u>		AAAm	1.60%
Total Equities and Cash	<u>\$46,153,368</u>			
Total	<u>\$ 67,031,689</u>			100.00%

As of September 30, 2010, 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, 14.3% 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	\$ 90,934
Swedish Krona	3,413
Japanese Yen	3,029
Hong Kong Dollar	772
Euro	77,315
Australian Dollar	754
Total	<u>\$ 176,217</u>

Discretely Presented Component Units

The Yap Fishing Authority (YFA) holds an 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, 2010, 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>Other Governmental Funds</u>	<u>Total</u>
Receivables:				
Loans	\$11,324,738	\$ -	\$ -	\$11,324,738
FSM National Government	439,476.00	3,588,311	788,745	4,816,532
Taxes	88,568	-	-	88,568
Other	167,220			167,220
	<u>12,020,002</u>	<u>3,588,311</u>	<u>788,745</u>	<u>16,397,058</u>
Less: allowance for uncollectible accounts	<u>(9,539,443)</u>	<u>(2,412,836)</u>	<u>(699,315)</u>	<u>(12,651,594)</u>
Net receivables	<u>\$ 2,480,559</u>	<u>\$ 1,175,475</u>	<u>\$ 89,430</u>	<u>\$ 3,745,464</u>

Loans receivable of the primary government as of September 30, 2010 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 uncollectibles.

\$ 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 uncollectibles. 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. 422,877

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. 1,501,861

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 uncollectibles. \$ 2,000,000

\$ 11,324,738

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	\$ 70,209	\$ 1,033,589	\$ -	\$ -	\$ 1,103,798
Other	150,000	13,401	-	688,808	852,209
	<u>220,209</u>	<u>1,046,990</u>	-	<u>688,808</u>	<u>1,956,007</u>
Less: allowance for uncollectible accounts	<u>(62,365)</u>	<u>(143,670)</u>		<u>(553,638)</u>	<u>(759,673)</u>
Net receivables	<u>\$ 157,844</u>	<u>\$ 903,320</u>	<u>\$ -</u>	<u>\$ 135,170</u>	<u>\$ 1,196,334</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, 2010, are summarized as follows:

Receivable Fund	Payable Fund	Amount
Foreign Assistance Grants	General Fund	\$ 3,714,848
Nonmajor governmental funds	General Fund	553,883
Nonmajor governmental funds	Nonmajor governmental funds	<u>279,291</u>
		<u>\$ 4,548,022</u>

5. Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2010, are as follows:

	Balance, October 1, 2009	Additions	Retirements	Balance, September 30, 2010
Governmental activities:				
Non-depreciable capital assets:				
Land	\$ 3,120,610	\$ 50,000	\$ -	\$ 3,170,610
	<u>3,120,610</u>	<u>50,000</u>	<u>-</u>	<u>3,170,610</u>
Depreciable capital assets:				
Buildings	13,424,788	-	-	13,424,788
Heavy equipment	5,229,212	1,244,595	-	6,473,807
Furniture and Fixtures	187,681	33,131	-	220,812
Vehicles	1,765,276	251,308	-	2,016,584
Boats	5,123,822	29,740	-	5,153,562
Infrastructure	82,316,716	-	-	82,316,716
Total depreciable assets	<u>108,047,495</u>	<u>1,558,774</u>	<u>-</u>	<u>109,606,269</u>
Less accumulated depreciation for:				
Buildings	(7,392,323)	(477,411)	-	(7,869,734)
Heavy equipment	(3,325,891)	(867,695)	-	(4,193,586)
Furniture and Fixtures	(7,940)	(26,043)	-	(33,983)
Vehicles	(1,199,828)	(62,174)	-	(1,262,002)
Boats	(1,670,805)	(214,965)	-	(1,885,770)
Infrastructure	(63,055,141)	(2,027,973)	-	(65,083,114)
Total accumulated depreciation	<u>76,651,928</u>	<u>(3,676,261)</u>	<u>-</u>	<u>(80,328,189)</u>
Total net depreciable capital assets	<u>31,395,567</u>	<u>(2,117,487)</u>	<u>-</u>	<u>29,278,080</u>
Total net governmental activities capital assets	<u>\$ 34,516,177</u>	<u>\$ (2,067,487)</u>	<u>\$ -</u>	<u>\$ 32,448,690</u>

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

Judiciary	\$ 6,945
Council of traditional leaders	6,031
Public auditor	2,454
General government	77,496
Economic development	142,086
Public safety	16,095
Community affairs	358,614
Education	365,503
Public works and transportation	2,577,523
Health services	116,213
Boards and commissions	7,301
	<u>\$ 3,676,261</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, 2010 are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Amount</u>
<u>Major Governmental Funds</u>		
General fund	Yap State Investment Trust	\$ 30,193,703
General fund	Foreign Assistance Grants	<u>797,168</u>
		\$ 30,990,871

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, 3) record reductions in interfund loans for amounts that are not expected to be repaid, or 4) implement YSL 7-17 with the transfer of existing investments to a trust fund.

7. Long-Term Obligations

Primary Government

Land Acquisition Claims Payable

As of September 30, 2010, \$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 heirship 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 had a grace period of ten years with the first payment due in February 2009 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, 2010, the State drew down an additional \$522,428 for an outstanding balance is \$3,788,171.

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, 2010, the balance was \$1,405,583.

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, 2010, at which time the service charge increases to 1.5% per annum, with a maturity date of August 1, 2032. As of September 30, 2010, the balance was \$426,523.

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

Year Ending September 30,	Principal	Interest	Total
2011	\$ 141,294	\$ 65,824	\$ 207,118
2012	193,632	73,996	267,628
2013	196,547	71,081	267,628
2014	199,506	68,122	267,628
2015	202,510	65,118	267,628
2016-2020	1,059,215	278,924	1,338,139
2021-2025	1,141,391	196,748	1,338,139
2026-2030	844,950	119,598	964,548
2031-2035	670,084	59,588	729,672
2036-	971,148	11,037	982,185
	<u>\$ 5,620,277</u>	<u>\$ 1,010,036</u>	<u>\$ 6,630,314</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 \$1,850,127 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, 2010, the following changes occurred in the primary government's long-term liabilities in the statement of net assets:

	Balance, 10/1/09	Additions	Reductions	Balance, 9/30/10	Due within one year
Loan Payable:					
ADB loan	<u>\$ 5,242,385</u>	<u>\$ 522,428</u>	<u>\$ 144,536</u>	<u>\$ 5,620,277</u>	<u>\$ 141,294</u>
Other:					
Compensated absences	553,861	440,577	428,180	566,258	84,939
Land acquisition claims	<u>249,607</u>	<u>-</u>	<u>-</u>	<u>249,607</u>	<u>-</u>
	<u>803,468</u>	<u>440,577</u>	<u>428,180</u>	<u>815,865</u>	<u>84,939</u>
Total	<u>\$ 6,045,853</u>	<u>\$ 963,005</u>	<u>\$ 572,716</u>	<u>\$ 6,436,142</u>	<u>\$ 226,233</u>

The above amount in the additions column of the ADB loan includes special drawing rights of \$13,464. The net amount, less the special drawing rights, included in the Governmental Funds Schedule of Revenues, Expenditures and Changes in Fund Balances is \$508,964.

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) for construction of certain water projects. YSPSC was to repay 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. \$ 2,111,878

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. 422,877

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. 1,501,861

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 \$1,075 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. 29,263

Total for Yap State Public Service Corporation (YSPSC) \$ 4,065,879

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 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. 796,662

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. Interest and principal are payable in monthly installments of \$35,777.94, beginning on October 29, 2009. 1,657,193

On October 27, 2009, a new loan in the amount of \$3,000,000 was granted by the Federated States of Micronesia Development Bank, with an interest rate of 9%, to purchase a fishing vessel. Interest and principal are payable in monthly installments of \$38,003, beginning on April 25, 2010. 2,926,975

Total for The Diving Seagull, Inc.	<u>\$ 5,380,830</u>
Total for Discretely Presented Component Units	<u><u>\$ 9,446,709</u></u>

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

Year ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>September 30,</u>			
2011	\$ 1,473,331	\$ 359,407	\$ 1,816,568
2012	1,057,762	247,597	1,305,359
2013	947,649	178,560	1,126,209
2014	1,045,502	107,989	1,153,491
2015	1,992,445	37,839	2,030,284
2016 through 2020	1,182,064	876,537	2,058,601
2021 through 2025	977,032	5,825	982,857
2026 through 2030	605,632	-	605,632
2031 through 2032	165,292	-	181,463
	<u>\$ 9,446,709</u>	<u>\$ 1,813,754</u>	<u>\$ 11,260,463</u>

During the year ended September 30, 2010, the following changes occurred in the State's discretely presented component units' long term liabilities.

	<u>Balance</u> <u>October 1,</u> <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September 30,</u> <u>2010</u>	<u>Due Within</u> <u>One Year</u>
Loan Payable:					
YSPSC	\$ 4,279,432	-	\$ 213,553	\$ 4,065,879	\$ 225,308
Diving Seagull	3,366,644	3,000,000	985,806	5,380,830	1,248,023
	<u>\$ 7,646,076</u>	<u>\$ 3,000,000</u>	<u>\$ 1,199,363</u>	<u>\$ 9,446,709</u>	<u>\$ 1,473,331</u>

8. 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 \$1,712,087 relating to fiscal years 2008 through 2010 have been set forth in the State's Single Audit Report for the year ended September 30, 2010. 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, 2010, 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.

9. Prior Period Adjustment

The prior period adjustment of \$2,141,141 on the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balance was made to remove loans receivable from Yap State Government's books. These loans are receivables of FSM.

State of Yap
Federated States of Micronesia
Required Supplementary Information
Year Ended September 30, 2010

STATE OF YAP
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-- BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>		Actual-	Variance with <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	Budgetary Basis (see Note 1)	
Revenues:				
Investment income	\$ -	\$ -	\$ 1,934,768	\$ 1,934,768
Other	5,785,958	5,785,958	5,892,569	106,611
Total revenues	<u>5,785,958</u>	<u>5,785,958</u>	<u>7,827,337</u>	<u>2,041,379</u>
Expenditures:				
Current:				
Judiciary	240,796	240,796	223,220	17,576
Council of traditional leaders	186,025	191,875	110,588	81,287
General government	1,255,973	1,255,973	1,212,327	43,646
Economic development	143,448	143,448	125,161	18,287
Public safety	558,715	604,752	554,737	50,015
Community affairs	276,220	354,190	261,474	92,716
Public works and transportation	1,524,052	1,629,625	1,340,743	288,882
Health services	-	-	334,373	(334,373)
Boards and commissions	196,569	233,944	168,068	65,876
Payments to component units	150,180	193,773	185,134	8,639
Other appropriations	806,082	937,582	312,431	625,151
Total expenditures	<u>5,338,060</u>	<u>5,785,958</u>	<u>4,828,256</u>	<u>957,702</u>
Excess (deficiency) of revenues over (under) expenditures	<u>447,898</u>	<u>-</u>	<u>2,999,081</u>	<u>2,999,081</u>
Other financing sources (uses):				
Operating transfers out	(30,990,871)	(30,990,871)	(30,990,871)	-
Total other financing sources (uses), net	<u>(30,990,871)</u>	<u>(30,990,871)</u>	<u>(30,990,871)</u>	<u>-</u>
Net change in unreserved fund balance	(30,542,973)	(30,990,871)	(27,991,790)	2,999,081
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	2,314,168	2,314,168
Decrease in reserve for continuing appropriations	-	-	(5,061,789)	(5,061,789)
Unreserved fund balance at the beginning of the year	46,471,157	46,471,157	46,471,157	
Prior Period Adjustment			(2,141,141)	(2,141,141)
Unreserved fund balance at the end of the year	<u>\$ 15,928,184</u>	<u>\$ 15,480,286</u>	<u>\$ 13,590,605</u>	<u>\$ (1,889,681)</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, 2010

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	\$ (30,480,954)
Decrease in encumbrances	348,023
Prior period adjustment	<u>2,141,141</u>
Net change in unreserved fund balance	<u>\$ (27,991,790)</u>

State of Yap
Federated States of Micronesia
Other Supplementary Information
Year Ended September 30, 2010

STATE OF YAP*COMBINING SCHEDULE OF EXPENDITURES BY ACCOUNT**GOVERNMENTAL FUNDS**FOR THE YEAR ENDED SEPTEMBER 30, 2010**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2009)*

	General	Special Revenue	Other Governmental Funds	Totals	
		Foreign Assistance Grants		2010	2009
Expenditures:					
Salaries and wages	\$ 2,461,013	\$ 5,811,342	\$ 24,809	\$ 8,297,164	\$ 8,039,128
Grants and subsidies	42,375	-	192,905	235,280	144,508
Utilities	552,272	1,180,832	-	1,733,104	1,862,869
Contractual services	224,595	1,145,342	158,841	1,528,778	1,308,465
Supplies and materials	97,040	437,159	330	534,529	368,767
Construction	-	761,429	-	761,429	402,236
Scholarship and training	-	502,500	40,000	542,500	61,128
Travel	135,223	914,999	317,829	1,368,051	1,234,915
Capital outlay	92,983	1,089,173	56,109	1,238,265	1,594,838
Rentals	-	5,540	222	5,762	20,472
Food stuffs	87,169	154,193	-	241,362	268,223
Communications	96,070	323,088	-	419,158	311,359
Printing and reproduction	9,285	15,695	411	25,391	73,121
Medical supplies	-	462,772	-	462,772	840,243
Medical referral	-	-	-	-	215,334
Repairs and maintenance	45,623	123,194	37,330	206,147	185,748
Freight	5,645	188,499	467	194,611	259,368
Professional services	7,962	273,734	44,326	326,022	464,976
POL	381,940	300,840	11,980	694,760	2,279,756
Allowances	113,118	2,465	-	115,583	158,671
Leased housing	34,550	216,431	-	250,981	244,015
Other	789,416	942,847	62,977	1,795,240	1,934,175
	<u>\$ 5,176,279</u>	<u>\$ 14,852,074</u>	<u>\$ 948,536</u>	<u>\$ 20,976,889</u>	<u>\$ 22,272,315</u>

See accompanying independent auditors' report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

General Fund

September 30, 2010

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.

YAP STATE GOVERNMENT

STATEMENT OF REVENUES, EXPENDITURES BY FUNCTION,
AND CHANGES IN FUND BALANCE-- GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Revenues:		
Revenue sharing:		
Import tax	714,431	\$ 864,525
Fuel tax	86,618	94,784
Income tax	699,677	378,264
Business gross receipts tax	1,211,295	873,111
Tobacco	0	-
Unallocated	-	1,655
	<u>2,712,021</u>	<u>2,212,339</u>
Excise taxes:		
Alcoholic beverages	396,339	419,286
Gasoline and diesel	98,373	100,415
Tobacco	189,176	237,043
Other excise taxes	484,976	532,768
	<u>1,168,864</u>	<u>1,289,512</u>
Fees and charges:		
Licenses and permits	96,051	89,800
Fines/sale of confiscated property	221	150,524
Leases and other rentals	178,044	136,803
	<u>274,316</u>	<u>377,127</u>
Departmental charges:		
Sea transportation	189,063	171,786
Air Transportation	38,434	38,556
Hospital services	340,559	370,861
Other	19,775	212,891
	<u>587,831</u>	<u>794,094</u>
Interest and dividends	1,969,214	4,082,609
Other revenues	1,115,091	18,519
Total revenues	<u>7,827,337</u>	<u>8,774,200</u>
Expenditures:		
Judiciary	221,588	177,341
Councils of Traditional Leaders:		
Council of Pilung	90,017	99,141
Council of Tamol	93,936	380,689
	<u>183,953</u>	<u>479,830</u>
Public Auditor	0	2,453
General government:		
Office of the governor	156,875	184,300
State Legislature	403,411	393,670
Office of Administrative Services	496,629	403,667
Office of Planning, Budget and Statistics	174,558	127,084
	<u>1,231,473</u>	<u>1,108,721</u>
Economic Development:		
Department of Resources and Development	122,688	91,203
Public Safety:		
Department of Public Safety/Attorney General	589,684	646,834

See accompanying independent auditors' report.

YAP STATE GOVERNMENT

STATEMENT OF REVENUES, EXPENDITURES BY FUNCTION,
AND CHANGES IN FUND BALANCE-- GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

Community Affairs		
Department of Public Affairs	284,767	340,929
Public Works and Transportation		
Department of Public Works and Transportation	1,431,754	1,597,929
Health Services:		
Department of Health Services	325,339	230,827
Boards and Commissions:		
EPA Administration Board	7,878	1,487
Farmers Home Administration	70,340	15,581
Historic Preservation Office	88,821	114,844
Election Commissioner	5,664	37,581
Small Business Development Center	4,820	9,838
Yap Investment Trust	1,705	19,663
	<u>179,228</u>	<u>198,994</u>
Payments to component units:		
Yap State Public Service Corporation	-	760,456
Public Transportation System	304,181	22,884
	<u>304,181</u>	<u>783,340</u>
Other appropriations:		
Micronesia Legal Services Corporation	61,370	41,280
Japan Overseas Cooperation Volunteers	42,180	10,575
Peace Corps Program	39,810	15,950
Yap Community Action Program	158,264	135,375
	<u>301,624</u>	<u>203,180</u>
Total expenditures	<u>5,176,279</u>	<u>5,859,128</u>
Excess of revenues over expenditures	<u>2,651,058</u>	<u>2,915,072</u>
Other financing sources (uses):		
Operating transfers in	-	13,779,207
Operating transfers out	(30,990,871)	(4,121)
Total other financing sources (uses), net	<u>(30,990,871)</u>	<u>13,775,086</u>
Net change in fund balance	(28,339,813)	16,690,158
Fund balance at the beginning of the year	54,599,156	35,829,838
Prior period adjustment	(2,141,141)	2,081,611
Fund balance at the end of the year	<u>\$ 24,118,202</u>	<u>\$ 54,601,607</u>

YAP STATE GOVERNMENT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Revenue sharing	\$ --	\$ --	\$ 2,712,021	\$ 2,712,021
Excise taxes	--	--	1,168,864	1,168,864
Fees and charges	--	--	274,316	274,316
Departmental charges	--	--	587,831	587,831
Interest and dividends	--	--	1,969,214	1,969,214
Other revenues	5,785,958	5,785,958	1,115,091	(4,670,867)
Total Revenues	5,785,958	5,785,958	7,827,337	2,041,379
Expenditures:				
Judiciary	240,796	240,796	223,220	17,576
Councils of Traditional Leaders:				
Council of Pilung	94,034	94,034	16,652	77,382
Council of Tamol	91,991	97,841	93,936	3,905
Total councils of Traditional Leaders	186,025	191,875	110,588	81,287
General government:				
Office of the Governor	173,315	173,315	153,694	19,621
State Legislature	389,661	389,661	396,611	(6,950)
Office of Administrative Services	507,463	507,463	489,658	17,805
Office of Planning, Budget & Statistics	185,534	185,534	172,364	13,170
Total general government	1,255,973	1,255,973	1,212,327	43,646
Public Safety:				
Department of Public Safety/ Attorney General	558,715	604,752	554,737	50,015
Economic Development:				
Department of Resources & Development	143,448	143,448	125,161	18,287
Community Affairs:				
Department of Public Affairs	276,220	354,190	261,474	92,716
Health Services:				
Department of Health Services	--	--	334,373	(334,373)
Public Works and Transportation:				
Department of Public Works and Transportation	1,524,052	1,629,625	1,340,743	288,882
Boards and Commissions:				
Election Commissioner	41,492	78,867	5,664	73,203
Yap Investment Trust	23,681	23,681	1,705	21,976
Farmers Home Administration	21,324	21,324	59,180	(37,856)
EPA Administration Board	--	--	7,878	(7,878)
Historic Preservation Office	110,072	110,072	93,641	16,431
Total Boards and Commissions	196,569	233,944	168,068	65,876
Payments to component units:				
Public Transportation System	150,180	193,773	185,134	8,639
Other appropriations:				

YAP STATE GOVERNMENT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Yap Community Action Program	136,400	136,400	169,151	(32,751)
Micronesian Legal Services Corporation	41,280	41,280	61,370	(20,090)
Japan Overseas Cooperation Volunteers	16,000	16,000	--	16,000
U.S. Peace Corps Programs	20,900	20,900	39,810	(18,910)
Other appropriations	591,502	723,002	42,100	680,902
Total other appropriations	806,082	937,582	312,431	625,151
Total expenditures	5,338,060	5,785,958	4,828,256	957,702
Excess of revenues over expenditures	447,898	--	2,999,081	2,999,081
Other financing sources (uses):				
Operating transfers out	(30,990,871)	(30,990,871)	(30,990,871)	--
Total Other Financing Sources (Uses)	(30,990,871)	(30,990,871)	(30,990,871)	--
Net Change in Fund Balances	(30,542,973)	(30,990,871)	(27,991,790)	2,999,081
Fund Balances - Beginning	54,251,133	54,251,133	54,251,133	--
Prior Period Adjustment			(2,141,141)	(2,141,141)
Fund Balances - Ending	<u>\$ 23,708,160</u>	<u>\$ 23,260,262</u>	<u>\$ 24,118,202</u>	<u>\$ 857,940</u>

See accompanying independent auditors' report.

YAP STATE GOVERNMENT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	Other	Other	Other	Total	
	Special Revenue	Capital Projects	Permanent Fund	2010	2009
<u>Assets</u>					
Cash and cash equivalents	\$ 226,892	\$ -	\$ -	\$ 226,892	\$ -
Investments	-	-	-	-	208,454
Receivables, net:					
CFSM	-	89,430	410,101	499,531	106,041
Due from other funds	230,194	192,879	-	423,073	801,961
Restricted assets: investments	-	-	6,667,480	6,667,480	5,374,449
Total assets	<u>\$ 457,086</u>	<u>\$ 282,309</u>	<u>\$ 7,077,581</u>	<u>\$ 7,816,976</u>	<u>\$ 6,490,905</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 5,395	\$ 61,264	\$ -	66,659	\$ 158,933
Other liabilities and accruals	4,454	296	-	4,750	4,627
Deferred revenue	-	171,354	704,444	875,798	46,277
Due to other funds	22,724	256,567	-	279,291	199,984
Total liabilities	<u>32,573</u>	<u>489,481</u>	<u>704,444</u>	<u>1,226,498</u>	<u>409,821</u>
Fund balances:					
Reserved for:					
Related assets	-	-	6,373,137	6,373,137	5,784,550
Encumbrances	4,982	269,513	-	274,495	211,951
Unreserved:					
Special revenue funds	419,531	-	-	419,531	531,062
Capital projects funds	-	(476,685)	-	(476,685)	(446,479)
Total fund balance	<u>424,513</u>	<u>(207,172)</u>	<u>6,373,137</u>	<u>6,590,478</u>	<u>6,081,084</u>
Total liabilities and fund balance	<u>\$ 457,086</u>	<u>\$ 282,309</u>	<u>\$ 7,077,581</u>	<u>\$ 7,816,976</u>	<u>\$ 6,490,905</u>

See accompanying independent auditor's report.

YAP STATE GOVERNMENT

COMBINING STATEMENT OF REVENUES, EXPENDITURES BY FUNCTION

AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

(WITH COMPARATIVE TOTALS FOR 2009)

	Other	Other	Other	Total	
	Special Revenue	Capital Projects	Permanent Fund	2010	2009
Revenues:					
CFSM grants	\$ -	\$ 456,871	\$ -	\$ 456,871	\$ 377,731
Excise taxes	128,700	-	-	128,700	118,907
Fees and charges	179,671	-	-	179,671	144,464
Departmental charges	17,538	-	-	17,538	11,394
Other revenues	18,438	68,125	588,587	675,150	1,617
Total revenues	344,347	524,996	588,587	1,457,930	654,113
Expenditures by function:					
Councils of traditional leaders	-	9,063	-	9,063	1,617
General government	275,131	104,422	-	379,553	1,153,173
Community affairs	-	17,729	-	17,729	-
Economic development	-	68,021	-	68,021	76,553
Boards and commissions	-	13,148	-	13,148	22,115
Education	-	-	-	-	29,000
Public works and transportation	-	147,848	-	147,848	555,141
Payment to component units	-	44,698	-	44,698	239,370
Principal payments on long-term debt	-	80,012	-	80,012	-
Other appropriations	187,413	1,051	-	188,464	136,729
Total expenditures	462,544	485,992	-	948,536	2,213,698
Net change in fund balances	(118,197)	39,004	588,587	509,394	(1,559,585)
Other Financing Uses:					
Transfers out	-	-	-	-	(13,887,009)
Fund balances at the beginning of the year	542,710	(246,176)	5,784,550	6,081,084	21,527,678
Fund balances at the end year	\$ 424,513	\$ (207,172)	\$ 6,373,137	\$ 6,590,478	\$ 6,081,084

See accompanying independent auditor's report.

YAP STATE GOVERNMENT

COMBINING STATEMENT OF REVENUES, EXPENDITURES BY ACCOUNT

AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

(WITH COMPARATIVE TOTALS FOR 2009)

	Other	Other	Other	Total	
	Special Revenue	Capital Projects	Permanent Fund	2010	2009
Revenues:					
CFSM grants	\$ -	\$ 456,871	\$ -	\$ 456,871	\$ 377,731
Excise taxes	128,700	-	-	128,700	118,907
Fees and charges	179,671	-	-	179,671	144,464
Departmental charges	17,538	-	-	17,538	11,394
Other revenues	18,438	68,125	588,587	675,150	1,617
Total revenues	344,347	524,996	588,587	1,457,930	654,113
Expenditures by account:					
Salaries and wages	-	24,809	-	24,809	60,085
Grants and subsidies	187,413	5,492	-	192,905	99,797
Contractual services	-	158,841	-	158,841	214,050
Travel	-	12,773	-	12,773	6,530
Capital outlay	-	46,478	-	46,478	53,655
Repairs and maintenance	-	1,051	-	1,051	17,819
Freight	-	467	-	467	18,084
Professional services	-	44,326	-	44,326	251,787
POL	-	11,980	-	11,980	944,587
Other	275,131	179,775	-	454,906	547,304
Total expenditures	462,544	485,992	-	948,536	2,213,698
Net change in fund balances	(118,197)	39,004	588,587	509,394	(1,559,585)
Other Financing uses:					
Transfers out	-	-	-	-	(13,887,009)
Fund balance at the beginning of the year	542,710	(246,176)	5,784,550	6,081,084	21,527,678
Fund balance at the end of the year	\$ 424,513	\$ (207,172)	\$ 6,373,137	\$ 6,590,478	\$ 6,081,084

See accompanying independent auditor's report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Nonmajor Governmental Funds – Special Revenue Funds
September 30, 2010

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, 2010, 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
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS
AS OF SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	Sports Development	General Services Agency	Other Special Revenue	Total	
				2010	2009
<u>Assets</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
Investment pool	-	-	226,892	226,892	208,454
Due from other funds	-	20,275	209,919	230,194	372,991
Total assets	<u>\$ -</u>	<u>\$ 20,275</u>	<u>\$ 436,811</u>	<u>\$ 457,086</u>	<u>\$ 581,445</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ -	\$ 2,778	\$ 2,616	\$ 5,394	\$ 34,281
Due to other funds	22,723	-	-	-	-
Other liabilities and accruals	-	4,454	-	4,454	4,454
Total liabilities	<u>22,723</u>	<u>7,232</u>	<u>2,616</u>	<u>9,848</u>	<u>38,735</u>
Fund balances:					
Reserved for:					
Encumbrances		3,802	1,180	4,982	11,648
Unreserved	(22,723)	9,241	433,015	419,533	531,062
Total fund balances	<u>(22,723)</u>	<u>13,043</u>	<u>434,195</u>	<u>424,515</u>	<u>542,710</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 20,275</u>	<u>\$ 436,811</u>	<u>\$ 434,363</u>	<u>\$ 581,445</u>

See accompanying independent auditor's report.

YAP STATE GOVERNMENT*COMBINING STATEMENT OF REVENUES, EXPENDITURES BY FUNCTION**AND CHANGES IN FUND BALANCE**NONMAJOR GOVERNMENTAL FUNDS**SPECIAL REVENUE FUNDS**FOR THE YEAR ENDED SEPTEMBER 30, 2010**(WITH COMPARATIVE TOTALS FOR 2009)*

	Sports Development	General Services Agency	Other Special Revenue	Total	
				2010	2009
Revenues:					
Excise taxes	\$ 128,700	\$ -		\$ 128,700	\$ 118,907
Fees and charges	-	-	179,672	179,672	144,464
Departmental charges	258	17,280		17,538	11,394
Other	-	-	18,438	18,438	(21,091)
Total revenues	<u>128,958</u>	<u>17,280</u>	<u>198,110</u>	<u>344,348</u>	<u>253,674</u>
Expenditures by function:					
Current:					
General government	-	45,929	229,201	275,130	83,922
Economic development	-	-	-	-	-
Other appropriations	187,412	-	-	187,412	92,789
Total expenditures	<u>187,412</u>	<u>45,929</u>	<u>229,201</u>	<u>462,542</u>	<u>176,711</u>
Net change in fund balances	(58,454)	(28,649)	(31,091)	(118,194)	76,963
Fund balances at the beginning of the year	<u>35,731</u>	<u>41,692</u>	<u>465,285</u>	<u>542,710</u>	<u>465,747</u>
Fund balances at the end of the year	<u>\$ (22,723)</u>	<u>\$ 13,043</u>	<u>\$ 434,194</u>	<u>\$ 424,516</u>	<u>\$ 542,710</u>

See accompanying independent auditor's report.

YAP STATE GOVERNMENT*COMBINING STATEMENT OF REVENUES, EXPENDITURES BY ACCOUNT**AND CHANGES IN FUND BALANCE**NONMAJOR GOVERNMENTAL FUNDS**SPECIAL REVENUE FUNDS**FOR THE YEAR ENDED SEPTEMBER 30, 2010**(WITH COMPARATIVE TOTALS FOR 2009)*

	Sports Development	General Services Agency	Other Special Revenue	Total	
				2010	2009
Revenues:					
Excise taxes	\$ 128,958	\$ -	\$ -	\$ 128,958	\$ 118,907
Fees and charges	-	-	179,672	179,672	144,464
Departmental charges	-	17,280	-	17,280	11,394
Other	-	-	18,438	18,438	(21,091)
Total revenues	<u>128,958</u>	<u>17,280</u>	<u>198,110</u>	<u>344,348</u>	<u>253,674</u>
Expenditures by account:					
Grants and subsidies	-	45,929	229,201	275,130	92,789
Capital outlay	-	-	-	-	11,348
Repairs and maintenance	-	-	-	-	16,413
Other	187,412	-	-	187,412	56,163
Total expenditures	<u>187,412</u>	<u>45,929</u>	<u>229,201</u>	<u>462,542</u>	<u>176,713</u>
Net change in fund balances	(58,454)	(28,649)	(31,091)	(118,194)	76,961
Fund balances at the beginning of the year	35,731	41,692	465,286	542,708	465,747
Fund balances at the end of the year	<u>\$ (22,723)</u>	<u>\$ 13,043</u>	<u>\$ 434,195</u>	<u>\$ 424,514</u>	<u>\$ 542,708</u>

See accompanying independent auditor's report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Nonmajor Governmental Funds – Capital Projects Funds

September 30, 2010

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, 2010, 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
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS
AS OF SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	Public Infrastructure Development	CFSM Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Total	
					2010	2009
<u>ASSETS</u>						
Receivables:						
CFSM	\$ -	\$ 89,430	\$ -	\$ -	\$ 89,430	\$ 106,041
Due from other funds	-	192,879	-	-	192,879	18,869
Total assets	<u>\$ -</u>	<u>\$ 282,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282,309</u>	<u>\$ 124,910</u>
<u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>						
Liabilities:						
Accounts payable	\$ -	19,886	\$ -	\$ 41,378	\$ 61,264	\$ 124,652
Other liabilities and accruals	-	296	-	-	296	173
Deferred revenue	-	171,354	-	-	171,354	46,277
Due to other funds	-	-	64,369	192,198	256,567	199,984
Total liabilities	<u>-</u>	<u>191,536</u>	<u>64,369</u>	<u>233,576</u>	<u>489,481</u>	<u>371,086</u>
Fund balances (deficits):						
Reserved for:						
Encumbrances	-	269,513	-	-	269,513	\$ 200,303
Unreserved	<u>-</u>	<u>(178,740)</u>	<u>(64,369)</u>	<u>(233,576)</u>	<u>(476,685)</u>	<u>(446,479)</u>
Total fund balances (deficits)	<u>-</u>	<u>90,773</u>	<u>(64,369)</u>	<u>(233,576)</u>	<u>(207,172)</u>	<u>(246,176)</u>
Total liabilities and fund balances (deficits)	<u>\$ -</u>	<u>\$ 282,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 282,309</u>	<u>\$ 124,910</u>

See accompanying independent auditor's report.

YAP STATE GOVERNMENT

COMBINING STATEMENT OF REVENUES, EXPENDITURES BY FUNCTION

AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

(WITH COMPARATIVE TOTALS FOR 2009)

	Public Infrastructure Development	CFSM Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Total	
					2010	2009
Revenues:						
CFSM grants	\$ -	\$ 456,871	\$ -	\$ -	\$ 456,871	\$ 377,731
Other	-	-	-	68,125	68,125	22,708
Total revenues	-	456,871	-	68,125	524,996	400,439
Expenditures by function:						
Councils of traditional leaders	-	9,063	-	-	9,063	1,617
General government	-	104,422	-	-	104,422	1,069,249
Economic development	7,670	60,352	-	-	68,022	76,553
Education	-	-	-	-	-	29,000
Community affairs	-	17,729	-	-	17,729	-
Public works and transportation	(20,816)	168,664	-	-	147,848	555,141
Boards and commissions	13,148	-	-	-	13,148	22,115
Payments to component units	-	-	-	44,698	44,698	239,370
Principal payments on long-term debt	-	-	-	80,011	80,011	-
Other appropriations	-	1,051	-	-	1,051	43,940
Total expenditures	2	361,281	-	124,709	485,992	2,036,985
Net change in fund balances (deficits)	(2)	95,590	-	(56,584)	39,004	(1,636,546)
Transfers out	-	-	-	-	-	(13,887,009)
Fund balances (deficits) at the beginning of the year	2	(4,817)	(64,369)	(176,992)	(246,176)	15,277,379
Fund balances (deficits) at the end of the year	\$ -	\$ 90,773	\$ (64,369)	\$ (233,576)	\$ (207,172)	\$ (246,176)

See accompanying independent auditor's report.

YAP STATE GOVERNMENT
*COMBINING STATEMENT OF REVENUES, EXPENDITURES BY ACCOUNT
AND CHANGES IN FUND BALANCE*
NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	Public Infrastructure Development	CFSM Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Total	
					2010	2009
Revenues:						
CFSM grants	\$ -	\$ 456,871	\$ -	\$ -	\$ 456,871	\$ 377,731
Other	-	-	-	68,125	68,125	22,708
Total revenues	-	456,871	-	68,125	524,996	400,439
Expenditures by account:						
Contractual services	(8,123)	166,964	-	-	158,841	214,050
Capital outlay	-	46,478	-	-	46,478	42,307
Construction	-	-	-	-	-	-
Grants and subsidies	-	5,492	-	-	5,492	7,008
Salaries and wages	8,998	15,811	-	-	24,809	60,085
Repairs and maintenance	-	1,051	-	-	1,051	1,406
Freight	-	467	-	-	467	18,084
Professional services	(372)	44,698	-	-	44,326	251,787
POL	685	11,295	-	-	11,980	944,587
Travel	(118)	12,891	-	-	12,773	6,530
Other	(1,068)	56,134	-	124,709	179,775	491,141
Total expenditures	2	361,281	-	124,709	485,992	2,036,985
Net change in fund balances (deficits)	(2)	95,590	-	(56,584)	39,004	(1,636,546)
Transfers out	-	-	-	-	-	(13,887,009)
Fund balances (deficits) at the beginning of the year	2	(4,817)	(64,369)	(176,992)	(246,176)	15,277,379
Fund balances (deficits) at the end of the year	\$ -	\$ 90,773	\$ (64,369)	\$ (233,576)	\$ (207,172)	\$ (246,176)

See accompanying independent auditor's report.

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STATE OF YAP
FOREIGN ASSISTANCE GRANT FUNDS
COMBINING BALANCE SHEET
AS OF SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Private Sector Development	Enviromental Sector	Capacity Building Sector	Supplemental Education
ASSETS							
Investment pool	\$ 3,237,932	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables:							
Federal agencies	-	-	118,999	-	-	-	-
CFSM	-	392,585	-	-	-	9,025	-
Due from other funds	-	-	979,267	-	-	923,372	147,698
Advances	-	337,374	189,324	39,702	11,558	92,022	108,968
Total assets	<u>\$ 3,237,932</u>	<u>\$ 729,959</u>	<u>\$ 1,287,590</u>	<u>\$ 39,702</u>	<u>\$ 11,558</u>	<u>\$ 1,024,419</u>	<u>\$ 256,666</u>
LIABILITIES AND FUND BALANCES (DEFICITS)							
Liabilities:							
Accounts Payable	1,098	136,998	218,605	32,306	20,906	44,049	98,536
Other liabilities and accruals	12,636	36,130	20,095	3,928	2,141	2,736	22,780
Deferred revenue	-	-	232,802	1	1	-	137,272
Due to other funds	-	-	-	-	-	-	-
Total liabilities	<u>13,734</u>	<u>173,128</u>	<u>471,502</u>	<u>36,235</u>	<u>23,048</u>	<u>46,785</u>	<u>258,588</u>
Fund balances (deficits):							
Reserved for:							
Encumbrances	2,447,107	-	-	-	-	-	-
Continuing appropriations	150,000	-	-	-	-	-	-
Unreserved	<u>(804,595)</u>	<u>(219,467)</u>	<u>815,768</u>	<u>(79,279)</u>	<u>(48,333)</u>	<u>977,634</u>	<u>(1,922)</u>
Total fund balances (deficits)	<u>1,792,512</u>	<u>(219,467)</u>	<u>815,768</u>	<u>(79,279)</u>	<u>(48,333)</u>	<u>977,634</u>	<u>(1,922)</u>
Total liabilities and fund balances	<u>\$ 1,806,246</u>	<u>\$ (46,339)</u>	<u>\$ 1,287,270</u>	<u>\$ (43,044)</u>	<u>\$ (25,285)</u>	<u>\$ 1,024,419</u>	<u>\$ 256,666</u>

See accompanying auditors' report.

Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U. S. Grants	CFSM Grants	Totals	
							2010	2009
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,237,932	\$ 3,226,092
-	-	-	-	-	-	-	118,999	82,504
-	-	495,473	-	143,044	-	16,349	1,056,476	1,506,115
1,039,101	232,001	213,068	127,512	-	-	52,829	3,714,848	5,550,449
1,419	-	-	-	-	-	-	780,367	729,794
<u>\$ 1,040,520</u>	<u>\$ 232,001</u>	<u>\$ 708,541</u>	<u>\$ 127,512</u>	<u>\$ 143,044</u>	<u>\$ -</u>	<u>\$ 69,178</u>	<u>\$ 8,908,622</u>	<u>\$ 11,094,954</u>
727	-	68,910	53,259	411,968	14,992	18,118	1,120,472	1,244,202
64	-	17,968	516	798	-	1,942	121,734	83,680
-	243,998	380,079	64,000	-	194,526	-	1,252,679	2,139,630
-	-	-	-	-	-	-	-	2,297,481
<u>791</u>	<u>243,998</u>	<u>466,957</u>	<u>117,775</u>	<u>412,766</u>	<u>209,518</u>	<u>20,060</u>	<u>2,494,885</u>	<u>5,764,993</u>
-	-	-	-	-	-	-	2,447,107	3,632,301
-	-	-	-	-	-	-	150,000	150,000
1,293,060	(11,997)	241,584	9,737	1,905,537	(310,215)	49,118	3,816,630	1,547,660
<u>1,293,060</u>	<u>(11,997)</u>	<u>241,584</u>	<u>9,737</u>	<u>1,905,537</u>	<u>(310,215)</u>	<u>49,118</u>	<u>6,413,737</u>	<u>5,329,961</u>
<u>\$ 1,293,851</u>	<u>\$ 232,001</u>	<u>\$ 708,541</u>	<u>\$ 127,512</u>	<u>\$ 2,318,303</u>	<u>\$ (100,697)</u>	<u>\$ 69,178</u>	<u>\$ 8,908,622</u>	<u>\$ 11,094,954</u>

STATE OF YAP
FOREIGN ASSISTANCE GRANT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
BY FUNCTION, AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2009)

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Private Sector Development	Enviromental Sector	Capacity Building Sector	Supplemental Education
Revenues:							
Compact funding	\$ -	\$ 3,049,252	\$ 3,849,464	\$ 408,918	\$ 3,226	\$ 1,391,421	\$ 1,754,773
Unrestricted investment earnings	14,532	-	-	-	-	-	-
Federal contributions and other grants	-	-	-	-	-	-	-
CFSM grants	-	-	-	-	-	-	-
Departmental charges	-	-	-	-	-	-	-
Other	-	969	719	203	74	101	408
Total revenues	14,532	3,050,221	3,850,183	409,121	3,300	1,391,522	1,755,181
Expenditures by function:							
Current:							
Judiciary	-	-	-	-	-	4,743	-
General government	-	-	-	-	-	543,234	-
Economic development	-	524,496	20,647	410,929	105,963	-	-
Public Safety	-	-	-	-	-	48,737	-
Community affairs	-	-	-	-	-	20,602	-
Education	-	3,043,402	-	-	-	-	1,753,071
Public Works and transportation	-	-	20,654	-	-	26,521	-
Health services	-	-	3,139,922	-	-	-	-
Boards and commissions	-	-	-	169,704	140,514	-	-
Principal payments on long-term debt	-	-	-	-	-	-	-
Interest payments on long-term debt	-	-	-	-	-	-	-
Payment to component units	-	-	-	-	-	-	-
Other	-	165,531	-	283,536	55,851	-	-
Total expenditures	-	3,733,429	3,181,223	864,169	302,328	643,837	1,753,071
Excess (deficiency) of revenues over (under) expenditures	14,532	(683,208)	668,960	(455,048)	(299,028)	747,685	2,110
Other financing sources (users):							
Loan Proceeds	-	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-
Total Other financing sources (uses), net	-	-	-	-	-	-	-
Net change in fund balances (deficits)	14,532	(683,208)	668,960	(455,048)	(299,028)	747,685	2,110
Fund balances (deficits) at the beginning of the year	1,777,982	463,740	146,808	375,770	250,695	229,949	(4,033)
Fund balances (deficits) at the end of the year	<u>\$ 1,792,514</u>	<u>\$ (219,468)</u>	<u>\$ 815,768</u>	<u>\$ (79,278)</u>	<u>\$ (48,333)</u>	<u>\$ 977,634</u>	<u>\$ (1,923)</u>

See accompanying auditors' report.

Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U. S. Grants	FEMA Grants	Non U. S. Grants	CFSM Grants	Totals	
							2010	2009
\$ 1,094,511	\$ 389,447	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,941,012	\$ 11,501,205
-	-	-	-	-	-	-	14,532	-
-	-	1,093,113	634,218	857,344	-	-	2,584,675	3,781,884
-	-	-	-	-	-	44,783	44,783	51,395
-	-	-	20,956	-	-	-	20,956	19,039
5,900	887	-	-	11,499	3,000	-	23,760	112,717
1,100,411	390,334	1,093,113	655,174	868,843	3,000	44,783	14,629,718	15,466,240
-	-	-	-	-	-	28,664	33,407	65,653
126,100	-	-	-	966,011	-	-	1,635,345	1,169,488
-	-	50,422	-	-	-	-	1,112,457	1,047,857
-	340,402	-	-	-	-	16,119	405,258	58,783
-	-	216	-	-	5,941	-	26,759	66,627
91,225	34,758	592,549	-	-	9,217	-	5,524,222	5,923,432
274,644	122,046	-	-	-	-	-	443,865	119,734
4,998	-	389,971	1,057,946	-	4,055	-	4,596,892	4,590,629
-	-	60,476	-	-	-	-	370,694	327,982
-	-	-	-	-	144,535	-	144,535	115,205
-	-	-	-	-	53,722	-	53,722	35,740
-	-	-	-	-	-	-	-	519,791
-	-	-	-	-	-	-	504,918	156,117
496,967	497,206	1,093,634	1,057,946	966,011	217,470	44,783	14,852,074	14,197,038
603,444	(106,872)	(521)	(402,772)	(97,168)	(214,470)	-	(222,356)	1,269,202
-	-	-	-	-	508,964	-	508,964	108,017
700,000	-	-	-	97,168	-	-	797,168	111,923
-	-	-	-	-	-	-	-	-
700,000	-	-	-	97,168	508,964	-	1,306,132	219,940
1,303,444	(106,872)	(521)	(402,772)	-	294,494	-	1,083,776	1,489,142
(10,384)	94,875	242,104	(96,455)	1,905,537	(95,745)	49,118	5,329,961	3,840,819
<u>\$ 1,293,060</u>	<u>\$ (11,997)</u>	<u>\$ 241,583</u>	<u>\$ (499,227)</u>	<u>\$ 1,905,537</u>	<u>\$ 198,749</u>	<u>\$ 49,118</u>	<u>\$ 6,413,737</u>	<u>\$ 5,329,961</u>

STATE OF YAP
FOREIGN ASSISTANCE GRANT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
BY ACCOUNT, AND CHANGES IN FUND BALANCES (DEFICITS)
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2009)

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Private Sector Development	Enviromental Sector	Capacity Building Sector	Supplemental Education
Revenues:							
Compact funding	\$ -	\$ 3,049,252	\$ 3,849,464	\$ 408,918	\$ 3,226	\$ 1,391,421	\$ 1,754,773
Unrestricted investment earnings	14,532	-	-	-	-	-	-
Federal contributions and other grants	-	-	-	-	-	-	-
CFSM grants	-	-	-	-	-	-	-
Departmental charges	-	-	-	-	-	-	-
Other	-	969	719	203	74	101	408
Total revenues	14,532	3,050,221	3,850,183	409,121	3,300	1,391,522	1,755,181
Expenditures by account:							
Salaries and wages	-	1,937,445	1,128,262	319,942	172,750	139,295	840,368
Grants and subsidies	-	-	-	-	-	-	-
Utilities	-	357,385	489,291	69,133	28,853	3,607	138,763
Contractual services	-	66,050	112,150	176,181	1,500	44,900	13,980
Supplies and materials	-	162,104	47,053	50,485	7,006	29,755	74,165
Construction	-	-	-	-	-	-	-
Scholarship and training	-	500,000	-	-	-	-	-
Travel	-	49,771	59,325	77,688	15,116	176,081	287,163
Capital outlay	-	18,840	178,277	23,205	40,554	80,168	105,168
Rentals	-	-	-	4,280	310	-	-
Food stuffs	-	98,680	-	-	-	-	53,156
Communications	-	228,760	12,548	40,318	15,405	9,616	6,249
Printing and reproduction	-	-	4,623	1,894	35	-	-
Medical supplies	-	-	462,395	-	-	-	-
Medical referral	-	-	-	-	-	-	-
Repairs and maintenance	-	51,243	32,091	12,499	4,967	279	9,080
Freight	-	29,912	136,888	930	1,105	2,765	3,113
Professional services	-	-	6,000	30,032	-	126,946	105,946
POL	-	125,352	77,211	7,381	7,381	396	27,298
Allowances	-	-	-	-	125	-	-
Leased housing	-	77,740	65,420	-	-	25,500	41,160
Other	-	30,147	362,900	50,201	7,221	4,529	47,462
Total expenditures	-	3,733,429	3,174,434	864,169	302,328	643,837	1,753,071
Excess (deficiency) of revenues over (under) expenditures	14,532	(683,208)	675,749	(455,048)	(299,028)	747,685	2,110
Other financing sources (users):							
Loan Proceeds	-	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-
Total Other financing sources (uses), net	-	-	-	-	-	-	-
Net change in fund balances (deficits)	14,532	(683,208)	675,749	(455,048)	(299,028)	747,685	2,110
Fund balances (deficits) at the beginning of the year	1,777,982	463,740	146,808	375,770	250,695	229,949	(4,033)
Fund balances (deficits) at the end of the year	\$ 1,792,514	\$ (219,468)	\$ 822,557	\$ (79,278)	\$ (48,333)	\$ 977,634	\$ (1,923)

See accompanying auditors' report.

Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U. S. Grants	FEMA Grants	Non U. S. Grants	CFSM Grants	Totals	
							2010	2009
\$ 1,094,511	\$ 389,447	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,941,012	\$ 11,501,205
-	-	-	-	-	-	-	14,532	\$ -
-	-	584,149	1,143,182	857,344	-	-	2,584,675	3,781,884
-	-	-	-	-	-	44,783	44,783	51,395
-	-	-	20,956	-	-	-	20,956	112,717
5,900	887	-	-	11,499	3,000	-	23,760	19,039
<u>1,100,411</u>	<u>390,334</u>	<u>584,149</u>	<u>1,164,138</u>	<u>868,843</u>	<u>3,000</u>	<u>44,783</u>	<u>14,629,718</u>	<u>15,466,240</u>
13,922	2,088	729,112	476,548	48,290	-	3,320	5,811,342	5,670,010
-	-	-	-	-	-	-	-	-
-	-	16,898	61,901	5,345	-	9,656	1,180,832	1,232,042
168,274	22,457	23,995	71,095	429,356	8,045	7,359	1,145,342	720,896
30	-	39,546	24,453	2,415	147	-	437,159	292,200
115,666	132,259	-	42,069	471,435	-	-	761,429	397,236
-	-	2,500	-	-	-	-	502,500	51,828
2,190	-	159,491	83,488	420	-	4,266	914,999	824,779
196,802	340,402	30,553	67,296	1,237	3,199	3,472	1,089,173	1,294,907
-	-	-	950	-	-	-	5,540	18,712
-	-	-	2,357	-	-	-	154,193	217,690
-	-	4,503	2,623	3,066	-	-	323,088	194,048
-	-	6,643	2,500	-	-	-	15,695	54,907
-	-	377	-	-	-	-	462,772	836,418
-	-	-	-	-	-	-	-	25,900
-	-	2,496	9,845	694	-	-	123,194	127,571
-	-	3,937	9,849	-	-	-	188,499	155,704
-	-	-	4,810	-	-	-	273,734	229,413
-	-	37,701	11,993	3,273	-	2,854	300,840	264,610
-	-	2,340	-	-	-	-	2,465	8,175
-	-	-	6,611	-	-	-	216,431	216,480
83	-	33,542	179,558	480	206,079	20,645	942,847	1,363,512
<u>496,967</u>	<u>497,206</u>	<u>1,093,634</u>	<u>1,057,946</u>	<u>966,011</u>	<u>217,470</u>	<u>51,572</u>	<u>14,852,074</u>	<u>14,197,038</u>
603,444	(106,872)	(509,485)	106,192	(97,168)	(214,470)	(6,789)	(222,356)	1,269,202
-	-	-	-	-	508,964	-	508,964	108,017
700,000	-	-	-	97,168	-	-	797,168	111,923
-	-	-	-	-	-	-	-	-
<u>700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,168</u>	<u>508,964</u>	<u>-</u>	<u>1,306,132</u>	<u>219,940</u>
1,303,444	(106,872)	(509,485)	106,192	-	294,494	(6,789)	1,083,776	1,489,142
(10,384)	94,875	242,104	(96,455)	1,905,537	(95,745)	49,118	5,329,961	3,840,819
<u>\$ 1,293,060</u>	<u>\$ (11,997)</u>	<u>\$ (267,381)</u>	<u>\$ 9,737</u>	<u>\$ 1,905,537</u>	<u>\$ 198,749</u>	<u>\$ 42,329</u>	<u>\$ 6,413,737</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, 2010, which collectively comprise the State's basic financial statements and have issued our report thereon dated May 11, 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.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Findings 2010-1 and 2010-2 are

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the State in a separate letter dated May 11, 2011, 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
May 11, 2011

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, 2010. 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, 2010. 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 item 2010-3 in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding Reporting; in item 2010-04, the State did not comply with Procurement Suspension and Debarment applicable to federal programs. As described in finding 2010-05, the State did not comply with allowable costs/cost principles that are applicable to its major programs, and in finding 2010-06, the State did not comply with the requirements regarding equipment and real property management, as described in the Federal Awards Findings and Questioned Costs Section of the accompanying Schedule of 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

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CFDA #84.027, Special Education Grants, its CFDA #93.224, Consolidated Health Centers Clusters, and its CFDA #93.703, ARRA—Health Center Integrated Services Development Initiative.

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 and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-03 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-04 through 2010-06 to be significant deficiencies.

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, 2010, and have issued our report thereon dated May 11, 2011. 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
May 11, 2011

Certified Public Accountants

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Expenditures of Federal Awards
Foreign Assistance Grant Fund
Year Ended September 30, 2010

Grantor Program Title	CFDA No./ Grant No	2010 Fiscal Year Expenditures
<u>U. S. Department of Education:</u>		
Special Education-Grants to States	84.027	\$ 592,549
Total U. S. Department of Education		<u>592,549</u>
<u>U. S. Department of Agriculture:</u>		
Cooperative Forestry Assistance	10.664	50,638
Total U. S. Department of Agriculture		<u>50,638</u>
<u>U. S. Department of the Interior:</u>		
Historic Prevention Fund Grant-in-Aid	15.904	60,476
Compact of Free Association, Sector Grants	15.875	11,733,706
Total U. S. Department of the Interior		<u>11,794,182</u>
<u>U. S. Department of Health and Human Services:</u>		
Consolidated Health Center Cluster:		
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	818,667
ARRA- Grants to Health Center Programs	93.703	239,279
Total Consolidated Health Center Cluster		<u>1,057,946</u>
Project Genets and Cooperative Agreements for Tuberculosis Control Programs	93.116	21,351
Family Planning-Services	93.217	27,108
Substance Abuse and Mental Health Services	93.243	1,521
Immunization Grants	93.268	66,385
CDC and Prevention - Investigation and Technical Assistance	93.283	100,625
HIV Care Formula Grants	93.917	1,000
HIV Prevention Activities	93.940	16,694
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	4,846
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	65,216
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	15,403
Maternal and Child Health Services Block Grant to the States	93.994	69,824
Total U. S. Department of Health and Human Services		<u>1,447,919</u>
<u>U. S. Department of Homeland Security:</u>		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	958,400
Hazard Mitigation Grant	97.039	7,611
Total U. S. Department of Homeland Security		<u>966,011</u>
Total Expenditures of Federal Awards		<u>\$ 14,851,299</u>
Reconciliation to financial statements:		
Foreign Assistance Grant Fund		\$ 14,852,074
Less: Non- U.S. Grants Fund		(775)
		<u>\$ 14,851,299</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Schedule of Expenditures of Federal Awards
Foreign Assistance Grants Fund
Year Ended September 30, 2010

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, 2010 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, 2010.

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.

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, 2010. 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, 2010

Grantor Program Title	CFDA No. Grant No.	2010 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	\$ 11,733,706
<u>U. S. Department of Education</u>		
Special Education - Grants to States	84.027	592,549
<u>U. S. Department of Health and Human Services</u>		
Consolidated Health Center Cluster:		
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	818,667
ARRA- Grants to Health Center Programs	93.703	239,279
<u>U. S. Department of Homeland Security</u>		
Disaster Grants - Public Assistance (Presidentially Declared Diasters)	97.036	958,400
Total U. S. Federal program expenditures selected		<u>14,342,601</u>
Total U. S. Federal program expenditures		<u>\$ 14,851,299</u>
% of total U. S. Federal expenditures covered by major programs		97%

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

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? | No |
| b. Significant deficiency(ies) identified that is (are) not considered to be a material weakness? | Yes |
| 3. Noncompliance material to the financial statements noted? | No |

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 findings 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
15.875	Compact of Free Association—Section 211 (A) Capital Projects
84.027	Special Education—Grants to States
	Consolidated Health Centers Cluster:
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)
93.703	ARRA – Health Center Integrated Services Development Initiative
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: | \$445,539 |
| 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>
2010-01	Travel advances not closed
2010-02	Bank account activity not included in financial records

Significant Deficiencies:

Finding Number: 2010-01

Area: Travel advances were not closed.

Criteria: The Yap State Financial Management Regulations Part I Section 111 subsection a stipulates that “a traveler have only one outstanding travel advance. A travel advance for one trip must be cleared by repayment or submission of a travel expense voucher before an advance for another trip shall be disbursed to the same traveler.”

The Yap State Financial Management Regulations Part I Section 111 subsection g stipulates that “if an outstanding advance is not cleared within sixty (60) days of the date issued, then the advance will automatically be charged against the employee’s salary or wages.”

Condition: Un-cleared travel advances in the general fund totaling \$531,904.60 are on the Yap State books with an offsetting Allowance for doubtful account of \$441,225.38. Most of these are older than one year. Also travelers with un-cleared advances received additional advances.

Cause: Travel advance clerks are not enforcing the Yap State Financial Management Regulations Part I Section 111 requirements.

Effect: The effect of this condition was that there was poor accountability for travel advances of \$531,904.60.

Recommendation: The Office of Administrative Services has taken efforts to resolve this issue. However, more effective measures should be taken to ensure that correction is achieved.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Auditee Response and Corrective Action Plan: We agree with this finding. Corrective action has been taken, and the open accounts will be closed and this is currently in process. The anticipated time frame for completion is September 30, 2012.

Responsible Party: Robert Fathaltamanbay

Finding Number: 2010-02

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 bank account’s transactions were not recorded in the State’s financial records.

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

Effect: The effect of this condition was that there was poor accountability for expenditures made through this bank account.

Recommendation: The Office of Administrative Services should record these transactions to ensure compliance with Yap State Financial Management Regulations.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Auditee Response and Corrective Action Plan: We agree with this finding. Corrective action has been taken, and the account will be maintained in the future.

Responsible Party: Koncy Tharngan

Part III—Federal Awards Findings and Questioned Costs Section

<u>Finding #</u>	<u>CFDA#</u>	<u>Findings</u>	<u>Questioned Costs</u>
2010-03	15.875 CSG	Reporting	\$ 0
	84.027	Reporting	\$ 0
	93.224	Reporting	\$ 0
	93.703	Reporting	\$ 0
	97.036	Reporting	\$ 0
2010-04	15.875 CSG	Procurement Suspension and Debarment	\$ 0
	84.027	Procurement Suspension and Debarment	\$ 0
	93.224	Procurement Suspension and Debarment	\$ 0
	93.703	Procurement Suspension and Debarment	\$ 0
	97.036	Procurement Suspension and Debarment	\$ 0
2010-05	15.875 CSG	Allowable Costs/ Cost Principles	\$ 150,534
2010-06	15.875 CSG	Equipment and Real Property Management	\$ 0
	93.224	Equipment and Real Property Management	\$ 0
	93.703	Equipment and Real Property Management	\$ 0
	97.036	Equipment and Real Property Management	\$ 0

Material Weaknesses:

Finding Number: 2010-3

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, 93.703 Consolidated Health Center Cluster
 Federal Agency: U.S. Department of Homeland Security
 CFDA Program: 97.036 Disaster Grants-Public Assistance (Presidentially Declared Disasters)
 Requirement: Reporting
 Questioned Costs: \$0

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

Condition: As of April 28, 2011, the 2010 Schedule of Federal Expenditures was not reconciled to the general ledger records and as of May 9, 2011 the 2010 general ledger was not reconciled to the supporting schedules. As of May 29, 2011 Sector receivables and deferred revenues for the year ended September 30, 2010 were still being adjusted.

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 2010.

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 2009 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.

Prior Year Status: This condition was cited in the 2009 Single Audit.

Auditee Response and Corrective Action Plan: We agree with this finding. The Director of the Office of Administrative Services will review with the Chief of Finance the current staffing situation in order to determine the corrective action to be taken. The anticipated time frame for correction is September 30, 2011.

Responsible Party: Robert Fathaltamanbay

Significant Deficiencies:

Finding Number: 2010-04

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, 93.703 Consolidated Health Center Cluster
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:	\$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;
- 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) through (v). For contracts which 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 2009 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: This item was brought to the attention of the Attorney General's office after the FY2007 Single Audit report was issued. The issue will again be brought to the attention of the heads of departments and agencies to work with their legal counsel in ensuring that the provisions are included in relevant contracts. The anticipated time frame for correction is September 30, 2011.

Responsible Party: Michael Nigrey

Finding Number: 2010-05

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: \$150,534.16

Criteria: In accordance with applicable allowable costs/cost principles requirements, for supplier expenditures, supplier advance policies should be followed, advances should be timely liquidated or collected.

Condition: At September 30, 2010, there were supplier advances of \$150,534.16 which were over one year old in Sector funds. These advances were issued out of the general fund and the State believes these advances were closed but misclassified, therefore allowing the advances to remain open on the State's financial records. There was insufficient documentation to support the closure.

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 2009 Single Audit.

Recommendation: We recommend that the State comply with the criteria and that documentation supporting closure or repayment be placed on file.

Auditee Response and Corrective Action Plan: We agree with this finding. The Director of Administrative Services will work to resolve these questioned costs. The anticipated time frame for correction is September 30, 2012.

Responsible Party: Robert Fathaltamanbay

Finding Number: 2010-6

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, 93.703 Consolidated Health Center Cluster
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.

Condition: Formal maintenance procedures for equipment are not established and we could not determine the manner in which maintenance responsibilities were carried out; 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 2009 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. The Office of Administrative Services (Division of Procurement & Property Management) will begin a physical inventory in 2011 to reconcile its fixed asset list with those of the departments and offices. The scheduled timeline for the inventory is to complete the inventory in Yap main island by the end of the calendar year. This undertaking is aimed to ultimately eliminate this repeated finding.

Responsible Party: Koney Tharngan

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

QUESTIONED COSTS

For the year ended September 30, 2010, the following questioned costs remain unresolved:

	Questioned Costs Set Forth in Prior Year Audit Report 2009	Questioned Costs Resolved	Questioned Costs at Sept. 30, 2010
Unresolved Questions FY 07	\$ 932,696	\$ 915,667	17,029
Unresolved Questions FY 08	1,185,258	0	1,185,258
Unresolved Questions FY 09	<u>376,295</u>	<u>0</u>	<u>376,295</u>
	<u>\$ 2,494,249</u>	<u>\$ 915,667</u>	1,578,582
Questioned Costs FY 10			<u>150,534</u>
			<u>\$ 1,729,116</u>

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