

STATE OF YAP
FEDERATED STATES OF MICRONESIA

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2005

STATE OF YAP
FEDERATED STATES OF MICRONESIA

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2005

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INDEPENDENT AUDITORS' REPORT

Honorable Robert Ruecho
Governor, State of Yap
Federated States of Micronesia:

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2005, which collectively comprise the State's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Public Transportation System, which represents the State's business-type activities or the Yap Visitor's Bureau, and the Yap Fishing Authority, which represent 15% and 6%, respectively, of the assets and revenues of the State's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, the Yap Visitor's Bureau, and the Yap Fishing Authority are based solely on the reports of the other auditors.

Except as discussed in the following paragraphs, 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 respective 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 respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

As more fully described in note 2 to the financial statements, the State's General Fund has invested \$500,000 in an airline that has ceased operations. In our opinion, such investment should be stated at the lower of cost or market value to conform with accounting principles generally accepted in the United States of America. Due to the lack of readily available information concerning the carrying value of this investment, the effect of this departure on the financial statements is not reasonably determinable.

Because of inadequacies in the accounting records and the internal control over financial reporting, schedules to support the carrying value of capital assets for the Yap Fishing Authority were not available, nor were the audited financial statements of Yap Fresh Tuna, Inc., a 50%-owned subsidiary in which the Yap Fishing Authority is deemed to have a controlling interest, available to be consolidated with the financial statements of the Yap Fishing Authority. Consolidation of Yap Fresh Tuna, Inc. financial statements with the financial statements of Yap Fishing Authority is required to conform to accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the matter discussed in the third paragraph above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund for the State of Yap as of September 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

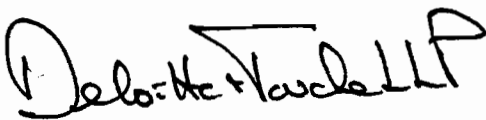
In addition, in our opinion, based on our audit and the reports of other auditors, because of the effects of the matter discussed in the fourth paragraph above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2005, and the changes in financial position thereof for the year then ended.

Finally, 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 business-type activities, the U.S. Federal Grants Fund, the Compact Sector Grants Fund, the Compact Capital Projects Fund, the Compact Trust Fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2005, 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.

The Management's Discussion and Analysis, on pages 3 through 9, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 44 and 45, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the State. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the State's respective financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements, as set forth in Section IV of the foregoing table of contents, which are also the responsibility of the management of the State, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the State. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, 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 June 8, 2006, on our consideration of the State's (Primary Government only) internal control over financial reporting and 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 considered in assessing the results of our audit.



June 8, 2006

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ending September 30, 2005

This analysis, prepared by the Department 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, 2005. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2004 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, 2005, Yap State's total net assets increased by \$4.4 million (or 4.7%) from \$93.97 million in the prior year to \$98.38 million. This increase is primarily attributable to investment income results for the year.
- During fiscal year 2005, Yap State's revenues of \$29.43 exceeded total expenditures (\$25.02 million) by \$4.4 million. Both revenues and expenditures were up from fiscal year 2004, by \$9.98 million (or 51%) and \$6.43 million (or 35%), respectively. The increase in revenues was primarily due to increased investment income, Federal Grant and Compact sector funding. Similarly, Compact sector expenditures increased \$2.37 million (up 35.3%) from fiscal year 2004. Also notable was the \$2.84 million increase (up 423%) in Compact CIP expenditures from fiscal year 2004, attributable to construction of the Southern Yap road system. Compact CIP expenditures are sourced from drawdowns of Yap State's investment portfolio so there are no corresponding revenues applicable to them.
- Yap State maintained budgetary stability in fiscal year 2005: revenues available for appropriation were \$7.75 million more than budgeted for the general fund. Likewise, the expenditure budget also reflected positive budget variances. General fund expenditures of \$3.71 million were \$0.13 million (or 3.4%) under general fund appropriations of \$3.84 million.
- The unreserved surplus of the General Fund increased by \$7.41 million (up 33%), increasing from \$22.30 million in the prior year to \$29.61 million in fiscal year 2005. The rise is attributable to the aforementioned general fund budget discipline and the consistency of Yap State's increases in the realized gains of its investment portfolio. Investment income realized on Yap State's investments totaled \$7.55 million in fiscal year 2005, an increase of \$4.43 million (or 142%) from the \$3.12 million earned in fiscal year 2004.

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 and component units.

Government-Wide Financial Statements

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

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ending September 30, 2005

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.
- 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 2005, Yap State's assets exceeded liabilities by \$98.38 million. Of its total net assets, \$25.64 million (26.1%) are restricted as to the purposes they can be used for. Another \$38.78 million (39.4%) can be used for or are 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.

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ending September 30, 2005

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, 2005:

	<u>2005</u>	<u>2004</u>
Current and other non-capital assets	\$66,833,527	\$63,894,514
Capital assets	<u>38,777,134</u>	<u>36,845,291</u>
Total Assets	<u>105,610,661</u>	<u>100,739,805</u>
Other liabilities	3,060,815	4,004,908
Long-term liabilities	<u>4,166,635</u>	<u>4,175,966</u>
Total Liabilities	<u>7,227,450</u>	<u>8,180,874</u>
 Net Assets		
Invested in capital assets, net of related debt	38,777,134	36,845,291
Restricted	25,643,619	28,952,930
Unrestricted	<u>33,962,458</u>	<u>26,760,710</u>
Total Net Assets	<u>\$98,383,211</u>	<u>\$92,558,931</u>

At the end of fiscal year 2005, Yap State's unrestricted assets show a surplus of \$33.93 million (34.5% of total net assets). These funds are included in Yap State's investment portfolio and are available for discretionary purposes subject to appropriation by the Yap State Legislature. Yap State's assets increased \$5.8 million (up 6.3%) from fiscal year 2004. Key elements of the increase and the differences from the prior year are shown in the following schedule:

	<u>2005</u>	<u>2004</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 1,012,971	\$ 913,562
Operating grants and contributions	16,351,067	10,984,691
Capital Grants and contributions	244,710	83,117
General Revenues:		
Taxes	3,962,751	3,779,210
Grants and contributions not restricted	-	-
Unrestricted investment earnings	7,374,241	3,118,031
Other	<u>483,811</u>	<u>572,598</u>
Total revenues	<u>29,429,551</u>	<u>19,451,209</u>

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ending September 30, 2005

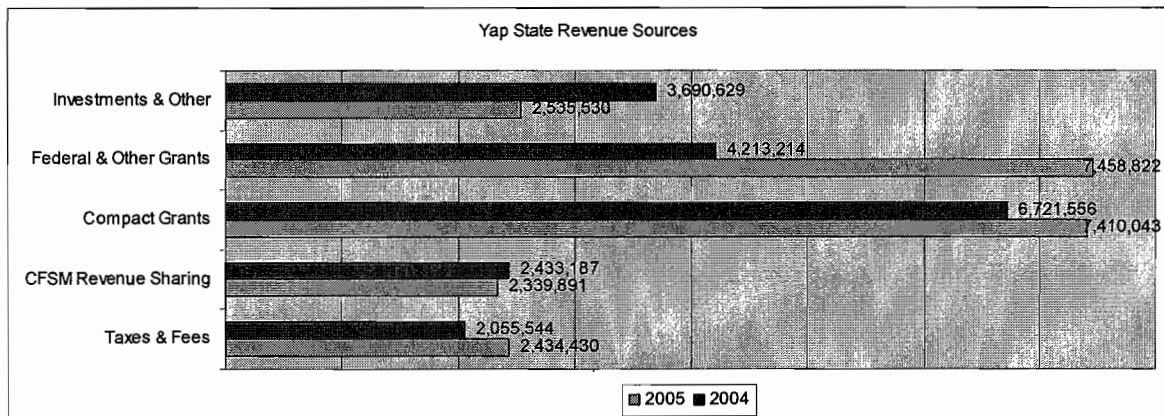
Expenses:

General government	6,893,979	3,951,061
Health Services	2,869,352	2,569,765
Education	4,891,778	4,230,554
Economic development	2,183,014	802,035
Public Safety	621,907	709,102
Public works and transportation	4,062,339	4,088,738
Community affairs	655,298	574,651
Boards and commissions	455,651	580,117
Payments to components	1,237,827	572,664
Judiciary	213,160	210,270
Public auditor	156,436	87,748
Capital projects	-	46,553
Other	<u>775,009</u>	<u>536,233</u>
Total expenses	<u>25,015,750</u>	<u>18,959,481</u>
Change in net assets	4,413,801	491,728
Net assets at the beginning of the year	<u>93,969,410</u>	<u>92,067,203</u>
Net assets at the end of the year	<u>\$98,383,211</u>	<u>\$92,558,931</u>

Total revenues in FY-05 of \$29.43 million increased from the prior year's \$19.45 million (up 15.3%) primarily due to increases in investment earnings and in reimbursements from the Federal Emergency Management Agency (FEMA) following the second year of reconstruction after Typhoon Sudal.

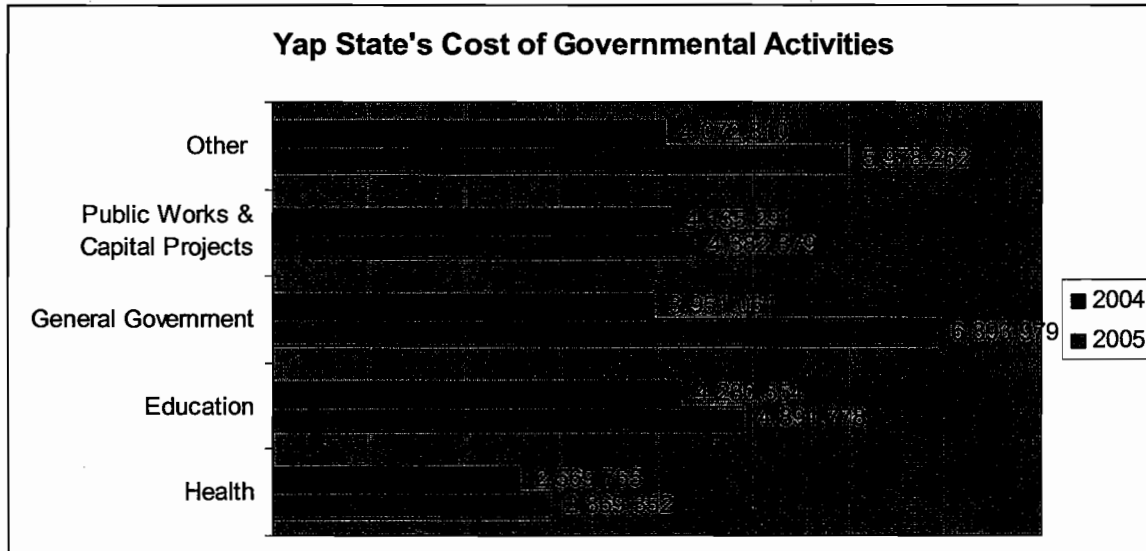
Total expenditures in FY-05 of \$25.02 million increased significantly from fiscal year 2004's \$18.96 million (up 32%). The \$6.06 million expenditure increase was primarily composed of increased expenditures related to FEMA grants, the National Emergency Grant, and increased utilization of Compact Sector grants.

The graphs below show the major components of revenues and the cost of governmental activities for the year ended September 30, 2005.



YAP STATE GOVERNMENT

Management's Discussion and Analysis
Year Ending September 30, 2005



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 2005, Yap State's governmental funds reported a combined fund balance of \$63.78 million, which represents an increase of \$3.93 million (or 7%) in comparison with fiscal year 2004. This increase is primarily attributable to increased investment earnings and decreases in encumbrances and reserves for continuing appropriations for compact capital projects. Of the total fund balance, \$17.6 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 (\$12.65 million); 2) to liquidate contracts and purchase orders of the prior period (\$3.8 million); 3) to fund specific general fund and compact CIP-related activities (\$0.49 million); or 4) for on-going capital projects (\$0.64 million). The unreserved combined fund balance is \$46.21 million, an increase of \$19.61 million (or 26%) from fiscal year 2004. The increase is mainly accounted for by the increase in the unreserved fund balance of the general fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2005, Yap State revised general fund revenue and expenditure budgets to meet new program requirements in line with additional revenue resources. Also affecting the fiscal year 2005 budget was the transfer of general fund expenditures for typhoons Lupit and Sudal to applicable FEMA grants once they were received. Nevertheless, Yap State was able to maintain its budgetary stability throughout fiscal year 2005, resulting in a significant \$7.82 million positive variance in the excess of revenues over expenditures. Moreover, the unreserved general fund surplus increased by \$7.31 million (up 32.8%) in fiscal year 2005; from \$22.3 million in fiscal year 2004 to \$29.61 million. This increase was equally the result of the budgetary surplus in the general fund and the \$7.37 million in investment income earned in fiscal year 2005.

YAP STATE GOVERNMENT

Management's Discussion and Analysis
Year Ending September 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2005, amounted to \$102.7 million, net of accumulated depreciation of \$64.09 million, leaving a net book value of \$38.65 million. This represents a net increase of \$1.98 million (or 5.4%) from fiscal year 2004. The increase resulted from completion in fiscal year 2005 of the Southern Yap Road at a cost of \$3.9 million. The table below summarizes Yap State's capital assets:

	<u>2005</u>	<u>2004</u>
Land	\$ 3,120,610	\$ 1,836,254
Construction in progress	-	563,842
Buildings	7,148,498	7,619,864
Equipment	194,690	137,445
Vehicles	408,507	199,895
Boats	45,209	12,615
Infrastructure	27,734,267	26,299,584
Other	<u>-</u>	<u>175,792</u>
	<u>\$38,651,781</u>	<u>\$36,845,291</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 have total \$4.17 million at September 30, 2005; an amount virtually unchanged for the past several years. This debt is comprised of the non-current portion of the ADB Early Retirement Program Loan (\$3.5), liability for compensated absences (\$0.41 million) and long-term payments due under land purchase agreements (\$0.25 million). Principal payments on the outstanding ADB loan will not begin until 2008 and will be partially covered by \$2.3 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, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Yap State ended fiscal year 2005 with a solid financial position as generally reflected in its increased unreserved general fund surplus. Total governmental operational results were skewed by disproportionately higher FEMA and National Emergency Grant revenues and expenditures, which in turn had a positive impact on local employment and the economy. Although recovery projects related to typhoon Sudal continue in fiscal year 2006, the funding levels significantly taper off and a consequent leveling or drop in economic conditions may result. Insofar as other economic factors in the local economy remain relatively stagnant, no material growth in local taxes or fees are expected.

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 allotment of some of Yap's leftover FY-04 sector grant funds to other FSM government entities, the delayed allotment by the United States of the fiscal year 2006 Supplemental Education Grants (SEG), the tardiness in receiving scheduled drawdowns from the FSM national government, the delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of the Interior in its interpretation of the *Fiscal Procedures Agreement* --- all will inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2006 and beyond.

Yap State's investments continue to enjoy a favorable climate in the U.S. financial markets. Both fiscal year 2005 and 2006 have resulted in major unrealized portfolio gains, some of which will undoubtedly be realized in fiscal year 2006 as investment income. Yap State's general fund surpluses roughly parallel the earnings realized on its investments, so management expects continued sound operating results and improved financial position to occur during fiscal year 2006.

CONTACTING YAP STATE'S FINANCIAL MANAGEMENT

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Assets
September 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 451,210	\$ 44,489	\$ 495,699	\$ 2,055,271
Time certificates of deposit	-	-	-	1,566,000
Investments	50,022,510	-	50,022,510	398,016
Receivables, net of allowance for uncollectibles	4,155,290	2,735	4,158,025	468,988
Advances	348,243	-	348,243	-
Inventories	242,730	-	242,730	605,523
Other current assets	364,125	40,990	405,115	589,028
Total current assets	<u>55,584,108</u>	<u>88,214</u>	<u>55,672,322</u>	<u>5,682,826</u>
Noncurrent assets:				
Restricted assets:				
Investments	7,965,067	-	7,965,067	-
Investments	2,500,000	-	2,500,000	-
Receivables	696,138	-	696,138	-
Capital assets, net of accumulated depreciation	38,651,781	125,353	38,777,134	12,686,902
Total noncurrent assets	<u>49,812,986</u>	<u>125,353</u>	<u>49,938,339</u>	<u>12,686,902</u>
Total assets	<u>\$ 105,397,094</u>	<u>\$ 213,567</u>	<u>\$ 105,610,661</u>	<u>\$ 18,369,728</u>
LIABILITIES				
Current liabilities:				
Current portion of long-term obligations	\$ -	\$ -	\$ -	\$ 164,510
Bank overdraft	367,000	-	367,000	-
Accounts payable	1,184,106	9,613	1,193,719	454,647
Compensated absences payable	85,655	-	85,655	-
Other liabilities and accruals	368,081	4,149	372,230	582,303
Deferred revenue	1,040,019	2,192	1,042,211	-
Total current liabilities	<u>3,044,861</u>	<u>15,954</u>	<u>3,060,815</u>	<u>1,201,460</u>
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	3,500,000	-	3,500,000	3,765,905
Compensated absences payable	417,028	-	417,028	-
Other noncurrent liabilities	249,607	-	249,607	-
Total noncurrent liabilities	<u>4,166,635</u>	<u>-</u>	<u>4,166,635</u>	<u>3,765,905</u>
Total liabilities	<u>7,211,496</u>	<u>15,954</u>	<u>7,227,450</u>	<u>4,967,365</u>
Contingencies				
NET ASSETS				
Invested in capital assets, net of related debt	38,651,781	125,353	38,777,134	9,582,591
Restricted for:				
Compact related	19,580,682	-	19,580,682	-
Future operations	5,572,571	-	5,572,571	-
Other purposes	490,366	-	490,366	121,443
Unrestricted	33,890,198	72,260	33,962,458	3,698,329
Total net assets	<u>98,185,598</u>	<u>197,613</u>	<u>98,383,211</u>	<u>13,402,363</u>
Total liabilities and net assets	<u>\$ 105,397,094</u>	<u>\$ 213,567</u>	<u>\$ 105,610,661</u>	<u>\$ 18,369,728</u>

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**Statement of Activities
Year Ended September 30, 2005**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
Judiciary	\$ 213,160	\$ 63,705	\$ 186,030	\$ 25,000	\$ 61,575	\$ -	\$ 61,575	\$ -
Councils of traditional leaders	381,968	-	78,902	17,556	(285,510)	-	(285,510)	-
Public auditor	156,436	-	154,289	-	(2,147)	-	(2,147)	-
General government	6,893,979	398,819	4,819,528	136,154	(1,539,478)	-	(1,539,478)	-
Economic development	2,183,014	-	1,781,809	-	(401,205)	-	(401,205)	-
Public safety	621,907	-	351,242	-	(270,665)	-	(270,665)	-
Community affairs	655,298	-	-	-	(655,298)	-	(655,298)	-
Education	4,891,778	2,117	4,786,715	-	(102,946)	-	(102,946)	-
Public works and transportation	4,062,339	170,498	237,315	66,000	(3,588,526)	-	(3,588,526)	-
Health services	2,869,352	216,790	2,507,122	-	(145,440)	-	(145,440)	-
Boards and commissions	455,651	3,827	377,231	-	(74,593)	-	(74,593)	-
Payments to components	1,237,827	-	777,534	-	(460,293)	-	(460,293)	-
Future operations	-	-	172,571	-	172,571	-	172,571	-
Other appropriations	73,001	-	31,659	-	(41,342)	-	(41,342)	-
Total governmental activities	24,695,710	855,756	16,261,947	244,710	(7,333,297)	-	(7,333,297)	-
Business-type activities:								
Public Transportation System	320,040	157,215	89,120	-	-	(73,705)	(73,705)	-
Total primary government	\$25,015,750	\$ 1,012,971	\$16,351,067	\$ 244,710	(7,333,297)	(73,705)	(7,407,002)	-
Component units:								
Yap Visitor's Bureau	\$ 427,275	\$ 1,724	\$ -	\$ -	-	-	-	(425,551)
Yap State Public Service Corporation	3,906,956	3,549,637	-	-	-	-	-	(357,319)
Yap Fishing Authority	367,843	115,756	-	-	-	-	-	(252,087)
The Diving Seagull, Inc.	4,659,212	5,113,127	-	-	-	-	-	453,915
Total component units	\$ 9,361,286	\$ 8,780,244	\$ -	\$ -	-	-	-	(581,042)
General revenues:								
Taxes:								
Revenue sharing					2,339,891	-	2,339,891	-
Excise taxes					1,622,860	-	1,622,860	-
Unrestricted investment earnings					7,374,241	-	7,374,241	86,682
Contributions from primary government					-	-	-	453,688
Other					483,811	-	483,811	-
Total general revenues and transfers					11,820,803	-	11,820,803	540,370
Change in net assets					4,487,506	(73,705)	4,413,801	(40,672)
Net assets at the beginning of the year					93,698,092	271,318	93,969,410	13,443,035
Net assets at the end of the year					\$98,185,598	\$ 197,613	\$98,383,211	\$13,402,363

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2005

	General	Special Revenue		Capital Projects	Permanent	Compact Trust	Other Governmental Funds	Total
		U.S Federal Grants	Other U.S. Grants	Compact Sector Grants	Compact Capital Projects			
ASSETS								
Cash and cash equivalents	\$ 257,645	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 193,565	\$ 451,210
Equity interest in internal investment pool	42,526,285	-	-	-	4,270,133	-	3,226,092	50,022,510
Investments	2,500,000	-	-	-	-	-	-	2,500,000
Receivables, net:								
Loans	705,079	-	-	-	-	-	-	705,079
Federal agencies	-	145,605	-	-	-	-	-	145,605
FSM National Government	-	461,372	-	1,499,656	-	-	144,079	2,105,107
Taxes	1,040,684	-	-	-	-	-	-	1,040,684
Other	345,531	-	489,422	-	-	-	20,000	854,953
Due from other funds	2,816,346	-	274,789	200,389	13,554,415	-	580,847	17,426,786
Advances	348,243	-	-	-	-	-	-	348,243
Prepaid items	364,125	-	-	-	-	-	-	364,125
Inventories	242,730	-	-	-	-	-	-	242,730
Restricted assets:								
Pooled investments	2,392,496	-	-	-	-	-	-	2,392,496
Investments	-	-	-	-	-	5,572,571	-	5,572,571
Total assets	\$ 53,539,164	\$ 606,977	\$ 764,211	\$ 1,700,045	\$ 17,824,548	\$ 5,572,571	\$ 4,164,583	\$ 84,172,099
LIABILITIES AND FUND BALANCES								
Liabilities:								
Bank overdraft	\$ 367,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 367,000
Accounts payable	348,101	87,452	124,367	498,206	21,600	-	104,380	1,184,106
Other liabilities and accruals	149,296	30,089	4,506	163,742	248	-	20,200	368,081
Deferred revenue	-	-	629,494	142,525	-	-	268,000	1,040,019
Due to other funds	14,610,440	336,487	-	895,508	-	-	1,584,351	17,426,786
Total liabilities	15,474,837	454,028	758,367	1,699,981	21,848	-	1,976,931	20,385,992
Fund balances (deficits):								
Reserved for:								
Related assets	7,077,314	-	-	-	-	5,572,571	-	12,649,885
Encumbrances	605,880	206,982	1,293,461	1,301,402	214,504	-	176,876	3,799,105
Continuing appropriations	136,911	-	-	-	200,000	-	150,000	486,911
Capital projects	637,993	-	-	-	-	-	-	637,993
Unreserved:								
General fund	29,606,229	-	(1,287,617)	-	-	-	-	28,318,612
Special revenue funds	-	(54,033)	-	(1,301,338)	-	-	1,862,656	507,285
Capital projects funds	-	-	-	-	17,388,196	-	(1,880)	17,386,316
Total fund balances	38,064,327	152,949	5,844	64	17,802,700	5,572,571	2,187,652	63,786,107
Total liabilities and fund balances	\$ 53,539,164	\$ 606,977	\$ 764,211	\$ 1,700,045	\$ 17,824,548	\$ 5,572,571	\$ 4,164,583	
Amounts reported for governmental activities in the statement of net assets are different because:								
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds								
38,651,781								
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:								
Long-term debt payable (3,500,000)								
Compensated absences payable (502,683)								
Land acquisition claims payable (249,607)								
(4,252,290)								
Net assets of governmental activities								
<u>\$ 98,185,598</u>								

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)
Governmental Funds
Year Ended September 30, 2005

	General	Special Revenue			Capital Projects	Permanent	Other Governmental Funds	Total
		U.S Federal Grants	Other U.S. Grants	Compact Sector Grants	Compact Capital Projects	Compact Trust		
Revenues:								
Compact funding	\$ -	\$ -	\$ -	\$ 8,875,264	\$ -	\$ -	\$ -	\$ 8,875,264
Net increase in the fair value of investments	7,374,241	-	-	-	-	172,571	-	7,546,812
Federal contributions and other grants	-	2,637,544	4,282,523	-	-	-	59,762	6,979,829
Revenue sharing	2,339,891	-	-	-	-	-	-	2,339,891
Excise taxes	1,420,159	-	-	-	-	-	202,701	1,622,860
CFSM grants	-	-	-	-	-	-	478,993	478,993
Fees and charges	422,598	-	-	220,144	-	-	3,210	645,952
Departmental charges	209,804	-	-	-	-	-	-	209,804
Other	483,811	-	-	-	-	-	-	483,811
Total revenues	12,250,504	2,637,544	4,282,523	9,095,408	-	172,571	744,666	29,183,216
Expenditures:								
Current:								
Judiciary	-	-	-	166,785	-	-	58,722	225,507
Councils of traditional leaders	283,543	-	-	-	-	-	97,426	380,969
Public auditor	-	-	-	154,289	-	-	-	154,289
General government	1,295,212	-	4,924,421	456,954	-	-	192,566	6,869,153
Economic development	229,153	1,254,961	-	526,848	-	-	89,543	2,100,505
Public safety	269,906	-	-	337,914	-	-	14,656	622,476
Community affairs	344,522	-	-	-	57,941	-	-	402,463
Education	64,655	1,069,208	-	3,717,507	52,518	-	4,630	4,908,518
Public works and transportation	1,203,882	118,054	-	88,401	3,408,404	-	163,315	4,982,056
Health services	130,613	145,063	-	2,542,203	-	-	35,940	2,853,819
Boards and commissions	76,572	50,258	-	326,973	-	-	858	454,661
Payments to component units	222,423	-	-	777,534	-	-	249,470	1,249,427
Other appropriations	73,001	-	-	-	-	-	-	73,001
Total expenditures	4,193,482	2,637,544	4,924,421	9,095,408	3,518,863	-	907,126	25,276,844
Excess (deficiency) of revenues over (under) expenditures	8,057,022	-	(641,898)	-	(3,518,863)	172,571	(162,460)	3,906,372
Other financing sources (uses):								
Operating transfers in	-	-	623,811	-	-	-	99,050	722,861
Operating transfers out	(722,861)	-	-	-	-	-	-	(722,861)
Total other financing sources (uses), net	(722,861)	-	623,811	-	-	-	99,050	-
Net change in fund balances	7,334,161	-	(18,087)	-	(3,518,863)	172,571	(63,410)	3,906,372
Fund balances at the beginning of the year	30,730,166	152,949	23,931	64	21,321,563	5,400,000	2,251,062	59,879,735
Fund balances at the end of the year	\$ 38,064,327	\$ 152,949	\$ 5,844	\$ 64	\$ 17,802,700	\$ 5,572,571	\$ 2,187,652	\$ 63,786,107

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2005

Amounts reported for governmental activities in the statement of activities on page 11 are different because:

Net change in fund balances - total governmental funds from page 13	\$ 3,906,372
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in progress	571,803
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued annual leave and land claims payable that are reported in the statement of activities, but not in funds	<u>9,331</u>
Change in net assets of governmental activities as presented on page 11.	\$ <u>4,487,506</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Assets
Proprietary Funds
September 30, 2005

Public
Transportation
System

ASSETS

Current assets:

Cash and cash equivalents	\$ 44,489
Receivables, net of allowance for uncollectibles	2,735
Other current assets	40,990
Total current assets	88,214

Noncurrent assets:

Capital assets, net of accumulated depreciation	125,353
Total assets	\$ 213,567

LIABILITIES

Current liabilities:

Accounts payable	\$ 9,613
Other liabilities and accruals	4,149
Deferred revenue	2,192
Total liabilities	15,954

NET ASSETS

Invested in capital assets, net of related debt	125,353
Unrestricted	72,260
Total net assets	\$ 197,613
	\$ 213,567

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2005

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 151,736
Sales	3,459
Total operating revenues	<u>155,195</u>
Operating expenses:	
Cost of services	24,532
Administration costs	236,408
Depreciation and amortization	59,100
Total operating expenses	<u>320,040</u>
Operating loss	<u>(164,845)</u>
Nonoperating revenues:	
Other	2,020
Total nonoperating expenses	<u>2,020</u>
Loss before operating transfers	(162,825)
Operating transfers in	<u>89,120</u>
Change in net assets	(73,705)
Net assets at the beginning of the year	<u>271,318</u>
Net assets at the end of the year	<u>\$ 197,613</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2005

	<u>Public Transportation System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 166,511
Cash payments to employees	(132,572)
Cash payments to suppliers	(113,045)
Net cash used in operating activities	<u>(79,106)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	<u>89,120</u>
Net cash provided by noncapital financing activities	<u>89,120</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(11,066)</u>
Net cash used in capital and related financing activities	<u>(11,066)</u>
Net change in cash and cash equivalents	(1,052)
Cash and cash equivalents at the beginning of the year	<u>45,541</u>
Cash and cash equivalents at the end of the year	<u>\$ 44,489</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (164,845)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	59,100
Bad debts expense	14,699
Changes in assets and liabilities:	
Receivables, net	2,537
Other current assets	3,331
Accounts payable	4,123
Deferred revenue	1,949
Net cash used in operating activities	<u>\$ (79,106)</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Assets
Component Units
September 30, 2005

	Yap Visitor's Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 371,915	\$ 497,723	\$ 45,048	\$ 1,140,585	\$ 2,055,271
Time certificate of deposit	-	-	-	1,566,000	1,566,000
Investments	-	-	398,016	-	398,016
Receivables, net:					
General	-	430,408	21,760	-	452,168
Other	7,721	-	1,358	7,741	16,820
Inventories	-	605,523	-	-	605,523
Other current assets	12,271	-	11,833	564,924	589,028
Total current assets	<u>391,907</u>	<u>1,533,654</u>	<u>478,015</u>	<u>3,279,250</u>	<u>5,682,826</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation	28,601	9,745,136	1,861,959	1,051,206	12,686,902
Total noncurrent assets	<u>28,601</u>	<u>9,745,136</u>	<u>1,861,959</u>	<u>1,051,206</u>	<u>12,686,902</u>
Total assets	<u>\$ 420,508</u>	<u>\$ 11,278,790</u>	<u>\$ 2,339,974</u>	<u>\$ 4,330,456</u>	<u>\$ 18,369,728</u>
LIABILITIES					
Current liabilities:					
Current portion of long-term debt	\$ -	\$ 63,568	\$ -	\$ 100,942	\$ 164,510
Accounts payable	177,402	174,012	14,016	89,217	454,647
Other liabilities and accruals	4,099	171,541	79,900	326,763	582,303
Total current liabilities	<u>181,501</u>	<u>409,121</u>	<u>93,916</u>	<u>516,922</u>	<u>1,201,460</u>
Noncurrent liabilities:					
Noncurrent portion of long-term debt	-	2,993,067	-	772,838	3,765,905
Total liabilities	<u>181,501</u>	<u>3,402,188</u>	<u>93,916</u>	<u>1,289,760</u>	<u>4,967,365</u>
NET ASSETS					
Invested in capital assets, net of related debt	28,601	6,640,825	1,861,959	1,051,206	9,582,591
Restricted	-	121,443	-	-	121,443
Unrestricted	210,406	1,114,334	384,099	1,989,490	3,698,329
Total net assets	<u>239,007</u>	<u>7,876,602</u>	<u>2,246,058</u>	<u>3,040,696</u>	<u>13,402,363</u>
	<u>\$ 420,508</u>	<u>\$ 11,278,790</u>	<u>\$ 2,339,974</u>	<u>\$ 4,330,456</u>	<u>\$ 18,369,728</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2005

	Yap Visitor's Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
Operating revenues:					
Charges for services	\$ -	\$ 3,183,519	\$ -	\$ 5,113,127	\$ 8,296,646
Sales	1,724	366,118	115,756	-	483,598
Total operating revenues	<u>1,724</u>	<u>3,549,637</u>	<u>115,756</u>	<u>5,113,127</u>	<u>8,780,244</u>
Operating expenses:					
Cost of services	-	3,262,189	185,729	3,839,188	7,287,106
Administration costs	435,022	270,604	-	727,444	1,433,070
Depreciation and amortization	9,548	740,209	183,184	8,758	941,699
Total operating expenses	<u>444,570</u>	<u>4,273,002</u>	<u>368,913</u>	<u>4,575,390</u>	<u>9,661,875</u>
Operating income (loss)	<u>(442,846)</u>	<u>(723,365)</u>	<u>(253,157)</u>	<u>537,737</u>	<u>(881,631)</u>
Nonoperating revenues (expenses):					
Contributions from the primary government	453,688	-	-	-	453,688
Interest income	-	907	-	85,775	86,682
Interest expense	-	(18,638)	-	(83,822)	(102,460)
Other	17,295	384,684	1,070	-	403,049
Total nonoperating revenues (expenses), net	<u>470,983</u>	<u>366,953</u>	<u>1,070</u>	<u>1,953</u>	<u>840,959</u>
Capital contributions	-	-	-	-	-
Net income (loss)	28,137	(356,412)	(252,087)	539,690	(40,672)
Net assets at the beginning of the year	<u>210,870</u>	<u>8,233,014</u>	<u>2,498,145</u>	<u>2,501,006</u>	<u>13,443,035</u>
Net assets at the end of the year	<u>\$ 239,007</u>	<u>\$ 7,876,602</u>	<u>\$ 2,246,058</u>	<u>\$ 3,040,696</u>	<u>\$ 13,402,363</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting 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 10 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and two Associate Justices, and other courts that may be created by law. The State also has traditional leaders that serve in the Council of Pilung and the Council of Tamol that advise the State on matters concerning customary law and traditional practice.

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

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

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

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. Blended Component Units

The following Component Unit is blended within the Primary Government:

Public Transportation System (PTS), a Proprietary Fund Type - Enterprise Fund. This fund 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.

ii. 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 the delivery of electricity, water and sewer in the State. YSPSC is governed by a seven-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature.

Yap Fishing Authority (YFA): YFA was created by Yap District Law (YDL) No. 6-13 and is responsible for the promotion, development, and supporting of commercial utilization of living marine resources within the State. YFA is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature.

The 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.

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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Discretely Presented Component Units, Continued

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

iii. Omitted Component Units

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

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

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

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

B. Government-Wide Financial Statements

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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

The Statement of Net 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 result when constraints placed on net asset use are 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 \$25,643,619 of restricted net assets, of which \$490,366 is restricted by enabling legislation.

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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

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

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary fund and fiduciary 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 and 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.

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

The State reports the following fund types:

1. 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.

2. Proprietary Funds

i. Enterprise Fund

This fund accounts for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

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 - Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The State reports the following major funds:

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

U.S. Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions formally related to the Trust Territory of the Pacific Islands (TTPI) United States federally assisted funds, which are subgranted to the State, as well as other direct federal grants that the State received from the United States government once the State's subgrantee status with the TTPI ceased.

Other U.S. Grants Fund, a Governmental Fund Type – Special Revenue Fund. This fund accounts for all FEMA public assistance grants received from the U.S. Department of Homeland Security.

Compact Sector Grants Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a) and approved by the FSM Congress to promote economic advancement and budgetary self-reliance. These appropriations are to be used for assistance in education, health care, the environment, public sector capacity building, and private sector development, or for other areas as mutually agreed, with priorities in the education and health care sectors.

Compact Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund. This fund is used to account for financial transactions related to Compact Capital Account funds as provided under Section 211(a) of the Compact of Free Association.

Compact Trust Fund, a Governmental Fund Type - Permanent Fund. This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 215 and approved by the FSM Congress to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding. Earnings from funds invested would not be available for distribution until October 2023.

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 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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

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 measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the State for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies".

Receivables of the primary government 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 Primary Government and Component Units are determined by physical count and are valued at the lower of cost or market by the first-in first-out method (FIFO).

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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

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 \$2,392,496 for the Yap State Early Retirement Scheme. Furthermore, investments in the amount of \$5,572,571 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.

The State currently holds no title to land. 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. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and, 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

N. 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 has primarily resulted as federal funds are received in advance of eligible expenditures.

O. 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.

P. 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, 2005, is represented by the following assets:

	<u>General</u>	U.S. Federal <u>Grants</u>	U.S. Federal <u>Grants</u>	Compact Capital <u>Projects</u>	Compact <u>Trust</u>	Other Governmental <u>Funds</u>	<u>Totals</u>
Equity interest in internal investment pool	\$ 1,107,504	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,107,504
Investments	2,500,000	-	-	-	-	-	2,500,000
Receivables:							
Loans	705,079	-	-	-	-	-	705,079
Due from other funds	129,505	-	-	-	-	-	129,505
Inventories	242,730	-	-	-	-	-	242,730
Restricted assets:							
Pooled investments	2,392,496	-	-	-	-	-	2,392,496
Investments	-	-	-	-	5,572,571	-	5,572,571
	<u>\$ 7,077,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,572,571</u>	<u>\$ -</u>	<u>\$ 12,649,885</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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

Q. 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.

R. 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.

S. New Accounting Standards

During fiscal year 2005, the State implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. 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 risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the State.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the State.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment 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, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the State.

In December 2004, GASB issued Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*. GASB Technical Bulletin No. 2004-2 clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. Management does not believe the implementation of this pronouncement will have a material effect on the financial statements of the State.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the State.

T. Restatement of Primary Government Governmental Activities Net Assets

Net assets, as previously reported September 30, 2004,	\$ 92,287,613
Understatement of capital assets, net of accumulated depreciation, previously reported for governmental activities	<u>1,410,479</u>
Net assets, as restated September 30, 2004	\$ <u>93,698,092</u>

(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 that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(2) Deposits and Investments, Continued

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. The State has invested the majority of its excess Compact Funds in a pooled investment fund which is managed under the control of the Federated Development Authority, an entity comprised of the FSM National Government and its four component states. Investment income originating from the pool accrues to the General Fund.

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

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

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

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

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(2) Deposits and Investments, Continued

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by the State or its agent in the State's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the State's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The State does not have a deposit policy for custodial credit risk.

As of September 30, 2005, the carrying amount of the primary government's total cash and cash equivalents was \$310,228 and the corresponding bank balance was \$470,079, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005, bank deposits in the amount of \$200,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the State or its agent in the State's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the State's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(2) Deposits and Investments, Continued

B. Investments, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2005, the State's investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ <u>16,647,281</u>
Other investments:	
Domestic equities	31,550,604
Money market funds	3,549,867
Cash management account	<u>6,239,825</u>
	<u>41,340,296</u>
	\$ <u>57,987,577</u>

As of September 30, 2005, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

	Credit Ratings	Less Than 1	Investment Maturities (In Years)			Fair Value
			1 to 5	6 to 10	Greater Than 10	
U.S. government obligations	Aaa	\$ 55,717	\$ 3,766,652	\$ 1,060,668	\$ 1,639,630	\$ 6,522,667
U.S. government agency obligations	Aaa	898,741	1,007,524	64,363	5,364,378	7,335,006
Municipal bonds	Aaa	-	-	-	150,364	150,364
Corporate notes and bonds	Aaa	7,498	401,390	62,221	7,407	478,516
Corporate notes and bonds	Aa1	-	7,212	5,352	-	12,564
Corporate notes and bonds	Aa2	-	24,436	15,506	-	39,942
Corporate notes and bonds	Aa3	-	276,527	186,551	1,187	464,265
Corporate notes and bonds	A1	98,035	180,073	7,914	20,892	306,914
Corporate notes and bonds	A2	96,288	81,942	273,769	11,598	463,597
Corporate notes and bonds	A3	-	34	-	-	34
Corporate notes and bonds	Baa1	-	13,893	225,228	255,735	494,856
Corporate notes and bonds	Baa2	-	101,906	15,311	116,955	234,172
Corporate notes and bonds	Baa3	-	-	14,012	5,465	19,477
Corporate notes and bonds	B1	-	96,146	-	-	96,146
Corporate notes and bonds	Not rated	-	14,225	5,734	8,802	28,761
		<u>\$ 1,156,279</u>	<u>\$ 5,971,960</u>	<u>\$ 1,936,629</u>	<u>\$ 7,582,413</u>	<u>\$ 16,647,281</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2005

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2005, the General Fund holds 10.7% of the shares of the Bank of the Federated States of Micronesia in the amount of \$1,000,000, 24.5% of the shares of the Pacific Islands Development Bank in the amount of \$1,000,000, and an uncertain percentage of the shares of Palau Micronesia Air in the amount of \$500,000. As the fair market value of these investments is not readily available, such have been recorded at cost.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2005.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2005, the State's investment in agency obligations of the Federal National Mortgage Association constituted 11.5% of its total investments.

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

Discretely Presented Component Units

The Yap Fishing Authority (YFA) investment represents a 50% interest in Yap Fresh Tuna, Inc., an unconsolidated entity that should be consolidated into YFA in accordance with accounting principles generally accepted in the United States of America.

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Notes to Financial Statements
September 30, 2005

(3) Receivables

Receivables as of September 30, 2005, 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.S. Federal <u>Grants</u>	Compact Sector <u>Grants</u>	Compact Capital <u>Projects</u>	Compact <u>Trust</u>	Public Transportation <u>System</u>	Nonmajor And Other <u>Funds</u>	<u>Totals</u>
Receivables:								
Loans	\$ 8,105,079	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000	\$ 10,105,079
Federal agencies	-	145,605	-	-	-	-	-	145,605
FSM National Government	1,035,684	1,216,282	1,499,656	-	-	-	2,974,646	5,429,213
Taxes	246,346	-	-	-	-	-	-	246,346
Accrued interest	324,101	-	-	-	-	-	-	324,101
Other	<u>345,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,448</u>	<u>20,000</u>	<u>438,978</u>
	10,056,740	1,361,887	1,499,656	-	-	73,448	4,994,646	16,689,322
Less: allowance for uncollectible accounts	<u>(7,965,446)</u>	<u>(754,910)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(70,713)</u>	<u>(4,341,145)</u>	<u>(13,132,214)</u>
Net receivables	<u>\$ 2,091,294</u>	<u>\$ 606,977</u>	<u>\$ 1,499,656</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,735</u>	<u>\$ 653,501</u>	<u>\$ 3,557,108</u>

Loans receivable of the primary government as of September 30, 2005 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. 705,079

8,105,079

Nonmajor Governmental Funds

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 3-67, uncollateralized, non-interest bearing and payable on demand. This note has been fully provided for in the allowance for uncollectibles. 2,000,000

\$ 10,105,079

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Notes to Financial Statements
September 30, 2005

(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, 2005, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	U.S. Federal Grants	\$ 336,487
General	Compact Sector Grants	895,508
General	Nonmajor governmental funds	1,584,351
Compact Sector Grants	General	200,389
Compact Capital Projects	General	13,554,415
Nonmajor governmental funds	General	<u>855,636</u>
		<u>\$ 17,426,786</u>

(5) Fixed Assets

Capital asset activities of the primary government for the year ended September 30, 2005, are as follows:

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2005</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,120,610	\$ -	\$ -	\$ 3,120,610
Construction in progress	<u>563,842</u>	<u>-</u>	<u>(563,842)</u>	<u>-</u>
	<u>3,684,452</u>	<u>-</u>	<u>(563,842)</u>	<u>3,120,610</u>
Capital assets, being depreciated:				
Buildings	12,611,120	-	-	12,611,120
Heavy equipment	2,505,453	61,954	-	2,567,407
Vehicles	645,286	226,536	-	871,822
Boats	1,215,100	38,587	-	1,253,687
Infrastructure	<u>78,818,522</u>	<u>3,498,194</u>	<u>-</u>	<u>82,316,716</u>
Total capital assets, being depreciated	<u>95,795,481</u>	<u>3,825,271</u>	<u>-</u>	<u>99,620,752</u>
Less accumulated depreciation for:				
Buildings	(4,991,256)	(471,366)	-	(5,462,622)
Heavy equipment	(2,354,169)	(18,548)	-	(2,372,717)
Vehicles	(333,107)	(130,208)	-	(463,315)
Boats	(1,202,485)	(5,993)	-	(1,208,478)
Infrastructure	<u>(52,518,938)</u>	<u>(2,063,511)</u>	<u>-</u>	<u>(54,582,449)</u>
	<u>(61,399,955)</u>	<u>(2,689,626)</u>	<u>-</u>	<u>(64,089,581)</u>
Total capital assets, being depreciated, net	<u>34,395,526</u>	<u>1,135,645</u>	<u>-</u>	<u>35,531,171</u>
Governmental activities capital assets, net	<u>\$ 38,079,978</u>	<u>\$ 1,135,645</u>	<u>\$ (563,842)</u>	<u>\$ 38,651,781</u>
Business-type activities:				
Capital assets, being depreciated:				
Buildings	\$ 34,656	\$ -	\$ -	\$ 34,656
Vehicles	716,211	-	-	716,211
Other equipment	<u>88,534</u>	<u>11,066</u>	<u>(2,725)</u>	<u>96,875</u>
Total capital assets, being depreciated	839,401	11,066	(2,725)	847,742
Less accumulated depreciation	<u>(663,609)</u>	<u>(59,100)</u>	<u>320</u>	<u>(722,389)</u>
Business-type activities capital assets, net	<u>\$ 175,792</u>	<u>\$ (48,034)</u>	<u>\$ (2,405)</u>	<u>\$ 125,353</u>

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Notes to Financial Statements
September 30, 2005

(5) Fixed Assets, Continued

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

Judiciary	\$	603
Council of traditional leaders		999
Public auditor		2,147
General government		40,940
Economic development		82,509
Public safety		16,618
Community affairs		293,335
Education		115,948
Public works and transportation		2,105,464
Health services		25,083
Boards and commissions		<u>5,980</u>
		<u>\$ 2,689,626</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, 2005, are as follows:

Source	Recipient	Transfers Out	Transfers In
<u>Major Governmental Funds</u>			
General	Nonmajor governmental funds	\$ <u>722,861</u>	\$ <u>-</u>
General	Other U.S. grants funds	\$ <u>-</u>	\$ <u>632,811</u>
<u>Nonmajor Governmental Funds</u>			
General	Nonmajor governmental funds	\$ <u>-</u>	\$ <u>99,050</u>

Transfers are used to: 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and U.S. federal matching requirements, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

(7) Long-term Obligations

Primary Government

Land Acquisition Claims Payable

As of September 30, 2005, \$249,607 in long-term payments due under land purchase agreements were 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.

STATE OF YAP
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Notes to Financial Statements
September 30, 2005

(7) Long-term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Early Retirement Program Loan

During the year ended September 30, 1998, the State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years' wages. This ERS program is funded by a \$3,500,000 loan from the ADB through the FSM National Government. The activities of the ERS Program are recorded in the General Fund.

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

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ -	\$ -
2007	-	-	-
2008	116,667	-	116,667
2009	116,667	-	116,667
2010	116,667	-	116,667
2011 – 2015	583,335	-	583,335
2016 – 2020	583,335	-	583,335
2021 – 2025	583,335	-	583,335
2026 – 2030	583,335	-	583,335
2031 – 2035	583,335	-	583,335
2036 – 2038	233,324	-	233,324
	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$ 3,500,000</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 \$2,392,496 is actually deposited in an investment account held jointly with the FSM National Government. That investment account 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, 2005, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

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Notes to Financial Statements
September 30, 2005

(7) Long-term Obligations, Continued

Primary Government, Continued

	Balance October 1, 2004	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2005	<u>Due Within One Year</u>
Loan payable:					
ADB loan	\$ 3,500,000	\$ -	\$ -	\$ 3,500,000	\$ -
Other:					
Compensated absences	512,014	85,655	(94,986)	502,683	85,655
Land acquisition claims	<u>249,607</u>	<u>-</u>	<u>-</u>	<u>249,607</u>	<u>-</u>
	<u>761,621</u>	<u>85,655</u>	<u>(94,986)</u>	<u>752,290</u>	<u>85,655</u>
	<u>\$ 4,261,621</u>	<u>\$ 85,655</u>	<u>\$ (94,986)</u>	<u>\$ 4,252,290</u>	<u>\$ 85,655</u>

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC)

Loan payable to the FSM National Government for construction of certain water projects. This loan is uncollateralized and is a subsidiary loan to a loan agreement between the Asian Development Bank (ADB) and the FSM National Government, with interest at 6.82% on the outstanding balance; however, the FSM National Government has waived the interest payment requirement. The loan is repayable in Special Drawing Rights commencing August 2007 with the final payment due in August 2036. \$ 2,270,837

Uncollateralized note payable to the State; monthly principal and interest payments of \$5,651 starting June 1, 2003; interest at 2%, maturing in May 2017. 705,079

Note 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% commencing March 26, 2003 and maturing in September 2013. The note is collateralized by YSPSC's equipment, furniture and fixtures located at YSPSC's office. 80,719

3,056,635

The Diving Seagull, Inc.

Loan payable to the FSM Development Bank to cover the dry-dock costs of a fishing vessel. The loan is payable in quarterly installments of \$44,100, including interest at 9% per annum, commencing June 25, 2003. The loan is collateralized by chattel mortgage on all property and equipment of DSI, including the fishing vessel MV Mathawmarfach. 873,780

\$ 3,930,415

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Notes to Financial Statements
September 30, 2005

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 164,510	\$ 92,602	\$ 257,112
2007	198,301	81,518	279,819
2008	232,709	69,818	302,527
2009	245,722	56,805	302,527
2010	258,518	44,010	302,528
2011 - 2015	769,908	47,948	817,856
2016 - 2020	668,012	4,881	672,893
2021 - 2025	605,630	-	605,630
2026 - 2030	605,630	-	605,630
2031 - 2032	181,475	-	181,475
	<u>\$ 3,930,415</u>	<u>\$ 397,582</u>	<u>\$ 4,327,997</u>

(8) Continuing Appropriations

Continuing appropriations as of September 30, 2005, are as follows:

Major Governmental Funds

General Fund:

Autopsies (YSL No. 5-47)	\$ 18,191
Can recycling (YSL No. 5-46 and 5-85)	10,768
Disaster/Search and Rescue (YSL No. 5-84)	1,952
Daycare Building matching (YSL No. 6-48)	<u>106,000</u>
	<u>\$ 136,911</u>

Compact Capital Projects Fund:

Yap State Loan (YSL No. 5-1)	\$ <u>200,000</u>
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Nonmajor Governmental Funds

Yap Community Development Program matching (YSL No. 5-34)	\$ <u>150,000</u>
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(9) Contingencies

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2005 is currently not determinable.

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Notes to Financial Statements
September 30, 2005

(9) Contingencies, Continued

Insurance Coverage

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

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 \$292,920 relating to fiscal years 1999 through 2005 have been set forth in the State's Single Audit Report for the year ended September 30, 2005. 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, 2005, there existed several unapproved claims. 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. Current claims against the State exist but do not appear to be material. Management has not provided for such claims in the accompanying financial statements as it is not currently possible to estimate the State's potential liability, if any, arising from these claims.

Indefinite Land Use Sites

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

(10) Individual Deficit Fund Balances

Specific individual funds which had significant individual deficit fund balances as at September 30, 2005, are as follows:

Nonmajor Governmental Funds

CFSM Capital Projects Fund	\$ <u>10,483</u>
Yap State Public Projects Fund	\$ <u>64,369</u>

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REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2005

STATE OF YAP
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Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2005

	Budgeted Amounts		Actual - Budgetary	Variance with Final Budget
	Original	Final	Basis (see Note 1)	
Revenues:				
Revenue sharing	-	-	2,339,891	2,339,891
Excise taxes	-	-	1,420,159	1,420,159
Fees and charges	-	-	422,598	422,598
Departmental charges	-	-	209,804	209,804
Net increase in the fair value of investments	-	-	7,374,241	7,374,241
Other	3,261,605	4,496,533	483,811	(4,012,722)
Total revenues	<u>3,261,605</u>	<u>4,496,533</u>	<u>12,250,504</u>	<u>7,753,971</u>
Expenditures:				
Current:				
Judiciary	-	-	(100)	100
Council of Traditional Leaders	217,486	268,186	248,135	20,051
Public Auditor	-	-	(8)	8
General government	914,846	1,036,076	1,090,970	(54,894)
Economic development	129,685	129,685	223,305	(93,620)
Public safety	282,061	282,061	271,850	10,211
Community affairs	385,480	550,858	338,915	211,943
Education	-	169,246	78,241	91,005
Public works and transportation	1,055,680	1,124,686	1,255,155	(130,469)
Health services	-	-	(66,926)	66,926
Boards and commissions	64,684	64,684	65,903	(1,219)
Payments to component units	133,303	133,303	133,303	-
Other appropriations	78,380	78,380	72,951	5,429
Total expenditures	<u>3,261,605</u>	<u>3,837,165</u>	<u>3,711,694</u>	<u>125,471</u>
Excess of revenues over expenditures	<u>-</u>	<u>659,368</u>	<u>8,538,810</u>	<u>7,879,442</u>
Other financing uses:				
Operating transfers out	-	(659,368)	(722,861)	(63,493)
Net change in unreserved fund balance	-	-	7,815,949	7,815,949
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	4,491	4,491
Decrease in reserve for continuing appropriations	-	-	1,599,493	1,599,493
Unreserved fund balance at the beginning of the year	<u>20,186,296</u>	<u>20,186,296</u>	<u>20,186,296</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 20,186,296</u>	<u>\$ 20,186,296</u>	<u>\$ 29,606,229</u>	<u>\$ 9,419,933</u>

See accompanying notes to required supplementary information - budgetary reporting.

STATE OF YAP
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Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2005

(1) Budgetary Information

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

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

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

Encumbrance accounting is employed in governmental 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 reappropriated and honored during the subsequent fiscal year.

STATE OF YAP
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OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2005

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	Special Revenue						Capital	Permanent	Totals	
	General	U.S Federal		Compact	Capital	Compact	Other	Totals		
		Grants	Grants	Sector	Projects	Trust	Governmental	2005	2004	
Expenditures:										
Salaries and wages	\$ 1,401,737	\$ 1,832,918	\$ 3,830,169	\$ 14,545	\$ -	\$ 169,999	\$ 7,249,368	\$ 6,265,740		
Grants and subsidies	405,703	-	777,534	-	-	271,835	1,455,072	1,345,498		
Utilities	377,441	2,498	511,255	-	-	8,554	899,748	728,100		
Contractual services	343,914	95,878	480,165	53,359	-	4,177,566	5,150,882	2,448,064		
Supplies and materials	26,875	21,489	125,422	45,241	-	12,734	231,761	945,707		
Scholarship and training	23,000	23,082	361,600	-	-	-	407,682	217,315		
Travel	169,304	221,638	533,358	-	-	42,077	966,377	876,071		
Capital outlay	51,816	164,450	340,045	3,342,030	-	349,950	4,248,291	1,189,624		
Rentals	26,440	16,888	2,742	-	-	54,010	100,080	99,129		
Food stuffs	67,474	183	16,407	-	-	22,153	106,217	256,670		
Communications	94,796	50,293	120,334	-	-	17,326	282,749	271,846		
Printing and reproduction	25,517	8,463	75,556	-	-	8,934	118,470	92,777		
Medical supplies	45,092	12,614	348,576	-	-	-	406,282	578,982		
Medical referral	48,006	-	276,727	-	-	-	324,733	362,508		
Repairs and maintenance	67,483	7,177	94,769	50,988	-	441,408	661,825	147,569		
Freight	57,258	13,384	150,984	12,700	-	18,145	252,471	125,011		
Professional services	56,825	-	186,901	-	-	57,328	301,054	366,725		
POL	299,611	23,064	64,480	-	-	3,884	391,039	437,237		
Allowances	177,874	-	-	-	-	-	177,874	100,410		
Leased housing	14,413	11,750	115,737	-	-	-	141,900	191,911		
Other	412,903	131,775	682,647	-	-	175,644	1,402,969	765,619		
	<u>\$ 4,193,482</u>	<u>\$ 2,637,544</u>	<u>\$ 9,095,408</u>	<u>\$ 3,518,863</u>	<u>\$ -</u>	<u>\$ 5,831,547</u>	<u>\$ 25,276,844</u>	<u>\$ 17,812,513</u>		

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

GENERAL FUND

September 30, 2005

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

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance - General Fund
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	2005	2004
Revenues:		
Revenue sharing:		
Import tax	\$ 1,183,135	\$ 768,871
Fuel tax	97,462	34,110
Income tax	498,374	974,041
Business gross receipts tax	750,115	723,497
Unallocated	(189,195)	(67,332)
	2,339,891	2,433,187
Excise taxes:		
Alcoholic beverages	611,052	478,474
Gasoline and diesel	69,474	67,586
Tobacco	179,647	159,130
Other excise taxes	559,986	507,273
	1,420,159	1,212,463
Fees and charges:		
Licenses and permits	85,530	80,550
Fines/sale of confiscated property	63,375	81,044
Leases and other rentals	273,693	216,026
	422,598	377,620
Departmental charges:		
Sea transportation	170,498	131,320
Hospital services	165	157,145
Other	39,141	34,668
	209,804	323,133
Interest and dividends	23,155	-
Net increase in the fair value of investments	7,351,086	3,118,031
Other revenues	483,811	572,598
Total revenues	12,250,504	8,037,032
Expenditures:		
Current:		
Councils of Traditional Leaders:		
Council of Pilung	131,294	99,772
Council of Tamol	152,249	104,722
	283,543	204,494
Public Auditor	-	1,398
General government:		
Office of the Governor	183,410	211,637
State Legislature	405,080	410,858
Office of Administrative Services	337,068	761,107
Office of Planning, Budget and Statistics	-	92,586
Disaster relief programs	369,654	630,025
	1,295,212	2,106,213

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance - General Fund, Continued
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	2005	2004
Expenditures, continued:		
Current, continued:		
Economic Development:		
Department of Resources and Development	229,153	132,038
Public Safety:		
Department of Public Safety/Attorney General	269,906	244,602
Community Affairs		
Department of Public Affairs	344,522	257,399
Education:		
Department of Education	64,655	138,642
Public Works and Transportation:		
Department of Public Works and Transportation	1,203,882	1,662,243
Health Services:		
Department of Health Services	130,613	650,280
Boards and Commissions:		
Small Business Development Center	2,889	5,069
Farmers Home Administration	16,729	18,302
Historic Preservation Office	35,953	28,193
Yap Investment Trust	21,001	21,466
	76,572	73,030
Payments to component units:		
Yap Visitor's Bureau	102,020	255,672
Yap Public Library	31,283	20,736
Yap Fishing Authority	-	81,000
Public Transportation System	89,120	133,038
	222,423	490,446
Other appropriations:		
Micronesian Legal Services Corporation	41,280	41,280
Japan Overseas Cooperation Volunteers	9,020	9,430
Peace Corps Program	13,975	14,675
Yap Community Action Program	-	129,526
Other	8,726	10,907
	73,001	205,818
Total expenditures	4,193,482	6,166,603
Excess of revenues over expenditures	8,057,022	1,870,429
Other financing uses:		
Operating transfers out	(722,861)	(597,273)
Net change in fund balance	7,334,161	1,273,156
Fund balance at the beginning of the year	30,730,166	29,457,010
Fund balance at the end of the year	\$ 38,064,327	\$ 30,730,166

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Revenue sharing:				
Import tax	\$ -	\$ -	\$ 1,183,135	\$ 1,183,135
Fuel tax	-	-	97,462	97,462
Income tax	-	-	498,374	498,374
Business gross receipts tax	-	-	750,115	750,115
Unallocated	-	-	(189,195)	(189,195)
	<u>-</u>	<u>-</u>	<u>2,339,891</u>	<u>2,339,891</u>
Excise taxes:				
Alcoholic beverages	-	-	611,052	611,052
Gasoline and diesel	-	-	69,474	69,474
Tobacco	-	-	179,647	179,647
Other excise taxes	-	-	559,986	559,986
	<u>-</u>	<u>-</u>	<u>1,420,159</u>	<u>1,420,159</u>
Fees and charges:				
Licenses and permits	-	-	85,530	85,530
Fines/sale of confiscated property	-	-	63,375	63,375
Leases and other rentals	-	-	273,693	273,693
	<u>-</u>	<u>-</u>	<u>422,598</u>	<u>422,598</u>
Departmental charges:				
Sea transportation	-	-	170,498	170,498
Hospital services	-	-	165	165
Other	-	-	39,141	39,141
	<u>-</u>	<u>-</u>	<u>209,804</u>	<u>209,804</u>
Net increase in the fair value of investments	-	-	7,374,241	7,374,241
Other revenues	3,261,605	4,496,533	483,811	(4,012,722)
Total revenues	<u>3,261,605</u>	<u>4,496,533</u>	<u>12,250,504</u>	<u>7,753,971</u>
Expenditures:				
Current:				
Judiciary	-	-	(100)	100
Councils of Traditional Leaders:				
Council of Pilung	98,940	133,440	124,379	9,061
Council of Tamol	118,546	134,746	123,756	10,990
	<u>217,486</u>	<u>268,186</u>	<u>248,135</u>	<u>20,051</u>
Public Auditor	-	-	(8)	8
General government:				
Office of the Governor	210,030	210,030	200,763	9,267
State Legislature	465,186	486,416	467,173	19,243
Office of Administrative Services	239,630	239,630	120,934	118,696
Disaster relief programs	-	100,000	302,100	(202,100)
	<u>914,846</u>	<u>1,036,076</u>	<u>1,090,970</u>	<u>(54,894)</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund, Continued
Year Ended September 30, 2005

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Current, continued:				
Economic Development:				
Department of Resources and Development	129,685	129,685	223,305	(93,620)
Public Safety:				
Department of Public Safety/Attorney General	282,061	282,061	271,850	10,211
Community Affairs				
Department of Public Affairs	385,480	550,858	338,915	211,943
Education:				
Department of Education	-	169,246	78,241	91,005
Public Works and Transportation:				
Department of Public Works and Transportation	1,055,680	1,124,686	1,255,155	(130,469)
Health services:				
Department of Health Services	-	-	(66,926)	66,926
Boards and Commissions:				
EPA Administration Board	-	-	(381)	381
Small Business Development Center	16,990	16,990	1,742	15,248
Farmers Home Administration	20,470	20,470	16,135	4,335
Historic Preservation Office	-	-	27,406	(27,406)
Yap Investment Trust	27,224	27,224	21,001	6,223
	64,684	64,684	65,903	(1,219)
Payments to component units:				
Yap Visitor's Bureau	102,020	102,020	102,020	-
Yap Public Library	31,283	31,283	31,283	-
Public Transportation System	89,120	89,120	89,120	-
	133,303	133,303	133,303	-
Other appropriations:				
Micronesian Legal Services Corporation	41,280	41,280	41,280	-
Japan Overseas Cooperation Volunteers	17,600	17,600	9,020	8,580
Peace Corps Program	19,500	19,500	13,975	5,525
Other	-	-	8,676	(8,676)
	78,380	78,380	72,951	5,429
Total expenditures	3,261,605	3,837,165	3,711,694	125,471
Excess of revenues over expenditures	-	659,368	8,538,810	7,628,500
Other financing uses:				
Operating transfers out	-	(659,368)	(722,861)	(63,493)
Net change in fund balance	-	-	7,815,949	7,565,007
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	4,491	4,491
Decrease in reserve for continuing appropriations	-	-	1,599,493	1,599,493
Unreserved fund balance at the beginning of the year	20,186,296	20,186,296	20,186,296	-
Unreserved fund balance at the end of the year	<u>\$ 20,186,296</u>	<u>\$ 20,186,296</u>	<u>\$ 29,606,229</u>	<u>\$ 9,168,991</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2005
(with comparative totals as of September 30, 2004)

	Other Special Revenue	Other Capital Projects	Totals	
			2005	2004
<u>ASSETS</u>				
Cash and cash equivalents	\$ 193,565	\$ -	\$ 193,565	\$ 155,191
Equity interest in internal investment pool	3,226,092	-	3,226,092	1,832,807
Receivables, net:				
CFSM	59,486	84,593	144,079	33,793
Other	20,000	-	20,000	24,502
Due from other funds	421,875	158,972	580,847	1,274,104
Total assets	<u>\$ 3,921,018</u>	<u>\$ 243,565</u>	<u>\$ 4,164,583</u>	<u>\$ 3,320,397</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 75,218	\$ 29,162	\$ 104,380	\$ 361,996
Other liabilities and accruals	19,422	778	20,200	19,217
Deferred revenue	268,000	-	268,000	640,020
Due to other funds	1,454,846	129,505	1,584,351	24,171
Total liabilities	<u>1,817,486</u>	<u>159,445</u>	<u>1,976,931</u>	<u>1,045,404</u>
Fund balances:				
Reserved for:				
Encumbrances	90,876	86,000	176,876	876,761
Continuing appropriations	150,000	-	150,000	150,000
Unreserved:				
Special revenue funds	1,862,656	-	1,862,656	1,358,899
Capital projects funds	-	(1,880)	(1,880)	(110,667)
Total fund balances	<u>2,103,532</u>	<u>84,120</u>	<u>2,187,652</u>	<u>2,274,993</u>
Total liabilities and fund balances	<u>\$ 3,921,018</u>	<u>\$ 243,565</u>	<u>\$ 4,164,583</u>	<u>\$ 3,320,397</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	Other	Other	Totals	
	Special Revenue	Capital Projects	2005	2004
Revenues:				
Federal contributions and other grants	\$ 59,762	\$ -	\$ 59,762	\$ 1,182,532
CFSM grants	234,283	244,710	478,993	222,599
Excise taxes	202,701	-	202,701	133,560
Fees and charges	3,210	-	3,210	10,772
Total revenues	<u>499,956</u>	<u>244,710</u>	<u>744,666</u>	<u>1,549,463</u>
Expenditures by function:				
Current:				
Judiciary	33,722	25,000	58,722	56,265
Councils of traditional leaders	79,870	17,556	97,426	31,553
General government	56,412	136,154	192,566	1,273,200
Economic development	89,543	-	89,543	27,181
Public safety	14,656	-	14,656	19,466
Education	4,630	-	4,630	44,333
Public works and transportation	32,946	130,369	163,315	494,377
Health services	35,940	-	35,940	1,474
Boards and commissions	858	-	858	-
Payments to component units	192,142	57,328	249,470	157,680
Total expenditures	<u>540,719</u>	<u>366,407</u>	<u>907,126</u>	<u>2,105,529</u>
Deficiency of revenues under expenditures	<u>(40,763)</u>	<u>(121,697)</u>	<u>(162,460)</u>	<u>(556,066)</u>
Other financing sources:				
Operating transfers in	99,050	-	99,050	597,273
Net change in fund balances	58,287	(121,697)	(63,410)	41,207
Fund balances at the beginning of the year	2,045,245	205,817	2,251,062	2,233,786
Fund balances at the end of the year	<u>\$ 2,103,532</u>	<u>\$ 84,120</u>	<u>\$ 2,187,652</u>	<u>\$ 2,274,993</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	Other	Other	Totals	
	Special Revenue	Capital Projects	2005	2004
Revenues:				
Federal contributions and other grants	\$ 59,762	\$ -	\$ 59,762	\$ 1,182,532
CFSM grants	234,283	244,710	478,993	222,599
Excise taxes	202,701	-	202,701	133,560
Fees and charges	3,210	-	3,210	10,772
Total revenues	<u>499,956</u>	<u>244,710</u>	<u>744,666</u>	<u>1,549,463</u>
Expenditures by account:				
Salaries and wages	29,885	12,752	42,637	223,416
Grants and subsidies	160,520	-	160,520	468,460
Utilities	8,554	-	8,554	-
Contractual services	83,305	189,114	272,419	676,152
Supplies and materials	2,445	-	2,445	15,577
Scholarship and training	-	-	-	17,435
Travel	20,615	-	20,615	19,156
Capital outlay	59,637	75,799	135,436	44,666
Rentals	45,195	-	45,195	77,285
Food stuffs	-	-	-	5,302
Communications	14,149	-	14,149	6,917
Printing and reproduction	3,193	-	3,193	3,055
Repairs and maintenance	1,168	45	1,213	90,911
Freight	4,597	2,967	7,564	13,302
Professional services	-	57,328	57,328	-
POL	648	-	648	156,343
Other	106,808	28,402	135,210	287,552
Total expenditures	<u>540,719</u>	<u>366,407</u>	<u>907,126</u>	<u>2,105,529</u>
Deficiency of revenues under expenditures	<u>(40,763)</u>	<u>(121,697)</u>	<u>(162,460)</u>	<u>(556,066)</u>
Other financing sources:				
Operating transfers in	99,050	-	99,050	597,273
Net change in fund balances	58,287	(121,697)	(63,410)	41,207
Fund balances at the beginning of the year	<u>2,045,245</u>	<u>205,817</u>	<u>2,251,062</u>	<u>2,233,786</u>
Fund balances at the end of the year	<u>\$ 2,103,532</u>	<u>\$ 84,120</u>	<u>\$ 2,187,652</u>	<u>\$ 2,274,993</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2005

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, 2005, follows:

Section 221(b) Special Block Grant Fund

This fund is used to account for financial transactions related to the Compact program accounts under Section 221(b) of the Compact of Free Association.

Other U.S. Grants Fund

This fund is used to account for all Federal Emergency Management Agency (FEMA) grants received directly or in a subrecipient capacity through the FSM National Government.

Non-U.S. Grants Fund

This fund is used to account for all financial transactions related to certain direct and other grants received from various world organizations.

CFSM Grants Fund

This fund is used to account for appropriations made to the State from the Congress of the Federated States of Micronesia (CFSM). These grants are earned on a reimbursable basis.

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

This fund accounts for funds dedicated to certain special purposes.

See Accompanying Independent Auditors' Report.

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

Combining Balance Sheet
 September 30, 2005

(with comparative totals as of September 30, 2004)

Section 221(b) Special Block Grant	Non-U.S. Grants	CFSM Grants	Sports Development	General Services Agency	Other Special Revenue	Totals	
						2005	2004
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 193,565	\$ 193,565	\$ 155,191
Equity interest in internal investment pool	3,226,092	-	-	-	-	3,226,092	1,832,807
Receivables, net:							
CFSM	-	59,486	-	-	-	59,486	33,793
Other	-	20,000	-	-	-	20,000	24,502
Due from other funds	-	-	71,463	43,674	27,541	421,875	1,006,615
Total assets	\$ 3,226,092	\$ 79,486	\$ 71,463	\$ 43,674	\$ 221,106	\$ 3,921,018	\$ 3,052,908
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 1,098	\$ 26,706	\$ 35,731	\$ 1,246	\$ 238	\$ 75,218	\$ 300,324
Other liabilities and accruals	12,636	2,132	-	4,454	-	19,422	19,217
Deferred revenue	-	-	-	-	-	268,000	640,020
Due to other funds	1,434,376	20,470	-	-	-	1,454,846	24,171
Total liabilities	1,448,110	49,308	35,731	5,700	238	1,817,486	983,732
Fund balances:							
Reserved for:							
Encumbrances	13,683	49,348	-	3,410	1,080	90,876	560,277
Continuing appropriations	150,000	-	-	-	-	150,000	150,000
Unreserved (deficit)	1,614,299	(19,170)	35,732	34,564	219,788	1,862,656	1,358,899
Total fund balances	1,777,982	30,178	35,732	37,974	220,868	2,103,532	2,069,176
Total liabilities and fund balances	\$ 3,226,092	\$ 79,486	\$ 71,463	\$ 43,674	\$ 221,106	\$ 3,921,018	\$ 3,052,908

See Accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures By Function,
 and Changes in Fund Balances (Deficits)
 Year Ended September 30, 2005
 (with comparative totals for the year ended September 30, 2004)

Section 221(b) Special Block Grant	Non-U.S. Grants	CFSM Grants	Sports Development	General Services Agency	Other Special Revenue	Totals	
						2005	2004
Revenues:							
Federal contributions and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,762	\$ 1,182,532
CFSM grants	-	234,283	-	-	-	234,283	139,482
Excise taxes	-	-	160,520	-	42,181	202,701	133,560
Fees and charges	-	-	-	330	2,880	3,210	10,772
Total revenues	59,762	234,283	160,520	330	45,061	499,956	1,466,346
Expenditures by function:							
Current:							
Judiciary	-	33,722	-	-	-	33,722	41,265
Councils of traditional leaders	-	79,870	-	-	-	79,870	-
General government	-	38,854	-	16,496	-	56,412	1,273,200
Economic development	-	1,493	-	-	-	89,543	27,181
Public safety	-	14,656	-	-	-	14,656	19,466
Education	4,630	-	-	-	-	4,630	44,333
Public works and transportation	-	32,946	-	-	-	32,946	47,307
Health services	-	1,120	-	-	-	35,940	1,474
Boards and commissions	-	-	-	-	858	858	-
Payments to component units	-	-	-	-	-	192,142	157,680
Total expenditures	4,630	123,932	160,520	16,496	858	540,719	1,611,906
Excess (deficiency) of revenues over (under) expenditures	(4,630)	(64,170)	-	(16,166)	44,203	(40,763)	(145,560)
Other financing sources:							
Operating transfers in	-	-	99,050	-	-	99,050	181,805
Net change in fund balances (deficit)	(4,630)	(64,170)	99,050	(16,166)	44,203	58,287	36,245
Fund balances (deficits) at the beginning of the year	1,782,612	30,178	(63,318)	54,140	176,665	2,045,245	2,032,931
Fund balances at the end of the year	\$ 1,777,982	\$ 798	\$ 35,732	\$ 37,974	\$ 220,868	\$ 2,103,532	\$ 2,069,176

See Accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures By Account,
 and Changes in Fund Balances (Deficits)
 Year Ended September 30, 2005
 (with comparative totals for the year ended September 30, 2004)

Section 221(b) Special Block Grant	Non-U.S. Grants	CFSM Grants	Sports Development	General Services Agency	Other Special Revenue	Totals	
						2005	2004
Revenues:							
Federal contributions and other grants							
CFSM grants	\$ 59,762	\$ 234,283	-	-	-	\$ 59,762	\$ 1,182,532
Excise taxes	-	-	160,520	-	42,181	234,283	139,482
Fees and charges	-	-	-	330	2,880	202,701	133,560
						3,210	10,772
Total revenues	\$ 59,762	\$ 234,283	\$ 160,520	\$ 330	\$ 45,061	\$ 499,956	\$ 1,466,346
Expenditures by account:							
Salaries and wages	19,169	10,716	-	-	-	29,885	205,735
Grants and subsidies	-	-	160,520	-	-	160,520	468,460
Utilities	-	8,554	-	-	-	8,554	-
Contractual services	38,145	44,660	-	-	500	83,305	201,763
Supplies and materials	1,143	1,302	-	-	-	2,445	15,577
Scholarship and training	-	-	-	-	-	-	17,435
Travel	2,827	17,788	-	-	-	20,615	19,156
Capital outlay	5,743	33,513	-	16,215	18	59,637	44,666
Rentals	1,944	43,251	-	-	-	45,195	77,285
Food stuffs	-	-	-	-	-	-	5,302
Communications	1,598	12,313	-	-	238	14,149	6,917
Printing and reproduction	1,639	1,379	-	-	-	3,193	3,055
Repairs and maintenance	-	1,168	-	-	-	1,168	90,911
Freight	774	3,721	-	-	-	4,597	11,749
POL	350	298	-	-	-	648	156,343
Other	50,600	55,620	-	281	102	106,808	287,552
Total expenditures	123,932	234,283	160,520	16,496	858	540,719	1,611,906
Excess (deficiency) of revenues over (under) expenditures	(64,170)	-	-	(16,166)	44,203	(40,763)	(145,560)
Other financing sources:							
Operating transfers in	-	-	99,050	-	-	99,050	181,805
Net change in fund balances (deficit)	(64,170)	-	99,050	(16,166)	44,203	58,287	36,245
Fund balances (deficits) at the beginning of the year	1,782,612	30,178	(63,318)	54,140	176,665	2,045,245	2,032,931
Fund balances at the end of the year	\$ 1,777,982	\$ 30,178	\$ 35,732	\$ 37,974	\$ 220,868	\$ 2,103,532	\$ 2,069,176

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2005

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, 2005, 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.

See Accompanying Independent Auditors' Report.

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

Combining Balance Sheet
 September 30, 2005
 (with comparative totals as of September 30, 2004)

	Public Infrastructure Development	CFSM Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Totals	
					2005	2004
<u>ASSETS</u>						
Receivables:						
CFSM	\$ -	\$ 84,593	\$ -	\$ -	\$ 84,593	\$ -
Due from other funds	-	-	-	158,972	158,972	267,489
	<u>\$ -</u>	<u>\$ 84,593</u>	<u>\$ -</u>	<u>\$ 158,972</u>	<u>\$ 243,565</u>	<u>\$ 267,489</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>						
Liabilities:						
Accounts payable	\$ -	\$ 29,162	\$ -	\$ -	\$ 29,162	\$ 61,672
Other liabilities and accruals	-	-	778	-	778	-
Due to other funds	-	65,914	63,591	-	129,505	-
Total liabilities	<u>-</u>	<u>95,076</u>	<u>64,369</u>	<u>-</u>	<u>159,445</u>	<u>61,672</u>
Fund balances (deficits):						
Reserved for:						
Encumbrances	-	86,000	-	-	86,000	316,484
Unreserved	-	(96,483)	(64,369)	158,972	(1,880)	(110,667)
Total fund balances (deficits)	<u>-</u>	<u>(10,483)</u>	<u>(64,369)</u>	<u>158,972</u>	<u>84,120</u>	<u>205,817</u>
Total liabilities and fund balances (deficits)	<u>\$ -</u>	<u>\$ 84,593</u>	<u>\$ -</u>	<u>\$ 158,972</u>	<u>\$ 243,565</u>	<u>\$ 267,489</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Function,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	Public Infrastructure Development	CFSM Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Totals	
					2005	2004
Revenues:						
CFSM grants	\$ -	\$ 244,710	\$ -	\$ -	\$ 244,710	\$ 83,117
	-	244,710	-	-	244,710	83,117
Expenditures by function:						
Current:						
Judiciary	-	25,000	-	-	25,000	15,000
Councils of traditional leaders	-	17,556	-	-	17,556	31,553
General government	-	136,154	-	-	136,154	-
Public works and transportation	-	66,000	64,369	-	130,369	447,070
Payments to component units	-	-	-	57,328	57,328	-
Total expenditures	-	244,710	64,369	57,328	366,407	493,623
Excess (deficiency) of revenues over (under) expenditures	-	-	(64,369)	(57,328)	(121,697)	(410,506)
Other financing sources:						
Operating transfers in	-	-	-	-	-	415,468
Net change in fund balances (deficits)	-	-	(64,369)	(57,328)	(121,697)	4,962
Fund balances (deficits) at the beginning of the year	-	(10,483)	-	216,300	205,817	200,855
Fund balances (deficits) at the end of the year	\$ -	\$ (10,483)	\$ (64,369)	\$ 158,972	\$ 84,120	\$ 205,817

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS
CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Account,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	Public Infrastructure Development	CFSM Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Totals	
					2005	2004
Revenues:						
CFSM grants	\$ -	\$ 244,710	\$ -	\$ -	\$ 244,710	\$ 83,117
	<u>-</u>	<u>244,710</u>	<u>-</u>	<u>-</u>	<u>244,710</u>	<u>83,117</u>
Expenditures by account:						
Contractual services	-	136,306	52,808	-	189,114	474,389
Capital outlay	-	75,799	-	-	75,799	-
Salaries and wages	-	1,191	11,561	-	12,752	17,681
Freight	-	2,967	-	-	2,967	-
Repairs and maintenance	-	45	-	-	45	-
Professional services	-	-	-	57,328	57,328	-
Other	-	28,402	-	-	28,402	1,553
Total expenditures	<u>-</u>	<u>244,710</u>	<u>64,369</u>	<u>57,328</u>	<u>366,407</u>	<u>493,623</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(64,369)</u>	<u>(57,328)</u>	<u>(121,697)</u>	<u>(410,506)</u>
Other financing sources:						
Operating transfers in	-	-	-	-	-	415,468
Net change in fund balances (deficits)	<u>-</u>	<u>-</u>	<u>(64,369)</u>	<u>(57,328)</u>	<u>(121,697)</u>	<u>4,962</u>
Fund balances (deficits) at the beginning of the year	<u>-</u>	<u>(10,483)</u>	<u>-</u>	<u>216,300</u>	<u>205,817</u>	<u>200,855</u>
Fund balances (deficits) at the end of the year	<u>\$ -</u>	<u>\$ (10,483)</u>	<u>\$ (64,369)</u>	<u>\$ 158,972</u>	<u>\$ 84,120</u>	<u>\$ 205,817</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION
SECTION 211(a) SECTOR GRANT FUNDS

Combining Balance Sheet

September 30, 2005

(with comparative totals as of September 30, 2004)

	Education Sector	Health Sector	Private Sector Development	Environment Sector	Capacity Building Sector	Supplemental Education	Totals	
							2005	2004
ASSETS								
Receivables:								
CFSM	\$ 920,303	\$ 167,366	\$ -	\$ -	\$ 247,497	\$ 164,490	\$ 1,499,656	\$ 202,601
Due from other funds	-	10,766	170,756	18,867	-	-	200,389	417,385
	\$ 920,303	\$ 178,132	\$ 170,756	\$ 18,867	\$ 247,497	\$ 164,490	\$ 1,700,045	\$ 619,986
LIABILITIES AND FUND BALANCES (DEFICITS)								
Liabilities:								
Accounts payable	\$ 277,570	\$ 137,268	\$ 20,462	\$ 13,316	\$ 49,590	\$ -	\$ 498,206	\$ 170,064
Other liabilities and accruals	50,185	40,864	8,189	4,647	20,444	39,413	163,742	-
Deferred revenue	-	-	141,621	904	-	-	142,525	310,690
Due to other funds	592,548	-	-	-	177,883	125,077	895,508	139,168
Total liabilities	920,303	178,132	170,272	18,867	247,917	164,490	1,699,981	619,922
Fund balances (deficits):								
Reserved for:								
Encumbrances	357,585	669,116	61,363	118,984	94,354	-	1,301,402	268,323
Unreserved	(357,585)	(669,116)	(60,879)	(118,984)	(94,774)	-	(1,301,338)	(268,259)
Total fund balances (deficits)	-	-	484	-	(420)	-	64	64
Total liabilities and fund balances	\$ 920,303	\$ 178,132	\$ 170,756	\$ 18,867	\$ 247,497	\$ 164,490	\$ 1,700,045	\$ 619,986

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION
SECTION 211(a) SECTOR GRANT FUNDS

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	Education Sector	Health Sector	Private Sector Development	Environment Sector	Capacity Building Sector	Supplemental Education	2005	2004
Revenues:								
Compact funding	\$ 3,851,492	\$ 2,327,051	\$ 828,554	\$ 509,242	\$ 1,194,435	\$ 164,490	\$ 8,875,264	\$ 6,721,556
Fees and charges	737	216,625	2,327	455	-	-	220,144	-
	<u>3,852,229</u>	<u>2,543,676</u>	<u>830,881</u>	<u>509,697</u>	<u>1,194,435</u>	<u>164,490</u>	<u>9,095,408</u>	<u>6,721,556</u>
Expenditures by function:								
Current:								
Judiciary	-	-	-	-	166,785	-	166,785	168,402
Public auditor	-	-	-	-	154,289	-	154,289	93,684
General government	-	-	-	-	456,954	-	456,954	459,243
Economic development	253,232	1,473	157,838	35,812	78,493	-	526,848	369,755
Public safety	-	-	-	-	337,914	-	337,914	429,648
Education	3,553,017	-	-	-	-	164,490	3,717,507	2,796,878
Public works and transportation	-	-	-	88,401	-	-	88,401	118,777
Health services	-	2,542,203	-	-	-	-	2,542,203	1,811,876
Boards and commissions	-	-	143,973	183,000	-	-	326,973	302,338
Payment to component units	45,980	-	529,070	202,484	-	-	777,534	102,954
Other	-	-	-	-	-	-	-	67,937
	<u>3,852,229</u>	<u>2,543,676</u>	<u>830,881</u>	<u>509,697</u>	<u>1,194,435</u>	<u>164,490</u>	<u>9,095,408</u>	<u>6,721,492</u>
Total expenditures								
Net change in fund balances (deficits)	-	-	-	-	-	-	-	64
Fund balances at the beginning of the year	-	-	484	-	(420)	-	64	-
Fund balances (deficits) at the end of the year	\$ -	\$ -	\$ 484	\$ -	\$ (420)	\$ -	\$ 64	\$ 64

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
COMPACT OF FREE ASSOCIATION
SECTION 211(a) SECTOR GRANT FUNDS

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2005
(with comparative totals for the year ended September 30, 2004)

	Education Sector	Health Sector	Private Sector Development	Environment Sector	Capacity Building Sector	Supplemental Education	2005	2004
Revenues:								
Compact funding	\$ 3,851,492	\$ 2,327,051	\$ 828,554	\$ 509,242	\$ 1,194,435	\$ 164,490	\$ 8,875,264	\$ 6,721,556
Fees and charges	737	216,625	2,327	455	-	-	220,144	-
	<u>3,852,229</u>	<u>2,543,676</u>	<u>830,881</u>	<u>509,697</u>	<u>1,194,435</u>	<u>164,490</u>	<u>9,095,408</u>	<u>6,721,556</u>
Expenditures by account:								
Salaries and wages	1,524,574	988,524	208,468	115,660	838,588	154,355	3,830,169	3,756,099
Grants and subsidies	45,980	-	529,070	202,484	-	-	777,534	202,286
Utilities	253,803	224,807	-	8,530	19,172	4,943	511,255	863
Contractual services	213,119	124,644	17,287	107,908	17,207	-	480,165	147,902
Supplies and materials	82,621	13,635	2,181	2,533	24,452	-	125,422	764,694
Scholarship and training	361,600	-	57,286	-	-	-	361,600	139,000
Travel	309,341	55,888	24,705	24,705	86,138	-	533,358	263,361
Capital outlay	251,747	55,786	1,795	6,460	24,257	-	340,045	137,917
Rentals	665	70	-	252	1,755	-	2,742	8,164
Food stuffs	2,955	9,747	-	91	1,117	2,497	16,407	27,413
Communications	44,641	19,957	9,507	14,556	29,582	2,091	120,334	101,848
Printing and reproduction	42,604	13,983	1,067	2,559	15,343	-	75,556	33,570
Medical supplies	-	348,576	-	-	-	-	348,576	391,929
Medical referral	-	276,727	-	-	-	-	276,727	48,923
Repairs and maintenance	68,536	3,903	853	7,154	14,323	-	94,769	27,615
Freight	106,496	39,312	836	642	3,669	29	150,984	59,281
Professional services	95,140	81,761	-	-	10,000	-	186,901	287,187
POL	35,250	5,537	-	3,235	20,458	-	64,480	52,803
Leased housing	59,050	40,994	-	6,000	9,693	-	115,737	100,743
Other	354,107	239,825	2,531	6,928	78,681	575	682,647	169,894
	<u>3,852,229</u>	<u>2,543,676</u>	<u>830,881</u>	<u>509,697</u>	<u>1,194,435</u>	<u>164,490</u>	<u>9,095,408</u>	<u>6,721,492</u>
Total expenditures								
Net change in fund balances (deficits)	-	-	-	-	-	-	-	64
Fund balances at the beginning of the year	-	-	484	-	(420)	-	64	-
Fund balances (deficits) at the end of the year	\$ -	\$ -	\$ 484	\$ -	\$ (420)	\$ -	\$ 64	\$ 64

See Accompanying Independent Auditors' Report.

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

Honorable Robert Ruecho
Governor, State of Yap
Federated States of Micronesia:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap as of and for the year ended September 30, 2005, which collectively comprise the State of Yap's basic financial statements and have issued our report thereon dated June 8, 2006. Our report on the General Fund was qualified due to our inability to determine the amount, if any, of a valuation allowance for an investment and we expressed an adverse opinion on the aggregate discretely presented component units, due to our inability to determine the propriety of fixed assets of the Yap Fishing Authority and the lack of audited financial statements of Yap Fresh Tuna, Inc. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

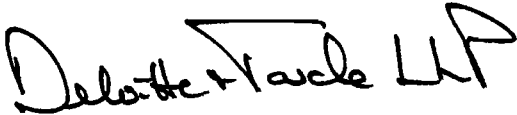
In planning and performing our audit, we considered the State of Yap's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Yap's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 81 through 90) as items 2005-02 and 2005-04 through 2005-07.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Yap'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*.

This report is intended solely for the information and use of the management of the State of Yap, 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.

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

June 8, 2006

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Honorable Robert Ruecho
Governor, State of Yap
Federated States of Micronesia:

Compliance

We have audited the compliance of the State of Yap 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, 2005. The State of Yap's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 81 and 82). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Yap's management. Our responsibility is to express an opinion on the State of Yap's compliance based on our audit.

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 of Yap's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Yap's compliance with those requirements.

As described in items 2005-01 through 2005-03 in the accompanying Schedule of Findings and Questioned Costs, the State of Yap did not comply with requirements regarding eligibility that are applicable to grant #EM-14570-05-60 WIA National Emergency Grant; equipment and real property management that are applicable to CFDA #15.875 Economic, Social, and Political Development of the Territories; grant #EM-14570-05-60 WIA National Emergency Grant; and CFDA #83.544 Public Assistance Grants; and regarding Procurement and Suspension and Debarment that are applicable to CFDA #15.875 Economic, Social and Political Development of the Territories. Compliance with such requirements is necessary, in our opinion, for the State of Yap to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Yap complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the State of Yap is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Yap'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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

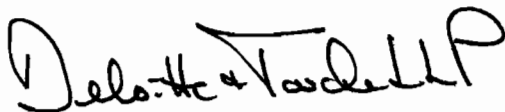
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Yap's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-01 to 2005-03.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider none to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap as of and for the year ended September 30, 2005, and have issued our report thereon dated June 8, 2006, which report on the General Fund was qualified due to our inability to determine the amount, if any, of a valuation allowance for an investment; and, we expressed an adverse opinion on the aggregate discretely presented component units, due to our inability to determine the propriety of fixed assets of the Yap Fishing Authority and the lack of audited financial statements of Yap Fresh Tuna, Inc. Our audit 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 (pages 71 through 78) is presented for the purpose 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 of Yap. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 of Yap, 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.



June 8, 2006

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2005

<u>Grantor Program Title</u>	<u>CFDA No./ Grant No.</u>	<u>2005 Fiscal Year Expenditures</u>
<u>U.S. Department of Education:</u>		
2004 - PVIEP	84.048B	\$ 10,451
2005 - PVIEP	84.048B	98,256
Total CFDA # 84.048B		<u>108,707</u>
FY04 Special Education	84.027B	68,597
FY05 Special Education	84.027B	459,394
Total CFDA # 84.027B		<u>527,991</u>
Freely Associated States Ed Grant 7/03-6/04	84.256A	409,219
Total CFDA # 84.256A		<u>409,219</u>
FY-04 Teacher Quality Enhancement	84.336	8,586
Total CFDA # 84.336		<u>8,586</u>
Total U.S. Department of Education		<u>1,054,503</u>
 <u>U.S. Department of Labor:</u>		
2002 WIA Title I - Administration	17.255	116
2003 WIA Title I - Administration	17.255	4,599
2004 WIA Title I - Administration	17.255	5,419
Total CFDA # 17.255		<u>10,134</u>
2002 WIA Title I - Adult	17.258	8,312
2003 WIA Title I - Adult	17.258	13,219
Total CFDA # 17.258		<u>21,531</u>
2003 WIA Title I - Youth	17.259	10,496
2004 WIA Title I - Youth	17.259	27,249
Total CFDA # 17.259		<u>37,745</u>
2002 WIA Title I - Dislocated Worker	17.260	25,424
2003 WIA Title I - Dislocated Worker	17.260	14,197
2004 WIA Title I - Dislocated Worker	17.260	11,391
Total CFDA # 17.260		<u>51,012</u>
Yap WIA National Emergency Grant	EM-14570-05-60	1,071,852
Total U.S. Department of Labor		<u>1,192,274</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 2005

<u>U.S. Department of Agriculture:</u>		
04 Forestry Urban Community	10.664	32,656
04 Yap Forest Health Project	10.664	6,355
04 FRM / RNGR	10.664	10,250
04 Suppression Fund	10.664	156
04 Yap Conservation Education	10.664	309
04 FRM	10.664	5,279
04 FSP Sudal Relief	10.664	7,682
Total CFDA # 10.664		<u>62,687</u>
Total U.S. Department of Agriculture		<u>62,687</u>
 <u>U.S. Department of the Interior:</u>		
FY02 HPO Administration	15.904	396
FY02 HPO Special	15.904	3,480
FY02 HPO Archaeology	15.904	(119)
FY04 HPO Professional	15.904	2,408
FY04 HPO Special Project	15.904	19,173
FY04 HPO Regular Operation	15.904	24,921
Total CFDA # 15.904		<u>50,259</u>
 Yap Hospital Renov./Maint.	 15.875	 43,054
Total CFDA # 15.875		<u>43,054</u>
Total U.S. Department of the Interior		<u>93,313</u>
 <u>U.S. Department of Health and Human Services:</u>		
FY /02/03/04/05 Family Planning	93.217	31,737
Total CFDA # 93.217		<u>31,737</u>
 2004 Immunization Program	 93.268	 4,647
2005 Immunization Program	93.268	17,889
Total CFDA # 93.268		<u>22,536</u>
 2005 Tobacco Prevention	 93.283	 4,179
FY-04 Tobacco Free Coalition	93.283	3,010
Total CFDA # 93.283		<u>7,189</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 2005

U.S. Department of Health and Human Services, Continued:

Yap Seed		
2004 - Yap Seed Program	93.959	600
2005 - Yap Seed YHS Transition	93.959	14,105
FY05 Substance Abuse Mental Health	93.959	44,233
FY04 SAPT	93.959	3,237
Total CFDA # 93.959		<u>62,175</u>
FY 03 Diabetes Program	93.988	116
FY05 System Based Diabetes	93.988	2,601
FY05 Diabetes Program	93.988	4,394
Total CFDA # 93.988		<u>7,111</u>
FY03 MCH	93.994	(679)
FY04 MCH	93.994	48,720
Total CFDA # 93.994		<u>48,041</u>
FY04 Tuberculosis & AIDS Program	93.116	7,278
FY05 TB Elimination	93.116	11,905
Total CFDA # 93.116		<u>19,183</u>
2004 AIDS Prevention	93.940	2,563
2005 AIDS Prevention	93.940	6,938
Total CFDA # 93.940		<u>9,501</u>
2004 Yap Bioterrorism- Area C Lab	93.889	9,406
FY-04 CDC Bioterrorism by Area C	93.889	4,888
Bioterrorism Hospital BM2-2	93.889	13,000
Total CFDA # 93.889		<u>27,294</u>
Total U.S. Department of Health and Human Services		<u>234,767</u>
Total Federal Grants Fund		<u>\$ 2,637,544</u>
Schedule of Expenditures of Federal Awards balance		<u>\$ 2,637,544</u>

Note: With the exception of CFDA #84.048B and CFDA #84.256A, which are received in a direct capacity from the U.S. Department of Education, all other awards are received in a subrecipient capacity through the FSM National Government

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Other U.S. Grants Fund
Year Ended September 30, 2005

<u>Grantor Program</u>	<u>CFDA No.</u>	<u>2005 Fiscal Year Expenditures</u>
U.S. Department of Homeland Security grants:		
Public Assistance Grants	83.544	\$ 4,300,610

The above represents the federal share of expenditures, net of the State of Yap's matching share.

The Federal Emergency Management Agency (FEMA) was paid \$408,692 in the year ended September 30, 2005 for matching of FY'04 assistance for the Individuals & Households Program (IHP). 100% of these funds totaling \$1,634,768 were disbursed directly to households from FEMA as of June 2004 (these didn't pass through Yap State). However, it is Yap State's responsibility to reimburse FEMA for the 25% local share at \$408,692. The local share was later appropriated through Law 6-41 at October 11, 2004 for which payment was made out of the General Fund at November 8, 2004.

The above award is received in a subrecipient capacity from the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Program Funds (CFDA 15.875)
Year Ended September 30, 2005

<u>Grantor Program Title</u>	<u>Compact Section</u>	<u>2005 Fiscal Year Expenditures</u>
<u>Special Block Grant Programs</u>		
O.I. Elementary Schools	221 (B)	<u>\$ 4,630</u>
Total Compact of Free Association Compact Section 221 (B) Program Fund		<u><u>\$ 4,630</u></u>

The above award is received in a subrecipient capacity from the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Capital Fund
Section 211 (A) Capital Account (CFDA No. 15.875)
Year Ended September 30, 2005

<u>Grantor</u> <u>Program Title</u>	<u>2005</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Insular Affairs</u>	
Yap Airport Project	\$ 21,600
Public Road and waterline to Ublul	24,250
V6AI New Tower Project	57,941
Southern Yap Road	3,362,554
Typhoon Sudal Education Facility Repair	<u>52,518</u>
Total Compact of Free Association Capital Projects Fund 211 (A)	<u><u>\$ 3,518,863</u></u>

The above award is received in a subrecipient capacity from the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Program Funds
Year Ended September 30, 2005

<u>Grantor</u> <u>Program Title</u>	<u>2005</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Compact Section 211 (a) (1) Education Sector Grants:</u>	
Manpower Development - skills training	\$ 253,232
DOE Administration	445,648
Budget and Supply	42,176
Curriculum	108,230
DOE Procurement	154,080
Outer Island Elementary Education	1,226,883
Yap Proper Elementary Education	673,350
Yap High School	511,874
Woleai High School	161,332
Ulithi High School	229,444
St. Mary's School	23,890
Seventh Day Adventists	22,090
Total Compact Section 211 (a)(1) Education Sector	3,852,229
<u>Compact Section 211 (a) (2) Health Sector Grants:</u>	
Extension Services	1,473
Health Services Administration	2,568
Hospital Medical & Clinical	1,284,153
Ancillary Services	203,153
Hospital Maintenance	99,541
Medical Supply and Equipment	303,692
Public Health Care	291,022
Primary Health Care	249,410
Sanitation Program	26,613
Dental Services - O.I.	12,939
Dental Services - Yap	69,113
Total Compact Section 211 (a)(2) Health Sector	2,543,677
<u>Compact Section 211 (a) (3) Private Sector Development Grants:</u>	
R&D Administration	14,458
Agriculture and Forestry	45,539
Commerce and Industry	30,928
Manpower Development	5,016
Land Resources	61,898
Small Business Development Center	143,972
Yap Visitor's Bureau	529,070
Total Compact Section 211 (a)(3) Private Sector Development	830,881

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Program Funds
Year Ended September 30, 2005

<u>Compact Section 211 (a) (4) Private Sector Capacity Building Grants:</u>	
Judiciary	166,785
State Auditor	154,289
Office of Administrative Services	309,789
Office of Planning and Budget	147,163
Resources & Development	78,494
Attorney General	<u>337,914</u>
Total Compact Section 211 (a)(4) Public Sector Capacity Building	<u>1,194,434</u>
 <u>Compact Section 211 (a) (5) Environment Sector Grants:</u>	
R&D Administration	9,386
Agriculture Division	6,738
Marine Resources Division	19,688
Public Works Road Maintenance	87,868
Refuse Collection	533
Environmental Protection Agency	82,589
Historical Preservation Office	100,411
Yap Cap	<u>202,484</u>
Total Compact Section 211 (a)(5) Environment Sector	<u>509,697</u>
 <u>Compact Section 231 Supplemental Education Grant</u>	
Early Childhood Education	<u>164,490</u>
 Total Compact of Free Association Section 211 Grants	 <u><u>\$ 9,095,408</u></u>

The above award is received in a subrecipient capacity from the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

(1) Scope

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

The Yap State Government, for purpose of the financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement 14, "The Financial Reporting Entity".

(3) Component Units

The Yap State Public Service Corporation (YSPSC) programs are received in a subrecipient capacity. No federal awards were expended in fiscal year 2005 exceeding the threshold and therefore, compliance testing was not performed.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for
Audit In Accordance With OMB Circular A-133
Year Ended September 30, 2005

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u> <u>Grant No.</u>	<u>2005</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association, Capital Projects Fund, Section 211(A) Capital Account	15.875	\$ 3,518,863
Compact of Free Association, Sector Grants	15.875	<u>9,095,408</u>
Total U.S. Department of the Interior		\$ <u>12,614,271</u>
<u>U.S. Department of Homeland Security</u>		
Public Assistance Grants	83.544	\$ <u>4,300,610</u>
<u>U.S. Department of Labor</u>		
Yap WIA National Emergency Grant	EM-14570-05-60	\$ <u>1,071,852</u>
Total U.S. Federal program expenditures selected		\$ <u>17,986,733</u>
Total U.S. Federal program expenditures		\$ <u>19,557,055</u>
% of total U.S. Federal expenditures covered by major programs		<u>92%</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Part I - Summary of Auditors' Results Section

1. The Independent Auditor's Report on the financial statements expressed an qualified opinion due to an inability to ensure the propriety of the carrying value of an investment and due to the inability to determine the propriety of fixed assets of the Yap Fishing Authority and the lack of financial statements to support the carrying value of an investment in Yap Fresh Tuna, Inc.
2. Reportable conditions in internal control over financial reporting were identified, none of which is considered to be a material weakness.
3. Instances of noncompliance considered material to the financial statements were not disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which is considered to be a material weakness.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number/Grant No.</u>
Compact of Free Association, Capital Projects Fund, Section 211 (A)	15.875
Compact of Free Association, Sector Grants	15.875
WIA National Emergency Grant	EM-14570-05-60
Public Assistance Grants	83.544

8. A threshold of \$586,712 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>
2005-02	Equipment and Real Property Management
2005-04	Travel Advances
2005-05	Payroll Master Files
2005-06	Purchase Advances
2005-07	Approval of Journal Vouchers

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference</u> <u>Number</u>	<u>CFDA/Grant</u> <u>Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2005-01	15.875	Procurement and Suspension and Debarment	\$ 22,008
2005-02	15.875	Equipment and Real Property Management	\$ -
2005-02	EM-14570- 05-60	Equipment and Real Property Management	\$ -
2005-02	83.544	Equipment and Real Property Management	\$ -
2005-03	EM-14570- 05-60	Eligibility	\$ -

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-01
 CFDA #: 15.875
 Agency: Department of the Interior Office of Insular Affairs
 Grant #: Compact II Sector Grants
 Program Name: Procurement and Suspension and Debarment
 Questioned Costs: \$22,008

Criteria:

In accordance with applicable procurement requirements, the grantee will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection, and the basis for the contract price.

Condition:

For 9 of 103 (9%) of the samples selected, procurement documents substantiating competitive procurement attempts were not on file.

<u>Fund</u>	<u>Org #</u>	<u>Acct</u>	<u>Vendor</u>	<u>Voucher #</u>	<u>Check #</u>	<u>Dollar Amount</u>
Capacity	A45	10 03 G0000	OLD WEST BUSINESS FORMS, INC.	27476	16362	\$ 1,000 (1)
Capacity	A45	50 02 G0000	PUBLIC TRANSPORTATION SYSTEM	27184	14803	2,813
Education	A40	60 07 G0000	YAP CONSULTING SERVICES	22206	11898	121,110 (1)
Health	A41	80-02-03-00	THE OFFICE PLACE - YSBC	31826	17589	4,999
Health	A41	80-02-03-00	PACIFIC BIOMEDICAL SERVICES, INC.	21292	13488	3,500
Health	A41	80-06-01-00	MEDPHARM	25345	14967	4,039
Health	A41	80-11-04-00	MEDPHARM	24957	14967	4,039
Health	A41	80-02-03-00	FIJI SCHOOL OF MEDICINE	23569	12671	29,590 (2)
Private	A44	90-04-12-00	PACIFIC BUS COMPANY	31417	17310	<u>2,618</u>
Total						<u>\$173,708</u>

For the items (1), no questioned costs arise from this condition. These contracts were carried forward from 2002 and were extended due to a lack of known competition. In fiscal year 2006, the State ceased contracting for outer island education services and hired staff internal to the Yap to perform this function. Hence, the Yap Consulting Services contract has been discontinued. The business forms represent blank checks, which vendor was referred by the State's software company. For item (2), the State contracted with the Fiji School of Medicine to perform training at the State's hospital. This contract was negotiated and no other vendor was included as the State came to the opinion that no other service provider would meet their terms and conditions. However, this conclusion was not documented in writing. Therefore, a finding exists, but we have not questioned the costs associated with this matter.

Cause:

There appears to be a lack of controls being exercised over record keeping and documentation relative to procurement transactions.

Effect:

The Yap State Government appears to be in noncompliance with the criteria. Questioned costs of \$22,008 result from this condition. (\$173,708 less the amounts annotated as (1) and (2)).

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-01, Continued
CFDA #: 15.875
Agency: Department of the Interior Office of Insular Affairs
Grant #: Compact II Sector Grants
Program Name: Procurement and Suspension and Debarment
Questioned Costs: \$22,008

Recommendation:

The Yap State Government should comply with the criteria.

Auditee Response and Corrective Action Plan:

1. This is payment for purchase order P27476 for blank laser check stocks used by Yap Finance for government payroll checks. The vendor was selected and had remained a reliable supplier since Yap changed systems in 1999 and began using blank laser checks.
2. This payment was for various invoices against purchase order P26795 for repair on Public Safety vehicles. Memo dated 4/12/06 from the Chief of Public Safety to Chief of Finance explained that their vehicles will only be serviced by Public Transportation System (PTS) car shop or Rumuu Auto Clinic.
3. This is 75% payment on contract #C22163 between DOE and the payee for the Yap Neighboring Islands Culture Teaching Program. Based upon a long-time contract relationship with the Department of Education to provide services to guide and provide cultural classes at the neighboring islands schools, the payee was contracted to continue the same services.
4. This is payment purchase order P31826 for a Xerox copy machine (YA-07088). Although inadequate documentation is unavailable to evidence price comparison, it was noted on the purchase requisition that the vendor was the only one on island with the item in stock at the time.
5. The was payment on P21292 invoice no. 2005-009 for \$3,750 medical supplies ordered from a supplier based on Saipan, CNMI. Due to the nature of the items, Yap Finance does not require evidence of competitive bidding for medical supplies.
6. This purchase was for a portable dental unit to be used for visits to the neighboring islands of Yap. MedPharm has been a long-time supplier of medical suppliers and equipment of Yap. Attempts were made to see if a local vendor would order the item without success.
7. This purchase was for a portable dental unit to be used for visits to the neighboring islands of Yap. MedPharm had been a long-time consistent supplier of medical supplies and equipment for Yap Memorial Hospital.
8. This is payment for an agreement made between Yap Health Services and the Fiji School of Medicine/School of Public Health (FISM). Yap Health Services selected FISM based upon the School's accreditation and its availability to provide the needed training in Spring 2005.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-02
CFDA No.: 15.875 – Compact of Free Association, Sector Grants and Capital Projects Fund,
Section 211 (A)
Grantor Agency: U.S. Department of the Interior
Grant No.: EM-14570-05-60
Grantor Agency: U.S. Department of Labor
CFDA No.: 83.544 – Public Assistance Grants
Grantor Agency: U.S. Department of Homeland Security
Program/Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: Fixed assets should be properly identified.

Condition: Fixed assets greater than \$5,000 per unit were unable to be identified.

Cause: There is no current system in place that appears to assign identification tags to individual fixed assets. We understand that the State will be subsequently defining fixed assets at a higher threshold (\$5,000) and this action should assist in resolving this finding.

Effect: The inability to properly identify fixed assets may increase the risk of not identifying potential problems or abuse in a timely manner.

Prior Year Status: This matter was reported in the 2004 Single Audit Report.

Recommendation: The Federated States of Micronesia as a whole has moved to adopting the federal equipment standard and this process should assist the State in its fixed asset inventory management.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The inventory and tagging of fixed assets is being performed by the Division of Procurement & Property Management and will be completed by December 31, 2005. A fixed asset register is being concurrently prepared with this inventory. Additionally, the Director, Office of Administrative Services will submit promulgate proposed changes to amend the Yap State Procurement Code to raise the capitalization threshold of capital assets to \$5,000, in line with the FSM and federal equipment standards. These amendments will be proposed no later than November 30, 2005.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-03
Grant No.: EM-14570-05-60
Grantor Agency: Department of Labor
Grant Name: WIA National Emergency Grants
Program Area: Eligibility
Questioned Costs: \$0

Criteria: In accordance with the Terms and Conditions of the award, an individual's signed certification of temporary or permanent job loss or the inability to work as a result of the disruption will suffice to acknowledge that the individual meets eligibility requirement of participation.

Condition: The grantee did not have participants sign individual certification forms.

Cause: There appears to be a lack of controls exercised over ensuring that individuals were eligible to participate in the program.

Effect: The Yap State Government appears to be in noncompliance with the eligibility criteria. No questioned costs are presented at this finding as we are unable to determine the specific questioned cost, if any, associated with this condition.

Recommendation: The Yap State Government should comply with the criteria.

Auditee Response and Corrective Action Plan: All employment under the National Emergency Grant is categorized as "dislocated workers" under the WIA program which normally are identified by the WIA office through a one on one interview. The NEG project required employment of more than a 1000 individuals for a one-year period only. Due to the short-term status of the project, the delay in project implementation, and the significant number of participants, the interview process was by-passed and instead, individuals filled and submitted the Yap Government Application for Employment forms instead of the WIA Application & Intake Forms. This process was allowed by the grant award with the understanding that Yap will take action to terminate an ineligible participant when discovered at later eligibility verification.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-04
Area: Travel Advances

Criteria: Travel advances should be resolved in a timely manner.

Condition: Follow up or mandatory withholding of travel advances is not occurring and reconciliations of the accounts are not occurring.

Cause: The State does not appear to be ensuring compliance with the criteria.

Effect: Cash flows could be adversely impacted and travel advances may have to be written off.

Prior Year Status: This matter was reported in the 2004 Single Audit Report.

Recommendation: The State should consider automatically collecting the advances through payroll deductions and should reconcile the travel advance subledger to the general ledger on a monthly basis.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Currently, travel advances are only reconciled at year-end as part of the annual audit tasks and payroll deductions are not being made for those employees who have not filed travel expense claims. The exception in FY-04 was the cancellation of all travel advances charged to sector grants that were still open as of December 31, 2005. The travel accountant in the Finance department will be the responsible official for performing monthly reconciliations and making deductions of outstanding advances when appropriate. Target date is December 31, 2005.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-05
Area: Approval of Payroll Master File Changes

Criteria: All payroll master file changes should be properly edited and approved.

Condition: No edits or approvals of changes to master file information are documented. Such appear unilaterally performed.

Cause: No documented review process is required.

Effect: Unauthorized changes to the master files could occur and go undetected.

Prior Year Status: This matter was reported in the 2004 Single Audit Report.

Recommendation: An edit of changes should be printed and proven by a higher level and that review should be evidenced in writing.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. We will explore with our software vendor the possibility of having a report print of masterfile changes that could then be used to obtain higher approvals. The Director, OAS, will be the responsible official with planned implementation in FY-06.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-06
Area: Purchase Advances

Criteria: Purchase advances should be cleared in a timely manner upon the receipt of goods and services.

Condition: Purchase advances outstanding at September 30, 2005 that have not been cleared as of May 31, 2006 aggregate some \$268,507. The State has not been able to determine the status of these advances and has been unable to determine if such are refundable from the vendor or whether goods or services have been received.

Cause: The cause of this condition is that the State decentralized its procurement process some years ago. Each Department picks up merchandise directly from the applicable vendors. Departments do not appear to be held responsible for executing receiving reports. Finance does not clear advances without evidence of the receipt of goods or services. Finance can merely request for the status of the advances from the applicable Departments. However, Finance appears unable to resolve this matter without Departmental assistance.

Effect: The effect of this condition is that purchase advances of material amounts can remain on the books and will have to be written off to the general fund if non-resolution occurs.

Recommendation: The State should consider centralizing the pick up and delivery function with in the Office of Supply Management. That office is under the supervision of the Department of Administration. Departments could still request advance payments to facilitate their receipt of goods and services but Finance would have the ability to ensure the receipt of receiving reports. Given the cost to the General Fund of writing off advances that could be otherwise charged to reimbursable grants, it appears that the expenditure of funds to centralize delivery of the merchandise to affected Departments and the delivery of receiving reports to the Department of Administration may be economically justified.

Auditee Response and Corrective Action Plan: This issue will be brought to the attention of the Governor for discussion and decision. Action will be taken to either centralize the pickup and delivery of goods that are paid in advance, or to hold the Directors directly responsible to ensure that receiving reports for these transactions are filed with Procurement & Property Management. Implementation of corrective action will begin August 2006.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No.: 2005-07
Area: Approval of Journal vouchers

Criteria: All journal vouchers should be reviewed and be approved by a higher level of authority.

Condition: From time to time, it appears that journal vouchers are not subject to review and approval by management.

Cause: The cause of this condition appears to be an oversight by management.

Effect: The effect of this condition is that incorrect journal vouchers could be executed.

Recommendation: The Department of Administration should ensure that all journal vouchers are subject to review and approval.

Auditee Response and Corrective Action Plan: As mentioned, the occurrences are due to oversight. The Chief of Finance will make sure that all vouchers are properly reviewed and endorsed by alternative source. Corrective action in place now.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2005

QUESTIONED COSTS

For the year ended September 30, 2005, the following questioned costs remain unresolved.

	Questioned Costs Set Forth in Prior Audit Report <u>2004</u>	<u>Questioned Costs Resolved</u>	<u>Questioned Costs at September 30, 2005</u>
Unresolved Questioned Costs FY 99	\$ 68,619	\$ -	\$ 68,619
Unresolved Questioned Costs FY 00	30,010	-	30,010
Unresolved Questioned Costs FY 01	58,279	-	58,279
Unresolved Questioned Costs FY 02	87,017	87,017 (2)	-
Unresolved Questioned Costs FY 03	101,558	-	101,558
Unresolved Questioned Costs FY 04	33,196	20,750 (1)	12,446
Unresolved Questioned Costs FY 05	<u>-</u>	<u>-</u>	<u>22,008</u>
	\$ <u>378,679</u>	\$ <u>107,767</u>	\$ <u>292,920</u>

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

- (1) These costs were resolved in a June 2, 2006 letter from the grantor agency.
- (2) These costs were resolved through repayment to the affected federal agency in April 2006.