

**State of Yap  
Federated States of Micronesia**

Financial Statements and  
Independent Auditors' Reports  
as of and for the year ended  
September 30, 2011



**FORTENBERRY & BALLARD, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**State of Yap**  
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FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of 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, 2011, which collectively comprise the State's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We did not audit the financial statements of Public Transportation System. The financial statements of Public Transportation System represent 100% of the business-type activities included in the State's basic financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Public Transportation System, is based on the reports of the other auditors.

The financial statements of the aggregate discretely presented component units do not include financial data for the Yap Fishing Authority, a legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the State's primary government unless the State also issues financial statements for the financial reporting entity that include the financial data for its component units. The State has not issued the Yap Fishing Authority's financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component unit cannot be determined.

In our opinion, except for the effects of omitting the Yap Fishing Authority, a component unit, as discussed previously, the financial statements of the aggregate discretely presented component units referred to previously present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the State of Yap as of September 30, 2011, and the changes of financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-12, as well as the General Fund and major Special Revenue Fund's budgetary comparison information and notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The General Fund budgetary comparison and notes are on pages 53-55; however the State does not have a budgetary comparison for its major Special Revenue Fund, the Foreign Assistance Grant Fund. The opinion above, though, on the basic financial statements is not affected by the omission of this budgetary comparison. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Our audit was conducted for the purpose of forming opinions on the State's financial statements that collectively comprise the State's financial statements as a whole. The accompanying combining and individual fund financial statements and schedules, as set forth in Section IV of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the State. The accompanying schedule of expenditures of federal awards is presented for additional analysis as required by U.S. Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such additional information has been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2012, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Fortenberry & Ballard, PC  
Fortenberry & Ballard, PC  
March 21, 2012

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# YAP STATE GOVERNMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2011

This analysis, prepared by the Office of Administrative Services, offers readers of the Yap State Government's (Yap State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2011. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. Fiscal year 2010 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, 2011, Yap State's total net assets decreased by \$6.7 million (or 7%) from the \$95.5 million in the prior year to \$88.1 million, which includes a prior period adjustment of \$(659,191).
- In comparison to fiscal year 2010, revenues decreased \$6.5 million (or 25%), and total expenses increased \$2.8 million (or 12%). The decrease in revenue is mainly due to unrealized losses in the fair value of investments.
- Fiscal year 2011 revenues available for appropriation were \$2.97 million less than budgeted for the general fund. This analysis includes a \$2.25 million investment loss and budgeted reserves of \$1.89 million. Actual expenditures were \$1,578,965 less than the final budgeted amount.
- During fiscal year 2010, the Yap State Trust Fund was established as mandated by YSL No. 7-17, which required that \$30 million of the state's reserves be set aside for future purposes. At the end of fiscal year 2011, the trust fund reported a balance of \$30,517,908, which is a decrease of \$1.2 million from the prior year, due to unrealized losses in the fair value of the investments.
- At the end of the fiscal year, the unassigned balance of the general fund was \$7.99 million. Beginning with fiscal year 2011, GASB 54 changed the classifications of fund balance, so as to more consistently apply and clarify fund balance definitions.

### 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 four components: 1) government-wide financial statements, 2) fund financial statements, 3) proprietary fund financial statements, and 4) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds component units.

# YAP STATE GOVERNMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2011

### Government-Wide Financial Statements

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

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

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

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

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

### Fund Financial Statements

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

Yap State has two types of funds:

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

## YAP STATE GOVERNMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ending September 30, 2011

- 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 2011, Yap State's assets exceeded liabilities by \$88.1 million. Of its total net assets, \$75.65 million is restricted for specific uses. Included in the restricted amount, \$29.95 million is invested in capital assets (buildings, roads, etc.). Yap State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Yap State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following schedule summarizes Yap State's net assets as of September 30, 2011 with comparative figures for the prior year:

	2011	2010
<u>Assets</u>		
Current assets	\$ 28,455,814	\$ 32,899,452
Other assets	40,596,601	40,237,792
Capital assets, net	29,953,669	32,975,713
Total assets	<u>99,006,084</u>	<u>106,112,957</u>
<u>Liabilities</u>		
Current liabilities	4,839,360	4,436,205
Non-current liabilities	6,017,392	6,209,909
Total liabilities	<u>10,856,752</u>	<u>10,646,114</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	29,277,238	32,975,713
Restricted	46,370,780	60,693,493
Unrestricted	11,766,824	1,797,637
Total net assets	<u>\$ 88,149,332</u>	<u>\$ 95,466,843</u>

At the end of fiscal year 2011, Yap State's unrestricted assets show a surplus of \$11.82 million (13.4% of total net assets). This unrestricted surplus is available for discretionary purposes subject to appropriation by the Yap State Legislature. In comparison to fiscal year 2010, Yap State's net assets decreased by \$6.7 million. Key elements of the decrease and the differences from the prior year are shown in the following schedule:

## YAP STATE GOVERNMENT

### MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2011

	2011	2010*
Revenues:		
Program Revenues:		
Charges for services	\$ 1,393,100	\$ 1,386,738
Operating grants and contributions	16,065,138	15,159,299
General Revenues:		
Taxes	3,390,198	3,880,885
Unrestricted investment (losses) earnings	(2,150,394)	4,126,615
Other	441,792	1,126,490
Total revenues	19,139,834	25,680,027
Expenses:		
General government	4,317,738	2,759,245
Health Services	5,075,108	4,814,805
Education	6,144,711	5,889,725
Economic development	1,352,161	1,303,166
Public Safety	708,676	759,729
Public works and transportation	4,293,265	3,994,664
Community affairs	373,690	687,870
Boards and commissions	549,673	570,371
Payments to components	67,590	428,891
Judiciary	243,142	261,940
Public auditor	196,763	207,521
Other	1,988,466	1,247,773
Public Transportation System	487,171	73,637
Total expenses	25,798,154	22,999,337
Change in net assets	(6,658,320)	2,680,690
Net assets at the beginning of the year	95,466,843	94,927,294
Prior period adjustment	(659,191)	(2,141,141)
Net assets at the end of the year	\$ 88,149,332	\$ 95,466,843

Total revenues in fiscal year 2011 decreased \$6.5 million from prior year's \$25.68 million primarily due to losses on the fair value of investments.

Total expenses in fiscal year 2011, \$25.8 million, increased from fiscal year 2010's level of \$22.99 million.

### FINANCIAL ANALYSIS OF YAP STATE'S FUNDS

As noted earlier, Yap State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2011, Yap State's governmental funds reported a combined fund balance of \$64.43 million, which represents a decrease of \$4.4 million, including a prior period adjustment of (\$644,791), in comparison with fiscal year 2010. Of the total fund balance, \$56.44 million is nonspendable, restricted, or committed. These classifications indicate that the funds are not available for new spending because it is: 1) nonspendable because it is already committed

# YAP STATE GOVERNMENT

## MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2011

to assets or is restricted by law or other stipulation (\$40.46 million); 2) restricted to liquidate contracts and purchase orders of the prior period (\$1.04 million); 3) restricted because the funds are already committed to assets (\$5.5 million); 4) restricted due to purpose of the funds, special revenue or capital projects, (\$1.9 million); or 5) assigned for different reasons (\$7.54 million). The unassigned combined fund balance is \$7.99 million. As mentioned above, GASB 54 was implemented in fiscal year 2011, which changed the classification definitions in the State's fund balance.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Yap State budgetary report is impacted by the financial market's performance. The market's volatile performance towards the end of the fiscal year resulted in a \$5.3 million unrealized loss which largely contributed to the state's negative variance in revenues over expenditures of \$3.76 million.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

Yap State's investment in capital assets for the primary government as of September 30, 2011, amounted to \$113.14 million, net of accumulated depreciation of \$83.86 million, leaving a net book value of \$29.28 million. This represents a net decrease of \$3.16 million from fiscal year 2010. The table below summarizes Yap State's capital assets:

	<u>2011</u>	<u>2010</u>
Land	\$ 3,170,610	\$ 3,170,610
Buildings	5,078,169	5,555,054
Equipment	1,994,776	2,280,221
Furniture and Fixtures	184,734	186,829
Vehicles	530,864	754,582
Boats	3,054,616	3,267,792
Infrastructure	15,263,469	17,233,602
	<u>\$ 29,277,238</u>	<u>\$ 32,448,690</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 totaled \$6.29 million at September 30, 2011. This debt is comprised of the non-current portion of the following ADB Loans: Early Retirement Program Loan, Private Sector Development Loan, and the Basic Social Services Loan with all three adding to \$5.435 million, liability for compensated absences of \$0.6 million, and long-term payments due under land purchase agreements of \$0.24 million. Principal payments on the outstanding ADB loans began in

## **YAP STATE GOVERNMENT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ending September 30, 2011**

2008 and are partially covered by \$1.85 million deposited in a restricted investment account jointly held with the FSM National Government.

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

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

With the establishment of the Yap State Trust Fund in fiscal year 2010, the unreserved general fund surplus was significantly reduced. The lingering instability in the global economy had the government recognize an investment loss during the year. Other economic factors in the local economy remained relatively stagnant. No new growth in local taxes or fees are expected for fiscal year 2012, except for the potential income that new Compact Infrastructure projects may generate when such projects are implemented.

Yap State management also maintains a cautious approach with respect to funding from Compact sector grants, currently comprising 59% of Yap State's revenues. The delayed implementation of the public infrastructure grants, and the uncertainties concerning decisions made by the U.S. Department of Interior in its interpretation of the *Fiscal Procedures Agreement* --- continues to inform Yap State's prudent choices and conservative projections with respect to Compact sector funding in fiscal year 2012 and beyond.

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

#### **CONTACTING YAP STATE'S FINANCIAL MANAGEMENT**

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

## FINANCIAL STATEMENTS

# YAP STATE GOVERNMENT

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS:</b>				
Current Assets:				
Cash and cash equivalents	\$ 126,280	\$ 25,194	\$ 151,474	\$ 1,894,812
Investments	24,341,095	--	24,341,095	2,015,934
Receivables, net of allowance for uncollectibles	2,043,398	8,199	2,051,597	963,256
Advances	1,737,131	--	1,737,131	--
Inventories	--	--	--	945,166
Other current assets	--	174,517	174,517	146,373
Total Current Assets	<u>28,247,904</u>	<u>207,910</u>	<u>28,455,814</u>	<u>5,965,541</u>
Noncurrent Assets:				
Restricted assets:				
Investments	6,585,757	--	6,585,757	3,245,121
Pooled investments	32,174,820	--	32,174,820	--
Loans receivable	1,836,024	--	1,836,024	147,794
Capital assets, net of accumulated depreciation	29,277,238	676,431	29,953,669	13,522,382
Total Noncurrent Assets	<u>69,873,839</u>	<u>676,431</u>	<u>70,550,270</u>	<u>16,915,297</u>
Total Assets	<u>98,121,743</u>	<u>884,341</u>	<u>99,006,084</u>	<u>22,880,838</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
Current portion of long-term debt	177,629	--	177,629	1,168,562
Accounts payable	2,208,705	29,060	2,237,765	1,493,112
Compensated Absences, current portion	90,042	--	90,042	--
Other current liabilities and accruals	374,316	11,362	385,678	2,394,886
Deferred revenue	1,838,817	109,429	1,948,246	--
Total Current Liabilities	<u>4,689,509</u>	<u>149,851</u>	<u>4,839,360</u>	<u>5,056,560</u>
Noncurrent Liabilities:				
Noncurrent portion of long-term debt	5,507,150	--	5,507,150	6,980,851
Compensated absences payable	510,242	--	510,242	--
Total Noncurrent Liabilities	<u>6,017,392</u>	<u>--</u>	<u>6,017,392</u>	<u>6,980,851</u>
Total Liabilities	<u>10,706,901</u>	<u>149,851</u>	<u>10,856,752</u>	<u>12,037,411</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	29,277,238	676,431	29,953,669	5,372,969
Restricted For:				
Debt Service	1,656,912	--	1,656,912	--
Continuing Appropriations	1,041,851	--	1,041,851	--
Compact related	5,578,695	--	5,578,695	--
Nonexpendable	38,093,322	--	38,093,322	--
Unrestricted	11,766,824	58,059	11,824,883	5,470,458
Total Net Assets	<u>\$ 87,414,842</u>	<u>\$ 734,490</u>	<u>\$ 88,149,332</u>	<u>\$ 10,843,427</u>

The accompanying notes are an integral part of this statement.

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**YAP STATE GOVERNMENT**  
*STATEMENT OF ACTIVITIES*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2011*

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>PRIMARY GOVERNMENT:</b>			
Governmental activities:			
Judiciary	243,142	--	33,278
Councils of traditional leaders	191,274	--	2,583
Public auditor	196,763	--	--
General government	4,317,738	531,927	1,960,200
Economic development	1,352,161	--	1,552,476
Public safety	708,676	--	--
Community affairs	373,690	1,392	--
Education	6,144,711	--	5,789,565
Public works and transportation	4,293,265	216,228	1,283,897
Health services	5,075,108	327,580	4,330,146
Boards and commissions	549,673	--	52,951
Payments to components	67,590	45,417	1,060,042
Other appropriations	1,689,784	--	--
Interest expense	107,408	--	--
Total Governmental Activities	<u>25,310,983</u>	<u>1,122,544</u>	<u>16,065,138</u>
Business-type Activities:			
Public Transportation System	487,171	270,556	--
Total Primary Government	<u>\$ 25,798,154</u>	<u>\$ 1,393,100</u>	<u>\$ 16,065,138</u>
<b>COMPONENT UNITS:</b>			
Yap Visitors Bureau	\$ 306,490	\$ --	\$ 292,149
Yap State Public Service Corporation	6,601,273	5,682,964	709,686
The Diving Seagull, Inc.	10,610,407	12,266,007	--
Total Component Units	<u>\$ 17,518,170</u>	<u>\$ 17,948,971</u>	<u>\$ 1,001,835</u>

General Revenues:  
Taxes:  
Revenue sharing  
Excise taxes  
Unrestricted investment earnings  
Unrealized gain/(loss) on value of investments  
Other  
Total general revenues

Change in Net Assets

Net Assets - Beginning  
Prior Period Adjustment  
Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total	Component Units
(209,864)		(209,864)	
(188,691)		(188,691)	
(196,763)		(196,763)	
(1,825,611)		(1,825,611)	
200,315		200,315	
(708,676)		(708,676)	
(372,298)		(372,298)	
(355,146)		(355,146)	
(2,793,140)		(2,793,140)	
(417,382)		(417,382)	
(496,722)		(496,722)	
1,037,869		1,037,869	
(1,689,784)		(1,689,784)	
(107,408)		(107,408)	
<u>(8,123,301)</u>		<u>(8,123,301)</u>	
(8,123,301)	(216,615)	(8,339,916)	
<u>(8,123,301)</u>	<u>(216,615)</u>	<u>(8,339,916)</u>	
			\$ (14,341)
			(208,623)
			<u>1,655,600</u>
			<u>1,432,636</u>
2,298,859	--	2,298,859	--
1,091,339	--	1,091,339	--
3,155,469	39	3,155,508	66,759
(5,305,902)	--	(5,305,902)	--
102,419	339,373	441,792	--
<u>1,342,184</u>	<u>339,412</u>	<u>1,681,596</u>	<u>66,759</u>
(6,781,117)	122,797	(6,658,320)	1,499,395
94,855,150	611,693	95,466,843	9,237,622
(659,191)	--	(659,191)	106,410
<u>\$ 87,414,842</u>	<u>\$ 734,490</u>	<u>\$ 88,149,332</u>	<u>\$ 10,843,427</u>

**YAP STATE GOVERNMENT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2011**

	General Fund	Foreign Assistance Grant Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 126,280	\$ --
Equity interest in internal investment pool	18,881,908	3,240,622
Investments	2,000,000	--
Receivables ( net of allowances for uncollectibles):		
Loans	1,836,024	--
FSM national government	65,269	1,720,288
Taxes	31,588	--
Other	164,524	19,500
Due from other funds	--	2,424,398
Advances	832,612	904,519
Restricted assets:	--	--
Pooled investments	1,656,912	--
Investments	--	--
 Total Assets	<b>\$ 25,595,117</b>	<b>\$ 8,309,327</b>
<b>LIABILITIES AND FUND BALANCES:</b>		
Liabilities:		
Accounts payable	\$ 462,982	\$ 1,670,063
Other liabilities and accruals	202,794	134,038
Deferred revenue	16,901	1,049,224
Due to other funds	2,778,147	--
 Total Liabilities	<b>3,460,824</b>	<b>2,853,325</b>
Fund Balances (Deficits):		
Nonspendable:		
Permanent fund	--	--
Advances	832,612	904,519
Receivables--loans	1,836,024	--
Restricted for:		
Related assets	3,500,000	--
Investments	2,000,000	--
Continuing appropriations	891,851	150,000
Special revenue funds	--	2,177,830
Capital projects	--	--
Assigned:		
Road improvements	4,672,165	--
Education	--	95,918
Health services	--	416,486
Infrastructure	--	552,900
Construction	--	--
Other purposes	407,706	1,158,349
Unassigned	7,993,935	--
 Total Fund Balance	<b>22,134,293</b>	<b>5,456,002</b>
 Total Liabilities and Fund Balance	<b>\$ 25,595,117</b>	<b>\$ 8,309,327</b>

The accompanying notes are an integral part of this statement.

Yap State Investment Trust Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 126,280
--	--	22,122,530
--	218,565	2,218,565
--	--	1,836,024
--	24,644	1,810,201
--	--	31,588
--	17,585	201,609
--	806,005	3,230,403
--	--	1,737,131
--	--	--
30,517,908	--	32,174,820
--	6,585,757	6,585,757
<u>\$ 30,517,908</u>	<u>\$ 7,652,556</u>	<u>\$ 72,074,908</u>
\$ --	\$ 75,660	\$ 2,208,705
--	22,612	359,444
--	772,692	1,838,817
--	452,256	3,230,403
<u>--</u>	<u>1,323,220</u>	<u>7,637,369</u>
30,517,908	6,373,137	36,891,045
--	--	1,737,131
--	--	1,836,024
--	--	3,500,000
--	--	2,000,000
--	--	1,041,851
--	191,010	2,368,840
--	(469,241)	(469,241)
--	--	4,672,165
--	--	95,918
--	--	416,486
--	--	552,900
--	228,107	228,107
--	6,323	1,572,378
--	--	7,993,935
<u>30,517,908</u>	<u>6,329,336</u>	<u>64,437,539</u>
<u>\$ 30,517,908</u>	<u>\$ 7,652,556</u>	<u>\$ 72,074,908</u>

**YAP STATE GOVERNMENT**

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2011*

Total fund balances - governmental funds balance sheet	\$ 64,437,539
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	29,277,238
Payables for loan interest which are not due in the current period are not reported in the funds.	(14,872)
Payables for notes which are not due in the current period are not reported in the funds.	(5,684,779)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(600,285)
Rounding difference	1
	<hr/>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 87,414,842</u>

The accompanying notes are an integral part of this statement.

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# YAP STATE GOVERNMENT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Foreign Assistance Grant Fund
Revenue:	<u>                    </u>	<u>                    </u>
Compact funding	\$ --	\$ 11,826,279
Unrestricted investment earnings	3,127,943	--
Unrealized gain/ (loss) on value of investments	(4,103,625)	--
Federal contributions and other grants	--	3,691,899
Revenue sharing	2,298,859	--
Excise taxes	1,091,339	--
CFSM grants	--	33,278
Fees and charges	91,187	--
Departmental charges	772,620	21,809
Other	128,868	93,925
Total revenues	<u>3,407,191</u>	<u>15,667,190</u>
 Expenditures:		
Current:		
Judiciary	197,665	45,477
Councils of traditional leaders	185,777	--
General government	1,177,008	2,817,719
Economic development	113,302	1,142,832
Public safety	559,073	51,387
Community affairs	312,167	35,952
Education	--	6,078,863
Public works and transportation	1,429,681	525,433
Health services	219,788	4,644,152
Boards and commissions	195,372	367,878
Payments to component units	67,590	--
Principal payments on long-term debt	--	177,629
Interest payments on long-term debt	--	78,152
Other appropriations	406,658	540,598
Total expenditures	<u>4,864,081</u>	<u>16,506,072</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>(1,456,890)</u>	 <u>(838,882)</u>
 Other Financing Sources (Uses):		
Operating transfers in	--	239,210
Operating transfers out	(239,210)	--
Total Other Financing Sources (Uses)	<u>(239,210)</u>	<u>239,210</u>
 Net Change in Fund Balances	 (1,696,100)	 (599,672)
 Fund Balances - Beginning	 24,118,202	 6,413,737
Prior Period Adjustment	(287,809)	(358,063)
Fund Balances - Ending	<u>\$ 22,134,293</u>	<u>\$ 5,456,002</u>

The accompanying notes are an integral part of this statement.

Yap State Investment Trust Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 11,826,279
--	--	3,127,943
(1,202,277)	--	(5,305,902)
--	--	3,691,899
--	--	2,298,859
--	127,190	1,218,529
--	293,539	326,817
--	174,266	265,453
--	17,247	811,676
--	45,520	268,313
<u>(1,202,277)</u>	<u>657,762</u>	<u>18,529,866</u>
--	--	243,142
--	812	186,589
--	403,203	4,397,930
--	41,338	1,297,472
--	--	610,460
--	1,245	349,364
--	--	6,078,863
--	41,439	1,996,553
--	--	4,863,940
--	--	563,250
--	--	67,590
--	--	177,629
--	86,694	164,846
--	345,254	1,292,510
<u>--</u>	<u>919,985</u>	<u>22,290,138</u>
<u>(1,202,277)</u>	<u>(262,223)</u>	<u>(3,760,272)</u>
--	--	239,210
<u>--</u>	<u>--</u>	<u>(239,210)</u>
<u>--</u>	<u>--</u>	<u>--</u>
(1,202,277)	(262,223)	(3,760,272)
31,720,185	6,590,478	68,842,602
--	1,081	(644,791)
<u>\$ 30,517,908</u>	<u>\$ 6,329,336</u>	<u>\$ 64,437,539</u>

## YAP STATE GOVERNMENT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds	\$ (3,760,272)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	364,607
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,536,159)
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	185,206
(Increase) decrease in accrued interest from beginning of period to end of period.	(472)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>(34,027)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ (6,781,117)</u>

The accompanying notes are an integral part of this statement.

**YAP STATE GOVERNMENT**  
*STATEMENT OF NET ASSETS*  
*PROPIETARY FUND*  
*SEPTEMBER 30, 2011*

	<u>Public Transportation System</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 25,194
Receivables, net of allowance for uncollectibles	8,199
Other current assets	174,517
Total current assets	<u>207,910</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>676,431</u>
Total assets	<u>\$ 884,341</u>
<u>Liabilities</u>	
Current liabilities:	
Account payable	\$ 29,060
Other liabilities and accruals	11,362
Deferred revenue	109,429
Total liabilities	<u>149,851</u>
<u>Net Assets</u>	
Invested in capital assets	676,431
Unrestricted	58,059
Total net assets	<u>734,490</u>
Total liabilities and net assets	<u>\$ 884,341</u>

The accompanying notes are an integral part of this statement.

**YAP STATE GOVERNMENT**

*STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS*

*PROPIETARY FUND*

*FOR THE YEAR ENDED SEPTEMBER 30, 2011*

	Public Transportation System
Operating revenues:	
Charges for services	\$ 224,896
Sales	45,660
Total operating revenues	<u>270,556</u>
Operating expenses:	
Cost of services	80,725
Administration costs	283,062
Depreciation	123,384
Total operating expenses	<u>487,171</u>
Operating loss	<u>(216,615)</u>
Nonoperating revenues:	
Other revenues	<u>339,412</u>
Total nonoperating expenses	<u>339,412</u>
Change in net assets	122,797
Net assets at the beginning of the year	<u>611,693</u>
Net assets at the end of the year	<u><u>\$ 734,490</u></u>

The accompanying notes are an integral part of this statement.

**YAP STATE GOVERNMENT**  
**STATEMENT OF CASH FLOWS**  
**PROPIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Public Transportation System
Cash flows from operating activities:	
Cash received from customers	\$ 364,786
Cash payments to employees	(146,237)
Cash payments to suppliers	(192,367)
Net cash used in operating activities	<u>26,182</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	245,128
Interest received from short-term investments	39
Net cash provided by noncapital financing activities	<u>245,167</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(272,814)
Net cash used in capital and related financing activities	<u>(272,814)</u>
Net change in cash and equivalents	(1,465)
Cash and cash equivalents at the beginning of the year	<u>26,659</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 25,194</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (216,615)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	123,384
(Increase)/Decrease in assets:	
Receivables, net	(3,244)
Other current assets	117,359
Increase/(Decrease) in liabilities:	
Accounts payable	1,081
Other current liabilities	4,217
Net cash used in operating activities	<u><u>\$ 26,182</u></u>

The accompanying notes are an integral part of this statement.

**YAP STATE GOVERNMENT**  
**COMBINING STATEMENT OF NET ASSETS**  
**COMPONENT UNITS**  
**AS OF SEPTEMBER 30, 2011**

	Yap Visitors Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 25,890	\$ 119,834	\$ 1,749,088	\$ 1,894,812
Time certificates of deposit	-	-	1,566,000	1,566,000
Investments	-	-	449,934	449,934
Receivables, net:				
General	-	949,549	-	949,549
Other	-	13,587	120	13,707
Inventories	-	871,204	73,962	945,166
Other current assets	-	51,004	95,369	146,373
Total current assets	<u>25,890</u>	<u>2,005,178</u>	<u>3,934,473</u>	<u>5,965,541</u>
Noncurrent assets:				
Restricted cash and cash equivalents	-	1,168,832	2,076,289	3,245,121
Loan receivable	147,794	-	120	147,914
Capital assets, net of accumulated depreciation	9,646	8,366,255	5,146,481	13,522,382
Total noncurrent assets	<u>157,440</u>	<u>9,535,087</u>	<u>7,222,770</u>	<u>16,915,417</u>
Total assets	<u>\$ 183,330</u>	<u>\$ 11,540,265</u>	<u>\$ 11,157,243</u>	<u>\$ 22,880,838</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ -	\$ 232,757	\$ 1,260,355	\$ 1,493,112
Current portion of long-term debt	-	284,421	884,141	1,168,562
Amounts held in custody for others	-	181,368	-	181,368
Other liabilities and accruals	-	1,570,095	643,423	2,213,518
Total current liabilities	<u>-</u>	<u>2,268,641</u>	<u>2,787,919</u>	<u>5,056,560</u>
Noncurrent liabilities:				
Noncurrent portion of long-term debt	-	3,612,430	3,368,421	6,980,851
Total liabilities	<u>-</u>	<u>5,881,071</u>	<u>6,156,340</u>	<u>12,037,411</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	9,646	4,469,404	976,771	5,455,821
Restricted, expendable	-	1,168,832	2,076,289	3,245,121
Unrestricted	173,684	20,958	1,947,843	2,142,485
Total net assets	<u>183,330</u>	<u>5,659,194</u>	<u>5,000,903</u>	<u>10,843,427</u>
Total liabilities and net assets	<u>\$ 183,330</u>	<u>\$ 11,540,265</u>	<u>\$ 11,157,243</u>	<u>\$ 22,880,838</u>

See accompanying notes to financial statements.

**YAP STATE GOVERNMENT**

*COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
COMPONENT UNITS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011*

	Yap Visitors Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Operating revenues:				
Charges for services	\$ -	\$ 5,123,712	\$ -	\$ 5,123,712
Sales		559,252	12,266,007	12,825,259
Total operating revenues	<u>-</u>	<u>5,682,964</u>	<u>12,266,007</u>	<u>17,948,971</u>
Operating expenses:				
Cost of services	-	5,288,214	9,275,724	14,563,938
Administration costs	291,701	571,019	285,271	1,147,991
Depreciation and amortization	14,789	722,303	703,428	1,440,520
Total operating expenses	<u>306,490</u>	<u>6,581,536</u>	<u>10,264,423</u>	<u>17,152,449</u>
Operating income (loss)	<u>(306,490)</u>	<u>(898,572)</u>	<u>2,001,584</u>	<u>796,522</u>
Nonoperating revenues (expenses):				
Contributions from the primary government	292,149	709,686	-	1,001,835
Interest income	625	1,322	90,476	92,423
Interest expense	-	(16,109)	(345,984)	(362,093)
Other	-	(3,628)	(25,664)	(29,292)
Total nonoperating revenues (expenses), net	<u>292,774</u>	<u>691,271</u>	<u>(281,172)</u>	<u>702,873</u>
Change in net assets	(13,716)	(207,301)	1,720,412	1,499,395
Net assets at the beginning of the year	197,046	5,866,495	3,174,081	9,237,622
Prior period adjustment	-	-	106,410	106,410
Net assets at the end of the year	<u>\$ 183,330</u>	<u>\$ 5,659,194</u>	<u>\$ 5,000,903</u>	<u>\$ 10,843,427</u>

See accompanying notes to financial statements.

State of Yap  
Federated States of Micronesia  
Notes to the Financial Statements  
Year Ended September 30, 2011

## 1. Summary of Significant Account Policies

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

### A. Reporting Entity

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

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

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

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

#### i. Discretely Presented Component Units

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

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

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

seven-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature.

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 was governed by a seven member Board of Directors in fiscal year 2011, but that number was reduced to a five member Board in October, 2011.

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

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

ii. Omitted Component Units

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

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

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 inter-fund activity has been eliminated from these statements except for other

charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

The government-wide Statement of Net Assets reports \$29,953,669 of net assets invested in capital assets, net of related debt, \$8,277,458 of restricted net assets-expendable, \$38,093,322 of restricted net assets- nonexpendable and unrestricted net assets of \$11,824,883.

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

### C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds.

Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

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

#### D. Measurement Focus and Basis of Accounting

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

The revenues and expenses of proprietary funds are classified as operating and non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary operations.

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

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

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

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

The State reports the following fund types:

##### Governmental Funds

- i. General Fund – This fund is the primary operating fund of the State. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- ii Special Revenue Funds – These funds account for specific revenue sources that have been aggregated according to enabling legislation to support specific governmental activities.
- iii Capital Projects Funds – These funds account for the acquisition or construction of major State capital facilities financed primarily from loans and federal reimbursements.

- iv Permanent Fund – This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government.

#### Proprietary Funds

- i Public Transportation System (PTS) – PTS was created by Yap State law (YSL) No. 1-170 and is responsible for the provision of reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature. Because it is not a legally separate entity from Yap State, PTS is presented as a proprietary fund of the state.

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

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

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

Yap State Investment Trust Fund, a Governmental Fund Type Permanent Fund. This fund accounts for some of the State’s invested funds in a way the future financial needs of the State can be met. The earnings from the fund will be credited to the General Fund, while any unrealized gains or losses on the market value will be credited to the Yap State Investment Trust Fund.

#### E. Reporting Standards

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

#### F. Cash and Cash Equivalents and Time Certificates of Deposit

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

#### G. Investments

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

total equity is owned, on the equity method if greater than twenty percent and less than fifty percent is owned, and on a consolidated basis if greater than fifty percent is owned.

#### H. Receivables

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both 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 FSM national government.”

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. Inter-fund Activity

In general, eliminations have been made to minimize the double-counting of internal activity, including internal service fund type activity on the government-wide financial statements. Excess revenues or expenses from the internal service funds have been allocated to the appropriate function originally charged for the internal sale as part of this process. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

#### J. Prepaid Items and Inventories

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

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

#### K. Inter-fund 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) inter-fund 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.

#### L. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized pooled investments from Asian Development Bank loan proceeds and earnings in

the amount of \$1,656,912 in the Yap State Early Retirement Scheme, \$30,517,908 is the amount the State has invested in the Yap State Trust Fund pursuant to YSL 7-17, and investments in the amount of \$6,373,137 are restricted under the Compact of Free Association in that they are not available for distribution until October 2023.

M. Capital Assets

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

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

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

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

N. Deferred Revenue

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

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 a rate of up to one working day per bi-weekly pay period.

P. Fund Equity

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

These fund balances reported for governmental funds are classified in a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

*Nonspendable fund balance* includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

*Restricted fund balance* includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

*Committed fund balance* includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the legislature, the State's highest level of decision-making authority. There is no amount considered committed at September 30, 2011.

*Assigned fund balance* includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. There were no assigned amounts in the State's fund balance at September 30, 2011.

*Unassigned fund balance* is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

Below are the classifications of fund balance for the State as of September 30, 2011.

	General	Foreign Assistance Grant Fund	Yap State Investment Fund	Other Governmental Funds	Total
<b>Nonspendable:</b>					
Permanent fund principal	\$ -	\$ -	\$30,517,908	\$ 6,373,137	\$ 36,891,045
Advances	832,612	904,519	-	-	1,737,131
Receivables: Loans	1,836,024	-	-	-	1,836,024
<b>Restricted:</b>					
Pooled investments	1,656,912	-	-	-	1,656,912
Equity investment in internal investment pool	1,843,088	-	-	-	1,843,088
Investments	2,000,000	-	-	-	2,000,000
Appropriations	891,851	150,000	-	-	1,041,851
Special revenue funds	-	2,177,830	-	191,010	2,368,840
Capital projects	-	-	-	(469,241)	(469,241)
<b>Assigned:</b>					
Road improvements	4,672,165	-	-	-	4,672,165
Education	-	95,918	-	-	95,918
Health services	-	479,208	-	-	479,208
Infrastructure	-	552,900	-	-	552,900
Construction	-	-	-	228,107	228,107
Other purposes	407,706	1,095,627	-	6,323	1,509,656

Unassigned	<u>7,993,935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,993,935</u>
	<u>\$ 22,134,293</u>	<u>\$5,456,002</u>	<u>\$30,517,908</u>	<u>\$ 6,329,336</u>	<u>\$ 64,437,539</u>

The amount restricted for related assets within the General Fund includes the amount of pooled investments and the equity investment in internal investment pool totaling \$3,500,000 set aside for future repayment of the Early Retirement Program Loan.

As of September 30, 2011, the following funds have portions of fund balance restricted for continuing appropriations, representing amounts legally segregated for a specific future use from the applicable funds. Detailed continuing appropriations as of September 30, 2011, are as follows:

Major Governmental Funds

General Fund:

Autopsies (YSL No. 5-47)	\$ 6,442
YWA Daycare Bldg Matching (YSL No. 6-48)	2,479
Disaster/Search and Rescue (YSL No.5-84)	822
Yap State Scholarship (YSL No. 6-48)	11,451
Yap State Development Investment Loan (YSL No. 5-1)	200,000
Mobil fuel Farm Retaining Wall ( YSL No. 6-81)	397,465
Infrastructure Maintenance Fund (YSL No. 7-44)	99,814
Infrastructure Maintenance Fund (YSL No. 7-47)	<u>173,378</u>
	<u>891,851</u>

Foreign Assistance Grants

Yap Community Development Program Matching (YSL No. 5-34)	<u>150,000</u>
Total Continuing Appropriations	<u>\$ 1,041,851</u>

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

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are

effective for periods beginning after June 15, 2010. The implementation of this statement did not have a material effect on the financial statements of the State.

In June 2009, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2010. The implementation of this statement did not have a material effect on the financial statements of the State.

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements of this Statement are effective for periods beginning after June 15, 2009. The implementation of this statement did not have a material effect on the financial statements of the State.

#### T. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2010 from which summarized information was derived.

#### U. Reclassification

Due to the provisions of GASB Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, major funds presented in the previous year may not be major funds presented in the current year. Concurrently, major funds presented in the current year may not be major funds presented in the previous year. However, the State shows the same major funds at September 30, 2011 and September 30, 2010.

### 2. Deposits and Investments

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

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

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

- Cash equivalents – The investment manager may engage in all normally accepted short-term investment practices including, but not limited to U.S. Treasury and government agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply: 1)

Commercial paper must be rated A-1 by Standard & Poor's, P1 by Moody's Investor Services, or higher; and 2) Certificates of deposit must be from FDIC insured banks, which must have assets in excess of \$2 billion. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury obligations at 102%.

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

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

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

Yap State Government does not have a policy in regard to ratings of cash equivalents, stocks, or bonds. The State also does not specify diversification of its portfolio.

#### A. Deposits

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

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

As of September 30, 2011, the carrying amount of the primary government's total cash and cash equivalents was \$151,474 and the corresponding bank balance was \$661,223, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance, which insures deposits in FDIC banks up to \$250,000. The State does not require collateralization of its cash deposits; therefore, \$383,566 was uncollateralized. Accordingly, these deposits were exposed to custodial credit risk at September 30, 2011. The State has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.

As of September 30, 2011, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$6,705,933 and the corresponding bank balances were \$7,183,303, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance, which insures deposits in FDIC banks up to \$250,000. The State does not require collateralization of its cash deposits; therefore, \$6,369,569 was uncollateralized. Accordingly, these deposits were exposed to custodial credit risk at September 30, 2011. The discretely presented component units have not experienced any losses on such accounts and each unit's management believes it is not exposed to any significant credit risk on its deposits.

#### B. Investments

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

may become more financially independent by placing its invested funds in a Trust account. Investment income originating from the pool accrues to the General Fund.

As of September 30, 2011, the fair values of the investments were as follows:

	General Fund	Foreign Assistance Grant Fund	Yap State Investment Trust Fund	Other Governmental Funds	Total
Fixed income securities:					
Domestic fixed income	\$ -	\$ -	\$ 9,648,922	\$ -	\$ 9,648,922
Other investments:					
Equities	158,546	2,893,481	18,052,312	197,800	21,302,139
Money market funds	20,330,708	341,001	2,629,740	6,585,757	29,887,206
Cash management accounts	49,566	6,140	186,934	20,765	263,405
Total investments by fund	<u>\$ 20,538,820</u>	<u>\$ 3,240,622</u>	<u>\$ 30,517,908</u>	<u>\$ 6,804,322</u>	<u>\$ 61,101,672</u>

As of September 30, 2011, the General Fund holds 10.7% of the shares of the Bank of the Federated States of Micronesia in the amount of \$1,000,000, 14.3% of the shares of the Pacific Islands Development Bank in the amount of \$1,000,000, and an equity investment in Palau Micronesia Air (PMA) in the amount of \$500,000. As the fair market value of these investments, except for PMA, is not readily available, such have been recorded at cost. The shares in Palau Micronesia Air have been fully reserved for through an impairment loss.

As of September 30, 2011, the State's fixed income securities, including their Moody's Investor Service and/ or S & P credit ratings, had the following maturities:

	Rating		Maturity				Total
	Moody's	S&P	>1	1-5	6-10	Over	
Federal National Mortgage Association Federal Home Loan Mortgage Corporation National Credit Union Administration		AA+	\$ -	\$ 99,884	\$ -	\$1,962,941	\$2,062,825
Guaranteed Notes	AAA		-	77,649	289,969	-	367,618
Government National Mortgage Association		AA+	-	-	-	380,476	380,476
International Bonds	AA3	A+	-	23,149	-	-	23,149
International Bonds	BAA2	BBB	-	14,685	-	39,280	53,965
International Bonds	AA3	A+	-	118,184	-	-	118,184
International Bonds	AA1	AA-	-	55,210	-	-	55,210
International Bonds	BAA1	BBB	-	24,360	-	54,120	78,480
International Bonds	BAA2	BBB-	-	51,766	-	-	51,766
International Bonds	A1	A+	-	28,635	-	-	28,635
International Bonds	A2	AA-	-	36,211	-	-	36,211
International Bonds	BAA3	BBB	-	53,680	-	-	53,680
International Bonds	BAA3	BBB-	-	-	61,257	-	61,257
International Bonds	AA2	A	-	-	61,327	-	61,327
International Bonds	BAA2	BBB+	-	-	-	27,422	27,422
Corporate Bonds	BAA1	BBB+	34,639	158,863	23,775	231,725	449,002
Corporate Bonds	A2	A	54,306	187,138	61,365	-	302,809
Corporate Bonds	A2	A-	59,301	-	-	19,436	78,737
Corporate Bonds	BAA1	A-	27,157	39,818	-	-	66,975
Corporate Bonds	AA2	AA-	-	23,991	-	-	23,991
Corporate Bonds	A3	BBB+	-	66,128	-	-	66,128

Corporate Bonds	A3	A-	-	156,270	-	-	156,270
Corporate Bonds	A1	A+	-	24,536	-	69,872	94,408
Corporate Bonds	AA3	A+	-	47,287	50,525	109,853	207,665
Corporate Bonds	AA3	AA	-	90,307	32,080	-	122,387
Corporate Bonds	A3	A	-	54,619	53,565	-	108,184
Corporate Bonds	A1	A	-	123,314	35,743	102,179	261,236
Corporate Bonds	AA1	AA	-	30,159	-	-	30,159
Corporate Bonds	BAA2	BBB	-	124,503	220,660	160,070	505,233
Corporate Bonds	BAA3	BBB	-	83,714	55,074	26,257	165,045
Corporate Bonds	BAA3	BBB-	-	72,237	-	65,527	137,764
Corporate Bonds	BAA2	BBB+	-	58,937	-	59,844	118,781
Corporate Bonds	BAA1	A	-	45,161	-	-	45,161
Corporate Bonds	A1	AA	-	98,861	36,341	-	135,202
Corporate Bonds	BAA2	BBB-	-	77,550	70,244	61,121	208,915
Corporate Bonds	BAA1	BBB	-	76,039	51,718	-	127,757
Corporate Bonds	BAA1	A-	-	59,333	-	63,128	122,461
Corporate Bonds	BAA2	A-	-	-	13,329	-	13,329
Corporate Bonds	AAA	AAA	-	-	45,442	-	45,442
Corporate Bonds	AA2	AA	-	-	-	104,762	104,762
Corporate Bonds	AA2	AA+	-	-	-	110,697	110,697
Corporate Bonds	A3	A-	-	-	-	128,321	128,321
U. S. Treasury notes and bonds	AAA	AA+	99,737	1,001,480	407,064	413,298	1,921,579
Municipal bonds	A1	A-	-	-	-	40,837	40,837
Total			<u>\$275,140</u>	<u>\$3,283,658</u>	<u>\$1,569,478</u>	<u>\$4,520,646</u>	<u>\$9,648,922</u>

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

*Custodial Credit Risk - Investments.* Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State of Yap's name by the state's custodial financial institutions at September 30, 2011.

*Concentration of Credit Risk.* Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of September 30, 2011, the State did not have any investment in a single issue totaling more than 5% of its total investment.

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

Discretely Presented Component Units

The Diving Seagull, Inc.

As of September 30, 2011, the fair values of the investments were as follows:

Fixed Income Securities:

Domestic Fixed Income \$ 190,404

Other investments:

Equities 241,556  
 Money Market Funds 16,476  
 Cash Management Accounts 1,498  
Total Other Investments 259,530

Total Fair Value of Investments \$ 449,934

As of September 30, 2011, the Diving Seagull's fixed income securities, including their Moody's Investor Service and/ or S & P credit ratings, had the following maturities:

	Rating		Maturity			
	Moody's	S&P	>1	1-5	6-10	Total
Federal National Mortgage Assn		AA+	\$ -	\$ 29,358	\$ -	29,358
U.S. Treasury Notes	AAA	AA+	4,070	73,280		77,350
Corporate bonds	A2	A+	10,268			10,268
Corporate bonds	AA2	AA+		10,702		10,702
Corporate bonds	A3	A-		23,107		23,107
Corporate bonds	A1	A		10,432		10,432
Corporate bonds	A1	A+		5,169		5,169
Corporate bonds	A1	AA			12,072	12,072
Corporate bonds	A2	A			11,946	11,946
Total			<u>\$ 14,338</u>	<u>\$ 152,048</u>	<u>\$ 24,018</u>	<u>\$190,404</u>

3. Receivables

Receivables as of September 30, 2011, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General	Foreign Assistance Grants	Nonmajor and Other Funds	Total
Receivables:				
Loans	\$ 10,060,125	\$ -	\$ 2,000,000	\$ 12,060,125
FSM National Government	65,269	3,891,073	-	3,956,342
Taxes	154,130	-	788,744	942,874
Other	283,966	19,500	\$ 17,585	321,051
	<u>10,563,490</u>	<u>3,910,573</u>	<u>2,806,329</u>	<u>17,280,392</u>
Less: allowance for uncollectible accounts	<u>(8,466,085)</u>	<u>(2,170,785)</u>	<u>(2,764,100)</u>	<u>(13,400,970)</u>
Net receivables	<u>\$ 2,097,405</u>	<u>\$ 1,739,788</u>	<u>\$ 42,229</u>	<u>\$ 3,879,422</u>

Loans receivable of the primary government as of September 30, 2011 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 uncollectible.	\$ 6,724,101
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 uncollectible.	1,000,000
Note receivable from the Yap Investment Trust, appropriated under YSL No. 4-85, uncollateralized, due September 30, 2000, interest at 1% per annum. This note has been fully provided for in the allowance for uncollectible.	500,000
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.	391,251
Note receivable from Yap State Public Service Corporation, uncollateralized, original principal of \$1,600,000 due in principal and interest payments of \$10,202 starting November 1, 2009; interest at 1%, maturing in October 2023. The proceeds of the note were used for the repayment to prior non-government utility customers pursuant to YSL Bill # 7-38 & 7-79.	1,444,773
	<u>\$ 10,060,125</u>

Non-major Government 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 uncollectible.	\$ 2,000,000
	<u>\$ 12,060,125</u>

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

	Yap Visitors Bureau	Yap State Public Service Corporation	The Diving Seagull, Inc.	Total
Receivables:				
General	\$ -	\$ 1,093,219	\$ -	\$ 1,093,219
Other	147,794	13,587	654,090	815,471
	<u>147,794</u>	<u>1,106,806</u>	<u>654,090</u>	<u>1,908,690</u>
Less: allowance for uncollectible accounts	-	(143,670)	(580,128)	(723,798)
Net receivables	<u>\$ 147,794</u>	<u>\$ 963,136</u>	<u>\$ 73,962</u>	<u>\$ 1,184,892</u>

4. Inter-fund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2011, are summarized as follows:

Receivable Fund	Payable Fund	Amount
Foreign Assistance Grants	General Fund	\$ 1,972,141
Foreign Assistance Grants	Nonmajor governmental funds	452,257
Nonmajor governmental funds	General Fund	806,005
		<u>\$ 3,230,403</u>

5. Capital Assets

Capital asset activities of the primary government for the year ended September 30, 2011, are as follows:

	Balance, October 1, 2010	Additions	Retirements	Balance, September 30, 2011
Governmental activities:				
Non-depreciable capital assets:				
Land	\$ 3,170,610	\$ -	\$ -	\$ 3,170,610
	<u>3,170,610</u>	<u>-</u>	<u>-</u>	<u>3,170,610</u>
Depreciable capital assets:				
Buildings	13,424,788	585	-	13,425,373
Heavy equipment	6,473,807	332,020	-	6,805,827
Furniture and Fixtures	220,812	26,102	-	246,914
Vehicles	2,016,584	6,000	-	2,022,584
Boats	5,153,562	-	-	5,153,562
Infrastructure	82,316,716	-	-	82,316,716
	<u>109,606,269</u>	<u>364,707</u>	<u>-</u>	<u>109,970,96</u>
Less accumulated depreciation for:				
Buildings	(7,869,734)	(477,470)	-	(8,347,204)
Heavy equipment	(4,193,586)	(617,465)	-	(4,811,051)
Furniture and Fixtures	(33,983)	(28,197)	-	(62,180)
Vehicles	(1,262,002)	(229,718)	-	(1,491,720)
Boats	(1,885,770)	(213,176)	-	(2,098,946)
Infrastructure	(65,083,114)	(1,970,133)	-	(67,053,247)
Total accumulated depreciation	<u>(80,328,189)</u>	<u>(3,536,159)</u>	<u>-</u>	<u>(83,864,348)</u>
Total net depreciable capital assets	<u>29,278,080</u>	<u>(3,171,452)</u>	<u>-</u>	<u>26,106,628</u>
Total net capital assets	<u>\$ 32,448,690</u>	<u>\$(3,171,452)</u>	<u>\$ -</u>	<u>\$29,277,238</u>

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

Council of traditional leaders	\$ 4,685
Public auditor	5,026
General government	63,889
Economic development	54,689
Public safety	98,216
Community affairs	24,326
Education	393,335
Public works and transportation	2,283,551
Health services	211,168
Other appropriations	397,274
	<u>\$ 3,536,159</u>

	Balance, October 1, 2010	Additions	Retirements	Balance, September 30, 2011
Business-Type activities:				
Depreciable capital assets:				
Buildings	\$ 109,805	1,487	-	111,292
Vehicles	1,167,401	266,278	-	1,433,679
Shop equipment	55,130	3,272	-	58,402
Office equipment	88,541	1,755	-	90,296
	<u>1,420,877</u>	<u>272,792</u>	<u>-</u>	<u>1,693,669</u>
Less accumulated depreciation:	<u>(893,854)</u>	<u>(123,384)</u>		<u>(1,017,238)</u>
Total net capital assets	<u>\$ 527,023</u>	<u>\$ 149,408</u>	<u>\$ -</u>	<u>\$ 676,431</u>

#### 6. Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and non-major governmental funds in the aggregate, for the year ended September 30, 2011 are as follows:

Source	Recipient	Amount
<u>Major Governmental Funds</u>		
General fund	Foreign Assistance Grant Fund	<u>\$ 239,210</u>

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

#### 7. Long-Term Obligations

##### Primary Government

##### Land Acquisition Claims Payable

As of September 30, 2011, \$249,607 in long-term payments due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

##### Asian Development Bank (ADB) Early Retirement Program Loan

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

The ADB loan had a grace period of ten years with the first payment due in February 2009 and the last payment in August 2038. However, pursuant to the terms of the Financing Agreement between the State and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of the State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2002. As of September 30, 2011, the outstanding balance was \$3,788,171.

##### Asian Development Bank (ADB) FSM Program Loan

The State entered into an agreement with the Federated States of Micronesia National Government (FSM) to borrow a portion of the proceeds of the FSM Program Loan with ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)), for the purpose of promoting private sector

development in Yap, with interest at 1 to 1½ %. The principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2011 and the last payment on November 15, 2026. As of September 30, 2011, the balance was \$1,331,145.

Asian Development Bank (ADB) Basic Social Services Loan

The State entered into an agreement with the FSM to borrow a portion of the proceeds of the Basic Social Services Program Loan with ADB (Loan Number 1816 FSM (SF)), for the purpose of promoting basic social services in Yap, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the loan account. The loan is payable semiannually commencing February 1, 2010, at which time the service charge increases to 1.5% per annum, with a maturity date of August 1, 2032. As of September 30, 2011, the balance was \$388,913.

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

Year Ending September 30,	Principal	Interest	Total
2012	\$ 177,629	\$ 73,996	\$ 251,625
2013	196,547	71,081	267,628
2014	199,506	68,122	267,628
2015	202,510	65,118	267,628
2016	205,559	62,069	267,628
2017-2021	1,075,163	262,976	1,338,139
2022-2026	1,146,078	179,563	1,325,640
2027-2031	719,213	107,001	826,214
2032-2036	666,106	48,837	714,942
2037-	830,858	46,478	877,336
	<u>\$ 5,435,171</u>	<u>\$ 985,240</u>	<u>\$ 6,420,411</u>

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. \$3,500,000 identified for future debt service payments is included in the General Fund reserve for related assets of which \$1,656,912 is actually deposited in an investment account held jointly with the FSM National Government. That investment is restricted for the repayment of this debt.

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2011, the following changes occurred in the primary government's long-term liabilities in the statement of net assets:

	Balance, 10/1/10	Additions	Reductions	Balance, 9/30/11	Due within one year
Loan Payable:					
ADB loan	\$5,620,277	\$ -	\$ 185,106	\$ 5,435,171	\$ 177,629
Other:					
Compensated absences	566,258	419,388	385,361	600,285	90,042
Land acquisition claims	249,607	-	-	249,607	-
	<u>815,865</u>	<u>419,388</u>	<u>385,361</u>	<u>849,892</u>	<u>90,042</u>
Total	<u>\$ 6,436,142</u>	<u>\$419,388</u>	<u>\$ 570,467</u>	<u>\$ 6,285,063</u>	<u>\$ 267,671</u>

The above amount in the reductions column of the ADB loan includes special drawing rights of \$7,477.

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC)

Loan of original principal of \$2,270,837 payable to the Asia Development Bank (ADB) borrowed through the Federated States of Micronesia (FSM) for construction of certain water projects. YSPSC was to repay Yap State for interest at 6.82% on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan repayment in Special Drawing Rights commenced August 2007 with the final payment due in February 2032. The loan is collateralized by the guarantee of the FSM National Government. \$ 2,066,461

Uncollateralized note of original principal of \$824,420 payable to Yap State in quarterly interest only payments through March 2003; monthly principal and interest payment of \$5,651 started June 1, 2003; interest at 2%, maturing in May 2017. The proceeds of the note were used for the construction of the warehouse facility and main office. 383,006

Uncollateralized note of original principal of \$1,600,000 payable to Yap State in monthly principal and interest payments of \$10,202 started November 1, 2009; interest at 1%, maturing in October 2023. The proceeds of the note were used for the repayment to prior non-government utility customers pursuant to YSL Bill # 7-38 & 7-79. 1,429,915

Note of original principal of \$103,000 payable to United States of America, acting through the Rural Housing Service, for the construction of the warehouse facility and main office. The note is payable in monthly installments of \$1,075 including interest at 4.625%, which started March 26, 2003 and maturing in September 2013. The note is collateralized by equipment, furniture, and fixtures located at YSPSC's office. 17,469

Total for Yap State Public Service Corporation (YSPSC)

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\$ 3,896,851

The Diving Seagull, Inc.

On July 28, 2006, the Company signed a five-year loan agreement with the Federated States of Micronesia Development Bank (FSMDB) authorizing a maximum loan of \$1,300,000 to cover the dry-dock costs of the fishing vessel. The agreement stipulates a 1.5% loan fee and interest rate of 9%. Interest and principal are payable in monthly installments of \$26,986, which began January 30, 2007. Part of the agreement requires the Company to establish a joint account with FSMDB and to make deposits therein as required by that agreement. On February 16, 2007, a new loan was granted by FSMDB amounting to \$1,370,000, to cover additional dry dock costs of the fishing vessel at an interest rate of 9%. Interest and principal are payable in monthly installments of \$28,606, which began June 15, 2007. 261,882

On September 29, 2009, a new loan in the amount of \$2,000,000 was granted by the Bank of Guam, with an interest rate of 2.755%, to assist in the purchase of a new vessel. Interest and principal are payable in monthly installments of \$35,777.94, which began on October 29, 2009. 1,268,265

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

2,722,415

Total for The Diving Seagull, Inc.

\$ 4,252,562

Total for Discretely Presented Component Units

\$ 8,149,413

Yap State Public Service Corporation (YSPSC)

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

Year ending September 30,	Principal	Interest	Total
2012	\$ 228,137	\$ 20,513	\$ 248,650
2013	223,135	17,703	240,838
2014	220,359	15,290	235,649
2015	222,746	12,903	235,649
2016	225,170	12,096	237,266
2017 through 2021	1,197,318	27,551	1,224,869
2022 through 2026	857,734	2,700	860,434
2027 through 2031	661,916	-	661,916
2032	60,336	-	60,336
	<u>\$ 3,896,851</u>	<u>\$ 108,756</u>	<u>\$ 4,005,607</u>

The Diving Seagull, Inc.

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

Year ending September 30,	Principal	Interest	Total
2012	\$ 884,142	\$ 270,324	\$1,154,466
2013	654,238	231,132	885,370
2014	721,595	196,889	918,484
2015	290,280	165,756	456,036
2016	317,511	138,525	456,036
2017 through 2021	1,384,796	231,297	1,616,093
Total	<u>\$ 4,252,562</u>	<u>\$1,233,923</u>	<u>\$5,486,485</u>

During the year ended September 30, 2011, the following changes occurred in the State's discretely presented component units' long term liabilities.

	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Due Within One Year
Loans Payable:					
YSPSC	\$ 4,065,879		\$ 169,028	\$ 3,896,851	\$ 284,421
Diving Seagull	5,380,831		1,128,269	4,252,562	884,141
	<u>\$ 9,446,710</u>	<u>\$ -</u>	<u>\$ 1,297,297</u>	<u>\$ 8,149,413</u>	<u>\$ 1,168,562</u>

8. Contingencies

*Sick Leave:*

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

*Insurance Coverage:*

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

*Federal Grants:*

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$1,783,617 relating to fiscal years 2008 through 2010 have been set forth in the State’s Single Audit Report for the year ended September 30, 2011. 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 was not a party to any pending or threatened litigation at September 30, 2011. If claims are filed, they are filed with the State’s Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State’s Attorney General is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths.

*Indefinite Land Use Sites:*

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

9. Commitments

Encumbrances represent executed but unperformed purchase orders that are reported within governmental funds as restricted, committed, or assigned fund balance. At June 30, 2011, the encumbrance amounts in the General Fund, Foreign Assistance Grant Fund, and nonmajor governmental funds were \$5,079,871, \$2,223,653 and \$234,430, respectively.

10. Prior Period Adjustments

There were prior period adjustments made in the total amount of \$644,791 on the Statement of Revenues, Expenditures, and Changes in Fund Balance, and \$659,191 on the Statement of Net Assets. The amounts are made up by the following:

<u>Amount</u>	<u>Reason</u>
\$ (50,139)	Prior year adjustments to tie accounts payable listing to books not made timely
651,027	Correction of errors from prior periods
7,160	Elimination of remnants of checks cleared in prior periods, but due to software error, the entire amount of the check was not shown as cleared on the books.
<u>36,743</u>	To adjust allowance for doubtful accounts for taxes and loan receivable
<u>644,791</u>	Total prior period adjustments on Governmental Statement of Revenues, Expenditures, and Changes in Fund Balance
<u>14,400</u>	To record beginning balance of accrued interest payable.

\$ 659,191 Total prior period adjustments on Statement of Activities

11. Restatements

The Diving Seagull, Inc., a component unit of the State of Yap restated its 2010 financial statements and therefore the beginning net assets of the financial statements of the State of Yap's component units for year ended September 30, 2011 were also restated.

State of Yap  
Federated States of Micronesia  
Required Supplementary Information  
Year Ended September 30, 2011

**YAP STATE GOVERNMENT**

*COMBINING SCHEDULE OF EXPENDITURES BY ACCOUNT-  
GOVERNMENTAL FUNDS*

*FOR THE YEAR ENDING SEPTEMBER 30, 2011*

*(WITH COMPARATIVE TOTALS FOR 2010)*

	General	Special Revenue	Yap State	Other Governmental Funds	Totals	
		Foreign Assistance Grants	Invstment Trust Fund		2011	2010
Expenditures:						
Salaries and wages	\$ 2,466,955	\$ 6,156,595	-	\$ 21,871	\$ 8,645,421	\$ 8,297,164
Grants and subsidies	41,480	862	-	291,276	333,618	235,280
Utilities	591,652	1,352,477	-	-	1,944,129	1,733,104
Contractual services	177,125	1,571,148	-	187,011	1,935,284	1,528,778
Supplies and materials	87,562	549,230	-	135	636,927	534,529
Construction	-	1,208,764	-	-	1,208,764	761,429
Scholarship and training	-	500,000	-	-	500,000	542,500
Travel	93,731	827,803	-	1,245	922,779	1,368,051
Capital outlay	119,584	449,053	-	22,994	591,631	1,238,265
Rentals	2,419	2,542	-	229	5,190	5,762
Food stuffs	27,184	259,657	-	-	286,841	241,362
Communications	93,088	371,175	-	-	464,263	419,158
Printing and reproduction	7,572	49,053	-	652	57,277	25,391
Medical supplies	-	445,212	-	-	445,212	462,772
Repairs and maintenance	23,286	140,155	-	56,592	220,033	206,147
Freight	7,420	116,585	-	224	124,229	194,611
Professional services	31,109	103,261	-	-	134,370	326,022
POL	337,410	261,411	-	7,095	605,916	694,760
Allowances	114,610	6,100	-	-	120,710	115,583
Leased housing	34,235	166,938	-	-	201,173	250,981
Other	607,659	1,968,051	-	330,661	2,906,371	1,795,240
	<u>\$ 4,864,081</u>	<u>\$ 16,506,072</u>	<u>\$ -</u>	<u>\$ 919,985</u>	<u>\$ 22,290,138</u>	<u>\$ 20,976,889</u>

See accompanying independent auditors' report.

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

Notes to Required Supplementary Information – Budgetary Reporting  
September 30, 2011

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.

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

2. Reconciliation – GAAP and Budgetary Bases of Accounting

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

Net change in fund balance	\$ (1,696,100)
Increase in encumbrances	<u>(4,111,099)</u>
Net change in unreserved fund balance	<u><u>\$ (5,807,199)</u></u>

State of Yap  
Federated States of Micronesia  
Other Supplementary Information  
Year Ended September 30, 2011

**YAP STATE GOVERNMENT**

*COMBINING SCHEDULE OF EXPENDITURES BY ACCOUNT-  
GOVERNMENTAL FUNDS*

*FOR THE YEAR ENDING SEPTEMBER 30, 2011*

*(WITH COMPARATIVE TOTALS FOR 2010)*

	General	Special Revenue	Yap State	Other Governmental Funds	Totals	
		Foreign Assistance Grants	Invstment Trust Fund		2011	2010
Expenditures:						
Salaries and wages	\$ 2,466,955	\$ 6,156,595	-	\$ 21,871	\$ 8,645,421	\$ 8,297,164
Grants and subsidies	41,480	862	-	291,276	333,618	235,280
Utilities	591,652	1,352,477	-	-	1,944,129	1,733,104
Contractual services	177,125	1,571,148	-	187,011	1,935,284	1,528,778
Supplies and materials	87,562	549,230	-	135	636,927	534,529
Construction	-	1,208,764	-	-	1,208,764	761,429
Scholarship and training	-	500,000	-	-	500,000	542,500
Travel	93,731	827,803	-	1,245	922,779	1,368,051
Capital outlay	119,584	449,053	-	22,994	591,631	1,238,265
Rentals	2,419	2,542	-	229	5,190	5,762
Food stuffs	27,184	259,657	-	-	286,841	241,362
Communications	93,088	371,175	-	-	464,263	419,158
Printing and reproduction	7,572	49,053	-	652	57,277	25,391
Medical supplies	-	445,212	-	-	445,212	462,772
Repairs and maintenance	23,286	140,155	-	56,592	220,033	206,147
Freight	7,420	116,585	-	224	124,229	194,611
Professional services	31,109	103,261	-	-	134,370	326,022
POL	337,410	261,411	-	7,095	605,916	694,760
Allowances	114,610	6,100	-	-	120,710	115,583
Leased housing	34,235	166,938	-	-	201,173	250,981
Other	607,659	1,968,051	-	330,661	2,906,371	1,795,240
	<u>\$ 4,864,081</u>	<u>\$ 16,506,072</u>	<u>\$ -</u>	<u>\$ 919,985</u>	<u>\$ 22,290,138</u>	<u>\$ 20,976,889</u>

See accompanying independent auditors' report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

General Fund

September 30, 2011

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

**YAP STATE GOVERNMENT**

STATEMENT OF REVENUES, EXPENDITURES BY FUNCTION,  
AND CHANGES IN FUND BALANCE-- GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)

	2011	2010
Revenues:		
Revenue sharing:		
Import tax	\$ 730,310	\$ 714,431
Fuel tax	76,319	86,618
Income tax	537,265	699,677
Business gross receipts tax	732,531	1,211,295
Tobacco	222,434	-
Unallocated	-	-
	<u>2,298,859</u>	<u>2,712,021</u>
Excise taxes:		
Alcoholic beverages	400,148	396,339
Gasoline and diesel	95,268	98,373
Tobacco	154,252	189,176
Other excise taxes	441,671	484,976
	<u>1,091,339</u>	<u>1,168,864</u>
Fees and charges:		
Licenses and permits	86,556	96,051
Fines/sale of confiscated property	410	221
Leases and other rentals	4,221	178,044
	<u>91,187</u>	<u>274,316</u>
Departmental charges:		
Sea transportation	114,339	189,063
Air Transportation	18,776	38,434
Hospital services	299,859	340,559
Other	339,646	19,775
	<u>772,620</u>	<u>587,831</u>
Interest and dividends	(975,682)	1,969,214
Other revenues	128,868	1,115,091
Total revenues	<u>3,407,191</u>	<u>7,827,337</u>
Expenditures:		
Judiciary	197,665	221,588
Councils of Traditional Leaders:		
Council of Pilung	92,139	90,017
Council of Tamol	93,638	93,936
	<u>185,777</u>	<u>183,953</u>
Public Auditor	-	-
General government:		
Office of the governor	174,760	156,875
State Legislature	294,246	403,411
Office of Administrative Services	496,098	496,629
Office of Planning, Budget and Statistics	211,904	174,558
	<u>1,177,008</u>	<u>1,231,473</u>
Economic Development:		
Department of Resources and Development	113,302	122,688
Public Safety:		
Department of Public Safety/Attorney General	559,073	589,684
Community Affairs		
Department of Public Affairs	312,167	284,767
Public Works and Transportation		
Department of Public Works and Transportation	1,429,681	1,431,754
Health Services:		
Department of Health Services	219,788	325,339
Boards and Commissions:		
EPA Administration Board	6,025	7,878

See accompanying independent auditors' report.

**YAP STATE GOVERNMENT***STATEMENT OF REVENUES, EXPENDITURES BY FUNCTION,  
AND CHANGES IN FUND BALANCE-- GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)*

Rural Development	61,934	70,340
Historic Presevation Office	89,246	88,821
Election Commissioner	17,827	5,664
Small Business Development Center	-	4,820
Yap Investment Trust	20,340	1,705
	<u>195,372</u>	<u>179,228</u>
Payments to component units:		
Public Transportation System	67,590	304,181
	<u>67,590</u>	<u>304,181</u>
Other appropriations:		
Micronesia Legal Services Corporation	41,280	61,370
Japan Overseas Cooperation Volunteers	-	42,180
Peace Corps Program	24,350	39,810
Yap Community Action Program	134,955	158,264
Other appropriations:	206,073	-
	<u>406,658</u>	<u>301,624</u>
Total expenditures	<u>4,864,081</u>	<u>5,176,279</u>
Excess of revenues over expenditures	<u>(1,456,890)</u>	<u>2,651,058</u>
Other financing sources (uses):		
Operating transfers in		-
Operating transfers out	(239,210)	(30,990,871)
Total other financing sources (uses), net	<u>(239,210)</u>	<u>(30,990,871)</u>
Net change in fund balance	(1,696,100)	(28,339,813)
Fund balance at the beginning of the year	24,118,202	54,599,156
Prior period adjustment	(287,809)	(2,141,141)
Fund balance at the end of the year	<u>\$ 22,134,293</u>	<u>\$ 24,118,202</u>

**YAP STATE GOVERNMENT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Revenue sharing	\$ --	\$ --	\$ 2,298,860	\$ 2,298,860
Excise taxes	--	--	1,091,339	1,091,339
Fees and charges	--	--	91,187	91,187
Departmental charges	--	--	772,620	772,620
Investment earnings, net	--	--	(975,682)	(975,682)
Other revenues	6,289,233	6,491,432	128,867	(6,362,565)
<b>Total Revenues</b>	<b>6,289,233</b>	<b>6,491,432</b>	<b>3,407,191</b>	<b>(3,084,241)</b>
Expenditures:				
Judiciary	205,113	205,113	197,665	7,448
Councils of Traditional Leaders:				
Council of Pilung	93,194	96,472	92,139	4,333
Council of Tamol	100,095	100,095	93,638	6,457
Total councils of Traditional Leaders	193,289	196,567	185,777	10,790
Public auditor	--	--	--	--
General government:				
Office of the Governor	178,106	182,306	174,760	7,546
State Legislature	397,362	397,362	294,246	103,116
Office of Administrative Services	529,521	529,521	496,098	33,423
Office of Planning, Budget & Statistics	127,943	127,943	211,904	(83,961)
Total general government	1,232,932	1,237,132	1,177,008	60,124
Public Safety:				
Department of Public Safety/ Attorney General	585,258	585,258	559,073	26,185
Economic Development:				
Department of Resources & Development	113,912	113,912	113,302	610
Community Affairs:				
Department of Public Affairs	243,784	302,728	312,167	(9,439)
Education:				
Health Services:				
Department of Health Services	--	--	219,788	(219,788)
Public Works and Transportation:				
Department of Public Works and Transportation	1,428,218	1,528,218	1,429,681	98,537
Boards and Commissions:				
Election Commissioner	37,216	47,073	17,827	29,246
Yap Investment Trust	20,699	20,699	20,340	359
Rural Development	22,827	22,827	61,934	(39,107)
EPA Administration Board	--	--	6,025	(6,025)
Historic Preservation Office	88,890	105,280	89,246	16,034
Total Boards and Commissions	169,632	195,879	195,372	507

**YAP STATE GOVERNMENT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Payments to component units:				
Public Transportation System	141,002	141,002	67,590	73,412
Total payments to component units	<u>141,002</u>	<u>141,002</u>	<u>67,590</u>	<u>73,412</u>
Other appropriations:				
Yap Visitors Bureau	--	9,530	--	9,530
Yap Community Action Program	140,112	140,112	134,955	5,157
Micronesia Legal Services Corporation	41,280	41,280	41,280	--
U.S. Peace Corps Programs	20,900	20,900	24,350	(3,450)
Japan Overseas Cooperation Volunteers	18,000	18,000	--	18,000
Other appropriations	1,755,801	1,755,801	206,073	1,549,728
Total other appropriations	<u>1,976,093</u>	<u>1,985,623</u>	<u>406,658</u>	<u>1,578,965</u>
Total expenditures	<u>6,289,233</u>	<u>6,491,432</u>	<u>4,864,081</u>	<u>1,627,351</u>
Excess of revenues over expenditures	<u>--</u>	<u>--</u>	<u>(2,729,372)</u>	<u>2,729,372</u>
Other financing sources (uses):				
Operating transfers out	--	--	(239,210)	239,210
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(239,210)</u>	<u>239,210</u>
Net Change in Fund Balances	--	--	(1,696,100)	(2,968,582)
Fund Balances - Beginning	--	--	24,118,202	24,118,202
Prior Period Adjustment			(287,809)	287,809
Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 22,134,293</u>	<u>\$ 20,861,811</u>

See accompanying independent auditor's report.

**YAP STATE GOVERNMENT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2011**  
**(WITH COMPARATIVE TOTALS FOR 2010)**

	Special Revenue Funds	Capital Projects Funds	Permanent Fund Compact Trust Fund	Total	
				2011	2010
<b>ASSETS</b>					
Cash and cash equivalents	\$ --	\$ --	\$ --	\$ --	226,892
Investments	218,565	--	--	218,565	--
Receivables ( net of allowances for uncollectibles):					
FSM national government	--	24,644	--	24,644	499,531
Other	--	17,585	--	17,585	--
Due from other funds	167,279	146,902	491,824	806,005	423,073
Restricted assets:					
Investments	--	--	6,585,757	6,585,757	6,667,480
<b>Total Assets</b>	<b>\$ 385,844</b>	<b>\$ 189,131</b>	<b>\$ 7,077,581</b>	<b>\$ 7,652,556</b>	<b>\$ 7,816,976</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 30,435	\$ 45,225	\$ --	\$ 75,660	66,659
Other liabilities and accruals	4,454	18,158	--	22,612	4,750
Deferred revenue	--	68,248	704,444	772,692	875,798
Due to other funds	153,622	298,634	--	452,256	279,291
<b>Total Liabilities</b>	<b>188,511</b>	<b>430,265</b>	<b>704,444</b>	<b>1,323,220</b>	<b>1,226,498</b>
<b>Fund Balances (Deficits):</b>					
<b>Nonspendable:</b>					
Permanent fund	--	--	6,373,137	6,373,137	6,373,137
<b>Restricted for:</b>					
Special revenue funds	191,010	--	--	191,010	419,531
Capital projects	--	(469,241)	--	(469,241)	(476,685)
<b>Assigned:</b>					
Construction	--	228,107	--	228,107	--
Other purposes	6,323	--	--	6,323	274,495
<b>Total Fund Balance</b>	<b>197,333</b>	<b>(241,134)</b>	<b>6,373,137</b>	<b>6,329,336</b>	<b>6,590,478</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 385,844</b>	<b>\$ 189,131</b>	<b>\$ 7,077,581</b>	<b>\$ 7,652,556</b>	<b>\$ 7,816,976</b>

See accompanying independent auditor's report.

**YAP STATE GOVERNMENT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue Funds	Capital Projects Funds	Permanent Fund Compact Trust Fund	Total	
				2011	2010
<b>Revenue:</b>					
Excise taxes	\$ 127,190	\$ --	\$ --	\$ 127,190	\$ 128,700
CFSM grants	--	293,539	--	293,539	456,871
Fees and charges	174,266	--	--	174,266	179,671
Departmental charges	17,247	--	--	17,247	17,538
Other	103	45,417	--	45,520	675,150
Total revenues	<u>318,806</u>	<u>338,956</u>	<u>--</u>	<u>657,762</u>	<u>1,457,930</u>
<b>Expenditures:</b>					
<b>Current:</b>					
Councils of traditional leaders	--	812	--	812	9,063
General government	273,145	187,968	--	461,113	379,553
Economic development	--	41,338	--	41,338	68,021
Boards and commissions	--	--	--	--	13,148
Community affairs	--	1,245	--	1,245	17,729
Public works and transportation	--	41,439	--	41,439	147,848
Payment to component units	--	--	--	--	44,698
Principal payments on long-term debt	--	57,910	--	57,910	80,012
Interest payments on long-term debt	--	28,784	--	28,784	--
Other appropriations	272,841	14,503	--	287,344	188,464
Total expenditures	<u>545,986</u>	<u>373,999</u>	<u>--</u>	<u>919,985</u>	<u>948,536</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(227,180)</u>	<u>(35,043)</u>	<u>--</u>	<u>(262,223)</u>	<u>509,394</u>
<b>Other Financing Sources (Uses):</b>					
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	(227,180)	(35,043)	--	(262,223)	509,394
Fund Balances - Beginning	424,513	(207,172)	6,373,137	6,590,478	6,081,084
Prior Period Adjustment	--	1,081	--	1,081	--
Fund Balances - Ending	<u>\$ 197,333</u>	<u>\$ (241,134)</u>	<u>\$ 6,373,137</u>	<u>\$ 6,329,336</u>	<u>\$ 6,590,478</u>

See accompanying independent auditor's report.

**YAP STATE GOVERNMENT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES BY ACCOUNT

AND CHANGES IN FUND BALANCE

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

(WITH COMPARATIVE TOTALS FOR 2010)

	Special Revenue Funds	Capital Projects Funds	Permanent Fund Compact Trust Fund	Total	
				2011	2010
Revenues:					
CFSM grants	\$ -	\$ 293,539	\$ -	\$ 293,539	\$ 456,871
Excise taxes	127,190	-	-	127,190	128,700
Fees and charges	174,266	-	-	174,266	179,671
Departmental charges	17,247	-	-	17,247	17,538
Other revenues	103	45,417	-	45,520	675,150
Total revenues	<u>318,806</u>	<u>338,956</u>	<u>-</u>	<u>657,762</u>	<u>1,457,930</u>
Expenditures by account:					
Salaries and wages	-	21,871	-	21,871	24,809
Grants and subsidies	272,841	18,435	-	291,276	192,905
Contractual services	-	187,011	-	187,011	158,841
Travel	-	1,245	-	1,245	12,773
Capital outlay	8,228	14,766	-	22,994	46,478
Repairs and maintenance	36,679	16,914	-	53,593	1,051
Freight	-	224	-	224	467
Professional services	-	-	-	-	44,326
POL	-	7,095	-	7,095	11,980
Other	228,238	106,438	-	334,676	454,906
Total expenditures	<u>545,986</u>	<u>373,999</u>	<u>-</u>	<u>919,985</u>	<u>948,536</u>
Net change in fund balances	(227,180)	(35,043)	-	(262,223)	509,394
Fund balance at the beginning of the year	424,513	(207,172)	6,373,137	6,590,478	6,081,084
Prior Period Adjustment		1,081		1,081	-
Fund balance at the end of the year	<u>\$ 197,333</u>	<u>\$ (241,134)</u>	<u>\$ 6,373,137</u>	<u>\$6,329,336</u>	<u>\$ 6,590,478</u>

See accompanying independent auditor's report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Nonmajor Governmental Funds – Special Revenue Funds  
September 30, 2011

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, 2011, follows:

Sports Development Fund

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

Housing Maintenance Fund

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

Enterprise Fund

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

Yap Seed Trust Fund

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

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**YAP STATE GOVERNMENT**  
*COMBINING BALANCE SHEET*  
*NONMAJOR SPECIAL REVENUE FUNDS*  
*SEPTEMBER 30, 2011*  
*(WITH COMPARATIVE TOTALS FOR 2010)*

	Sports Development Fund	Housing Maintenance Fund
<u>ASSETS</u>		
Investments	\$ --	\$ --
Due from other funds	--	--
Total Assets	<u>\$ --</u>	<u>\$ --</u>
<u>LIABILITIES AND FUND BALANCES:</u>		
Liabilities:		
Accounts payable	\$ 28,150	\$ --
Other liabilities and accruals	--	4,454
Due to other funds	140,222	13,400
Total Liabilities	<u>168,372</u>	<u>17,854</u>
Fund Balances (Deficits):		
Restricted for:		
Special revenue funds	(168,372)	(22,997)
Assigned:		
Other purposes	--	5,143
Total Fund Balance	<u>(168,372)</u>	<u>(17,854)</u>
Total Liabilities and Fund Balance	<u>\$ --</u>	<u>\$ --</u>

See accompanying independent auditor's report.

Enterprise Fund	Yap Seed Trust Fund	Total	
		2011	2010
\$ --	\$ 218,565	\$ 218,565	\$ 226,892
157,481	9,798	167,279	230,194
<u>\$ 157,481</u>	<u>\$ 228,363</u>	<u>\$ 385,844</u>	<u>\$ 457,086</u>
\$ 2,285	\$ --	\$ 30,435	\$ 5,394
--	--	4,454	4,454
--	--	153,622	--
<u>2,285</u>	<u>--</u>	<u>188,511</u>	<u>9,848</u>
155,196	227,183	191,010	419,533
--	1,180	6,323	4,982
<u>155,196</u>	<u>228,363</u>	<u>197,333</u>	<u>424,515</u>
<u>\$ 157,481</u>	<u>\$ 228,363</u>	<u>\$ 385,844</u>	<u>\$ 434,363</u>

**YAP STATE GOVERNMENT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BY FUNCTION  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Sports Development Fund	Housing Maintenance Fund
Revenue:		
Excise taxes	\$ 127,190	\$ --
Fees and charges	--	--
Departmental charges	2	17,245
Other	--	--
Total revenues	<u>127,192</u>	<u>17,245</u>
Expenditures:		
Current:		
General government	--	48,142
Other appropriations	272,841	--
Total expenditures	<u>272,841</u>	<u>48,142</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(145,649)</u>	<u>(30,897)</u>
Other Financing Sources (Uses):		
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>
Net Change in Fund Balances	(145,649)	(30,897)
Fund Balances - Beginning	(22,723)	13,043
Fund Balances - Ending	<u>\$ (168,372)</u>	<u>\$ (17,854)</u>

See accompanying independent auditor's report.

Enterprise Fund	Yap Seed Trust Fund	Total	
		2011	2010
\$ --	\$ --	\$ 127,190	\$ 128,700
174,266	--	174,266	179,671
--	--	17,247	17,538
--	103	103	18,436
<u>174,266</u>	<u>103</u>	<u>318,806</u>	<u>344,345</u>
225,003	--	273,145	275,130
--	--	272,841	187,412
<u>225,003</u>	<u>--</u>	<u>545,986</u>	<u>462,542</u>
<u>(50,737)</u>	<u>103</u>	<u>(227,180)</u>	<u>(118,197)</u>
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
(50,737)	103	(227,180)	(118,197)
205,933	228,260	424,513	542,710
<u>\$ 155,196</u>	<u>\$ 228,363</u>	<u>\$ 197,333</u>	<u>\$ 424,513</u>

**YAP STATE GOVERNMENT**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES BY ACCOUNT  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)*

	Sports Development Fund	Housing Maintenance Fund
Revenues:		
Excise taxes	\$ 127,190	\$ -
Fees and charges	-	-
Departmental charges	2	17,245
Other	-	-
Total revenues	<u>127,192</u>	<u>17,245</u>
Expenditures by account:		
Grants and subsidies	272,841	-
Capital outlay	-	-
Repairs and maintenance	-	39,679
Other	-	8,463
Total expenditures	<u>272,841</u>	<u>48,142</u>
Net change in fund balances	(145,649)	(30,897)
Fund balances at the beginning of the year	(22,723)	13,043
Fund balances at the end of the year	<u>\$ (168,372)</u>	<u>\$ (17,854)</u>

See accompanying independent auditor's report.

Enterprise Fund	Yap Seed Trust Fund	Total	
		2011	2010
\$ -	\$ -	\$ 127,190	\$ 128,958
174,266	-	174,266	179,672
-	-	17,247	17,280
-	103	103	18,438
<u>174,266</u>	<u>103</u>	<u>318,806</u>	<u>344,348</u>
-	-	272,841	275,130
-	-	-	-
-	-	39,679	-
<u>225,003</u>	<u>-</u>	<u>233,466</u>	<u>187,413</u>
- <u>225,003</u>	<u>-</u>	<u>545,986</u>	<u>462,543</u>
(50,737)	103	(227,180)	(118,195)
<u>205,933</u>	<u>228,260</u>	<u>424,513</u>	<u>542,708</u>
<u>\$ 155,196</u>	<u>\$ 228,363</u>	<u>\$ 197,333</u>	<u>\$ 424,513</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Nonmajor Governmental Funds – Capital Projects Funds

September 30, 2011

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, 2011, 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.

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**YAP STATE GOVERNMENT**  
 COMBINING BALANCE SHEET  
 NONMAJOR CAPITAL PROJECTS FUNDS  
 SEPTEMBER 30, 2011  
 (WITH COMPARATIVE TOTALS FOR 2010)

	<u>Compact Capital Projects</u>	<u>CFSM CIP Fund</u>
<b>ASSETS</b>		
Receivables ( net of allowances for uncollectibles):		
FSM national government	\$ --	\$ 24,644
Other	--	17,585
Due from other funds	--	146,902
 Total Assets	 \$ <u>    --</u>	 \$ <u>  189,131</u>
<b>LIABILITIES AND FUND BALANCES:</b>		
Liabilities:		
Accounts payable	\$ --	\$ 3,847
Other liabilities and accruals	--	18,158
Deferred revenue	--	68,248
Due to other funds	790	--
 Total Liabilities	 <u>    790</u>	 <u>   90,253</u>
Fund Balances (Deficits):		
Restricted for:		
Capital projects	(790)	(129,229)
Assigned:		
Construction	--	228,107
 Total Fund Balance	 <u>    (790)</u>	 <u>   98,878</u>
 Total Liabilities and Fund Balance	 \$ <u>    --</u>	 \$ <u>  189,131</u>

See accompanying independent auditor's report.

State Public Projects Fund	Yap Water Development Fund	Total	
		2011	2010
\$ --	\$ --	\$ 24,644	\$ 89,430
--	--	17,585	--
--	--	146,902	192,879
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 189,131</u>	<u>\$ 282,309</u>
\$ --	\$ 41,378	\$ 45,225	\$ 61,264
--	--	18,158	296
--	--	68,248	171,354
64,369	233,475	298,634	256,567
<u>64,369</u>	<u>274,853</u>	<u>430,265</u>	<u>489,481</u>
(64,369)	(274,853)	(469,241)	(476,685)
--	--	228,107	269,513
<u>(64,369)</u>	<u>(274,853)</u>	<u>(241,134)</u>	<u>(207,172)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 189,131</u>	<u>\$ 282,309</u>

**YAP STATE GOVERNMENT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Compact Capital Projects	CFSM CIP Fund
Revenue:		
CFSM grants	\$ --	\$ 293,539
Other	--	--
Total revenues	<u>          --</u>	<u>          293,539</u>
Expenditures:		
Current:		
Councils of traditional leaders	--	812
General government	--	187,968
Economic development	790	40,548
Community affairs	--	1,245
Public works and transportation	--	41,439
Boards and commissions	--	--
Principal payments on long-term debt	--	--
Payments to component units	--	--
Interest payments on long-term debt	--	--
Other appropriations	--	14,503
Total expenditures	<u>          790</u>	<u>          286,515</u>
Excess (deficiency) of revenues over (under) expenditures	<u>          (790)</u>	<u>          7,024</u>
Other Financing Sources (Uses):		
Total Other Financing Sources (Uses)	<u>          --</u>	<u>          --</u>
Net Change in Fund Balances	(790)	7,024
Fund Balances - Beginning	--	90,773
Prior Period Adjustment	--	1,081
Fund Balances - Ending	<u>\$          (790)</u>	<u>\$          98,878</u>

State Public Projects Fund	Yap Water Development Fund	Total	
		2011	2010
\$ --	\$ --	\$ 293,539	\$ 456,871
--	45,417	45,417	68,125
--	45,417	338,956	524,996
--	--	812	9,063
--	--	187,968	104,422
--	--	41,338	68,022
--	--	1,245	17,729
--	--	41,439	147,848
--	--	--	13,148
--	57,910	57,910	80,011
--	--	--	44,698
--	28,784	28,784	--
--	--	14,503	1,051
--	86,694	373,999	485,992
--	(41,277)	(35,043)	39,004
--	--	--	--
--	(41,277)	(35,043)	39,004
(64,369)	(233,576)	(207,172)	(246,176)
--	--	1,081	--
\$ (64,369)	\$ (274,853)	\$ (241,134)	\$ (207,172)

**YAP STATE GOVERNMENT**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES BY ACCOUNT  
AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
(WITH COMPARATIVE TOTALS FOR 2010)*

	Compact Capital Projects	CFSM CIP Fund
	<u>                    </u>	<u>                    </u>
Revenues:		
CFSM grants	\$ -	\$ 293,539
Other	-	-
Total revenues	<u>-</u>	<u>- 293,539</u>
Expenditures by account:		
Contractual services	-	187,011
Capital outlay	-	-
Construction	-	-
Grants and subsidies	-	18,435
Salaries and wages	138	21,733
Repairs and maintenance	-	16,914
Freight	-	224
Professional services	-	
POL	-	7,095
Travel	-	1,245
Other	<u>652</u>	<u>33,858</u>
Total expenditures	<u>790</u>	<u>286,515</u>
Net change in fund balances (deficits)	(790)	7,024
Transfers out		
Fund balances (deficits) at the beginning of the year	-	90,773
Prior Period Adjustment	-	1,081
Fund balances (deficits) at the end of the year	<u>\$ (790)</u>	<u>\$ 98,878</u>

See accompanying independent auditor's report.

Yap Water Development Fund	Total	
	2011	2010
\$ -	\$ 293,539	\$ 456,871
45,417	45,417	68,125
<u>45,417</u>	<u>338,956</u>	<u>524,996</u>
-	187,011	158,841
-	-	46,478
-	-	-
-	18,435	5,492
-	21,871	24,809
-	16,914	1,051
-	224	467
-	-	44,326
-	7,095	11,980
-	1,245	12,773
86,694	121,204	179,775
<u>86,694</u>	<u>373,999</u>	<u>485,992</u>
(41,277)	(35,043)	39,004
(176,992)	(207,172)	(246,176)
-	1,081	-
<u>\$ (218,269)</u>	<u>\$ (241,134)</u>	<u>\$ (207,172)</u>

**YAP STATE GOVERNMENT**

*FOREIGN ASSISTANCE GRANT FUNDS*

*COMBINING BALANCE SHEET*

*AS OF SEPTEMBER 30, 2011*

*(WITH COMPARATIVE TOTALS FOR 2010)*

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Private Sector Development	Enviromental Sector	Capacity Building Sector	Supplemental Education
<b>ASSETS</b>							
Investment pool	\$ 3,240,622	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables:							
Federal agencies	-	-	-	-	-	-	-
CFSM	-	-	154	-	1,580	-	-
Other	-	-	-	-	-	-	-
Due from other funds	-	-	748,608	-	-	946,620	228,254
Advances	-	253,570	323,188	39,045	17,029	99,320	170,260
Total assets	<u>\$ 3,240,622</u>	<u>\$ 253,570</u>	<u>\$ 1,071,950</u>	<u>\$ 39,045</u>	<u>\$ 18,609</u>	<u>\$ 1,045,940</u>	<u>\$ 398,514</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>(DEFICITS)</b>							
Liabilities:							
Accounts Payable	700	93,909	58,141	21,730	9,427	36,103	132,089
Other liabilities and accruals	12,636	37,567	24,821	4,721	4,213	5,254	16,894
Deferred revenue	-	149,675	388,661	29,568	-	123,408	38,534
Due to other funds	1,434,375	682,789	-	168,580	72,406	-	-
Total liabilities	<u>1,447,711</u>	<u>963,940</u>	<u>471,623</u>	<u>224,599</u>	<u>86,046</u>	<u>164,765</u>	<u>187,517</u>
Fund balances (deficits):							
Nonspendable:							
Advances	-	253,570	323,188	39,045	17,029	99,320	170,260
Restricted for:							
Continuing appropriations	150,000	-	-	-	-	-	-
Special revenue funds	1,481,262	(1,059,858)	(139,347)	(284,628)	(111,139)	772,272	(29,294)
Assigned:							
Education	-	95,918	-	-	-	-	-
Health services	-	-	416,486	-	-	-	-
Infrastructure	-	-	-	-	-	-	-
Encumbrances	161,649	-	-	60,029	26,673	9,583	70,031
Total fund balances (deficits)	<u>1,792,911</u>	<u>(710,370)</u>	<u>600,327</u>	<u>(185,554)</u>	<u>(67,437)</u>	<u>881,175</u>	<u>210,997</u>
Total liabilities and fund balances	<u>\$ 3,240,622</u>	<u>\$ 253,570</u>	<u>\$ 1,071,950</u>	<u>\$ 39,045</u>	<u>\$ 18,609</u>	<u>\$ 1,045,940</u>	<u>\$ 398,514</u>

See accompanying auditors' report.

Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U.S. Grants	FEMA Grants	Non U. S. Grants	CFSM Grants	Totals	
							2011	2010
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,240,622	\$ 3,237,932
-	-	-	-	-	-	-	-	118,999
-	900,195	513,651	-	299,265	-	5,443	1,720,288	1,056,476
-	-	-	-	-	-	19,500	19,500	-
733,775	188,440	72,354	187,575	1,958,887	-	51,648	5,116,161	3,714,848
2,107	-	-	-	-	-	-	904,519	780,367
<u>\$ 735,882</u>	<u>\$ 1,088,635</u>	<u>\$ 586,005</u>	<u>\$ 187,575</u>	<u>\$ 2,258,152</u>	<u>\$ -</u>	<u>\$ 76,591</u>	<u>\$ 11,001,090</u>	<u>\$ 8,908,622</u>
5,036	843,750	64,528	44,784	338,940	12,429	8,497	1,670,063	1,120,472
-	-	21,102	2,215	2,520	139	1,956	134,038	121,734
-	-	-	114,852	-	204,526	-	1,049,224	1,252,679
-	-	-	-	-	333,612	-	2,691,762	-
<u>5,036</u>	<u>843,750</u>	<u>85,630</u>	<u>161,851</u>	<u>341,460</u>	<u>550,706</u>	<u>10,453</u>	<u>5,545,087</u>	<u>2,494,885</u>
2,107	-	-	-	-	-	-	904,519	-
-	-	-	-	-	-	-	150,000	150,000
302,457	118,266	142,746	(113,233)	1,691,000	(629,216)	36,543	2,177,831	3,816,630
-	-	-	-	-	-	-	95,918	-
-	-	-	-	-	-	-	416,486	-
426,282	126,619	-	-	-	-	-	552,901	-
-	-	357,629	138,957	225,692	78,510	29,595	1,158,348	2447107
<u>730,846</u>	<u>244,885</u>	<u>500,375</u>	<u>25,724</u>	<u>1,916,692</u>	<u>(550,706)</u>	<u>66,138</u>	<u>5,456,003</u>	<u>6,413,737</u>
<u>\$ 735,882</u>	<u>\$ 1,088,635</u>	<u>\$ 586,005</u>	<u>\$ 187,575</u>	<u>\$ 2,258,152</u>	<u>\$ -</u>	<u>\$ 76,591</u>	<u>\$ 11,001,090</u>	<u>\$ 8,908,622</u>

**YAP STATE GOVERNMENT**

FOREIGN ASSISTANCE GRANT FUNDS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 BY FUNCTION, AND CHANGES IN FUND BALANCES (DEFICITS)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011  
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2010)

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Private Sector Development	Enviromental Sector	Capacity Building Sector
<b>Revenues:</b>						
Compact funding	\$ -	\$ 4,040,012	\$ 3,281,485	\$ 767,542	\$ 292,500	\$ 466,999
Unrestricted investment earnings	-	-	-	-	-	-
Federal contributions and other grants	-	-	-	-	-	-
CFSM grants	-	-	-	-	-	-
Departmental charges	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total revenues</b>	<b>-</b>	<b>4,040,012</b>	<b>3,281,485</b>	<b>767,542</b>	<b>292,500</b>	<b>466,999</b>
<b>Expenditures by function:</b>						
<b>Current:</b>						
Judiciary	-	-	-	-	-	30,155
General government	-	-	-	-	-	351,304
Economic development	-	524,000	31,041	329,805	107,773	-
Public Safety	-	-	-	-	-	32,843
Community affairs	-	-	-	-	-	35,952
Education	-	3,417,047	-	-	-	-
Public Works and transportation	-	-	16,755	-	21,460	16,745
Health services	-	-	3,233,690	-	-	-
Boards and commissions	-	-	-	160,532	100,716	-
Principal payments on long-term debt	-	-	-	-	-	-
Interest payments on long-term debt	-	-	-	-	-	-
Other	-	200,843	-	277,204	62,551	-
<b>Total expenditures</b>	<b>-</b>	<b>4,141,890</b>	<b>3,281,486</b>	<b>767,541</b>	<b>292,500</b>	<b>466,999</b>
Excess (deficiency) of revenues over (under) expenditures	-	(101,878)	(1)	1	-	-
<b>Other financing sources (uses):</b>						
Loan Proceeds	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
<b>Total Other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances (deficits)</b>	<b>-</b>	<b>(101,878)</b>	<b>(1)</b>	<b>1</b>	<b>-</b>	<b>-</b>
Fund balances (deficits) at the beginning of the year	1,792,514	(219,468)	815,768	(79,278)	(48,333)	977,634
Prior period adjustment	398	(389,026)	(215,441)	(106,275)	(19,104)	(96,459)
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ 1,792,912</b>	<b>\$ (710,372)</b>	<b>\$ 600,326</b>	<b>\$ (185,552)</b>	<b>\$ (67,437)</b>	<b>\$ 881,175</b>

See accompanying auditors' report.

Supplemental Education	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U. S. Grants	FEMA Grants	Non U. S. Grants	CFSM Grants	Totals	
								2011	2010
\$ 1,748,553	\$ 191,877	\$ 1,037,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,826,279	\$ 11,941,012
-	-	-	-	-	-	-	-	-	14,532
-	-	-	1,400,284	1,033,661	1,256,954	1,000	-	3,691,899	2,584,675
-	-	-	-	-	-	-	33,278	33,278	44,783
-	-	-	-	21,809	-	-	-	21,809	20,956
-	974	-	-	-	-	92,951	-	93,925	23,760
<u>1,748,553</u>	<u>192,851</u>	<u>1,037,311</u>	<u>1,400,284</u>	<u>1,055,470</u>	<u>1,256,954</u>	<u>93,951</u>	<u>33,278</u>	<u>15,667,190</u>	<u>14,629,718</u>
-	-	-	-	-	-	-	15,322	45,477	33,407
-	225,638	843,750	-	-	1,396,164	863	-	2,817,719	1,635,345
-	74,812	-	56,644	-	-	18,757	-	1,142,832	1,112,457
-	-	-	-	525	-	-	18,019	51,387	405,258
-	-	-	-	-	-	-	-	35,952	26,759
1,748,553	181,868	92,814	625,053	-	-	13,528	-	6,078,863	5,524,222
-	369,726	100,747	-	-	-	-	-	525,433	443,865
-	3,747	-	419,195	977,847	-	9,673	-	4,644,152	4,596,892
-	-	-	51,647	18,146	-	36,837	-	367,878	370,694
-	-	-	-	-	-	177,629	-	177,629	144,535
-	-	-	-	-	-	78,152	-	78,152	53,722
-	-	-	-	-	-	-	-	540,598	504,918
<u>1,748,553</u>	<u>855,791</u>	<u>1,037,311</u>	<u>1,152,539</u>	<u>996,518</u>	<u>1,396,164</u>	<u>335,439</u>	<u>33,341</u>	<u>16,506,072</u>	<u>14,852,074</u>
-	(662,940)	-	247,745	58,952	(139,210)	(241,488)	(63)	(838,882)	(222,356)
-	-	-	-	-	-	-	-	-	508,964
-	100,000	-	-	-	139,210	-	-	239,210	797,168
-	-	-	-	-	-	-	-	-	-
-	100,000	-	-	-	139,210	-	-	239,210	1,306,132
-	(562,940)	-	247,745	58,952	-	(241,488)	(63)	(599,672)	1,083,776
(1,923)	1,293,060	(11,997)	241,583	(499,227)	1,905,537	198,749	49,118	6,413,737	5,329,961
212,920	727	256,882	11,045	(42,966)	11,154	997	17,085	(358,063)	-
<u>\$ 210,997</u>	<u>\$ 730,847</u>	<u>\$ 244,885</u>	<u>\$ 500,373</u>	<u>\$ (483,241)</u>	<u>\$ 1,916,691</u>	<u>\$ (41,742)</u>	<u>\$ 66,140</u>	<u>\$ 5,456,002</u>	<u>\$ 6,413,737</u>

**YAP STATE GOVERNMENT**  
**FOREIGN ASSISTANCE GRANT FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**BY ACCOUNT, AND CHANGES IN FUND BALANCES (DEFICITS)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 2010)**

	Section 221(b) Special Block Grant	Education Sector	Health Sector	Private Sector Development	Environmental Sector	Capacity Building Sector
<b>Revenues:</b>						
Compact funding	\$ -	\$ 4,040,012	\$ 3,281,485	\$ 767,542	\$ 292,500	\$ 466,999
Unrestricted investment earnings	-	-	-	-	-	-
Federal contributions and other grants	-	-	-	-	-	-
CFSM grants	-	-	-	-	-	-
Departmental charges	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total revenues	-	4,040,012	3,281,485	767,542	292,500	466,999
<b>Expenditures by account:</b>						
Salaries and wages	-	1,948,667	1,263,158	316,108	200,245	223,323
Grants and subsidies	-	-	-	-	-	-
Utilities	-	537,867	545,268	94,071	23,790	7,068
Contractual services	-	70,579	116,803	108,647	12,320	1,092
Supplies and materials	-	176,229	65,673	57,149	18,677	17,752
Construction	-	-	-	-	-	-
Scholarship and training	-	500,000	-	-	-	-
Travel	-	108,302	57,679	58,103	5,318	96,411
Capital outlay	-	-	-	-	-	135
Rentals	-	-	-	-	300	-
Food stuffs	-	95,477	34,235	-	-	-
Communications	-	273,927	13,184	38,215	16,207	13,234
Printing and reproduction	-	-	-	28,165	724	-
Medical supplies	-	-	445,212	-	-	-
Medical referral	-	-	-	-	-	-
Repairs and maintenance	-	52,741	33,072	16,335	559	1,054
Freight	-	11,579	94,960	5,546	96	407
Professional services	-	-	3,000	-	-	50,400
POL	-	120,817	67,679	8,456	11,568	558
Allowances	-	-	-	-	-	-
Leased housing	-	56,265	59,420	386	-	30,822
Other	-	189,440	482,143	36,360	2,696	24,743
Total expenditures	-	4,141,890	3,281,486	767,541	292,500	466,999
Excess (deficiency) of revenues over (under) expenditures	-	(101,878)	(1)	1	-	-
<b>Other financing sources (users):</b>						
Loan Proceeds	-	-	-	-	-	-
Operating transfers in	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total Other financing sources (uses), net	-	-	-	-	-	-
Net change in fund balances (deficits)	-	(101,878)	(1)	1	-	-
Fund balances (deficits) at the beginning of the year	1,792,514	(219,468)	815,768	(79,278)	(48,333)	977,634
Prior period adjustment	398	(389,026)	(215,441)	(106,275)	(19,104)	(96,459)
Fund balances (deficits) at the end of the year	\$ 1,792,514	\$ (321,346)	\$ 815,767	\$ (79,277)	\$ (48,333)	\$ 977,634

See accompanying auditors' report.

Supplemental Education	Infrastructure Maintenance	Infrastructure	U.S. Grants through FSM	Direct U. S. Grants	FEMA Grants	Non U. S. Grants	CFSM Grants	Totals	
								2011	2010
\$ 1,748,553	\$ 191,877	\$ 1,037,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,826,279	\$ 11,941,012
-	-	-	-	-	-	-	-	-	14,532
-	-	-	1,400,284	1,033,661	1,256,954	1,000	-	3,691,899	2,584,675
-	-	-	-	-	-	-	33,278	33,278	44,783
-	-	-	-	21,809	-	-	-	21,809	20,956
-	974	-	-	-	-	92,951	-	93,925	23,760
<u>1,748,553</u>	<u>192,851</u>	<u>1,037,311</u>	<u>1,400,284</u>	<u>1,055,470</u>	<u>1,256,954</u>	<u>93,951</u>	<u>33,278</u>	<u>15,667,190</u>	<u>14,629,718</u>
870,796	10,122	532	771,136	486,684	40,940	21,510	3,374	6,156,595	5,811,342
-	-	-	-	-	-	862	-	862	-
68,238	-	-	18,337	42,755	5,618	-	9,464	1,352,476	1,180,832
-	547,515	45,056	46,516	1,530	587,164	33,900	-	1,571,122	1,145,342
137,547	-	-	69,045	4,627	753	1,761	17	549,230	437,159
-	267,014	147,974	-	42,069	751,708	-	-	1,208,765	761,429
-	-	-	-	-	-	-	-	500,000	502,500
298,986	410	-	151,400	36,135	-	965	-	813,709	914,999
1,327	-	-	275	831	2,290	-	-	4,858	1,089,173
-	-	-	470	542	-	1,230	-	2,542	5,540
128,045	-	-	1,900	-	-	-	-	259,657	154,193
5,194	-	-	5,040	2,769	3,206	200	-	371,176	323,088
-	-	-	13,530	6,409	-	-	225	49,053	15,695
-	-	-	-	-	-	-	-	445,212	462,772
-	-	-	-	-	-	-	-	-	-
22,923	-	-	4,337	7,835	354	745	200	140,155	123,194
-	-	-	522	3,475	-	-	-	116,585	188,499
46,361	-	-	3,500	-	-	-	-	103,261	273,734
25,241	488	-	15,459	5,684	420	2,513	2,529	261,412	300,840
-	-	-	-	-	-	-	-	-	2,465
16,360	-	-	-	3,135	-	550	-	166,938	216,431
<u>127,535</u>	<u>30,242</u>	<u>843,749</u>	<u>51,072</u>	<u>352,038</u>	<u>3,711</u>	<u>271,203</u>	<u>17,532</u>	<u>2,432,464</u>	<u>942,847</u>
<u>1,748,553</u>	<u>855,791</u>	<u>1,037,311</u>	<u>1,152,539</u>	<u>996,518</u>	<u>1,396,164</u>	<u>335,439</u>	<u>33,341</u>	<u>16,506,072</u>	<u>14,852,074</u>
-	(662,940)	-	247,745	58,952	(139,210)	(241,488)	(63)	(838,882)	(222,356)
-	-	-	-	-	-	-	-	-	508,964
-	100,000	-	-	-	139,210	-	-	239,210	797,168
-	-	-	-	-	-	-	-	-	-
-	100,000	-	-	-	139,210	-	-	239,210	1,306,132
-	(562,940)	-	247,745	58,952	-	(241,488)	(63)	(599,672)	1,083,776
(1,923)	1,293,060	(11,997)	241,583	(499,227)	1,905,537	198,749	49,118	6,413,737	5,329,961
<u>212,920</u>	<u>727</u>	<u>256,882</u>	<u>11,045</u>	<u>(42,966)</u>	<u>11,154</u>	<u>997</u>	<u>17,085</u>	<u>(358,063)</u>	<u>-</u>
<u>\$ (1,923)</u>	<u>\$ 730,120</u>	<u>\$ (11,997)</u>	<u>\$ 489,328</u>	<u>\$ (440,275)</u>	<u>\$ 1,905,537</u>	<u>\$ (42,739)</u>	<u>\$ 49,055</u>	<u>\$ 5,456,002</u>	<u>\$ 6,413,737</u>

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

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the governmental activities, the 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, 2011, which collectively comprise the State's basic financial statements and have issued our report thereon dated March 21, 2012. The report was qualified on the discretely presented component units because of the omission of the Yap Fishing Authority, a legally separate discretely presented component unit. We did not audit the financial statements of the Public Transportation System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Public Transportation System, is based on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by the other auditors.

For the purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the Yap State Public Service Corporation, the Yap Visitors Bureau, and The Diving Seagull, Inc., which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. Findings 2011-1

and 2011-2 are considered to be material weaknesses. Finding 2011-3 is considered to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

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

We noted certain matters that we have reported to management of the State in a separate letter dated March 21, 2012, which is included in this document.

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

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

*Fortenberry & Ballard, PC*

Fortenberry & Ballard, PC  
March 21, 2012

Certified Public Accountants

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

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

Compliance

We have audited the compliance of the State of Yap (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2011. The State's major federal programs are identified in the summary of the auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the State's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2011. Our audit, as described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

As described in item 2011-4 and 2011-5, in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements regarding Allowable Costs and Cost Principles that are applicable to its major program, CFDA #15.875, Compact of Free Association Sector; in item 2011-6, the State did not comply with Procurement Suspension and Debarment applicable to federal programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to its CFDA #15.875, Compact of Free Association Sector Grants major program; its CFDA #97.036, Disaster Grants; its CFDA #84.027, Special Education Grants, its CFDA #93.224, Consolidated Health Centers, and CFDA #93.703, ARRA—Health Center Integrated Services Development Initiative.

1929 SPILLWAY ROAD, BRANDON, MISSISSIPPI 39047  
TELEPHONE (601) 992-5292 FAX (601)992-2033  
P.O. BOX A, KOLONIA, POHNPEI FM 96941, TELEPHONE (691) 320-8657

## Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-4 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-5 and 2011-6 to be significant deficiencies.

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

## Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended September 30, 2011, and have issued our report thereon dated March 21, 2012. We did not audit the financial statements of Public Transportation System and Yap Fishing Authority. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Public Transportation System and Yap Fishing Authority, is based on the report of the other auditors. Our audit, and the report of other auditors, was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Yap's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the State. Such information

has been subjected to the auditing procedures, by us and other auditors, applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Fortenberry & Ballard, PC*

Fortenberry & Ballard, PC  
March 21, 2012

Certified Public Accountants

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Foreign Assistance Grant Fund  
Year Ended September 30, 2011

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA No./ Grant No	2011 Fiscal Year Expenditures
<u>U. S. Department of Education:</u>		
Passed-through Federated States of Micronesia:		
Special Education-Grants to States	84.027	\$ 625,063
Total passed-through Federated States of Micronesia		<u>625,063</u>
Total U. S. Department of Education		<u>625,063</u>
<u>U. S. Department of Agriculture:</u>		
Passed-through Federated States of Micronesia:		
Cooperative Forestry Assistance	10.664	41,444
Total passed-through Federated States of Micronesia		<u>41,444</u>
Total U. S. Department of Agriculture		<u>41,444</u>
<u>U. S. Department of the Interior:</u>		
Passed-through Federated States of Micronesia:		
Historic Prevention Fund Grant-in-Aid	15.904	51,647
Compact of Free Association, Sector Grants	15.875	12,608,071
Total passed-through Federated States of Micronesia		<u>12,659,718</u>
Total U. S. Department of the Interior		<u>12,659,718</u>
<u>U. S. Small Business Administration</u>		
Passed-through Federated States of Micronesia:		
Business Development Program	59.006	18,146
Total passed-through Federated States of Micronesia		<u>18,146</u>
Total U. S. Small Business Administration		<u>18,146</u>
<u>U. S. Department of Health and Human Services:</u>		
Direct Programs:		
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	582,934
ARRA- Grants to Health Center Programs	93.703	394,913
Total Direct Programs		<u>977,847</u>
Passed-through Federated States of Micronesia:		
Project Genets and Cooperative Agreements for Tuberculosis Control Programs	93.116	22,497
Family Planning-Services	93.217	37,999
Substance Abuse and Mental Health Services	93.243	36,428
Immunization Grants	93.268	56,066
CDC and Prevention - Investigation and Technical Assistance	93.283	103,588
ARRA- Prevention and Wellness- State, Territories and Pacific Islands	93.723	470
HIV Care Formula Grants	93.917	2,399
HIV Prevention Activities	93.940	20,068
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	57,603
Preventive Health Services- Sexually Transmitted Diseases Control Grants	93.977	276
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	9,274
Preventive Health and Health Services Block Grant	93.991	5,000
Maternal and Child Health Services Block Grant to the States	93.994	67,253
Total passed-through Federated States of Micronesia		<u>418,921</u>
Total U. S. Department of Health and Human Services		<u>1,396,768</u>
<u>U. S. Department of Homeland Security:</u>		
Passed-through Federated States of Micronesia:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1,396,164
Total passed-through Federated States of Micronesia		<u>1,396,164</u>
Total U. S. Department of Homeland Security		<u>1,396,164</u>
Total Expenditures of Federal Awards		<u>\$ 16,137,303</u>
Reconciliation to financial statements:		
Foreign Assistance Grant Fund		\$ 16,506,072
Less: Non- U.S. Grants Fund		(368,769)
		<u>\$ 16,137,303</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards  
Foreign Assistance Grants Fund  
Year Ended September 30, 2011

1. Scope of Audit

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

A. Programs Subject to Single Audit

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

2. Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the State's reporting entity is defined in Note 1A to its September 30, 2011 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the State, as defined above, for the year ended September 30, 2011.

C. CFDA #15.875

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

D. Sub-recipient Capacity

With the exception of CFDA #93.224, which is received in a direct capacity from the U.S. Department of Health and Human Services, all awards are received in a sub-recipient capacity through the FSM National Government. Additionally, expenditures reported under

the Department of Homeland Security represent the federal share of expenditures, net of the State of Yap's matching share.

3. Component Units

The Yap State Public Service Corporation (YSPSC) is a component unit of Yap State, and received Federal Awards in a sub recipient capacity during the fiscal year ended September 30, 2011. Those expenditures were reported in their Single Audit Act report for that year.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for  
Audit in Accordance with OMB Circular A-133  
Year Ended September 30, 2011

<u>Grantor Program Title</u>	<u>CFDA No. Grant No.</u>	<u>2011 Fiscal Year Expenditures</u>
<u>U. S. Department of the Interior</u>		
Economic, Social and Political Development of the Territories: Compact of Free Association, Sector Grants	15.875	\$ 12,608,071
<u>U. S. Department of Education</u>		
Special Education - Grants to States	84.027	625,063
<u>U. S. Department of Health and Human Services</u>		
Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	582,934
ARRA- Grants to Health Center Programs	93.703	394,913
<u>U. S. Department of Homeland Security</u>		
Disaster Grants - Public Assistance (Presidentially Declared Diasters)	97.036	<u>1,396,164</u>
Total U. S. Federal program expenditures selected		<u>15,607,145</u>
Total U. S. Federal program expenditures		<u>\$ 16,137,303</u>
% of total U. S. Federal expenditures covered by major programs		97%

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2011

**Part I – Summary of Auditors’ Results Section**

Financial Statements

- |   |           |
|---|-----------|
| 1. Type of auditors’ report issued:   | Qualified |
| 2. Internal control over financial reporting:   |           |
| a. Material weakness(es) identified?  | Yes       |
| b. Significant deficiency(ies) identified that is (are) not considered to be a material weakness? | Yes       |
| 3. Noncompliance material to the financial statements noted?                                      | No        |

Federal Awards

- |   |           |
|---|-----------|
| 4. Internal control over major programs:  |           |
| a. Material weakness(es) identified?  | Yes       |
| b. Significant deficiency(ies) identified that is (are) not considered to be a material weakness?                         | Yes       |
| 5. Type of auditors’ report issued on compliance for major programs:  | Qualified |
| 6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes       |
| 7. The State’s major programs were as follows:  |           |

<u>CFDA Number</u>	<u>Federal Program</u>
	Economic, Social & Political Development of the Territories:
15.875	Compact of Free Association—Sector Grants
15.875	Compact of Free Association—Section 211 (A) Capital Projects
84.027	Special Education—Grants to States
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)
93.703	ARRA – Health Center Integrated Services Development Initiative
97.036	Disaster Grants—Public Assistance (Presidentially Declared Disasters)

- |   |           |
|---|-----------|
| 8. Dollar threshold used to distinguish between type A and Type B Programs, as those terms are defined in OMB circular A-133: | \$484,119 |
| 9. The State qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?                                  | No        |

**Part II—Financial Statement Findings Section**

<u>Finding #</u>	<u>Findings</u>
2011-01	Travel advances not closed
2011-02	Vendor advances not closed

**Material Weaknesses:**

**Finding Number: 2011-1**

Area: Travel advances were not closed.

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

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

Condition: Un-cleared travel advances in the general fund totaling \$576,405.31 are on the Yap State books with an offsetting Allowance for doubtful account of \$441,225.38. Most of these are older than one year. Also travelers with un-cleared advances received additional advances.

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

Effect: The effect of this condition was that there was poor accountability for travel advances of \$576,405.31.

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

Prior Year Status: This condition was cited in the 2010 Single Audit.

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

Responsible Party: Robert Fathaltamanbay

**Finding Number: 2011-2**

Area: Vendor advances were not closed.

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

Condition: At September 30, 2011, there were supplier advances of \$337,813.67 which were over one year old in the General Fund.

Cause: The State did not ensure compliance with applicable Financial Management Regulations Part I Section 111 subsections c and g procurement requirements.

Effect: The effect of this condition was that there was poor accountability for vendor advances of \$337,813.67.

Prior Year Status: This condition has been cited since the 2009 Single Audit.

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

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

Responsible Party: Robert Fathaltamanbay

**Significant Deficiency:**

**Finding Number: 2011-3**

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

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

Condition: The Governor's Representation bank account's transactions were not recorded in the State's financial records.

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

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

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

Prior Year Status: This condition was cited in the 2010 Single Audit.

Auditee Response and Corrective Action Plan: We agree with this finding. A solution is being considered.

Responsible Party: Koncy Tharngan

**Part III—Federal Awards Findings and Questioned Costs Section**

<u>Finding #</u>	<u>CFDA#</u>	<u>Findings</u>	<u>Questioned</u>
<u>Costs</u>			
2011-04	15.875 CSG	Allowable Costs/ Cost Principles	\$ 180,439.49
2011-05	15.875 CSG	Allowable Costs/ Cost Principles	\$ 41,625.42
2011-06	15.875 CSG	Procurement Suspension and Debarment	\$ 0
	84.027	Procurement Suspension and Debarment	\$ 0
	93.224	Procurement Suspension and Debarment	\$ 0
	93.703	Procurement Suspension and Debarment	\$ 0
	97.036	Procurement Suspension and Debarment	\$ 0

**Material Weakness:**

**Finding Number: 2011-4**

Federal Agency: U.S. Department of Interior

CFDA Program: 15.875 Economic, Social and Political Development of Territories

Requirement: Allowable Costs/Cost Principles

Questioned Costs: \$180,438.49

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

Condition: At September 30, 2011, there were supplier advances of \$180,438.49 which were one year old in Sector funds. These advances were issued out of the general fund and the State believes these advances were closed but misclassified, therefore allowing the advances to remain open on the State's financial records. There was insufficient documentation to support the closure.

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

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

Prior Year Status: This condition was cited in the 2010 Single Audit.

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

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

Responsible Party: Robert Fathaltamanbay

### **Significant Deficiencies**

#### **Finding Number: 2011-5**

Federal Agency: U.S. Department of Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of Territories  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$41,625.42

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

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

Additionally OMB Circular A-87 Section C subsection c basic guidelines require that expenditures "be authorized and not prohibited under State or local laws or regulations." Also subsection j of that Section C requires that all "expenditures be adequately documented."

Condition: Un-cleared travel advances in the Compact funds including Education, Health Service, Environmental Health, Private Sector, Public Capacity, SEG and Infrastructure Maintenance totaling \$41,625.42 are on the Yap State books. Most of these are older than one year. Also travelers with un-cleared advances received additional advances.

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

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

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

Prior Year Status: This condition was not cited in the 2010 Federal Award Findings but was a Financial Statement finding for advances from the General Fund.

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

Responsible Party: Robert Fathaltamanbay

**Finding Number: 2011-6**

Federal Agency:	U.S. Department of Interior
CFDA Program:	15.875 Economic, Social, and Political Development of Territories
Federal Agency:	U.S. Department of Education
CFDA Program:	84.027 Special Education-Grants to States
Federal Agency:	U.S. Department of Health and Human Services
CFDA Program:	93.224, 93.703 Consolidated Health Center Cluster
Federal Agency:	U.S. Department of Homeland Security
CFDA Program:	97.036 Disaster Grants- Public Assistance (Presidentially Declared Disasters)
Requirement:	Procurement Suspension and Debarment
Questioned Costs:	\$0

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

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

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

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

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

Prior Year Status: This condition was cited in the 2010 Single Audit.

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

Auditee Response and Corrective Action Plan: This issue has been resolved and the contractual language is being enforced. The Office of the Attorney General issued a Memorandum effective April 26, 2012 addressing the use of these provisions in all contracts involving Compact derived funds totaling \$100,000 or more.

Responsible Party: Jeremiah Luther

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2011

QUESTIONED COSTS

For the year ended September 30, 2011, the following questioned costs remain unresolved:

	<u>Questioned Costs per 2010 Audit Report</u>	<u>Questioned Costs Resolved per OMB Circular A-133 Section .315(b)(4)</u>	<u>Questioned Costs at Sept. 30, 2011</u>
Unresolved Questions FY 08	\$ 1,185,258	\$ 1,115,668	\$ 69,590
Unresolved Questions FY 09	376,295		376,295
Unresolved Questions FY10	<u>150,534</u>		<u>150,534</u>
	<u>\$ 1,712,087</u>	<u>\$ 1,115,668</u>	596,419
 Unresolved Questions FY 11			<u>222,064</u>
			<u>\$ 818,483</u>

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