

**FORTENBERRY & BALLARD, PC**  
**Certified Public Accountants**

1929 Spillway Road, Suite B, Brandon, MS 39047 601-992-5292, Fax 601-992-2033  
P.O. Box A, Kolonia, Pohnpei FM 96941, Telephone (691) 320-8657

March 21, 2012

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

Dear Governor Anafel:

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 for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, Government Auditing Standards, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 13, 2011. Professional standards also require that we communicate to you the following information related to our audit.

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Yap State Government are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was depreciation of capital assets and management's estimate of the allowance for doubtful accounts which is based on the credit risk of specific customers, historical trends, and other information. We evaluated the key factors and assumptions used to develop depreciation and the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The misstatements we noted are included as attachment A.

***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Required disclosures***

Our professional standards require that we provide for you any updates from our quality review program. Accordingly attachment B is our most recent quality review letter.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter which accompanies this letter as attachment C.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. Significant issues which did not meet the threshold for a significant deficiency and therefore were not reported in Yap State Government's audit report for the year ended September 30, 2011 include:

Late in the audit cycle it was noted that FSM National Government had assessed \$365,724.94 of consulting fees and \$373,708.11 of Special Drawing Rights (SDR) to a Yap State Public Service Corporation (YSPSC) Loan #1459 owed to the Asian Development Bank. These amounts were not booked in the year ended September 30, 2011 by either YSPSC or Yap State and possibly should be recorded by Yap State in the year ending September 30, 2012. It is unclear whether Yap State is responsible for the payment of these assessments or whether Yap State Public Service Corporation is responsible for this additional debt.

Outstanding checks are included in the state's bank reconciliation dating back to 2006. We recommended that the Director authorize the voiding of checks older than 3 years. However, this would not absolve the state of any liability attached to these debts.

This information is intended solely for the use of the Office of the Governor and management of the Yap State Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

*Fortenberry & Ballard, PC*

Fortenberry & Ballard, PC

Yap State Government  
Adjustment Journal - All Entries  
All Fund Types (Primary Government)

September 30, 2011  
Accountant: KB

Funds: 01, 02, 06, 10, 105, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 39, 51, 52, 53, 60, 61, 69, 76, 85, 86  
87, 89, 93, 95, 96, 97, 99

CL	Fund	Fn	Obj	Org	Y	Pr	Description	Ref	Debits	Credits	AJE#	Explanation of Adjustment
FB	1	0	4110	0		0	Unreserved fund bala	U-1	158,511.87	0.00	3	Prior year lease income recorded. reclass to PPA
FB	1	0	4300	0		0	Prior Period Adjustme	U-1		158,511.87	3	Prior year lease income recorded. reclass to PPA
FB	1	0	4110	0		0	Unreserved fund bala	U-1	0.00	1,317,020.81	4	to adjust off partial reclass of PPA
AS	1	0	1210	0		0	Loans receivable	U-1	1,317,020.81	0.00	4	to adjust off partial reclass of PPA
FB	1	0	4110	0		0	Unreserved fund bala	U-1		7,159.56	5	to reclass stale dated checks as a result of software errors
FB	1	0	4300	0		0	Prior Period Adjustme	U-1	7,159.56	0.00	5	to reclass stale dated checks as a result of software errors
FB	1	0	4110	0		0	Unreserved fund bala	U-1		335,360.55	6	to reclass entry made to reverse revenue entered twice to ir
FB	1	0	4300	0		0	Prior Period Adjustme	U-1	335,360.55	0.00	6	to reclass entry made to reverse revenue entered twice to ir
FB	1	0	4110	0		0	Unreserved fund bala	U-1	2,141,141.00	0.00	7	to record entry not made by client
AS	1	0	1210	0		0	Loans receivable	U-1		2,141,141.00	7	to record entry not made by client
FB	1	0	4110	0		0	Unreserved fund bala	U-1		47,214.24	8	to reclass entry made to correct a/p
FB	1	0	4300	0		0	Prior Period Adjustme	U-1	47,214.24	0.00	8	to reclass entry made to correct a/p
FB	1	0	4110	0		0	Unreserved fund bala	U-1	884.07	0.00	9	to reclass minor difference in beginning fund balance
EX	1	410	8226	0		0	Office supplies & mat	U-1		884.07	9	to reclass minor difference in beginning fund balance
AS	1	0	1999	0		0	Due from other funds	O-1		575.20	12	to adjust due to/due from for immaterial amount to tie
RE	1	0	7999	0		0	Other miscellaneous	O-1	575.20	0.00	12	to adjust due to/due from for immaterial amount to tie
AS	1	0	1999	0		0	Due from other funds	O-1		28,150,832.63	13	to eliminate inter-fund due to/from
LI	1	0	3290	0		0	Due to other funds	O-1	28,150,832.63	0.00	13	to eliminate inter-fund due to/from
AS	1	0	1210	0		0	Loans receivable	E-1	824,100.81	0.00	14	to add back old loan to Yap Fishing (netted in above entry 4
FB	1	0	4110	0		0	Unreserved fund bala	E-1		824,100.81	14	to add back old loan to Yap Fishing (netted in above entry 4
AS	1	0	1211	0		0	No definition found.	E-1		824,100.81	14	to add back old loan to Yap Fishing (netted in above entry 4
FB	1	0	4110	0		0	Unreserved fund bala	E-1	824,100.81	0.00	14	to add back old loan to Yap Fishing (netted in above entry 4
AS	1	0	1611	0		0	Allow for D/A taxes	E-1		56,743.00	16	to adjust allowance to tie to workpaper after discussion with
FB	1	0	4300	0		0	Prior Period Adjustme	E-1	56,743.00	0.00	16	to adjust allowance to tie to workpaper after discussion with
AS	1	0	1210	0		0	Loans receivable	E-1	19.38	0.00	34	to adjust for slight difference
RE	1	0	7999	0		0	Other miscellaneous	E-1		19.38	34	to adjust for slight difference
	Totals								33,863,663.93	33,863,663.93		
FB	2	0	4110	0		0	Unreserved fund bala	U-1	156.00	0.00	1	to adjust beginning fund balance to FY10 ending bal
FB	2	0	4300	0		0	Prior Period Adjustme	U-1		156.00	1	to adjust beginning fund balance to FY10 ending bal
	Totals								156.00	156.00		
FB	6	0	4300	0		0	Prior Period Adjustme	U-1		398.00	1	to adjust aje from prior to fy 10 made by client--already refle
FB	6	0	4110	0		0	Unreserved fund bala	U-1	398.00	0.00	1	to adjust aje from before FY 10 made by client and already i
LI	6	0	3290	0		0	Due to other funds	O-1	2,691,762.44	0.00	13	to eliminate inter-fund due to/from
AS	6	0	1999	0		0	Due from other funds	O-1		2,691,762.44	13	to eliminate inter-fund due to/from
	Totals								2,692,160.44	2,692,160.44		
FB	10	0	4110	0		0	Unreserved fund bala	U-1	3,559.00	0.00	1	to remove aje made by client prior to fy 10
FB	10	0	4300	0		0	Prior Period Adjustme	U-1		3,559.00	1	to remove aje made by client prior to fy 10

Yap State Government  
Adjustment Journal - All Entries  
All Fund Types (Primary Government)

September 30, 2011  
Accountant: KB

Funds: 01, 02, 06, 10, 105, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 39, 51, 52, 53, 60, 61, 69, 76, 85, 86  
87, 89, 93, 95, 96, 97, 99

CL	Fund	Fn	Obj	Org	Y	Pr	Description	Ref	Debits	Credits	AJE#	Explanation of Adjustment
AS	10	0	1410	0		0	US Federal grants thr	E-1		392,585.44	21	to reverse beginning balance
FB	10	0	4300	0		0	Prior Period Adjustme	E-1	392,585.44	0.00	21	to reverse beginning balance
LI	10	0	3710	0		0	Deferred revenue	E-1		149,675.27	21	to record deferred revenue for the year
RE	10	0	7050	0		0	Compact II Sector Gr	E-1	157,819.05	0.00	21	to record deferred revenue for the year
RE	10	0	7050	0		0	Compact II Sector Gr	E-1		0.46	21	to record deferred revenue for the year
RE	10	0	7050	0		0	Compact II Sector Gr	E-1		8,143.32	21	to record deferred revenue for the year
	Totals								553,963.49	553,963.49		
FB	11	0	4110	0		0	Unreserved fund bala	U-1	16,604.85	0.00	1	to eliminate old entry made by client
FB	11	0	4300	0		0	Prior Period Adjustme	U-1		16,604.85	1	to eliminate old entry made by client
AS	11	0	1410	0		0	US Federal grants thr	E-1		118,844.60	22	reverse beginning balance
LI	11	0	3710	0		0	Deferred revenue	E-1	232,802.00	0.00	22	reverse beginning balance
FB	11	0	4300	0		0	Prior Period Adjustme	E-1		113,957.40	22	reverse beginning balance
LI	11	0	3710	0		0	Deferred revenue	E-1		346,002.77	23	to record proper deferred revenue amount at FYend 2010
FB	11	0	4300	0		0	Prior Period Adjustme	E-1	346,002.77	0.00	23	to record proper deferred revenue amount at FYend 2010
LI	11	0	3710	0		0	Deferred revenue	E-1		42,658.71	24	to record deferred revenue for FY11
RE	11	0	7050	0		0	Compact II Sector Gr	E-1	193,741.09	0.00	24	to record deferred revenue for FY11
RE	11	0	7050	0		0	Compact II Sector Gr	E-1		346,002.84	24	to record deferred revenue for FY11
RE	11	0	7050	0		0	Compact II Sector Gr	E-1	194,920.46	0.00	24	to record deferred revenue for FY11
	Totals								984,071.17	984,071.17		
FB	12	0	4110	0		0	Unreserved fund bala	U-1	5,685.03	0.00	1	client made prior year adjustment incorrectly
FB	12	0	4300	0		0	Prior Period Adjustme	U-1		5,685.03	1	client made prior year adjustment incorrectly
LI	12	0	3710	0		0	Deferred revenue	E-2	0.63	0.00	25	reverse beginning balance
FB	12	0	4300	0		0	Prior Period Adjustme	E-2		0.63	25	reverse beginning balance
LI	12	0	3710	0		0	Deferred revenue	E-1		24,789.93	26	to record deferred revenue from FY10
FB	12	0	4300	0		0	Prior Period Adjustme	E-1	24,789.93	0.00	26	to record deferred revenue from FY10
AS	12	0	1410	0		0	US Federal grants thr	E-1	1,579.99	0.00	27	to record current year a/r and deferred revenue
LI	12	0	3710	0		0	Deferred revenue	E-1	24,789.93	0.00	27	to record current year a/r and deferred revenue
RE	12	0	7050	0		0	Compact II Sector Gr	E-1		24,789.67	27	to record current year a/r and deferred revenue
RE	12	0	7050	0		0	Compact II Sector Gr	E-1		1,580.25	27	to record current year a/r and deferred revenue
	Totals								56,845.51	56,845.51		
FB	13	0	4110	0		0	Unreserved fund bala	U-1	1,624.83	0.00	1	client made py adj incorrectly
FB	13	0	4300	0		0	Prior Period Adjustme	U-1		1,624.83	1	client made py adj incorrectly
LI	13	0	3710	0		0	Deferred revenue	E-1	0.85	0.00	27	to reverse incorrect beginning balance
FB	13	0	4300	0		0	Prior Period Adjustme	E-1		0.85	27	to reverse incorrect beginning balance
LI	13	0	3710	0		0	Deferred revenue	E-1		107,900.57	28	to record FY10 deferred revenue
FB	13	0	4300	0		0	Prior Period Adjustme	E-1	107,900.57	0.00	28	to record FY10 deferred revenue
LI	13	0	3710	0		0	Deferred revenue	E-1	78,332.62	0.00	29	to record current year activity
RE	13	1021	7050	0		0	Compact II Sector Gr	E-1		107,900.22	29	to record current year activity

Yap State Government  
Adjustment Journal - All Entries  
All Fund Types (Primary Government)

September 30, 2011

Accountant: KB

Funds: 01, 02, 06, 10, 105, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 39, 51, 52, 53, 60, 61, 69, 76, 85, 86  
87, 89, 93, 95, 96, 97, 99

CL	Fund	Fn	Obj	Org	Y	Pr	Description	Ref	Debits	Credits	AJE#	Explanation of Adjustment
RE	13	1021	7050	0		0	Compact II Sector Gr	E-1	29,567.60	0.00	29	to record current year activity
	Totals								217,426.47	217,426.47		
FB	14	0	4110	0		0	Unreserved fund bala	U-1	4,349.40	0.00	1	client made py adj incorrectly
FB	14	0	4300	0		0	Prior Period Adjustme	U-1		4,349.40	1	client made py adj incorrectly
AS	14	0	1410	0		0	US Federal grants thr	E-1		9,025.75	28	reverse incorrect beginning balance
FB	14	0	4300	0		0	Prior Period Adjustme	E-1	9,025.75	0.00	28	reverse incorrect beginning balance
FB	14	0	4300	0		0	Prior Period Adjustme	E-1	91,782.94	0.00	29	record deferred revenue at end of FY10
LI	14	0	3710	0		0	Deferred revenue	E-1		91,782.94	29	record deferred revenue at end of FY10
LI	14	0	3710	0		0	Deferred revenue	E-1		31,624.70	30	realize FY11 revenue/expenditure and deferred revenue
RE	14	0	7050	0		0	Compact II Sector Gr	E-1	41,350.00	0.00	30	realize FY11 revenue/expenditure and deferred revenue
RE	14	0	7050	0		0	Compact II Sector Gr	E-1		91,884.46	30	realize FY11 revenue/expenditure and deferred revenue
RE	14	0	7050	0		0	Compact II Sector Gr	E-1	82,159.16	0.00	30	realize FY11 revenue/expenditure and deferred revenue
	Totals								228,667.25	228,667.25		
FB	15	0	4110	0		0	Unreserved fund bala	U-1	32,408.95	0.00	1	client made py adj incorrectly
FB	15	0	4300	0		0	Prior Period Adjustme	U-1		32,408.95	1	client made py adj incorrectly
LI	15	0	3710	0		0	Deferred revenue	E-1	137,271.89	0.00	30	to reverse incorrect beginning balance deferred revenue
FB	15	0	4300	0		0	Prior Period Adjustme	E-1		137,271.89	30	to reverse incorrect beginning balance deferred revenue
FB	15	0	4300	0		0	Prior Period Adjustme	E-1		43,238.98	31	to record correct beginning a/r at end of FY10
AS	15	0	1410	0		0	US Federal grants thr	E-1	43,238.98	0.00	31	to record correct beginning a/r at end of FY10
AS	15	0	1410	0		0	US Federal grants thr	E-1		43,238.98	32	to record cy activity and deferred revenue
LI	15	0	3710	0		0	Deferred revenue	E-1		38,534.04	32	to record cy activity and deferred revenue
RE	15	0	7050	0		0	Compact II Sector Gr	E-1	43,239.56	0.00	32	to record cy activity and deferred revenue
RE	15	0	7050	0		0	Compact II Sector Gr	E-1	38,533.46	0.00	32	to record cy activity and deferred revenue
	Totals								294,692.84	294,692.84		
FB	18	0	4110	0		0	Unreserved fund bala	U-1	726.66	0.00	1	client made py adj incorrectly
FB	18	0	4300	0		0	Prior Period Adjustme	U-1		726.66	1	client made py adj incorrectly
	Totals								726.66	726.66		
LI	19	0	3710	0		0	Deferred revenue	E-1	243,997.77	0.00	33	to reverse incorrect beginning balance
FB	19	0	4300	0		0	Prior Period Adjustme	E-1		243,997.77	33	to reverse incorrect beginning balance
AS	19	0	1410	0		0	US Federal grants thr	E-1	12,883.75	0.00	34	to record correct beginning balance
FB	19	0	4300	0		0	Prior Period Adjustme	E-1		12,883.75	34	to record correct beginning balance
RE	19	0	7050	0		0	Compact II Sector Gr	E-1		193,078.33	35	to record a/r at year end
RE	19	0	7050	0		0	Compact II Sector Gr	E-1		694,232.65	35	to record a/r at year end
AS	19	0	1410	0		0	US Federal grants thr	E-1	887,310.98	0.00	35	to record a/r at year end
	Totals								1,144,192.50	1,144,192.50		
FB	20	0	4110	0		0	Unreserved fund bala	U-1	10,524.76	0.00	1	client made py adj incorrectly

Yap State Government  
Adjustment Journal - All Entries  
All Fund Types (Primary Government)

September 30, 2011  
Accountant: KB

Funds: 01, 02, 06, 10, 105, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 39, 51, 52, 53, 60, 61, 69, 76, 85, 86  
87, 89, 93, 95, 96, 97, 99

CL	Fund	Fn	Obj	Org	Y	Pr	Description	Ref	Debits	Credits	AJE#	Explanation of Adjustment
FB	20	0	4300	0		0	Prior Period Adjustme	U-1		10,524.76	1	client made py adj incorrectly
AS	20	0	1410	0		0	US Federal grants thr	E-1		229,566.43	15	to adjust a.r. us fed grants through fsm to actual
AS	20	0	1411	0		0	Allow for D/A US Fed	E-1	247,745.09	0.00	15	to adjust a.r. us fed grants through fsm to actual
LI	20	0	3710	0		0	Deferred revenue	E-1	380,079.19	0.00	15	to adjust a.r. us fed grants through fsm to actual
FB	20	0	4300	0		0	Prior Period Adjustme	E-1		520.69	15	to adjust a.r. us fed grants through fsm to actual
RE	20	1021	7110	0		0	Federal grants	E-1		397,737.16	15	to adjust a.r. us fed grants through fsm to actual
	Totals								638,349.04	638,349.04		
FB	21	0	4110	0		0	Unreserved fund bala	U-1	6,539.15	0.00	1	client made py adj incorrectly
FB	21	0	4300	0		0	Prior Period Adjustme	U-1		6,539.15	1	client made py adj incorrectly
AS	21	0	1310	0		0	US Federal Grants	E-1		8,379.59	25	to adjust beginning balance after analysis
AS	21	0	1311	0		0	Allow. for D/A US Fed	E-1	8,379.59	0.00	25	to adjust beginning balance after analysis
LI	21	0	3710	0		0	Deferred revenue	E-1		49,505.53	25	to adjust beginning balance after analysis
FB	21	0	4300	0		0	Prior Period Adjustme	E-1	49,505.53	0.00	25	to adjust beginning balance after analysis
AS	21	0	1310	0		0	US Federal Grants	E-1	19,519.74	0.00	26	to adjust to deferred revenue balance at 9.30.11
LI	21	0	3710	0		0	Deferred revenue	E-1		1,346.71	26	to adjust to deferred revenue balance at 9.30.11
RE	21	0	7110	0		0	Federal grants	E-1		18,173.03	26	to adjust to deferred revenue balance at 9.30.11
	Totals								83,944.01	83,944.01		
FB	22	0	4110	0		0	Unreserved fund bala	U-1	11,154.08	0.00	1	client made prior year adj incorrectly
FB	22	0	4300	0		0	Prior Period Adjustme	U-1		11,154.08	1	client made prior year adj incorrectly
	Totals								11,154.08	11,154.08		
FB	23	0	4110	0		0	Unreserved fund bala	U-1	997.00	0.00	1	client entered py adj incorrectly
FB	23	0	4300	0		0	Prior Period Adjustme	U-1		997.00	1	client entered py adj incorrectly
	Totals								997.00	997.00		
FB	25	0	4110	0		0	Unreserved fund bala	U-1	2,626.45	0.00	1	client incorrectly made py adj
FB	25	0	4300	0		0	Prior Period Adjustme	U-1		2,626.45	1	client incorrectly made py adj
AS	25	0	1811	0		0	Allow for D/A general	E-1	20,000.00	0.00	16	to write off allowance per Robert (see promissory note)
FB	25	0	4300	0		0	Prior Period Adjustme	E-1		20,000.00	16	to write off allowance per Robert (see promissory note)
AS	25	0	1410	0		0	US Federal grants thr	E-1		5,364.98	17	to combine fy 11 activity (net deferred revenue)
RE	25	2036	7210	0		0	CFSM grants	E-1	4,356.38	0.00	17	to combine fy 11 activity (net deferred revenue)
RE	25	205	7210	0		0	CFSM grants	E-1	1,008.60	0.00	17	to combine fy 11 activity (net deferred revenue)
AS	25	0	1411	0		0	Allow for D/A US Fed	E-1		5,541.81	18	to adjust allowance upon analysis
FB	25	0	4300	0		0	Prior Period Adjustme	E-1	5,541.81	0.00	18	to adjust allowance upon analysis
	Totals								33,533.24	33,533.24		
AS	53	0	1411	0		0	Allow for D/A US Fed	E-1		64,786.05	20	to adjust analysis based upon workpaper
FB	53	0	4300	0		0	Prior Period Adjustme	E-1	64,786.05	0.00	20	to adjust analysis based upon workpaper
LI	53	0	3710	0		0	Deferred revenue	S-1	65,867.30	0.00	26	to adjust based upon analysis

Yap State Government  
Adjustment Journal - All Entries  
All Fund Types (Primary Government)

September 30, 2011

Accountant: KB

Funds: 01, 02, 06, 10, 105, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 23, 24, 25, 39, 51, 52, 53, 60, 61, 69, 76, 85, 86  
87, 89, 93, 95, 96, 97, 99

CL	Fund	Fn	Obj	Org	Y	Pr	Description	Ref	Debits	Credits	AJE#	Explanation of Adjustment
FB	53	0	4300	0		0	Prior Period Adjustme	S-1		65,867.30	26	to adjust based upon analysis
LI	53	0	3710	0		0	Deferred revenue	S-1	37,238.90	0.00	27	to adjust to deferred revenue at 9.30.11
RE	53	1131	7210	0		0	CFSM grants	S-1		37,238.90	27	to adjust to deferred revenue at 9.30.11
	Totals								167,892.25	167,892.25		
FB	87	0	4110	0		0	Unreserved fund bala	U-1		30,111,169.31	10	to record entry not made by client in py
LI	87	0	3290	0		0	Due to other funds	U-1	30,193,703.00	0.00	10	to record entry not made by client in py
AS	87	0	1110	0		0	Marketable securities	U-1		82,533.69	10	to record entry not made by client in py
LI	87	0	3290	0		0	Due to other funds	O-1		1,272,481.69	11	to reclass to due from
AS	87	0	1999	0		0	Due from other funds	O-1	1,272,481.69	0.00	11	to reclass to due from
	Totals								31,466,184.69	31,466,184.69		
AS	99	0	1999	0		0	Due from other funds	U-1		30,193,703.00	2	to make aje not made by client in py
FB	99	0	4110	0		0	Unreserved fund bala	U-1	30,193,703.00	0.00	2	to make aje not made by client in py
	Totals								30,193,703.00	30,193,703.00		

Richard A. Raymaker  
Steven C. Barney  
Steven R. Volz  
Daniel R. Brophey  
Thomas G. Wieland  
Michael W. Van Wagenen



**Reilly, Penner & Benton LLP**  
Certified Public Accountants & Consultants

*Celebrating Over 100 Years of Client Service*

David A. Grotkin  
Joel A. Joyce  
Brian J. Mechenich  
Carrie A. Gindt  
Patrick G. Hoffert

## System Review Report

July 9, 2010

To the Shareholders  
Fortenberry & Ballard, PC  
and the Peer Review Committee of the Mississippi Society of CPA's

We have reviewed the system of quality control for the accounting and auditing practice of Fortenberry & Ballard, PC (the firm) in effect for the year ended December 31, 2009. Our Peer Review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control, and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the Standards, engagements selected for review included audits performed in accordance with Government Auditing Standards.

In our opinion, the system of quality control for the accounting and auditing practice Fortenberry & Ballard, PC, CPA's in effect for the year ended December 31, 2009, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass; pass with deficiency (ies) or fail. Fortenberry & Ballard, PC has received a peer review rating of pass.

*Reilly, Penner & Benton LLP*



**Fortenberry & Ballard, PC**

1929 Spillway Road  
Brandon, MS 39047  
601.992.5292

February 24, 2012

Fortenberry & Ballard, PC  
P.O. Box A  
Kolonia, Pohnpei, FM 96941

We are providing this letter in connection with your audit(s) of the financial statements of Yap State Government as of September 30, 2011 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position 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 Yap State Government and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of 3/21, 2012 the following representations made to you during your audit(s).

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
  - a) Financial records and related data [and all audit or relevant monitoring reports, if any, received from funding sources].
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
- 5) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 6) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
- 7) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 8) We have a process to track the status of audit findings and recommendations.
- 9) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 10) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 11) The Yap State Government has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 12) The following, if any, have been properly recorded or disclosed in the financial statements:
  - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

- b) Guarantees, whether written or oral, under which the Yap State Government is contingently liable.
  - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.
- 13) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 14) There are no—
- a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
  - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
  - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
- 15) As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.
- 16) The Yap State Government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 17) The Yap State Government has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 18) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 19) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 20) The financial statements properly classify all funds and activities.
- 21) All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 22) Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 23) Investments, derivative transactions, and land and other real estate held by endowments are properly valued.
- 24) Provisions for uncollectible receivables have been properly identified and recorded.
- 25) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 26) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 27) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 28) Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
- 29) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

- 30) We have appropriately disclosed the Yap State Government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
- 31) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 32) With respect to the schedule of federal awards and the combining and fund statements and schedules:
- a) We acknowledge our responsibility for presenting the schedule of federal awards and the combining and fund statements and schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the schedule of federal awards and the combining and fund statements and schedules, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of these have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b) If the schedule of federal awards and the combining and fund statements and schedules are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 33) We have evaluated the Yap State Government's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.
- 34) With respect to federal award programs:
- a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
  - b) We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
  - c) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
  - d) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
  - e) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
  - f) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
  - g) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.

- h) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- i) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- j) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.
- k) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- m) Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- n) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- o) We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- p) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- q) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- r) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- s) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- t) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- u) We have charged costs to federal awards in accordance with applicable cost principles.
- v) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- w) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- x) We are responsible for preparing and implementing a corrective action plan for each audit finding.
  - i) We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
- y) We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the


balance sheet date and through the date of this letter that would require adjustment to or disclosure in the  
aforementioned financial statements [or in the schedule of findings and questioned costs].

Signed: \_\_\_\_\_

Title: \_\_\_\_\_

Signed: \_\_\_\_\_

Title: \_\_\_\_\_

  
CHIEF OF FINANCE & TREASURY