

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133**

YEAR ENDED SEPTEMBER 30, 2000

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2000

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FEDERATED STATES OF MICRONESIA**

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**STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL PURPOSE FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2000**

INDEPENDENT AUDITORS' REPORT

Honorable Vincent Figir
Governor, State of Yap
Federated States of Micronesia:

We have audited the accompanying general purpose financial statements of the State of Yap, as set forth in Section II of the foregoing table of contents, as of September 30, 2000, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Yap. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Public Transportation System (PTS), an enterprise fund, the Yap Visitors Bureau (YVB) and the Yap Fishing Authority (YFA), discretely presented component units, and Diving Seagull Inc., a material investee of the Yap Investment Trust Fund (YIT), an enterprise fund, which represent 26% and 83% of the assets and 7% and 99% of the operating revenues of the discretely presented propriety fund type component units and the enterprise funds, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for PTS, YVB, YFA and YIT, is based solely on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

The Yap Fishing Authority (YFA), a Component Unit-Proprietary Fund, has not been able to provide original cost data to support the carrying value of contributed fixed assets and has not provided support for the carrying value of a 50% investee. The impact of this matter on the accompanying general purpose financial statements is indeterminable.

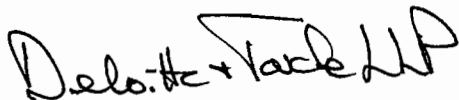
Yap State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 2000, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general purpose financial statements.

Due to inadequacies in the cash receipts system, we were not able to assure ourselves as to the propriety of classifications of all Governmental Fund Type revenues.

In our opinion, based on our audit and the reports of other auditors, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had; 1) original cost data been available to support the carrying value of contributed fixed assets and had support been available to substantiate the carrying value of a 50% investee of YFA, a Component Unit-Proprietary Fund, 2) the General Fixed Assets Account Group been updated, and 3) the classifications of all Governmental Fund Type revenues been substantiated, the accompanying general purpose financial statements, as set forth in Section II of the table of contents, with the exception of the General Fixed Assets Account Group, upon which we are unable to express an opinion because of the matters specified in the fourth paragraph, present fairly, in all material respects, the financial position of the State of Yap, as of September 30, 2000, and the results of its operations and the cash flows of its Proprietary Fund Types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section IV of the foregoing table of contents, which are also the responsibility of the management of the State of Yap, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of Yap. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, except for the effects of the items described in the third through fifth paragraphs above, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2001 on our consideration of the State of Yap's (Primary Government and Yap Community Action Program) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.



November 15, 2001

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 2000
(With comparative totals as of September 30, 1999)

| | Governmental Fund Types | | | Proprietary Fund Types | | Fiduciary Fund Type | Account Groups | | Totals Primary Government | Component Units | Totals Reporting Entity (Memorandum Only) | |
|---|-------------------------|---------------------|----------------------|------------------------|---------------------|------------------------|----------------------------|------------------------------|---------------------------------|----------------------|--|-----------------------|
| | General | Special Revenue | Capital Projects | Enterprise | Internal Service | Expendable Trust | General Fixed Assets | General Long-Term Debt | (Memorandum Only) | | 2000 | 1999 |
| | <i>Assets</i> | | | | | | | | | | | |
| Cash and equivalents (note 3) | \$ 767,125 | \$ 50,801 | \$ - | \$ 745,739 | \$ - | \$ 187,619 | \$ - | \$ - | \$ 1,751,284 | \$ 1,817,082 | \$ 3,568,366 | \$ 4,071,538 |
| Restricted cash (note 4) | 1,517,113 | - | - | - | - | - | - | - | 1,517,113 | 1,089,530 | 2,606,643 | 2,535,910 |
| Time certificates of deposit | - | - | - | - | - | - | - | - | - | 848,543 | 848,543 | 1,149,275 |
| Investments (note 5) | 41,281,975 | 3,226,092 | 9,210,448 | 2,007,678 | - | - | - | - | 55,726,193 | 885,164 | 56,611,357 | 55,748,470 |
| Receivables, net (note 6): | | | | | | | | | | | | |
| Other governments | - | 667,122 | - | - | - | - | - | - | 667,122 | - | 667,122 | 554,610 |
| Federal agencies | - | - | - | - | - | - | - | - | - | 495,668 | 495,668 | 20,472 |
| U.S. Department of the Interior-TTPI | - | - | 165,142 | - | - | - | - | - | 165,142 | - | 165,142 | 75,777 |
| Federal and other-FSM government | 375,269 | 1,802,172 | 677,393 | - | - | - | - | - | 2,854,834 | - | 2,854,834 | 3,367,438 |
| General | 81,371 | - | - | 17,034 | 4,484 | - | - | - | 102,889 | 21,186 | 124,075 | 544,659 |
| Loans | - | - | 6,500,000 | - | - | - | - | - | 6,500,000 | 166,083 | 6,666,083 | 6,706,436 |
| Accrued interest on investments | - | - | - | - | - | - | - | - | - | 3,777 | 3,777 | 10,333 |
| Due from other funds (note 10) | 1,366,203 | 29,030 | 2,321,796 | 506,250 | 228,511 | 8,080 | - | - | 4,459,870 | - | 4,459,870 | 4,413,467 |
| Advances and prepayments (note 6) | 485,429 | 102,929 | 7,620 | 31,386 | - | - | - | - | 627,364 | 37,454 | 664,818 | 619,022 |
| Inventory of supplies, at cost (note 7) | 198,607 | - | - | 47,615 | 56,837 | - | - | - | 303,059 | 610,438 | 913,497 | 856,058 |
| Fixed assets, net (note 8) | - | - | - | 3,142,752 | - | - | 64,620,758 | - | 67,763,510 | 12,132,278 | 79,895,788 | 80,208,922 |
| Amount to be provided for retirement of long-term debt | - | - | - | - | - | - | - | 12,937,852 | 12,937,852 | - | 12,937,852 | 20,837,852 |
| | <u>\$ 46,073,092</u> | <u>\$ 5,878,146</u> | <u>\$ 18,882,399</u> | <u>\$ 6,498,454</u> | <u>\$ 289,832</u> | <u>\$ 195,699</u> | <u>\$ 64,620,758</u> | <u>\$ 12,937,852</u> | <u>\$ 155,376,232</u> | <u>\$ 18,107,203</u> | <u>\$ 173,483,435</u> | <u>\$ 181,720,239</u> |

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 2000
(With comparative totals as of September 30, 1999)

| | Governmental Fund Types | | | Proprietary Fund Types | | Fiduciary Fund Type | Account Groups | | Totals Primary Government (Memorandum Only) | Component Units | Totals Reporting Entity (Memorandum Only) | |
|--|-------------------------|--------------------|---------------------|------------------------|---------------------|------------------------|----------------------------|------------------------------|---|--------------------|--|--------------------|
| | General | Special Revenue | Capital Projects | Enterprise | Internal Service | Expendable Trust | General Fixed Assets | General Long-Term Debt | | | 2000 | 1999 |
| Liabilities and Fund Equity | | | | | | | | | | | | |
| Liabilities: | | | | | | | | | | | | |
| Accounts payable | \$ 820,998 | \$ 434,703 | \$ - | \$ 49,700 | \$ - | \$ - | \$ - | \$ - | \$ 1,305,401 | \$ 129,920 | \$ 1,435,321 | \$ 1,006,874 |
| Accrued payroll and others | 309,201 | 13,036 | - | 80,160 | 4,454 | - | - | 440,571 | 847,422 | 178,943 | 1,026,365 | 1,211,726 |
| Intergovernmental note payable (note 9) | - | - | - | 2,000,000 | - | - | - | - | 2,000,000 | - | 2,000,000 | 2,000,000 |
| Loans payable - Yap State (note 9) | - | - | - | 7,000,000 | - | - | - | - | 7,000,000 | - | 7,000,000 | 7,000,000 |
| Due to other funds (note 10) | - | 2,862,093 | 838,927 | 758,850 | - | - | - | - | 4,459,870 | - | 4,459,870 | 4,413,467 |
| Due to grantor | - | - | - | - | - | - | - | - | - | 137,964 | 137,964 | 102,639 |
| Deferred revenue | 37,538 | 413,568 | 3,608 | - | - | - | - | - | 454,714 | 292,323 | 747,037 | 1,836,306 |
| Notes payable (note 9)) | - | - | - | - | - | - | - | 12,300,000 | 12,300,000 | 1,009,729 | 13,309,729 | 20,200,000 |
| Other payables | - | - | - | - | - | - | - | - | - | 293,208 | 293,208 | 144,650 |
| Land aquisition claims payable (note 9) | - | - | - | - | - | - | - | 197,281 | 197,281 | - | 197,281 | 200,714 |
| Total liabilities | 1,167,737 | 3,723,400 | 842,535 | 9,888,710 | 4,454 | - | - | 12,937,852 | 28,564,688 | 2,042,087 | 30,606,775 | 38,116,376 |
| Fund equity (deficit): | | | | | | | | | | | | |
| Contributed capital | - | - | - | 7,976,934 | - | - | - | - | 7,976,934 | 16,670,838 | 24,647,772 | 23,918,429 |
| Investment in general fixed assets | - | - | - | - | - | - | 64,620,758 | - | 64,620,758 | - | 64,620,758 | 64,620,758 |
| Retained earnings (deficit): | | | | | | | | | | | | |
| Unreserved | - | - | - | (11,367,190) | 285,378 | - | - | - | (11,081,812) | (2,371,240) | (13,453,052) | (9,657,179) |
| Net assets: | | | | | | | | | | | | |
| Unrestricted | - | - | - | - | - | - | - | - | - | (146,539) | (146,539) | 16,056 |
| Temporarily restricted | - | - | - | - | - | - | - | - | - | 816,677 | 816,677 | 554,773 |
| Permanently restricted | - | - | - | - | - | - | - | - | - | 1,095,380 | 1,095,380 | 1,210,937 |
| Fund balances: | | | | | | | | | | | | |
| Reserved for: | | | | | | | | | | | | |
| Related assets | 14,943,109 | - | - | - | - | - | - | - | 14,943,109 | - | 14,943,109 | 23,592,914 |
| Loans | - | - | 6,500,000 | - | - | - | - | - | 6,500,000 | - | 6,500,000 | 6,500,000 |
| Encumbrances | 1,053,491 | 1,860,647 | 3,081,454 | - | - | - | - | - | 5,995,592 | - | 5,995,592 | 5,918,451 |
| Continuing appropriations (note 12) | 49,785 | 150,000 | 200,000 | - | - | - | - | - | 399,785 | - | 399,785 | 2,248,857 |
| Unreserved | 28,858,970 | 144,099 | 8,258,410 | - | - | 195,699 | - | - | 37,457,178 | - | 37,457,178 | 24,679,867 |
| Total fund equity (deficit) | 44,905,355 | 2,154,746 | 18,039,864 | (3,390,256) | 285,378 | 195,699 | 64,620,758 | - | 126,811,544 | 16,065,116 | 142,876,660 | 143,603,863 |
| Contingent liabilities and commitments (notes 13 and 15) | \$ 46,073,092 | \$ 5,878,146 | \$ 18,882,399 | \$ 6,498,454 | \$ 289,832 | \$ 195,699 | \$ 64,620,758 | \$ 12,937,852 | \$ 155,376,232 | \$ 18,107,203 | \$ 173,483,435 | \$ 181,720,239 |

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Governmental Fund Types | | | Fiduciary Fund Type | Totals Reporting Entity (Memorandum Only) | |
|---|-------------------------|---------------------|----------------------|------------------------|--|----------------------|
| | General | Special Revenue | Capital Projects | Expendable Trust | 2000 | 1999 |
| Revenues: | | | | | | |
| Compact of Free Association | \$ 5,929,053 | \$ 2,447,012 | \$ 3,641,792 | \$ - | \$ 12,017,857 | \$ 12,429,541 |
| Federal contributions | - | 2,510,018 | - | - | 2,510,018 | 2,405,306 |
| U.S. Dept. of the Interior-TTPI | - | - | 1,132,945 | - | 1,132,945 | 1,186,524 |
| Revenue sharing (FSM) | 3,313,721 | - | - | - | 3,313,721 | 2,055,645 |
| CFSM grants | - | 1,318,853 | 874,649 | - | 2,193,502 | 3,345,588 |
| Taxes and licenses | 1,773,009 | - | - | - | 1,773,009 | 1,824,418 |
| Departmental charges | 497,597 | - | - | - | 497,597 | 507,171 |
| Interest income | 34,201 | - | - | - | 34,201 | 18,789 |
| Other | 347,519 | 444,429 | - | - | 791,948 | 492,506 |
| Total revenues | 11,895,100 | 6,720,312 | 5,649,386 | - | 24,264,798 | 24,265,488 |
| Expenditures: | | | | | | |
| General government | 1,200,479 | - | - | - | 1,200,479 | 1,511,345 |
| Health services | 1,257,529 | 574,547 | - | - | 1,832,076 | 2,041,161 |
| Education | 1,273,199 | 1,140,198 | 183,887 | - | 2,597,284 | 4,337,562 |
| Economic development | 518,700 | 150,799 | 25,983 | - | 695,482 | 765,082 |
| Public safety | 503,464 | 112,030 | - | - | 615,494 | 661,837 |
| Public works and transportation | 2,008,511 | 1,452,103 | 4,293,084 | - | 7,753,698 | 7,255,371 |
| Community affairs | 180,184 | 183,284 | 43,138 | - | 406,606 | 1,126,656 |
| Boards and commissions | 248,320 | - | - | - | 248,320 | 252,167 |
| Other | 424,646 | 2,914,868 | 118,351 | - | 3,457,865 | 1,865,288 |
| Total expenditures | 7,615,032 | 6,527,829 | 4,664,443 | - | 18,807,304 | 19,816,469 |
| Excess of revenues over expenditures | 4,280,068 | 192,483 | 984,943 | - | 5,457,494 | 4,449,019 |
| Other financing sources (uses): | | | | | | |
| Investment income (note 5) | 7,017,238 | - | - | - | 7,017,238 | 7,994,858 |
| Investment loss (note 9) | (140,304) | - | - | (30,271) | (170,575) | - |
| Bad debt expense | - | - | - | - | - | (500,000) |
| Operating transfers in (note 11) | - | 383,510 | - | - | 383,510 | 5,793,948 |
| Operating transfers out (note 11) | (655,535) | (479,795) | - | - | (1,135,330) | (9,438,919) |
| Payments of notes payable and interest (note 9) | (9,183,562) | - | - | - | (9,183,562) | (9,269,153) |
| Early retirement scheme ADB loan proceeds | - | - | - | - | - | 1,500,000 |
| Early retirement program | (13,200) | - | - | - | (13,200) | (500,918) |
| Total other financing sources (uses), net | (2,975,363) | (96,285) | - | (30,271) | (3,101,919) | (4,420,184) |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 1,304,705 | 96,198 | 984,943 | (30,271) | 2,355,575 | 28,835 |
| Fund balances at beginning of year | 43,600,650 | 2,058,548 | 17,054,921 | 225,970 | 62,940,089 | 62,911,254 |
| Fund balances at end of year | \$ 44,905,355 | \$ 2,154,746 | \$ 18,039,864 | \$ 195,699 | \$ 65,295,664 | \$ 62,940,089 |

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | 2000 General Fund | | | 1999 General Fund | | |
|---|----------------------|----------------------|--|-----------------------|----------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Current account compact funds | \$ 5,816,140 | \$ 5,918,528 | \$ 102,388 | \$ 5,950,560 | \$ 5,880,096 | \$ (70,464) |
| FSM revenue sharing | 2,347,950 | 3,313,721 | 965,771 | 1,416,740 | 2,055,645 | 638,905 |
| Taxes and licenses | 1,582,600 | 2,270,606 | 688,006 | 1,401,390 | 1,303,474 | (97,916) |
| Interest income | - | 34,201 | 34,201 | 250,000 | 14,426 | (235,574) |
| Other | - | 358,044 | 358,044 | 479,010 | 1,366,362 | 887,352 |
| Total revenues | 9,746,690 | 11,895,100 | 2,148,410 | 9,497,700 | 10,620,003 | 1,122,303 |
| Expenditures—budgetary basis: | | | | | | |
| General government | 1,418,679 | 1,323,133 | 95,546 | 2,002,704 | 1,261,239 | 741,465 |
| Health services | 1,708,998 | 1,371,379 | 337,619 | 1,365,682 | 1,456,193 | (90,511) |
| Education | 1,333,214 | 1,264,371 | 68,843 | 1,405,010 | 1,324,364 | 80,646 |
| Economic development | 664,228 | 592,351 | 71,877 | 423,591 | 401,504 | 22,087 |
| Public safety | 550,933 | 510,883 | 40,050 | 541,150 | 487,719 | 53,431 |
| Public works and transportation | 2,386,601 | 1,975,820 | 410,781 | 1,668,410 | 1,582,630 | 85,780 |
| Community affairs | 216,680 | 194,197 | 22,483 | 233,050 | 248,026 | (14,976) |
| Boards and commissions | 282,065 | 250,405 | 31,660 | 271,220 | 245,409 | 25,811 |
| Other | 680,604 | 382,047 | 298,557 | 657,914 | 698,753 | (40,839) |
| Total expenditures | 9,242,002 | 7,864,586 | 1,377,416 | 8,568,731 | 7,705,837 | 862,894 |
| Excess of revenues over expenditures | 504,688 | 4,030,514 | 3,525,826 | 928,969 | 2,914,166 | 1,985,197 |
| Other financing sources (uses): | | | | | | |
| Investment income | - | 7,017,238 | 7,017,238 | - | 7,994,858 | 7,994,858 |
| Investment loss | - | (140,304) | (140,304) | - | - | - |
| Bad debt expense | - | - | - | (500,000) | (500,000) | - |
| Operating transfers out (note 11) | (336,020) | (655,535) | (319,515) | (8,950,253) | (8,950,253) | - |
| Payments of notes payable (note 9) | - | (9,183,562) | (9,183,562) | (5,657,123) | (5,657,123) | - |
| ERS ADB loan proceeds | - | - | - | 1,500,000 | 1,500,000 | - |
| Early retirement program | (824,612) | 29,021 | 853,633 | (2,470,445) | (543,140) | 1,927,305 |
| Total other financing sources (uses), net | (1,160,632) | (2,933,142) | (1,772,510) | (16,077,821) | (6,155,658) | 9,922,163 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | (655,944) | 1,097,372 | 1,753,316 | (15,148,852) | (3,241,492) | 11,907,360 |
| Fund balance, unreserved, at beginning of year | 19,112,721 | 19,112,721 | - | 12,629,341 | 14,865,708 | 2,236,367 |
| Other changes in unreserved fund balance: | | | | | | |
| Related assets | - | 8,649,805 | 8,649,805 | - | 7,173,319 | 7,173,319 |
| Continuing appropriations | - | (928) | (928) | - | 315,186 | 315,186 |
| Fund balance, unreserved, at end of year | \$ 18,456,777 | \$ 28,858,970 | \$ 10,402,193 | \$ (2,519,511) | \$ 19,112,721 | \$ 21,632,232 |

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency) -
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 2000
(With Comparative Totals for the Year Ended September 30, 1999)

| | Proprietary Fund Types | | Totals | Component | Totals | |
|--|------------------------|-------------------|-----------------------|----------------------|----------------------|----------------------|
| | Enterprise | Internal Service | Primary | | Reporting | Entity |
| | | | Government | | | |
| | | | (Memorandum Only) | | 2000 | 1999 |
| Operating revenues: | | | | | | |
| Rental income | \$ - | \$ 25,030 | \$ 25,030 | \$ 9,140 | \$ 34,170 | \$ 39,254 |
| Charges for goods and services | 2,687,611 | - | 2,687,611 | 2,968,765 | 5,656,376 | 5,336,557 |
| Grants and contracts | 16,000 | - | 16,000 | 857,498 | 873,498 | 1,372,420 |
| Stock issues | - | - | - | - | - | 5,522 |
| Interest | - | - | - | 72,040 | 72,040 | 64,318 |
| Other | - | 1,444 | 1,444 | 27,174 | 28,618 | 12,064 |
| Total operating revenues | 2,703,611 | 26,474 | 2,730,085 | 3,934,617 | 6,664,702 | 6,830,135 |
| Operating expenses: | | | | | | |
| Headstart program | - | - | - | 826,613 | 826,613 | 872,806 |
| Other federal programs | - | - | - | 37,802 | 37,802 | 102,934 |
| Other nonprofit and local programs | - | - | - | 18,441 | 18,441 | 17,740 |
| Personnel services | 1,049,067 | - | 1,049,067 | 887,884 | 1,936,951 | 1,791,090 |
| Travel | - | - | - | 88,426 | 88,426 | 48,526 |
| Supplies and materials | 57,483 | - | 57,483 | 1,463,651 | 1,521,134 | 1,064,420 |
| Production fuel | 566,572 | - | 566,572 | - | 566,572 | 1,434,513 |
| Contractual services | 2,459 | - | 2,459 | 8,102 | 10,561 | 14,506 |
| Depreciation | 1,687,847 | - | 1,687,847 | 824,424 | 2,512,271 | 2,462,207 |
| Bad debts expense | 6,532 | - | 6,532 | 42,314 | 48,846 | 119,134 |
| Utilities and communication | 11,121 | - | 11,121 | 17,257 | 28,378 | 16,978 |
| Repair and maintenance | 164,065 | - | 164,065 | - | 164,065 | 423,798 |
| Equipment lease | 12,236 | - | 12,236 | - | 12,236 | 250,833 |
| Matching fund program | - | - | - | - | - | 18,174 |
| Insurance | 214,860 | - | 214,860 | - | 214,860 | 218,434 |
| Lincense, agent and port fees | 257,796 | - | 257,796 | - | 257,796 | 195,204 |
| Provision | 115,322 | - | 115,322 | - | 115,322 | 145,028 |
| Management fee | 131,365 | - | 131,365 | - | 131,365 | 108,625 |
| Other | 896,694 | 62,047 | 958,741 | 1,067,639 | 2,026,380 | 1,197,870 |
| Total operating expenses | 5,173,419 | 62,047 | 5,235,466 | 5,282,553 | 10,518,019 | 9,544,820 |
| Operating income (loss) | (2,469,808) | (35,573) | (2,505,381) | (1,347,936) | (3,853,317) | (2,714,685) |
| Nonoperating revenues (expenses): | | | | | | |
| Operating transfers in (note 11) | 165,800 | - | 165,800 | 582,344 | 748,144 | 3,124,106 |
| Repayment of debt | - | - | - | - | - | (3,171,135) |
| Loss on investment in unconsolidated subsidiary (note 17) | - | - | - | (264,193) | (264,193) | - |
| Inventory loss | - | - | - | (164,315) | (164,315) | - |
| Interest income | 26,928 | - | 26,928 | 1,279 | 28,207 | 30,117 |
| Other income | - | - | - | 151,606 | 151,606 | 259,588 |
| Loss on disposal of assets | (2,392) | - | (2,392) | (379,324) | (381,716) | (328,064) |
| Recovery of bad debt | - | - | - | 136,463 | 136,463 | - |
| Total nonoperating revenues (expenses), net | 190,336 | - | 190,336 | 63,860 | 254,196 | (85,388) |
| Net income (loss) | (2,279,472) | (35,573) | (2,315,045) | (1,284,076) | (3,599,121) | (2,800,073) |
| Retained earnings/net assets (deficit) at beginning of year | (9,087,718) | 320,951 | (8,766,767) | 891,354 | (7,875,413) | (4,832,365) |
| Prior period adjustment (note 17) | - | - | - | (213,000) | (213,000) | (242,975) |
| Retained earnings/net assets (deficit) at end of year | (11,367,190) | 285,378 | (11,081,812) | (605,722) | (11,687,534) | (7,875,413) |
| Contributed capital at beginning of year | 7,976,934 | - | 7,976,934 | 15,941,495 | 23,918,429 | 23,147,058 |
| Additions | - | - | - | - | - | 103,224 |
| Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital | - | - | - | 729,343 | 729,343 | 668,147 |
| Contributed capital at end of year | 7,976,934 | - | 7,976,934 | 16,670,838 | 24,647,772 | 23,918,429 |
| Fund equity (deficiency) at end of year | \$ (3,390,256) | \$ 285,378 | \$ (3,104,878) | \$ 16,065,116 | \$ 12,960,238 | \$ 16,043,016 |

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Cash Flows
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 2000
(With Comparative Totals for the Year Ended September 30, 1999)

| | Proprietary Fund Types | | Totals Primary Government (Memorandum Only) | Component Units | Totals Reporting Entity (Memorandum Only) | |
|---|------------------------|---------------------|---|---------------------|--|---------------------|
| | Enterprise | Internal Service | | | 2000 | 1999 |
| Cash flows from operating activities: | | | | | | |
| Operating income (loss) | \$ (2,469,808) | \$ (35,573) | \$ (2,505,381) | \$ (1,347,936) | \$ (3,853,317) | \$ (2,714,685) |
| Adjustments to reconcile operating income (loss) to net cash (used for) provided by operating activities: | | | | | | |
| Depreciation | 1,687,847 | - | 1,687,847 | 798,833 | 2,486,680 | 2,462,207 |
| Bad debt | - | - | - | 9,314 | 9,314 | 103,259 |
| Recovery of bad debt | - | - | - | (136,463) | (136,463) | - |
| Other | 26,928 | - | 26,928 | 299,301 | 326,229 | 10,232 |
| | <u>(755,033)</u> | <u>(35,573)</u> | <u>(790,606)</u> | <u>(376,951)</u> | <u>(1,167,557)</u> | <u>(138,987)</u> |
| Change in assets and liabilities: | | | | | | |
| Restricted cash | 9,070 | - | 9,070 | - | 9,070 | 500,000 |
| General receivables | 3,972 | - | 3,972 | 144,846 | 148,818 | 1,043,355 |
| Due from other funds | 658,028 | 34,802 | 692,830 | - | 692,830 | 19,033 |
| Prepayments | 440 | - | 440 | (24,884) | (24,444) | 135,441 |
| Inventory of supplies, at cost | (13,260) | - | (13,260) | 14,863 | 1,603 | (62,351) |
| Advances | - | - | - | (28,273) | (28,273) | 3,066 |
| Loans receivable | - | - | - | 40,353 | 40,353 | 128,427 |
| Interest receivable | - | - | - | 6,556 | 6,556 | 741 |
| Accounts payable | 38,159 | (6,182) | 31,977 | (1,047) | 30,930 | (388,085) |
| Accrued payroll and others | (52,549) | 6,953 | (45,596) | (48,068) | (93,664) | (522,460) |
| Other payables | - | - | - | 298,291 | 298,291 | 124,765 |
| | <u>643,860</u> | <u>35,573</u> | <u>679,433</u> | <u>402,637</u> | <u>1,082,070</u> | <u>981,932</u> |
| Net cash (used for) provided by operating activities | <u>(111,173)</u> | <u>-</u> | <u>(111,173)</u> | <u>25,686</u> | <u>(85,487)</u> | <u>842,945</u> |
| Cash flows from noncapital financing activities: | | | | | | |
| Operating transfers in and contributed capital | - | - | - | 1,020,874 | 1,020,874 | 1,381,692 |
| Operating grant from Yap State Government | 165,800 | - | 165,800 | - | 165,800 | - |
| Grant from Federal Emergency Management Act | - | - | - | 6,973 | 6,973 | 130,689 |
| | <u>165,800</u> | <u>-</u> | <u>165,800</u> | <u>1,027,847</u> | <u>1,193,647</u> | <u>1,512,381</u> |
| Cash flows from capital and related financing activities: | | | | | | |
| Intergovernmental transfers | - | - | - | - | - | 2,774,359 |
| Acquisition of fixed assets | (100,455) | - | (100,455) | (2,130,785) | (2,231,240) | (906,999) |
| Proceeds from Yap State Government loan | - | - | - | 1,009,729 | 1,009,729 | 500,000 |
| Retirement of debt | - | - | - | - | - | (3,171,135) |
| | <u>(100,455)</u> | <u>-</u> | <u>(100,455)</u> | <u>(1,121,056)</u> | <u>(1,221,511)</u> | <u>(803,775)</u> |
| Cash flows from investing activities | | | | | | |
| Proceeds from sales of fixed assets | - | - | - | - | - | (321,720) |
| Interest income | - | - | - | 91,549 | 91,549 | 83,790 |
| Acquisition of fixed assets | - | - | - | (17,721) | (17,721) | (89,404) |
| Dividend income | - | - | - | - | - | 18,750 |
| Acquisition of time certificate of deposit | - | - | - | 89,695 | 89,695 | (723,838) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>163,523</u> | <u>163,523</u> | <u>(1,032,422)</u> |
| Net cash provided by (used for) investing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>163,523</u> | <u>163,523</u> | <u>(1,032,422)</u> |
| Net (decrease) increase in cash and equivalents | <u>(45,828)</u> | <u>-</u> | <u>(45,828)</u> | <u>96,000</u> | <u>50,172</u> | <u>519,129</u> |
| Cash and equivalents at beginning of year | <u>791,567</u> | <u>-</u> | <u>791,567</u> | <u>1,721,082</u> | <u>2,512,649</u> | <u>1,993,520</u> |
| Cash and equivalents at end of year | <u>\$ 745,739</u> | <u>\$ -</u> | <u>\$ 745,739</u> | <u>\$ 1,817,082</u> | <u>\$ 2,562,821</u> | <u>\$ 2,512,649</u> |

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies

The general purpose financial statements of the State of Yap have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State of Yap's accounting policies are described below:

A. Reporting Entity

The general purpose financial statements of the State of Yap have been prepared in conformity with GAAP as applied to government units. GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 2000. The State of Yap has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

As required by GAAP, the general purpose financial statements of the State of Yap present the government and its component units; entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the general purpose financial statements to emphasize that they are legally separate from the government. Each blended and discretely presented component unit has a September 30 year end.

1. Blended Component Units

- a) The Yap Economic Development Authority (YEDA) is responsible to promote and support economic development in the State of Yap. YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 and is governed by an eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YEDA is reported as an enterprise fund as it is designed to hold various Yap State investments in for-profit making activities.
- b) The Yap Investment Trust (YIT) is responsible to act as trustee for Deed of Trust guarantees as provided for under the Yap State Deed of Trust Act and to promote and support economic development in the State of Yap. YIT was created in fiscal year 1994 by Yap State Law No. 3-84 and is governed by an eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YIT is reported as an enterprise fund as its mission is similar to that of the YEDA. The 2000 presentation for YIT is consolidated with the results of its 100% owned investee, Diving Seagull Inc. (DSI).

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

c) The Public Transportation System (PTS) is responsible to provide reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is not a legally separate entity. However the State of Yap has determined that accountability on a proprietary basis is appropriate for PTS as it primarily provides services to the State. PTS was established in fiscal year 1984 by Yap State Law No. 1-170 and is governed by a five member Board of Directors appointed by the Governor.

2. Discretely Presented Component Units

a) The Yap Fishing Authority (YFA) is responsible to promote, develop, and support commercial utilization of living marine resources within the State of Yap. YFA was created in fiscal year 1979 by Yap District Law No. 6-13, provides services to private enterprises and the government, and is governed by a five member Board of Directors, three of which are appointed by the Governor, with the remaining two coming from specific Legislative Committees. YFA is reported as a component unit - propriety fund.

b) The Yap State Public Service Corporation (YSPSC) is a public corporation which administers electric and water utilities for Yap State. YSPSC commenced operations on April 1, 1996 with assets and liabilities transferred from the Yap State Department of Public Utilities and Contracts. YSPSC is governed by a seven member Board of Directors who are nominated by the Governor with the advise and consent of the Legislature of the State of Yap.

c) The Yap Community Action Program (Yap CAP) is a non-profit corporation. Yap CAP was created in fiscal year 1968 by the Trust Territory Government, is governed by an eight member Board of Directors, two of which are appointed by the Governor and one each appointed by the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. Yap CAP is reported as a component unit-governmental fund.

d) The Yap Visitors Bureau (YVB) was created pursuant to YSL No. 4-25 in October 1996. YSL 4-81 dated August 1998, enabled YVB to maintain books and records independent of the Government of the State of Yap. YVB is responsible for promoting tourism, developing the resources of the private sector and other activities related to the tourism industry. The YVB is governed by a seven member Board of Directors, five of which are appointed by the Governor with the advice and consent of the Legislature, one appointed by the Speaker of the State Legislature, and one elected by the vote of the six appointed members. A General Manager is hired by the Board to oversee daily operations.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Omitted Component Units

- a) The Gagil-Tomil Water Authority (GTWA) is responsible to provide services in the operation and maintenance of the Gagil-Tomil Water System. GTWA was created in fiscal year 1985 by Yap State Law No. 1-183, serves all citizens of the Gagil-Tomil Water System, and 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. GTWA would be reported as a component unit-proprietary fund.
- b) The Southern Yap Water Authority (SYWA) is responsible to operate and maintain the Southern Yap Water System. SYWA was created in fiscal year 1987 by Yap State Law No. 1-221, serves all citizens of the Southern Yap Water System, and is governed by a five member Board of Directors, one of which is appointed by the Governor with the remaining four appointed by the municipal chiefs of the four related municipalities represented in the Council of Pilung. SYWA would be reported as a discretely presented component unit-proprietary fund.

The financial activities of the omitted component units are not material to the general purpose financial statements.

B. Fund Accounting

The State of Yap uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Yap State functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of government's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the acquisition or construction of general fixed assets (capital projects funds).

The general fund is used to account for all activities of the general government not accounted for in some other fund.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting, Continued

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the State of Yap. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the State of Yap is under an obligation to maintain the trust principal.

There are two account groups. The General Fixed Assets Account Group is used to account for fixed assets not accounted for in proprietary funds. The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary funds.

C. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

Those revenues susceptible to accrual are FSM shared revenues (business gross receipts tax, import tax, income tax, and fuel tax), charges for services, leases, and interest income. Fines and permit revenues are not susceptible to accrual because they are generally not measurable until received in cash.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The State of Yap reports deferred revenue on its balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the State of Yap before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State of Yap has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D. Budgets

An annual appropriated budget is adopted by the 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 Legislature. Budgets for Special Revenue Funds, except the Compact Program Fund, are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for Special Revenue Funds, except the Compact Program Fund, is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Equivalents

For purposes of the Combined Balance Sheet and Combined Statement of Cash Flows, cash and equivalents is defined as cash in bank checking and savings accounts, cash management accounts held by a trustee, and time certificates of deposit with an initial maturity of ninety days or less.

F. Investments

Effective October 1, 1996, the State elected to implement the standards of GASB 31. GASB 31 provides that governmental activities shall, with certain exceptions, report investments at fair value in the balance sheet. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent, and on a consolidated basis if greater than fifty percent. (See note 5).

G. Receivables

Receivables in the State's governmental funds primarily consist of taxes and federal revenues. Federal receivables include those funds which are earned, primarily from the FSM National Government administered federal grants and Trust Territory of the Pacific Islands (TTPI) grants, which have yet to be reimbursed by the applicable grantor.

H. Due From/To Other Funds

The majority of the State's financial operations are centrally administered, and this administration is facilitated by the use of a "pooled" cash account; for practical purposes, cash is primarily maintained in a single bank account which is considered to be an asset of the State's general fund. As a result of this cash pooling practice, cash transactions normally include entries which adjust the relative balances of affected funds' interfund asset/liability accounts; each fund's Due From/To Other Funds Account therefore represents a net interest in the State's actual cash. Interest earned on the "pooled" funds benefits the General Fund.

I. Advances and Prepayments

Prepayments represent amounts paid in advance to vendors. The general fund advances and prepayments are offset by inclusion in a fund balance reserve account as they do not constitute expendable available resources and are therefore not available for appropriation.

J. Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost (principally average cost) or market. Inventories of the general fund are offset by a fund balance reserve account as they represent an asset not available for appropriation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

K. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in governmental funds. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The State follows a policy of capitalizing infrastructure costs. However, applicable additions have not been inventoried and added to the General Fixed Assets Account Group and eligible interest expense is not capitalized.

Depreciation is not charged on assets in the General Fixed Assets Account Group. However, depreciation is charged on proprietary fund fixed assets and is provided over the estimated useful lives of the assets through use of the straight line method. (See note 8 for a breakdown of fixed assets and the related estimated useful lives).

L. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. (See also note 1M). Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. The liability as of September 30, 2000 is \$440,571. No expenditure is reported for these amounts. Vested accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. The accumulated amount of unused sick leave at September 30, 2000, for all governmental funds, is estimated to be \$372,209.

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group. Accrued annual leave has been presented in the accompanying General Long-Term Debt Account Group. No current portion of accrued annual leave has been recorded in the governmental funds as the amounts are immaterial to those funds.

N. Fund Equity

Contributed capital is recorded in proprietary funds and discretely presented component units that have received capital grants or contributions from developers, customers or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

N. Fund Equity, Continued

The reserve for related assets of the General Fund is comprised of the following:

| | |
|---|----------------------|
| MTN principal payable (See note 9) | \$ 8,800,000 |
| Inventory of supplies | 198,607 |
| Interfund receivables which may require in excess of one year to affect collection | 2,436,591 |
| ERS debt service (See note 9) | 2,100,000 |
| 20% Restricted National tax revenue | <u>1,407,911</u> |
| | \$ <u>14,943,109</u> |

The discretely presented component unit, Yap Fishing Authority, follows GAAP for recording grants-in-aid for the construction or acquisition of facilities and equipment as contributions. Under this principle, depreciation applicable to contributed assets is recorded as a reduction against the related contribution and depreciation applicable to non-contributed assets is recorded as a charge against income.

O. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

P. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, result of operations or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Q. Comparative Data/Reclassification

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the State of Yap's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

R. Management 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 and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

S. Not-for-Profit-Accounting

Yap Community Action Program (YCAP), a discretely presented component unit, follows the reporting standards for the Not-for-Profit Organizations provided in Statement of Financial Accounting Standards (SFAS) No. 116, 117, and 124. SFAS 116 establishes standards for accounting for contributions. SFAS 117 establishes broad standards for reporting information in the financial statements issued by not-for-profit organizations and requires these financial statements to focus on the entity as a whole. Amounts related to an organization's financial position and activities are reported in three classes of net assets—permanently restricted, temporarily restricted, and unrestricted. SFAS 124 requires certain investments to be carried at market value.

These statements must classify an organization's assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The three classes of net assets are now classified as one of the following types:

- Unrestricted
- Temporarily restricted
- Permanently restricted

YCAP has determined that all assets, revenues, expenses, gains and losses resulting from local government contributions and federal grants are unrestricted and temporarily restricted, respectively. YCAP has determined that all loan funds, equipment and related transfers and depreciation expense are permanently restricted.

Net Assets

YCAP reports grants or gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(1) Summary of Significant Accounting Policies, Continued

S. Not-for-Profit-Accounting, Continued

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted funding is recognized as support when received when the only limits on its use are the broad limits resulting from the nature of YCAP, the environment in which it operates, and the purposes specified in its articles of incorporation and by-laws and limits resulting from contractual agreements entered into by YCAP in the course of its business. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes.

(2) Budgetary Information

The Legislature enacts the budget prior to the commencement of the applicable fiscal year through passage of specific departmental appropriations. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation on a line item basis, subject to legislative override. Once passed and signed, the budget becomes the State financial plan for the ensuing fiscal year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting intradepartmental program changes, may be effected only through Legislative branch approval. Supplemental appropriations are made throughout the year in recognition of the State's evolving priorities.

(3) Cash and Equivalents

State law requires that cash held in foreign banks must be with banks which have total assets in excess of one billion dollars.

Of the Governmental Fund Types cash, \$200,000 is subject to FDIC coverage with the remaining balance exceeding insurable amounts. The State does not require collateralization of its deposits by its banks. Therefore, the amounts which exceed the FDIC insurable limitations are characterized as uncollateralized.

Of the component units cash balances, \$479,433 is subject to FDIC coverage with the remaining balances being noninsured and uncollateralized.

(4) Restricted Cash

General Fund:

Restricted cash represents the Asian Development Bank loan proceeds and earnings reserved for the Yap State Early Retirement Scheme. The funds are held by Pacific Century Trust. (See note 9).

\$ 1,517,113

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(4) Restricted Cash, Continued

Discretely Presented Component Units:

Restricted cash for the Yap Community Action Program consists of savings accounts and time certificates of deposits designated for housing loan programs.

\$ 1,089,530

(5) Investments

Yap State has invested the majority of its excess Compact Funds in a pooled investment fund which is managed under the control of the Federated Development Authority, an entity comprised of the FSM National Government and its four component states.

The Federated Development Authority has selected investment managers who are given authority to buy and sell securities as follows:

A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:

1. Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.
3. Cash and equivalents The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:

- a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moody's Investor Services.

- b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury Securities at 102%.

B. 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.

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(5) Investments, Continued

At September 30, 2000, the market value of the State's investments was \$53,425,003. These investments have been reported at fair value in accordance with GASB 31 and are classified in the financial statements as follows:

| | |
|--------------------------|----------------------|
| General Fund Investments | \$ 41,281,975 |
| Compact Capital Fund | 9,210,448 |
| Special Compact Funds | <u>3,226,092</u> |
| | <u>\$ 53,718,515</u> |

The State's investment income for the year ended September 30, 2000, is summarized below:

| | |
|------------------|---------------------|
| Interest | \$ 1,116,253 |
| Dividends | 471,290 |
| Realized gains | 3,876,724 |
| Management fees | (222,319) |
| Other expenses | <u>(79,994)</u> |
| | 5,161,954 |
| Unrealized gains | <u>1,855,284</u> |
| | <u>\$ 7,017,238</u> |

Statement No. 3 of the Governmental Accounting Standards Board requires government entities to categorize investments to give an indication of the level of risk assumed by the entity at year end.

Category 1 - Insured or registered, or securities held by the State of Yap or its agent in the State of Yap's name.

Category 2 - Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the State of Yap's name.

Category 3 - Uninsured and unregistered, with the securities held by the broker or dealer, or by its trust department or agent but not in the State of Yap's name.

All of the State of Yap's investments are classified as Category 2 as all investments are held in the name of the Federated Development Authority.

Additionally, as of September 30, 2000, the State holds 10.7% of the shares of the Bank of the Federated States of Micronesia, carried at cost, in the amount of \$1,000,000 (\$750,000 of these investments held by the Yap Economic Development Authority (YEDA) with the remaining \$250,000 held by the Yap Investment Trust (YIT) - Enterprise Funds) and 24.5% of the shares of the Pacific Islands Development Bank, also carried at cost, in the amount of \$1,000,000 (\$357,043 of these investments are held by the YEDA with the remaining \$642,957 held by the YIT). The market value of these shares is difficult to assess, as they are not publicly traded so a market versus cost analysis could not be performed. This investment in stock has therefore been recorded at cost.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(5) Investments, Continued

YIT also owns 100% of the 6,500,000 authorized and issued shares of Diving Seagull, Inc. (DSI). In exchange for the shares, YIT granted the use of a fishing vessel and purse seine fishing net to DSI under the terms of a Bareboat Charter Agreement, which expires July 2002. YIT's investment in DSI is recorded by the equity method (See notes 9 and 17).

Also, the Yap Fishing Authority (YFA), a Discretely Presented Component Unit, has an investment carrying value of \$885,164 as of September 30, 2000, in Yap Fresh Tuna, Inc., (YFTI) a joint venture between YFA and the National Fisheries Corporation (NFC), a Component Unit of the FSM National Government, in the form of equity contributions. As of September 30, 2000, YFA's investment represents approximately 81.54% of YFTI's equity with only 50% of the voting shares. As YFA appears to be the controlling partner, YFTI should be consolidated with YFA's financial statements (See note 17). As of September 30, 2000, YFA is not consolidated with YFTI.

(6) Receivables, Advances and Loans

A. General Fund

A summary of receivables, advances, loans and the corresponding allowance for doubtful accounts for the General Fund as of September 30, 2000 (with comparative totals as of September 30, 1999) is presented below:

| <u>SourceAmount</u> | <u>Gross</u> | Allowance for Doubtful <u>Accounts</u> | <u>Net Balance</u> | |
|--|-------------------|---|--------------------|-------------------|
| | | | <u>2000</u> | <u>1999</u> |
| FSM Government and other reimbursable | \$ <u>375,269</u> | \$ <u>-</u> | \$ <u>375,269</u> | \$ <u>657,538</u> |
| General: | | | | |
| Taxes | \$ 430,948 | \$ (354,437) | \$ 76,511 | \$ 5,000 |
| Leases | 134,850 | (129,990) | 4,860 | 17,644 |
| Airport operation | 13,754 | (13,754) | - | 39,965 |
| Other | <u>-</u> | <u>-</u> | <u>-</u> | <u>102</u> |
| | \$ <u>579,552</u> | \$ <u>498,181</u> | \$ <u>81,371</u> | \$ <u>62,711</u> |
| Advances: | | | | |
| Travel/payroll | \$ 370,541 | \$ (54,735) | \$ 315,806 | \$ 133,426 |
| Purchases | <u>169,623</u> | <u>-</u> | <u>169,623</u> | <u>162,385</u> |
| | \$ <u>540,164</u> | \$ <u>(54,735)</u> | \$ <u>485,429</u> | \$ <u>295,811</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(6) Receivables, Advances and Loans, Continued

A. General Fund, Continued

| | | | |
|---------------------------------|--------------------|--|--------------------|
| Loans: | | | |
| Yap Fishing Corporation | \$ 7,400,000 | | \$ 7,400,000 |
| Accrued interest-YFC | 324,101 | | 324,101 |
| YIT OPIC debt service loan | <u>500,000</u> | | <u>500,000</u> |
| | 8,224,101 | | 8,224,101 |
| Allowance for doubtful accounts | <u>(8,224,101)</u> | | <u>(8,224,101)</u> |
| | \$ <u> -</u> | | \$ <u> -</u> |

A \$6,400,000 note from Yap Fishing Corporation (YFC) was originally appropriated under Yap State Law No. 2-96, and is due and payable on or before June 11, 2004; however, it is subordinated to the Overseas Private Investment Corporation (OPIC), a U.S. Corporation, debt held by YFC. (Refer note 13). Yap State Government also appropriated \$1,000,000 as a revolving line of credit under Yap State Law No. 3-8 for the use of YFC. In a subsequent agreement dated August 21, 1992, the terms of the original line of credit agreement were changed to an interest rate of 6% and a termination date of September 30, 2004. As of September 30, 2000, \$1,000,000 has been utilized by YFC. All amounts receivable from YFC have been reserved as uncollectible as of September 30, 2000.

During fiscal year 1999, Yap State appropriated under YSL 4-85, \$500,000 to be transferred to YIT for repayment of the OPIC loan. The funds were intended as a loan to YIT which is due September 30, 2001. The loan accrues interest at 1% and is fully reserved for as of September 30, 2000. (Refer to Note 9).

B. Special Revenue Funds

A summary of loans receivable, advances and the corresponding allowance for doubtful accounts for the Special Revenue Funds as of September 30, 2000 follows (with comparative totals as of September 30, 1999):

| <u>SourceAmount</u> | <u>Gross</u> | <u>Allowance for Doubtful Accounts</u> | <u>Net Balance</u> | |
|-------------------------------|---------------------|--|---------------------|---------------------|
| | | | <u>2000</u> | <u>1999</u> |
| Other governments | \$ <u>667,122</u> | \$ <u> -</u> | \$ <u>667,122</u> | \$ <u>554,610</u> |
| Federal agencies and CFSM | \$ <u>1,957,693</u> | \$ <u>155,521</u> | \$ <u>1,802,172</u> | \$ <u>2,055,193</u> |
| Advances - travel/ payroll | \$ <u>148,929</u> | \$ <u>46,000</u> | \$ <u>102,929</u> | \$ <u>117,337</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(6) Receivables, Advances and Loans, Continued

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 2000 (with comparative totals as of September 30, 1999):

| <u>Source Amount</u> | <u>Gross</u> | Allowance for Doubtful Accounts | <u>Net Balance</u> | |
|---|---------------------|--|---------------------|---------------------|
| | | | <u>2000</u> | <u>1999</u> |
| Federal agencies | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>20,472</u> |
| U.S. Department of the Interior - TTPI | \$ <u>165,142</u> | \$ <u>-</u> | \$ <u>165,142</u> | \$ <u>75,777</u> |
| CFSM Grants | \$ <u>698,393</u> | \$ <u>(21,000)</u> | \$ <u>677,393</u> | \$ <u>441,212</u> |
| Advances - travel | \$ <u>7,620</u> | \$ <u>-</u> | \$ <u>7,620</u> | \$ <u>7,145</u> |
| Loan - YIT | \$ <u>6,500,000</u> | \$ <u>-</u> | \$ <u>6,500,000</u> | \$ <u>6,500,000</u> |

The \$6,500,00 loan to the Yap Investment Trust (YIT) was appropriated under Yap State Law No. 3-67 and was originally to YEDA. However, the loan was transferred and accepted by YIT on September 30, 1994. The loan is non-interest bearing and is payable on-demand.

D. Enterprise Funds

Receivables of the Public Transportation System are net of an allowance for doubtful accounts of \$49,885.

E. Discretely Presented Component Units

A summary follows of receivables and the corresponding allowance for doubtful accounts for the Yap Fishing Authority, a discretely presented component unit as of September 30, 2000 (with comparative totals as of September 30, 1999):

| <u>Source</u> | <u>Gross</u> | Allowance for Doubtful Accounts | <u>Net Balance</u> | |
|---------------|-------------------|--|--------------------|------------------|
| | | | <u>2000</u> | <u>1999</u> |
| General: | | | | |
| Trade | \$ 500,176 | \$ (490,177) | \$ 9,999 | \$ 28,247 |
| Employees | <u>27,230</u> | <u>(25,395)</u> | <u>1,835</u> | <u>2,795</u> |
| | \$ <u>527,406</u> | \$ <u>(515,572)</u> | \$ <u>11,834</u> | \$ <u>31,042</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(6) Receivables, Advances and Loans, Continued

E. Discretely Presented Component Unit, Continued

Receivables of the Yap State Public Service Corporation are net of an allowance for doubtful accounts of \$209,815.

Housing loan receivables of the Yap Community Action Program are net of an allowance for doubtful accounts of \$1,454,995. Included in the amount outstanding at September 30, 2000 is \$79,204 in loans to officers and employees of Yap CAP and their immediate families. The loans were made in the ordinary course of business and are subject to the same terms and conditions as other borrowers.

(7) Inventory of Supplies

General Fund inventory consists of medical lab and pharmaceutical supplies of \$198,607 at September 30, 2000. The Internal Service Fund's inventory consists of general stores supplies of \$56,837.

Inventory of \$494,308 for the Yap State Public Services Corporation (a discretely presented component unit) as of September 30, 2000 consists of fuel and power distribution hardware and parts and water treatment plant chemical supplies.

(8) Investment in Fixed Assets

A. General Fixed Asset Account Group

A summary of general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 2000 (with comparative totals as of September 30, 1999), follows:

| | <u>Estimated Useful Life</u> | <u>2000</u> | <u>1999</u> |
|---|----------------------------------|----------------------|----------------------|
| Land | | \$ 1,822,614 | \$ 1,822,614 |
| Infrastructure | 20-50 years | 41,645,543 | 41,645,543 |
| Outer-island capital assets | 5-10 years | 1,804,550 | 1,804,550 |
| All others - equipment, vehicles and machinery | 5-10 years | <u>19,348,051</u> | <u>19,348,051</u> |
| | | <u>\$ 64,620,758</u> | <u>\$ 64,620,758</u> |

B. Discretely Presented Component Units

A summary of fixed assets accounted for the Yap Fishing Authority, a discretely presented component unit as of September 30, 2000 (with comparative totals as of September 30, 1999), follows:

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(8) Investment in Fixed Assets, Continued

B. Discretely Presented Component Units, Continued

| | <u>Estimated Useful Life</u> | <u>2000</u> | <u>1999</u> |
|---|----------------------------------|---------------------|---------------------|
| Buildings | 3-20 years | \$ 1,651,117 | \$ 1,651,117 |
| Dock | 40 years | 2,629,778 | 2,629,777 |
| Fleet | 3-10 years | 1,674,325 | 1,064,102 |
| Refrigeration and cold storage equipment | 2-10 years | 601,865 | 564,365 |
| Motor vehicles | 2-20 years | 242,358 | 334,831 |
| Other equipment | 2-25 years | 121,663 | 232,866 |
| Other capital assets | 2-25 years | <u>55,411</u> | <u>55,411</u> |
| Total fixed assets, at cost | | 6,976,517 | 6,532,469 |
| Unlocated | | (2,431) | - |
| Less: accumulated depreciation | | <u>(3,812,979)</u> | <u>(3,612,202)</u> |
| Fixed assets, net | | \$ <u>3,161,107</u> | \$ <u>2,920,267</u> |

Details of fixed assets of the Yap State Public Service Corporation, a discretely presented component unit as of September 30, 2000 (with comparative totals as of September 30, 1999) are as follows:

| | <u>Estimated Useful Life</u> | <u>2000</u> | <u>1999</u> |
|--------------------------------|----------------------------------|---------------------|---------------------|
| Production plant | 5 - 40 years | \$ 8,438,030 | \$ 8,366,591 |
| Distribution plant | 3 - 20 years | 3,172,558 | 3,147,949 |
| General plant | 3 - 25 years | <u>1,033,860</u> | <u>968,033</u> |
| Utility plant in service | | 12,644,448 | 12,482,573 |
| Construction in progress | | <u>2,261,192</u> | <u>359,596</u> |
| | | 14,905,640 | 12,842,169 |
| Less: accumulated depreciation | | <u>(5,969,542)</u> | <u>(5,309,532)</u> |
| Fixed asset, net | | \$ <u>8,936,098</u> | \$ <u>7,532,637</u> |

Utility plant is comprised of the following components:

| | | |
|----------------|----------------------|----------------------|
| Electric plant | \$ 9,673,357 | \$ 9,515,283 |
| Water plant | <u>2,971,091</u> | <u>2,967,290</u> |
| | \$ <u>12,644,448</u> | \$ <u>12,482,573</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(8) Investment in Fixed Assets, Continued

B. Discretely Presented Component Units, Continued

A summary of fixed assets accounted for the Yap Community Action Program, a discretely presented component unit as of September 30, 2000 (with comparative totals as of September 30, 1999), follows:

| | <u>Estimated Useful Life</u> | <u>2000</u> | <u>1999</u> |
|--|----------------------------------|------------------|-------------------|
| Office furniture, fixtures and equipment | 3-10 years | \$ 37,514 | \$ 131,207 |
| Vehicles | 4 - 6 years | 142,222 | 328,979 |
| Recreation equipment | 10 years | - | 8,763 |
| Others | 4-25 years | 8,080 | 73,765 |
| Building | 25 years | <u>-</u> | <u>261,263</u> |
| Total fixed assets, at cost | | 187,816 | 803,977 |
| Less: accumulated depreciation | | <u>(171,520)</u> | <u>(425,046)</u> |
| Fixed assets, net | | \$ <u>16,296</u> | \$ <u>378,931</u> |

A summary of fixed assets accounted for the Yap Visitors Bureau, a discretely presented component unit as of September 30, 2000, follows (with comparative totals as of September 30, 1999):

| | <u>Estimated Useful Life</u> | <u>2000</u> | <u>1999</u> |
|--------------------------------|----------------------------------|------------------|------------------|
| Furniture and fittings | 2 years | \$ 9,214 | \$ 5,203 |
| Office equipment | 3 years | 24,822 | 19,405 |
| Automobile | 3 years | <u>14,800</u> | <u>14,800</u> |
| Utility plant in service | | 48,836 | 39,408 |
| Less: accumulated depreciation | | <u>(29,959)</u> | <u>(16,380)</u> |
| Fixed asset, net | | \$ <u>18,877</u> | \$ <u>23,028</u> |

C. Enterprise Funds

Property and equipment of the Yap Investment Trust (with comparative totals for the year ended September 30, 1999), consists of the following:

| | <u>Estimated Useful Life</u> | <u>2000</u> | <u>1999</u> |
|-------------------------------|----------------------------------|---------------------|---------------------|
| Leased fishing vessel | 5 years | \$ 6,341,635 | \$ 6,341,635 |
| Leasehold improvement | up to 5 years | 1,371,285 | 1,313,289 |
| Computerized office equipment | 3 years | 17,737 | 14,152 |
| Vehicle | 3 years | <u>34,804</u> | <u>-</u> |
| | | 7,765,461 | 7,669,076 |
| Less accumulated depreciation | | <u>(4,891,893)</u> | <u>(3,299,493)</u> |
| | | \$ <u>2,873,568</u> | \$ <u>4,369,583</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(8) Investment in Fixed Assets, Continued

C. Enterprise Funds, Continued

Property and equipment of the Public Transportation System consists of the following:

| | <u>Estimated Useful Life</u> | <u>2000</u> | <u>1999</u> |
|-------------------------------|----------------------------------|-------------------|-------------------|
| Buildings | 10 to 25 years | \$ 92,659 | \$ 92,659 |
| Vehicles | 3 to 7 years | 568,467 | 594,061 |
| Shop equipment | 2 to 7 years | 30,761 | 30,761 |
| Office furniture | 2 to 10 years | <u>29,307</u> | <u>33,989</u> |
| | | 721,194 | 751,470 |
| Less accumulated depreciation | | <u>(452,010)</u> | <u>(388,518)</u> |
| | | <u>\$ 269,184</u> | <u>\$ 362,952</u> |

(9) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 2000 (with comparative totals for the year ended September 30, 1999), follow:

| | <u>2000</u> | <u>1999</u> |
|---|----------------------|----------------------|
| Balance at beginning of year | \$ 20,837,852 | \$ 30,038,686 |
| Payments and accruals made on medium-term notes | (7,900,000) | (7,300,000) |
| Decrease in accrued annual leave | - | (32,643) |
| Decrease in land acquisition accrual | - | (183,226) |
| Increase in ERS program loan | - | 1,500,000 |
| Decrease in OPIC liability | <u>-</u> | <u>(3,184,965)</u> |
| Balance at end of year | <u>\$ 12,937,852</u> | <u>\$ 20,837,852</u> |

During fiscal year 1991, the State borrowed \$71,000,000 under a medium-term note program sponsored by the Federated States of Micronesia, as a whole. Repayment of the debt will be made through a pledge of applicable Compact of Free Association revenues to be recognized as revenues in subsequent years. The notes are repayable substantially on a quarterly basis corresponding to the drawdowns of applicable Compact revenues received from the U.S. Government. Interest on the notes is at rates between 7.05% - 9.20%. The State has invested the note proceeds for purposes of arbitrage.

Payments of principal and interest are entrusted to Banker's Trust, as Trustee. The FSM has pledged, as security for payments by the Trustee, a first priority lien on, and security interest in, substantially all of Yap's Compact of Free Association payments from the U.S. Government.

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1991. Management is of the opinion that it has complied with such covenants through September 30, 2000. Interest paid on the bonds amounted to \$1,283,562 for the year ended September 30, 2000 (\$1,969,153 as of September 30, 1999).

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(9) Long-Term Debt, Continued

The bonds are taxable. Under the guidelines imposed by the borrowing, the amount of the investments, at market value, must equal or exceed the amount of the outstanding notes plus accrued interest.

Any shortfall restricts the State's general fund unreserved fund balance equal to the amount of the shortfall. As a result, the amount of the investment which may be withdrawn and utilized by the State is that amount which corresponds to the Compact drawdown apportionments plus related earnings, provided that the investment balance exceeds the outstanding debt plus accrued interest. As of September 30, 2000, there is no shortfall as the reserve of fund balance equals the outstanding principal of \$8,800,000. This amount (\$8,800,000) is included in the reserve for related assets of the General Fund.

Future maturities of the notes are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|---------------------|-------------------|---------------------|
| 2001 | \$ <u>8,800,000</u> | \$ <u>547,030</u> | \$ <u>9,437,030</u> |

Asian Development Bank Early Retirement Program Loan

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

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2038. However, pursuant to the terms of the Financing Agreement between the State of Yap and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of Yap State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2001.

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. These funds had not been deposited to the Trust Account as of September 30, 2000. \$2,100,000 identified for future debt service payments is included in the General Fund reserve for related assets of which \$1,517,113 is actually deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt. The State recognized an unrealized loss of \$140,304 on this account during the year ended September 30, 2000.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(9) Long-Term Debt, Continued

OPIC Loan

During the year ended September 30, 1999, the State, the National Fisheries Corporation (NFC) and Overseas Private Investment Corporation (OPIC) negotiated settlement of the refinancing of the OPIC debt (see note 13). The principal due was agreed to be \$4,011,535. The liability remained joint and several between the State and NFC. The State's share of the loan was 77.77%. The interest rate was 5.87% with terms of three and one half years. The debt is collateralized by the assignment to OPIC of the Yap Investment Trust's (YIT) MV Mathawmarfach (see note 5).

Yap State Legislature appropriated \$500,000 principal payment under YSL No. 4-85 for repayment of the OPIC debt. This principal payment was made by the State on December 31, 1998, reducing the loan principal, interest and miscellaneous costs to \$2,684,965. The Yap State Legislature also appropriated in fiscal year 1999, \$2,684,965 for Yap State's share of the principal and interest due on the loan.

On April 15, 1999, that appropriation consisting of principal and interest payments of \$2,618,166 and \$44,211, respectively, was paid by Yap State to OPIC. The remainder of the appropriation was used to pay the miscellaneous closing costs of the OPIC loan.

The appropriation of \$500,000 made pursuant to YSL No. 4-85 for the OPIC debt was designed as a loan from the General Fund to the Yap Investment Trust. The note payable was due and payable on September 30, 2000 and accrued interest at the rate of 1% per annum. The State repaid its share of the loan in 2000.

Land Purchase and Indefinite Land Use Payments

As of September 30, 2000, \$197,281 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 (see note 15).

Enterprise Funds

The \$2,000,000 loan to the Yap Economic Development Authority (YEDA) was originally appropriated by the FSM Congress, FSM Public Law No. 7-39 and amended by FSM Public Law No. 7-83 to create the Yap State Public Projects Fund. As appropriated, the funds were loaned to YEDA which subsequently loaned the funds to YFC. The loan to YEDA is due on March 20, 2004 with no interest to be paid on the loan.

The \$7,000,000 loan to the Yap Investment Trust (YIT) is comprised of \$6,500,000 appropriated under YSL 3-67 which is non-interest bearing and payable on demand and \$500,000 appropriated under YSL 4-85 which is due September 30, 2000 at 1% per annum. The amount has not been repaid at that date and the balance is reserved as a related asset in the affected fund balance.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(10) Interfund Receivables and Payables

As of September 30, 2000, interfund receivables and payables resulting from various interfund transactions are as follows:

| | <u>Due from Other Funds</u> | <u>Due to Other Funds</u> |
|-----------------------------|---------------------------------|-------------------------------|
| General Fund | \$ 1,366,203 | \$ - |
| Special Revenue Funds: | | |
| Compact Programs | - | 1,143,402 |
| Federal Grants | - | 471,661 |
| Other U.S. Grants | - | 274,603 |
| Non U.S. Grants | 29,030 | - |
| CFSM Grants | - | 940,429 |
| Sports Development Fund | - | 31,998 |
| Capital Projects Funds: | | |
| Compact Capital Projects | 905,488 | - |
| TTPI Capital Projects | - | 165,142 |
| CFSM Capital Project | - | 541,911 |
| Public Projects | 1,200,008 | - |
| Other U.S. Capital Projects | - | 131,874 |
| Water Development Fund | 216,300 | - |
| Enterprise Funds | | |
| YEDA | - | 758,850 |
| YIT | 506,250 | - |
| Expendable Trust Fund | 8,080 | - |
| Internal Service Fund | <u>228,511</u> | <u>-</u> |
| | <u>\$ 4,459,870</u> | <u>\$ 4,459,870</u> |

(11) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 2000, are as follows:

| | <u>Transfer Out</u> | <u>Transfer In</u> |
|-----------------------------------|---------------------|--------------------|
| Transfer to Enterprise Funds: | | |
| Public Transportation System | \$ 165,800 | \$ - |
| OPIC debt service payment | | - |
| Transfer to Special Revenue Fund: | | |
| FEMA matching share | 103,715 | - |
| Transfer to Component Units: | | |
| Yap Community Action Program | 160,990 | - |
| Yap Visitor's Bureau | <u>225,030</u> | <u>-</u> |
| | <u>\$ 655,535</u> | <u>\$ -</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(11) Transfers In/Out, Continued

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 2000, are as follows:

| | <u>Transfer Out</u> | <u>Transfer In</u> |
|--|---------------------|--------------------|
| Transfer in for FEMA match | \$ - | \$ 103,715 |
| Transfer within Special Revenue Funds: | | |
| Yap Sports Development | 279,795 | - |
| Yap Sports Council | - | 279,795 |
| Transfers to Component Units: | | |
| Yap Community Action Program (YCAP) | 150,000 | - |
| Yap Visitors Authority | 50,000 | - |
| CFSM reimbursement for FSM Games participation | <u>-</u> | <u>-</u> |
| | <u>\$ 479,795</u> | <u>\$ 383,510</u> |

C. Enterprise Funds

Material Enterprise Funds transfers in/out for the year ended September 30, 2000, are as follows:

| | <u>Transfer Out</u> | <u>Transfer In</u> |
|--|---------------------|--------------------|
| Transfers from General Fund: | | |
| Subsidy for operations of Public Transportation System | \$ - | \$ 165,800 |
| | <u>\$ -</u> | <u>\$ 165,800</u> |

(12) Continuing Appropriations

Continuing appropriations as of September 30, 2000, are as follows:

| | |
|---------------------------------------|-------------------|
| <u>General Fund:</u> | |
| Projects under YSL 5-32 | \$ 49,327 |
| Other projects | <u>458</u> |
| | <u>\$ 49,785</u> |
| <u>Compact Capital Projects Fund:</u> | |
| Development Loan Fund | \$ <u>200,000</u> |
| <u>Special Revenue Fund:</u> | |
| Compact other | \$ <u>150,000</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(13) Yap Economic Development Authority

The Yap Economic Development Authority (YEDA) statutorily owns 100% of the Yap Purse Seiner Corporation (YPSC) and controlling interest of the Yap Fishing Corporation (YFC) common stock. YPSC's sole function is to own the fishing vessels and assume the associated debt for the joint venture. Based on the ownership circumstances described above, YEDA's financial statements are prepared by consolidating statements of YEDA, YPSC, and YFC with the primary elimination being YEDA's investment in YFC. YFC filed for bankruptcy in 1995 and was dissolved in 1997. Since its inception and through its dissolution, an audit of YFC's financial statement was never finalized. Therefore, YEDA's financial statements included within the State of Yap's general purpose financial statements do not include the consolidated financial statements of YFC. The effects of this omission on the accompanying general purpose financial statements is unknown, but is not expected to be material due to the dissolution of YFC.

In fiscal year 1992, YFC acquired \$9,000,000 in debt from the Overseas Private Investment Corporation (OPIC), a U.S. corporation, which has subordinated all YFC debt to Yap State Government and YEDA to the OPIC debt. (Refer to note 9 for a description of the subordinated debt). In the prior years, YFC was determined to be in noncompliance with certain debt covenants regarding the OPIC debt. Pursuant to an agreement signed by YEDA, the National Fisheries Corporation (NFC) and others, guaranteeing the OPIC debt, OPIC claimed certain sums against YEDA and NFC. As further discussed in note 9, a final settlement was negotiated with OPIC in 1999.

(14) Segment Information - Enterprise Funds

The following presents key data extracted from the financial statements of the Enterprise Funds of the State of Yap as of September 30, 2000, and for the year then ended.

| | Yap Economic Development Authority | Yap Investment Trust | Public Transportation System |
|---------------------|---|----------------------------|------------------------------------|
| Operating loss | \$ <u>(658,133)</u> | \$ <u>(1,578,731)</u> | \$ <u>(232,944)</u> |
| Net income (loss) | \$ <u>(658,133)</u> | \$ <u>(1,551,803)</u> | \$ <u>(69,536)</u> |
| Contributed capital | \$ <u>5,682,758</u> | \$ <u>1,392,957</u> | \$ <u>901,219</u> |
| Total assets | \$ <u>1,107,327</u> | \$ <u>5,046,816</u> | \$ <u>344,311</u> |
| Total deficit | \$ <u>7,335,865</u> | \$ <u>3,457,293</u> | \$ <u>574,032</u> |

Contributed capital of \$500,000 during the year ended September 30, 1998, was provided to the Yap Investment Trust (YIT) from the General Fund of the State of Yap, for an Escrow Account to be created for the United States Department of Agriculture Rural Housing Service Loan Program. The Escrow Account has not been established as of September 30, 2000.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(15) Contingent Liabilities

Federal and Other Grants

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$293,374 in cumulative questioned costs exist for the operation of fiscal year 1984-2000 grants. If these costs are ultimately disallowed, the General Fund will be charged for the necessary reimbursement to the grantor agencies.

Additionally, the State receives certain grants from the Congress of the Federated States of Micronesia (CFSM) for public and other projects. In an audit report dated January 30, 1992, the Public Auditor of the Federated States of Micronesia questioned \$24,695 of expenditures incurred in addition to the \$67,400 previously questioned in an audit report dated November 30, 1989, in connection with these CFSM projects. If these costs are ultimately disallowed, the General Fund may be correspondingly impacted. No provision for any liabilities that may result upon the ultimate outcome of these matters has been made in the accompanying general purpose financial statements.

Litigation

Yap State is party to several legal proceedings arising from governmental operations. Claims are filed with the Yap State Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. At September 30, 2000, there existed several unapproved claims. The Attorney General of the State of Yap is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths. Current claims against the State exist but do not appear to be material. Management has not provided for such claims in the accompanying general purpose financial statements as it is not currently possible to estimate the State's potential liability, if any, arising from these claims.

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI). TTPI's obligation on these lands ceased in May, 1984. After that year, responsibility to rent or purchase the sites was transferred to Yap State. The Yap State Division of Land and Surveys has estimated that Yap State may be responsible for funding the indefinite land use sites for back rent with interest. The State is actively attempting to negotiate purchase prices for these properties and identified \$197,281 in indefinite land use payments as of September 30, 2000.

Risk Management

The State of Yap does not purchase insurance covering its potential risks. The State is self insured for all risks. The State is of the opinion that no material losses have been sustained as a result of this practice.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(16) Fund Deficit

The following funds have material fund deficits as of September 30, 2000:

| | |
|---|---------------------|
| Yap Fishing Authority | \$ <u>2,338,564</u> |
| Enterprise Funds: | |
| Yap Economic Development Authority Fund | \$ <u>7,335,865</u> |
| Yap Investment Trust | \$ <u>3,457,293</u> |

Deficits of the Yap Fishing Authority, the Yap Economic Development Authority Fund and Yap Investment Trust are offset within fund equity to a certain extent by contributions of \$6,453,795, \$5,682,758 and \$1,392,957, respectively.

(17) Loss on Equity Investment

The Yap Investment Trust, an enterprise fund, holds a 100% investment in Diving Seagull Inc. (DSI). Condensed financial information for DSI for the year ended September 30, 2000, with comparative totals for the year ended September 30, 1999, is as follows:

| | <u>2000</u> | <u>1999</u> |
|--------------------------------------|-----------------------|-----------------------|
| Balance sheet: | | |
| Current assets | \$ 774,041 | \$ 840,833 |
| Property, plant and equipment | <u>2,873,568</u> | <u>4,369,583</u> |
| | <u>\$ 3,647,609</u> | <u>\$ 5,210,416</u> |
| Current liabilities | \$ 111,152 | \$ 122,156 |
| Stockholders' equity | <u>3,536,457</u> | <u>5,088,260</u> |
| | <u>\$ 3,647,609</u> | <u>\$ 5,210,416</u> |
| Statement of revenues and expenses: | | |
| Sales | \$ 2,584,613 | \$ 2,526,999 |
| Operating expenses | (4,163,344) | (4,310,270) |
| Nonoperating revenues (expense), net | <u>26,928</u> | <u>(317,738)</u> |
| Net income (loss) | \$ <u>(1,551,803)</u> | \$ <u>(2,101,009)</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2000

(17) Loss on Equity Investment, Continued

The Yap Fishing Authority, a proprietary fund - component unit, holds a 50% investment in Yap Fresh Tuna, Inc. (YFTI). Its financial statements show that YFTI has incurred substantial operating losses. An audit of YFTI's financial statements for the year ended September 30, 2000 has not been finalized. Condensed unaudited financial information for YFTI is as follows:

| | |
|-------------------------------------|---------------------|
| Balance sheet: | |
| Current assets | \$ 157,315 |
| Property, plant and equipment | <u>5,135,879</u> |
| | \$ <u>5,293,194</u> |
| Current liabilities | \$ 2,808,182 |
| Long-term debt | 2,641,327 |
| Stockholders' equity | <u>(156,315)</u> |
| | \$ <u>5,293,194</u> |
| Statement of revenues and expenses: | |
| Sales | \$ 181,876 |
| Cost of sales | (19,519) |
| Operating expenses | (470,962) |
| Interest income (expense), net | <u>(219,783)</u> |
| Net loss | \$ <u>(528,388)</u> |

Substantially all debt is due to the FSM Development Bank, a component unit of the FSM National Government.

A prior period adjustment was required to record the YFTI audited results in the Yap Fishing Authority's financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -
All Governmental Fund Types
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Governmental Fund Types | | | Totals | |
|---------------------------|-------------------------|---------------------|---------------------|----------------------|----------------------|
| | General | Special Revenue | Capital Projects | 2000 | 1999 |
| Expenditures: | | | | | |
| Salaries and wages | \$ 3,856,009 | \$ 1,429,860 | \$ 49,708 | \$ 5,335,577 | \$ 5,681,788 |
| Travel | 262,838 | 631,172 | 20,144 | 914,154 | 880,333 |
| Freight | 141,650 | 46,777 | 2,600 | 191,027 | 141,506 |
| Communications | 130,421 | 75,934 | 3,704 | 210,059 | 191,186 |
| Printing and reproduction | 49,401 | 36,919 | (509) | 85,811 | 90,727 |
| Professional services | 65,627 | 117,588 | 2,854 | 186,069 | 388,944 |
| Food stuffs | 93,371 | 47,205 | - | 140,576 | 148,712 |
| Medical supplies | 377,608 | 7,758 | - | 385,366 | 341,584 |
| Supplies and materials | 223,623 | 394,278 | 10,483 | 628,384 | 1,262,700 |
| Medical referral | 32,551 | 260,444 | - | 292,995 | 225,395 |
| POL | - | - | - | - | 239,335 |
| Capital outlay | 179,533 | 666,386 | 1,012,991 | 1,858,910 | 5,741,652 |
| Contractual services | 520,694 | 1,744,749 | 2,450,119 | 4,715,562 | 1,309,440 |
| Rentals | 21,337 | 72,492 | 775,043 | 868,872 | 151,967 |
| Repairs and maintenance | 76,834 | 19,393 | 4,469 | 100,696 | 101,193 |
| Allowances | 137,653 | - | - | 137,653 | 84,000 |
| Utilities | 1,524 | 762,877 | - | 764,401 | 824,976 |
| Grants and subsidies | 510,545 | - | 123,065 | 633,610 | 366,116 |
| Scholarships and training | 98,761 | 237,519 | - | 336,280 | 314,907 |
| Drydocking | 605,449 | - | - | 605,449 | 833,046 |
| Other | 229,603 | (23,522) | 209,772 | 415,853 | 491,264 |
| Total expenditures | \$ 7,615,032 | \$ 6,527,829 | \$ 4,664,443 | \$ 18,807,304 | \$ 19,810,771 |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

General Fund
September 30, 2000

General Fund

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

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Function and Changes in Fund Balance
Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

| | 2000 | 1999 |
|------------------------------------|--------------|--------------|
| Revenues: | | |
| Compact funds: | | |
| Current 211A base grant | \$ 3,843,200 | \$ 3,843,200 |
| Inflation adjustment 217 | 2,075,328 | 2,036,896 |
| | 5,918,528 | 5,880,096 |
| Revenue sharing: | | |
| Import tax | 1,158,128 | 702,225 |
| Fuel tax | 37,423 | 18,180 |
| Income tax | 884,542 | 400,813 |
| Business gross revenue tax | 1,233,628 | 934,427 |
| | 3,313,721 | 2,055,645 |
| Excise taxes: | | |
| Alcoholic beverages | 658,997 | 644,364 |
| Gasoline and diesel | 22,915 | 122,761 |
| Tobacco | 131,759 | 115,374 |
| Other excise taxes | 562,929 | 388,718 |
| | 1,376,600 | 1,271,217 |
| Licenses and permits | 72,010 | 32,257 |
| Fines/sale of confiscated property | 54,364 | 234,724 |
| Leases and other rentals | 270,035 | 286,220 |
| | 396,409 | 553,201 |
| Departmental charges: | | |
| Sea transportation | 183,926 | 205,545 |
| Hospital services | 221,945 | 177,892 |
| Utilities | 7,357 | 6,348 |
| Other | 84,369 | 117,386 |
| | 497,597 | 507,171 |
| Interest income | 34,201 | 14,426 |
| Other income | 358,044 | 338,247 |
| Total revenues | 11,895,100 | 10,620,003 |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | <u>2000</u> | <u>1999</u> |
|---|------------------|------------------|
| Expenditures: | | |
| General Government: | | |
| Office of the Governor | \$ 184,816 | \$ 207,774 |
| State Legislature | 434,510 | 467,358 |
| Office of Administrative Services | 392,644 | 304,976 |
| Office of Planning, Budget and Statistics | 121,176 | 142,680 |
| Division of Revenue and Taxation | 26,521 | 29,223 |
| Disaster relief programs | 19,155 | 76,494 |
| Utilities programs | 21,657 | - |
| | <u>1,200,479</u> | <u>1,228,505</u> |
| Health Services: | | |
| Department of Health Services | <u>1,257,529</u> | <u>1,239,967</u> |
| Education: | | |
| Department of Education | <u>1,273,199</u> | <u>1,320,069</u> |
| Economic Development: | | |
| Department of Resources and Development | <u>518,700</u> | <u>384,364</u> |
| Public Safety: | | |
| Department of Public Safety/Attorney General | <u>503,464</u> | <u>487,146</u> |
| Public Works and Transportation | | |
| Department of Public Works and Transportation | <u>2,008,511</u> | <u>2,186,374</u> |
| Community Affairs: | | |
| Department of Public Affairs | <u>180,184</u> | <u>248,695</u> |
| Boards and Commissions: | | |
| Council of Pilung | 85,235 | 93,430 |
| Council of Tamol | 106,175 | 98,898 |
| EPA administration board | 56,910 | 59,839 |
| | <u>248,320</u> | <u>252,167</u> |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | <u>2000</u> | <u>1999</u> |
|--|--------------------------|--------------------------|
| Other: | | |
| Judiciary | 154,487 | 150,454 |
| Public Auditor | 15,219 | 37,412 |
| Legislative projects | <u>254,940</u> | <u>475,385</u> |
| | <u>424,646</u> | <u>663,251</u> |
| Total expenditures | <u>7,615,032</u> | <u>8,010,538</u> |
| Excess of revenues over expenditures | <u>4,280,068</u> | <u>2,609,465</u> |
| Other financing sources (uses): | | |
| Investment income | 7,017,238 | 7,994,858 |
| Investment loss | (140,304) | - |
| Bad debt expense | - | (500,000) |
| Operating transfers out | (655,535) | (8,950,253) |
| Payments of notes payable and interest | (9,183,562) | (5,657,123) |
| Early retirement scheme ADB loan proceeds | - | 1,500,000 |
| Early retirement program | <u>(13,200)</u> | <u>(500,918)</u> |
| Total other financing sources (uses), net | <u>(2,975,363)</u> | <u>(6,113,436)</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 1,304,705 | (3,503,971) |
| Fund balance at beginning of year | <u>43,600,650</u> | <u>47,104,621</u> |
| Fund balance at end of year | <u>\$ 44,905,355</u> | <u>\$ 43,600,650</u> |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | 2000 | | | 1999 | | |
|--|------------------|-------------------|--|------------------|-------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Current account Compact funds | \$ 5,816,140 | \$ 5,918,528 | \$ 102,388 | \$ 5,950,560 | \$ 5,880,096 | \$ (70,464) |
| FSM revenue sharing | 2,347,950 | 3,313,721 | 965,771 | 1,416,740 | 2,055,645 | 638,905 |
| Taxes and licenses | 1,582,600 | 2,270,606 | 688,006 | 1,401,390 | 1,303,474 | (97,916) |
| Interest income | - | 34,201 | 34,201 | 250,000 | 14,426 | (235,574) |
| Other | - | 358,044 | 358,044 | 479,010 | 1,366,362 | 887,352 |
| Total revenues | 9,746,690 | 11,895,100 | 2,148,410 | 9,497,700 | 10,620,003 | 1,122,303 |
| Expenditures budgetary basis: | | | | | | |
| General Government: | | | | | | |
| Office of the Governor | 236,088 | 204,154 | 31,934 | 213,700 | 214,793 | (1,093) |
| State Legislature | 542,952 | 475,557 | 67,395 | 490,136 | 481,444 | 8,692 |
| Office of Administrative Services | 399,280 | 419,654 | (20,374) | 793,880 | 317,445 | 476,435 |
| Office of Planning, Budget and Statistics | 211,435 | 153,510 | 57,925 | 470,168 | 152,081 | 318,087 |
| Division of Revenue and Taxation | 38,910 | 29,445 | 9,465 | 34,820 | 29,182 | 5,638 |
| Utilities program | (16,536) | 21,658 | (38,194) | - | - | - |
| Disaster relief programs | 6,550 | 19,155 | (12,605) | - | 66,294 | (66,294) |
| | 1,418,679 | 1,323,133 | 95,546 | 2,002,704 | 1,261,239 | 741,465 |
| Health Services: | | | | | | |
| Department of Health Services | 1,708,998 | 1,371,379 | 337,619 | 1,365,682 | 1,456,193 | (90,511) |
| Education: | | | | | | |
| Department of Education | 1,333,214 | 1,264,371 | 68,843 | 1,405,010 | 1,324,364 | 80,646 |
| Economic development: | | | | | | |
| Department of Resources and Development | 664,228 | 592,351 | 71,877 | 423,591 | 401,504 | 22,087 |
| Public safety: | | | | | | |
| Department of Public Safety and Attorney General | 550,933 | 510,883 | 40,050 | 541,150 | 487,719 | 53,431 |
| Public Works and Transportation: | | | | | | |
| Department of Public Works and Transportation | 2,386,601 | 1,975,820 | 410,781 | 1,668,410 | 1,582,630 | 85,780 |
| Community affairs: | | | | | | |
| Department of Public Affairs | 216,680 | 194,197 | 22,483 | 233,050 | 248,026 | (14,976) |
| Boards and commissions: | | | | | | |
| Council of Piling | 94,022 | 86,099 | 7,923 | 96,570 | 94,352 | 2,218 |
| Council of Tamol | 116,174 | 103,955 | 12,219 | 108,550 | 99,412 | 9,138 |
| EPA administration board | 71,869 | 60,351 | 11,518 | 66,100 | 51,645 | 14,455 |
| | 282,065 | 250,405 | 31,660 | 271,220 | 245,409 | 25,811 |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

GENERAL FUND

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis, Continued
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | 2000 | | | 1999 | | |
|--|----------------------|----------------------|--|-----------------------|----------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| Other: | | | | | | |
| Judiciary | \$ 163,429 | \$ 151,507 | \$ 11,922 | \$ 154,470 | \$ 151,831 | \$ 2,639 |
| Public Auditor | 49,468 | 18,944 | 30,524 | 44,720 | 37,221 | 7,499 |
| Legislative projects | 467,707 | 292,178 | 175,529 | 458,724 | 511,036 | (52,312) |
| Other | - | (80,582) | 80,582 | - | (1,335) | 1,335 |
| | <u>680,604</u> | <u>382,047</u> | <u>298,557</u> | <u>657,914</u> | <u>698,753</u> | <u>(40,839)</u> |
| Total expenditures | <u>9,242,002</u> | <u>7,864,586</u> | <u>1,377,416</u> | <u>8,568,731</u> | <u>7,705,837</u> | <u>862,894</u> |
| Excess of revenues over expenditures | <u>504,688</u> | <u>4,030,514</u> | <u>3,525,826</u> | <u>928,969</u> | <u>2,914,166</u> | <u>1,985,197</u> |
| Other financing sources (uses): | | | | | | |
| Investment income | - | 7,017,238 | 7,017,238 | - | 7,994,858 | 7,994,858 |
| Investment loss | - | (140,304) | (140,304) | - | - | - |
| Bad debt expense | - | - | - | (500,000) | (500,000) | - |
| Operating transfers out | (336,020) | (655,535) | (319,515) | (8,950,253) | (8,950,253) | - |
| Payment of notes payable | - | (9,183,562) | (9,183,562) | (5,657,123) | (5,657,123) | - |
| ERS ADB loan proceeds | - | - | - | 1,500,000 | 1,500,000 | - |
| Early retirement program | (824,612) | 29,021 | 853,633 | (2,470,445) | (543,140) | 1,927,305 |
| Total other financing sources (uses), net | <u>(1,160,632)</u> | <u>(2,933,142)</u> | <u>(1,772,510)</u> | <u>(16,077,821)</u> | <u>(6,155,658)</u> | <u>9,922,163</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | <u>(655,944)</u> | <u>1,097,372</u> | <u>1,753,316</u> | <u>(15,148,852)</u> | <u>(3,241,492)</u> | <u>11,907,360</u> |
| Fund balance, unreserved at beginning of year | 19,112,721 | 19,112,721 | - | 12,629,341 | 14,865,708 | 2,236,367 |
| Other changes in unreserved fund balance: | | | | | | |
| Related assets | - | 8,649,805 | 8,649,805 | - | 7,173,319 | 7,173,319 |
| Continuing appropriations | - | (928) | (928) | - | 315,186 | 315,186 |
| Fund balance, unreserved at end of year | <u>\$ 18,456,777</u> | <u>\$ 28,858,970</u> | <u>\$ 10,402,193</u> | <u>\$ (2,519,511)</u> | <u>\$ 19,112,721</u> | <u>\$ 21,632,232</u> |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 2000

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in Special Revenue Funds. A brief discussion of Yap State's Special Revenue Funds as of September 30, 2000, follows:

Compact Programs Fund

This fund is used to account for financial transactions related to the Compact program accounts under Section 221(B), 212(A), 214(B), 216(A)(2), and 216(A)(3) of the Compact of Free Association.

Federal Grants Fund

This fund is used to account for all financial transactions related to federally assisted funds which are received directly from the U.S. Government or are subgranted to Yap State from the FSM National Government.

Other U.S. Grants Fund

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

Non U.S. Grants Fund

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

CFSM Grants Fund

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

Sports Development Fund

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

Sports Council

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

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

SPECIAL REVENUE FUNDS

Combining Balance Sheet

September 30, 2000

(With comparative totals as of September 30, 1999)

| | Compact Programs | Federal Grants | Other U.S. Grants | Non U.S. Grants | CFSM Grants | Sports Development | Sports Council | Totals | |
|--|---------------------|-------------------|----------------------|--------------------|---------------------|-----------------------|-------------------|---------------------|---------------------|
| | | | | | | | | 2000 | 1999 |
| <u>Assets</u> | | | | | | | | | |
| Cash | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 50,801 | \$ 50,801 | \$ 3,226,092 |
| Investments | 3,226,092 | - | - | - | - | - | - | 3,226,092 | - |
| Receivables, net: | | | | | | | | | |
| Other governments | - | - | 642,815 | - | 24,307 | - | - | 667,122 | 554,610 |
| FSM National Government | 161,320 | 521,304 | - | - | 1,086,817 | - | 32,731 | 1,802,172 | 2,055,193 |
| Due from other funds | - | - | - | 29,030 | - | - | - | 29,030 | 249,971 |
| Advances | 18,557 | 71,561 | 4,452 | - | 8,359 | - | - | 102,929 | 117,337 |
| Total assets | \$ 3,405,969 | \$ 592,865 | \$ 647,267 | \$ 29,030 | \$ 1,119,483 | \$ - | \$ 83,532 | \$ 5,878,146 | \$ 6,203,203 |
| <u>Liabilities and Fund Balances (Deficit)</u> | | | | | | | | | |
| Liabilities: | | | | | | | | | |
| Accounts payable | \$ 146,635 | \$ 121,204 | \$ - | \$ - | \$ 166,864 | \$ - | \$ - | \$ 434,703 | \$ 331,105 |
| Accrued payroll | 12,720 | - | 316 | - | - | - | - | 13,036 | 64,283 |
| Due to other funds | 1,143,402 | 471,661 | 274,603 | - | 940,429 | 31,998 | - | 2,862,093 | 3,028,882 |
| Deferred revenue | - | - | 372,348 | 29,030 | 12,190 | - | - | 413,568 | 720,385 |
| Total liabilities | 1,302,757 | 592,865 | 647,267 | 29,030 | 1,119,483 | 31,998 | - | 3,723,400 | 4,144,655 |
| Fund balances (deficit): | | | | | | | | | |
| Reserved for: | | | | | | | | | |
| Encumbrances | 322,921 | - | - | 6,167 | 1,531,559 | - | - | 1,860,647 | 1,104,674 |
| Continuing appropriations | 150,000 | - | - | - | - | - | - | 150,000 | - |
| Unreserved | 1,630,291 | - | - | (6,167) | (1,531,559) | (31,998) | 83,532 | 144,099 | 953,874 |
| Total fund balances (deficit) | 2,103,212 | - | - | - | - | (31,998) | 83,532 | 2,154,746 | 2,058,548 |
| Total liabilities and fund balances (deficit) | \$ 3,405,969 | \$ 592,865 | \$ 647,267 | \$ 29,030 | \$ 1,119,483 | \$ - | \$ 83,532 | \$ 5,878,146 | \$ 6,203,203 |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Compact Programs | Federal Grants | Other U.S. Grants | Non U.S. Grants | CFSM Grants | Sports Development | Sports Council | Totals | |
|---|---------------------|------------------|-------------------|-----------------|------------------|--------------------|------------------|---------------------|---------------------|
| | | | | | | | | 2000 | 1999 |
| Revenues: | | | | | | | | | |
| Compact | \$ 2,447,012 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,447,012 | \$ 2,931,301 |
| Federal contributions | - | 2,198,871 | 311,147 | - | - | - | - | 2,510,018 | 2,405,306 |
| CFSM grants | - | - | - | - | 1,318,853 | - | - | 1,318,853 | 1,396,644 |
| Other | 331,970 | - | - | 18,996 | - | 87,772 | 5,691 | 444,429 | 154,259 |
| Total revenues | 2,778,982 | 2,198,871 | 311,147 | 18,996 | 1,318,853 | 87,772 | 5,691 | 6,720,312 | 6,887,510 |
| Expenditures: | | | | | | | | | |
| Health services | 456,080 | - | - | 4,877 | 113,590 | - | - | 574,547 | 801,194 |
| Education | 976,291 | - | - | - | 163,907 | - | - | 1,140,198 | 2,860,757 |
| Economic development | - | - | - | 14,119 | 136,680 | - | - | 150,799 | 132,656 |
| Public safety | - | - | - | - | 112,030 | - | - | 112,030 | 174,691 |
| Public works and transportation | 842,741 | - | - | - | 609,362 | - | - | 1,452,103 | 661,019 |
| Community affairs | - | - | - | - | 183,284 | - | - | 183,284 | 704,374 |
| Other | 99,181 | 2,198,871 | 414,862 | - | - | - | 201,954 | 2,914,868 | 1,097,039 |
| Total expenditures | 2,374,293 | 2,198,871 | 414,862 | 18,996 | 1,318,853 | - | 201,954 | 6,527,829 | 6,431,730 |
| Excess (deficiency) of revenues over (under) expenditures | 404,689 | - | (103,715) | - | - | 87,772 | (196,263) | 192,483 | 455,780 |
| Other financing sources (uses): | | | | | | | | | |
| Transfers in | - | - | 103,715 | - | - | - | 279,795 | 383,510 | 617,891 |
| Transfers out | (200,000) | - | - | - | - | (279,795) | - | (479,795) | (448,666) |
| Payments of notes payable | - | - | - | - | - | - | - | - | (466,846) |
| Total other financing sources (uses), net | (200,000) | - | 103,715 | - | - | (279,795) | 279,795 | (96,285) | (297,621) |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 204,689 | - | - | - | - | (192,023) | 83,532 | 96,198 | 158,159 |
| Fund balances at beginning of year | 1,898,523 | - | - | - | - | 160,025 | - | 2,058,548 | 1,900,389 |
| Fund balances (deficit) at end of year | \$ 2,103,212 | \$ - | \$ - | \$ - | \$ - | \$ (31,998) | \$ 83,532 | \$ 2,154,746 | \$ 2,058,548 |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Compact Programs | Federal Grants | Other U.S. Grants | Non U.S. Grants | CFSM Grants | Sports Development | Sports Council | Totals | |
|---|---------------------|-------------------|----------------------|--------------------|------------------|-----------------------|-------------------|---------------------|---------------------|
| | | | | | | | | 2000 | 1999 |
| Revenues: | | | | | | | | | |
| Compact | \$ 2,447,012 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,447,012 | \$ 2,931,301 |
| Federal contributions | - | 2,198,871 | 311,147 | - | - | - | - | 2,510,018 | 2,405,306 |
| CFSM grants | - | - | - | - | 1,318,853 | - | - | 1,318,853 | 1,396,644 |
| Other | 331,970 | - | - | 18,996 | - | 87,772 | 5,691 | 444,429 | 154,259 |
| Total revenues | 2,778,982 | 2,198,871 | 311,147 | 18,996 | 1,318,853 | 87,772 | 5,691 | 6,720,312 | 6,887,510 |
| Expenditures: | | | | | | | | | |
| Salaries and wages | 583,773 | 733,314 | 53,519 | - | 23,970 | - | 35,284 | 1,429,860 | 1,450,467 |
| Travel | 56,643 | 490,065 | 3,316 | - | 32,475 | - | 48,673 | 631,172 | 608,513 |
| Freight | 16,014 | 28,487 | 200 | 891 | 1,185 | - | - | 46,777 | 85,563 |
| Communications | 17,664 | 30,847 | 3,737 | 280 | 22,498 | - | 908 | 75,934 | 87,481 |
| Printing and reproduction | 9,581 | 24,614 | 989 | - | 1,735 | - | - | 36,919 | 35,129 |
| Professional services | 5,441 | 112,147 | - | - | - | - | - | 117,588 | 105,042 |
| Food stuffs | 27,173 | 15,529 | - | - | 4,503 | - | - | 47,205 | 62,864 |
| Medical supplies | 5,249 | 2,509 | - | - | - | - | - | 7,758 | 71,138 |
| Supplies and materials | 96,770 | 182,250 | (13,485) | 2,381 | 125,176 | - | 1,186 | 394,278 | 683,931 |
| Medical referral | 260,444 | - | - | - | - | - | - | 260,444 | 109,323 |
| POL | - | - | - | - | - | - | - | - | 52,819 |
| Capital outlay | 71,273 | 367,473 | 3,573 | 3,922 | 137,653 | - | 82,492 | 666,386 | 805,050 |
| Contractual services | 340,538 | 113,864 | 289,549 | 8,540 | 992,258 | - | - | 1,744,749 | 813,665 |
| Rentals | 37,804 | 25,342 | 25 | - | 2,987 | - | 6,334 | 72,492 | 124,038 |
| Repairs and maintenance | 10,451 | 7,292 | 4,259 | - | (2,721) | - | 112 | 19,393 | 43,791 |
| Utilities | 761,034 | - | - | - | 1,843 | - | - | 762,877 | 824,338 |
| Grants and subsidies | - | - | - | - | - | - | - | - | 58,608 |
| Scholarship and training | 204,250 | 33,269 | - | - | - | - | - | 237,519 | 234,144 |
| Other | (129,809) | 31,869 | 69,180 | 2,982 | (24,709) | - | 26,965 | (23,522) | 175,826 |
| Total expenditures | 2,374,293 | 2,198,871 | 414,862 | 18,996 | 1,318,853 | - | 201,954 | 6,527,829 | 6,431,730 |
| Excess (deficiency) of revenues over (under) expenditures | 404,689 | - | (103,715) | - | - | 87,772 | (196,263) | 192,483 | 455,780 |
| Other financing sources (uses): | | | | | | | | | |
| Transfers in | - | - | 103,715 | - | - | - | 279,795 | 383,510 | 617,891 |
| Transfers out | (200,000) | - | - | - | - | (279,795) | - | (479,795) | (448,666) |
| Payments of notes payable | - | - | - | - | - | - | - | - | (466,846) |
| Total other financing sources (uses), net | (200,000) | - | 103,715 | - | - | (279,795) | 279,795 | (96,285) | (297,621) |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 204,689 | - | - | - | - | (192,023) | 83,532 | 96,198 | 158,159 |
| Fund balances at beginning of year | 1,898,523 | - | - | - | - | 160,025 | - | 2,058,548 | 1,900,389 |
| Fund balances (deficit) at end of year | \$ 2,103,212 | \$ - | \$ - | \$ - | \$ - | \$ (31,998) | \$ 83,532 | \$ 2,154,746 | \$ 2,058,548 |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

COMPACT PROGRAM FUND
Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | 2000 | | | 1999 | | |
|---|-----------------------|---------------------|--|-----------------------|---------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Other Compact funds | \$ 2,778,982 | \$ 2,778,982 | \$ - | \$ 2,552,248 | \$ 2,931,301 | \$ (379,053) |
| Total revenues | <u>2,778,982</u> | <u>2,778,982</u> | <u>-</u> | <u>2,552,248</u> | <u>2,931,301</u> | <u>(379,053)</u> |
| Expenditures budgetary basis: | | | | | | |
| Health services | 520,428 | 464,708 | 55,720 | 492,488 | 466,462 | 26,026 |
| Education | 1,252,094 | 960,853 | 291,241 | 1,316,710 | 1,186,863 | 129,847 |
| Special Development Programs | 180,105 | 13,748 | 166,357 | 97,691 | 171,613 | (73,922) |
| Public works and utilities | 1,137,373 | 1,003,957 | 133,416 | 900,000 | 822,351 | 77,649 |
| Total expenditures | <u>3,090,000</u> | <u>2,443,266</u> | <u>646,734</u> | <u>2,806,889</u> | <u>2,647,289</u> | <u>159,600</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(311,018)</u> | <u>335,716</u> | <u>646,734</u> | <u>(254,641)</u> | <u>284,012</u> | <u>538,653</u> |
| Other financing sources (uses): | | | | | | |
| Transfers/general fund | - | - | - | 466,846 | 466,846 | - |
| Payments of notes payable | - | - | - | (466,846) | (466,846) | - |
| Transfers out | (200,000) | (200,000) | - | (213,250) | (181,600) | 31,650 |
| Total other financing sources (uses), net | <u>(200,000)</u> | <u>(200,000)</u> | <u>-</u> | <u>(213,250)</u> | <u>(181,600)</u> | <u>31,650</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | <u>(511,018)</u> | <u>135,716</u> | <u>646,734</u> | <u>(467,891)</u> | <u>102,412</u> | <u>507,003</u> |
| Fund balance, unreserved at beginning of year | (2,545,822) | 1,644,575 | 4,190,397 | (2,077,931) | 1,542,163 | 3,620,094 |
| Continuing appropriations | - | (150,000) | (150,000) | - | - | - |
| Fund balance, unreserved at end of year | <u>\$ (3,056,840)</u> | <u>\$ 1,630,291</u> | <u>\$ 4,687,131</u> | <u>\$ (2,545,822)</u> | <u>\$ 1,644,575</u> | <u>\$ 4,127,097</u> |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 2000

The acquisition and construction of major capital facilities, other than those financed by proprietary funds and trust funds, are accounted for in Capital Projects Funds. A brief discussion of Yap State's Capital Projects Funds as of September 30, 2000, follows:

Compact Capital Projects Fund

This fund is used to account for financial transactions related to Compact capital current account funds as provided by Section 211(A) of the Compact of Free Association.

TTPI - Capital Projects Fund

This fund is used to account for various capital projects received under grant awards from the Trust Territory of the Pacific Islands (TTPI) Government.

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 of Yap.

Water Development Projects Revolving Fund

This fund was established pursuant to YSL-4-69 to account for loan proceeds and other funds designated for State Water Development Projects.

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 Yap State Legislature for capital improvement projects funded by the General Fund are also accounted for within this fund.

Other U.S. Capital Projects Fund

This fund is used to account for all financial transactions related to federally assisted funds of a capital nature which are received directly from the U.S. Government or are subgranted to Yap State from the FSM National Government.

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

CAPITAL PROJECTS FUNDS
Combining Balance Sheet

September 30, 2000

(With comparative totals as of September 30, 1999)

| Assets | Compact | TTPI | CFSM | Water Development Projects | | | Totals | |
|--|----------------------|-------------------|-------------------|----------------------------|---------------------|-------------------|----------------------|----------------------|
| | | | | Revolving Fund | Public | Other U.S. | 2000 | 1999 |
| Investments | \$ 9,210,448 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 9,210,448 | \$ 9,210,448 |
| Receivables, net: | | | | | | | | |
| Federal agencies | - | - | - | - | - | - | - | 20,472 |
| U.S. Dept. of Interior - TTPI | - | 165,142 | - | - | - | - | 165,142 | 75,777 |
| CFSM | - | - | 545,519 | - | - | 131,874 | 677,393 | 441,212 |
| Loans | 6,500,000 | - | - | - | - | - | 6,500,000 | 6,500,000 |
| Due from other funds | 905,488 | - | - | 216,300 | 1,200,008 | - | 2,321,796 | 3,040,743 |
| Advances | 7,620 | - | - | - | - | - | 7,620 | 7,145 |
| Total assets | \$ 16,623,556 | \$ 165,142 | \$ 545,519 | \$ 216,300 | \$ 1,200,008 | \$ 131,874 | \$ 18,882,399 | \$ 19,295,797 |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 21,326 |
| Due to other funds | - | 165,142 | 541,911 | - | - | 131,874 | 838,927 | 1,283,763 |
| Deferred revenue | - | - | 3,608 | - | - | - | 3,608 | 935,787 |
| Total liabilities | - | 165,142 | 545,519 | - | - | 131,874 | 842,535 | 2,240,876 |
| Fund balances: | | | | | | | | |
| Reserved for: | | | | | | | | |
| Loans | 6,500,000 | - | - | - | - | - | 6,500,000 | 6,500,000 |
| Encumbrances | 540,384 | - | 39,721 | - | 2,501,349 | - | 3,081,454 | 3,967,619 |
| Continuing appropriations | 200,000 | - | - | - | - | - | 200,000 | 2,200,000 |
| Unreserved | 9,383,172 | - | (39,721) | 216,300 | (1,301,341) | - | 8,258,410 | 4,387,302 |
| Total fund balances | 16,623,556 | - | - | 216,300 | 1,200,008 | - | 18,039,864 | 17,054,921 |
| Total liabilities and fund balances | \$ 16,623,556 | \$ 165,142 | \$ 545,519 | \$ 216,300 | \$ 1,200,008 | \$ 131,874 | \$ 18,882,399 | \$ 19,295,797 |

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Compact | TTPI | CFSM | Water Development Projects | | | Totals | |
|---|----------------------|---------------|----------------|----------------------------|---------------------|------------------|----------------------|----------------------|
| | | | | Revolving Fund | Public | Other U.S. | 2000 | 1999 |
| Revenues: | | | | | | | | |
| Compact | \$ 3,641,792 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,641,792 | \$ 3,618,144 |
| U.S. Dept. of the Interior-TTPI | - | 89,365 | - | - | - | 1,043,580 | 1,132,945 | 1,186,524 |
| CFSM grants | - | - | 874,649 | - | - | - | 874,649 | 1,948,944 |
| Total revenues | 3,641,792 | 89,365 | 874,649 | - | - | 1,043,580 | 5,649,386 | 6,753,612 |
| Expenditures: | | | | | | | | |
| General Government | - | - | - | - | - | - | - | 282,840 |
| Education | 183,887 | - | - | - | - | - | 183,887 | 156,736 |
| Economic development | 25,983 | - | - | - | - | - | 25,983 | 248,062 |
| Public works and utilities | 1,691,112 | 89,365 | 867,700 | 33,700 | 679,029 | 932,178 | 4,293,084 | 4,407,978 |
| Community affairs | 43,138 | - | - | - | - | - | 43,138 | 169,663 |
| Other | - | - | 6,949 | - | - | 111,402 | 118,351 | 103,224 |
| Total expenditures | 1,944,120 | 89,365 | 874,649 | 33,700 | 679,029 | 1,043,580 | 4,664,443 | 5,368,503 |
| Excess (deficiency) of revenues over (under) expenditures | 1,697,672 | - | - | (33,700) | (679,029) | - | 984,943 | 1,385,109 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | - | - | - | 5,176,057 |
| Transfer out | - | - | - | - | - | - | - | (40,000) |
| Payments of notes payable | - | - | - | - | - | - | - | (3,145,184) |
| Total other financing sources (uses), net | - | - | - | - | - | - | - | 1,990,873 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 1,697,672 | - | - | (33,700) | (679,029) | - | 984,943 | 3,375,982 |
| Fund balances at beginning of year | 14,925,884 | - | - | 250,000 | 1,879,037 | - | 17,054,921 | 13,678,939 |
| Fund balances at end of year | \$ 16,623,556 | \$ - | \$ - | \$ 216,300 | \$ 1,200,008 | \$ - | \$ 18,039,864 | \$ 17,054,921 |

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Compact | TTPI | CFSM | Water | | | Totals | |
|---|----------------------|---------------|----------------|--|---------------------|------------------|----------------------|----------------------|
| | | | | Development Projects Revolving Fund | Public | Other U.S. | 2000 | 1999 |
| Revenues: | | | | | | | | |
| Compact | \$ 3,641,792 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,641,792 | \$ 3,618,144 |
| U.S. Dept. of the Interior-TTPI | - | 89,365 | - | - | - | 1,043,580 | 1,132,945 | 1,186,524 |
| CFSM grants | - | - | 874,649 | - | - | - | 874,649 | 1,948,944 |
| Total revenues | 3,641,792 | 89,365 | 874,649 | - | - | 1,043,580 | 5,649,386 | 6,753,612 |
| Expenditures: | | | | | | | | |
| Salaries and wages | 46,872 | - | 2,836 | - | - | - | 49,708 | 32,474 |
| Travel | 20,144 | - | - | - | - | - | 20,144 | 23,447 |
| Freight | 2,600 | - | - | - | - | - | 2,600 | 301 |
| Communications | 3,704 | - | - | - | - | - | 3,704 | 1,677 |
| Printing and reproduction | (509) | - | - | - | - | - | (509) | 392 |
| Professional services | - | - | - | - | - | 2,854 | 2,854 | 53,896 |
| Supplies and materials | 10,483 | - | - | - | - | - | 10,483 | 47,902 |
| POL | - | - | - | - | - | - | - | 666 |
| Capital outlay | 83,667 | - | - | - | - | 929,324 | 1,012,991 | 4,631,119 |
| Contractual services | 1,765,934 | - | 5,156 | - | 679,029 | - | 2,450,119 | 225,816 |
| Rentals | 4,700 | - | 770,343 | - | - | - | 775,043 | 12,401 |
| Repairs and maintenance | 4,469 | - | - | - | - | - | 4,469 | 371 |
| Subsidies and grants | - | - | 89,365 | 33,700 | - | - | 123,065 | 100,000 |
| Other | 2,056 | 89,365 | 6,949 | - | - | 111,402 | 209,772 | 238,041 |
| Total expenditures | 1,944,120 | 89,365 | 874,649 | 33,700 | 679,029 | 1,043,580 | 4,664,443 | 5,368,503 |
| Excess (deficiency) of revenues over (under) expenditures | 1,697,672 | - | - | (33,700) | (679,029) | - | 984,943 | 1,385,109 |
| Other financing sources (uses): | | | | | | | | |
| Transfers in | - | - | - | - | - | - | - | 5,176,057 |
| Transfer out | - | - | - | - | - | - | - | (40,000) |
| Payments of notes payable | - | - | - | - | - | - | - | (3,145,184) |
| Total other financing sources (uses), net | - | - | - | - | - | - | - | 1,990,873 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 1,697,672 | - | - | (33,700) | (679,029) | - | 984,943 | 3,375,982 |
| Fund balances at beginning of year | 14,925,884 | - | - | 250,000 | 1,879,037 | - | 17,054,921 | 13,678,939 |
| Fund balances at end of year | \$ 16,623,556 | \$ - | \$ - | \$ 216,300 | \$ 1,200,008 | \$ - | \$ 18,039,864 | \$ 17,054,921 |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Enterprise Funds
September 30, 2000

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the Yap State Legislature is that the costs of providing goods or services to the general public or other governmental agencies on a continuing basis be financed or recovered primarily through user charges; or where the Yap State Legislature has decided that periodic determination of net income is appropriate for accountability purposes. The State's enterprise operations are described hereunder.

Public Transportation System Fund

This fund is used to account for the activities of the Yap State Government's Public Transportation System (PTS) operations. PTS was created in fiscal year 1984 by Yap State Law No. 1-170 to provide reliable and inexpensive transportation for those people living outside of the Colonia area.

Yap Economic Development Authority Fund

This fund is used to account for the activities of the Yap Economic Development Authority (YEDA) (a blended component unit of the Yap State Government). YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 to promote and support economic development in the State of Yap. As of September 30, 2000, the major project undertaken by YEDA has been to establish the Yap Purse Seiner Corporation to lease tuna purse seiners to the Yap Fishing Corporation (YFC) for tuna fishing in the Western Tropical Pacific.

Yap Investment Trust Fund

This fund is used to account for the activities of the Yap Investment Trust (YIT) (a blended component unit of the Yap State Government). YIT was created in fiscal year 1994 by Yap State Law No. 3-84 to act as trustee for Deed of Trust guarantees as provided for under the Yap State Deed of Trust Act and to promote and support economic development in the State of Yap. As of September 30, 2000, the major project undertaken by YIT has been to accept the transfer from YEDA of sole membership in Yap Purse Seiner Owner, Inc. (YPSO) and a related note payable to the State of Yap. YIT is also the sole shareholder of Diving Seagull, Inc. In turn YIT leases a tuna purse seiner to Diving Seagull, Inc. for tuna fishing in the Western Tropical Pacific.

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

ENTERPRISE FUNDS

Combining Balance Sheet

September 30, 2000

(With comparative totals as of September 30, 1999)

| <u>ASSETS</u> | Public Transportation System | Yap Economic Development Authority | Yap Investment Trust | Totals | |
|--|------------------------------------|---|----------------------------|---------------------|---------------------|
| | | | | 2000 | 1999 |
| Cash and equivalents | \$ 12,261 | \$ - | \$ 733,478 | \$ 745,739 | \$ 791,567 |
| Investments | 7,678 | 1,107,043 | 892,957 | 2,007,678 | 2,008,559 |
| General receivables | - | 284 | 16,750 | 17,034 | 29,195 |
| Due from other funds | - | - | 506,250 | 506,250 | 506,250 |
| Prepaid expenses | 7,573 | - | 23,813 | 31,386 | 31,826 |
| Inventory | 47,615 | - | - | 47,615 | 34,355 |
| Property and equipment, net | 269,184 | - | 2,873,568 | 3,142,752 | 4,732,535 |
| Total assets | \$ 344,311 | \$ 1,107,327 | \$ 5,046,816 | \$ 6,498,454 | \$ 8,134,287 |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 3,248 | \$ - | \$ 46,452 | \$ 49,700 | \$ 11,540 |
| Accrued payroll and others | 13,876 | 1,584 | 64,700 | 80,160 | 132,709 |
| Notes payable: | | | | | |
| Intergovernmental | - | 2,000,000 | - | 2,000,000 | 2,000,000 |
| Yap State | - | - | 7,000,000 | 7,000,000 | 7,000,000 |
| Due to other funds | - | 758,850 | - | 758,850 | 100,822 |
| Total liabilities | 17,124 | 2,760,434 | 7,111,152 | 9,888,710 | 9,245,071 |
| Fund equity: | | | | | |
| Contributed capital | 901,219 | 5,682,758 | 1,392,957 | 7,976,934 | 7,976,934 |
| Retained earnings (deficit) | (574,032) | (7,335,865) | (3,457,293) | (11,367,190) | (9,087,718) |
| Total fund equity | 327,187 | (1,653,107) | (2,064,336) | (3,390,256) | (1,110,784) |
| Total liabilities and fund equity | \$ 344,311 | \$ 1,107,327 | \$ 5,046,816 | \$ 6,498,454 | \$ 8,134,287 |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

ENTERPRISE FUNDS

Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency)
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Public Transportation System | Yap Economic Development Authority | Yap Investment Trust | Totals | |
|--|------------------------------------|---|----------------------------|-----------------------|-----------------------|
| | | | | 2000 | 1999 |
| Operating revenues: | | | | | |
| Charges for goods and services | \$ 102,998 | \$ - | \$ 2,584,613 | \$ 2,687,611 | \$ 2,644,396 |
| Grants from private sources | - | 16,000 | - | 16,000 | - |
| Total operating revenues | 102,998 | 16,000 | 2,584,613 | 2,703,611 | 2,644,396 |
| Operating expenses: | | | | | |
| Personnel services | 132,273 | 2,315 | 914,479 | 1,049,067 | 906,457 |
| Supplies and materials | 57,483 | - | - | 57,483 | 67,278 |
| Fuel | - | - | 566,572 | 566,572 | 449,225 |
| Contractual services | 2,009 | 450 | - | 2,459 | 5,087 |
| Depreciation | 95,446 | - | 1,592,401 | 1,687,847 | 1,664,165 |
| Bad debts expense | 5,212 | 1,320 | - | 6,532 | 15,875 |
| Utilities and communications | 10,895 | 226 | - | 11,121 | 9,417 |
| Repair and maintenance | - | 444 | 163,621 | 164,065 | 423,798 |
| Equipment lease | - | - | 12,236 | 12,236 | 250,833 |
| Insurance | 13,374 | - | 201,486 | 214,860 | 218,434 |
| License, agent and port fees | - | - | 257,796 | 257,796 | 195,204 |
| Provision | - | - | 115,322 | 115,322 | 145,028 |
| Management fee | - | - | 131,365 | 131,365 | 108,625 |
| Other | 19,250 | 669,378 | 208,066 | 896,694 | 191,583 |
| Total operating expenses | 335,942 | 674,133 | 4,163,344 | 5,173,419 | 4,651,009 |
| Operating income (loss) | (232,944) | (658,133) | (1,578,731) | (2,469,808) | (2,006,613) |
| Nonoperating income (expense): | | | | | |
| Operating transfers in | 165,800 | - | - | 165,800 | 2,792,875 |
| Repayment of debt | - | - | - | - | (3,171,135) |
| Interest income | - | - | 26,928 | 26,928 | 28,982 |
| Loss on disposal of assets | (2,392) | - | - | (2,392) | (328,064) |
| Total nonoperating income (expense) | 163,408 | - | 26,928 | 190,336 | (677,342) |
| Net income (loss) | (69,536) | (658,133) | (1,551,803) | (2,279,472) | (2,683,955) |
| Retained earnings (deficit) at beginning of year | (504,496) | (6,677,732) | (1,905,490) | (9,087,718) | (6,403,763) |
| Retained earnings (deficit) at end of year | (574,032) | (7,335,865) | (3,457,293) | (11,367,190) | (9,087,718) |
| Contributed capital at beginning of year | 901,219 | 5,682,758 | 1,392,957 | 7,976,934 | 7,873,710 |
| Additions | - | - | - | - | 103,224 |
| Contributed capital at end of year | 901,219 | 5,682,758 | 1,392,957 | 7,976,934 | 7,976,934 |
| Fund equity (deficiency) at end of year | \$ 327,187 | \$ (1,653,107) | \$ (2,064,336) | \$ (3,390,256) | \$ (1,110,784) |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

ENTERPRISE FUNDS

Combining Statement of Cash Flows
Year Ended September 30, 2000

(With comparative totals for the year ended September 30, 1999)

| | Public Transportation System | Yap Economic Development Authority | Yap Investment Trust | Totals | |
|---|------------------------------------|---|----------------------------|-------------------|--------------------|
| | | | | 2000 | 1999 |
| Cash flows from operating activities: | | | | | |
| Operating income (loss) | \$ (232,944) | \$ (658,133) | \$ (1,578,731) | \$ (2,469,808) | \$ 732,104 |
| Adjustments to reconcile operating income (loss) to net cash (used for) provided by operating activities: | | | - | | |
| Depreciation | 95,446 | - | 1,592,401 | 1,687,847 | 1,561,318 |
| Other | - | - | 26,928 | 26,928 | (65,087) |
| | <u>(137,498)</u> | <u>(658,133)</u> | <u>40,598</u> | <u>(755,033)</u> | <u>2,228,335</u> |
| Change in assets and liabilities: | | | | | |
| Restricted cash | - | - | 9,070 | 9,070 | (500,000) |
| General receivables | 881 | - | 3,091 | 3,972 | (1,051,386) |
| Due from other funds | - | 658,028 | - | 658,028 | 4,704 |
| Prepaid expense | (5,545) | - | 5,985 | 440 | (39,547) |
| Inventory | (13,260) | - | - | (13,260) | - |
| Accounts payable | (6,336) | (382) | 44,877 | 38,159 | 74,028 |
| Accrued expenses | 2,846 | 487 | (55,882) | (52,549) | (21,232) |
| | <u>(21,414)</u> | <u>658,133</u> | <u>7,141</u> | <u>643,860</u> | <u>(1,533,433)</u> |
| Net cash (used for) provided by operating activities | <u>(158,912)</u> | <u>-</u> | <u>47,739</u> | <u>(111,173)</u> | <u>694,902</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Operating grant from Yap State government | <u>165,800</u> | <u>-</u> | <u>-</u> | <u>165,800</u> | <u>-</u> |
| Net cash provided by noncapital financing activities | <u>165,800</u> | <u>-</u> | <u>-</u> | <u>165,800</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Acquisition of fixed assets | (4,070) | - | (96,385) | (100,455) | - |
| Proceeds from Yap State Government loan | - | - | - | - | 1,000,000 |
| Retirement of debt | - | - | - | - | (1,000,000) |
| Net cash used for capital and related financing activities | <u>(4,070)</u> | <u>-</u> | <u>(96,385)</u> | <u>(100,455)</u> | <u>-</u> |
| Cash flows from investing activities: | | | | | |
| Loss on disposal of assets | - | - | - | - | - |
| Acquisition of fixed assets | - | - | - | - | (346,981) |
| Dividend income | - | - | - | - | - |
| Net cash used for investing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(346,981)</u> |
| Net increase (decrease) in cash and equivalents | 2,818 | - | (48,646) | (45,828) | 347,921 |
| Cash and equivalents at beginning of year | <u>9,443</u> | <u>-</u> | <u>782,124</u> | <u>791,567</u> | <u>88,996</u> |
| Cash and equivalents at end of year | <u>\$ 12,261</u> | <u>\$ -</u> | <u>\$ 733,478</u> | <u>\$ 745,739</u> | <u>\$ 436,917</u> |

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Discretely Presented Component Units
September 30, 2000

The Component Units - proprietary funds are legally separate organizations for which the elected officials of Yap State are financially accountable. Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business and quasi - business activities - where net income and capital maintenance are measured - are accounted for through proprietary funds. The generally accepted accounting principles here are generally those applicable to similar businesses in the private sector; the measurement focus is on determination of net income, financial position and cash flows. The State government's component units - proprietary funds are described below:

Yap Visitors Bureau

The Yap Visitors Bureau (YVB) was created pursuant to YSL No. 4-25 in October 1996. YSL 4-81 dated August 1999, enabled YVB to maintain books and records independent of the Government of the State of Yap. YVB is responsible for promoting tourism, developing the resources of the private sector and other activities related to the tourism industry.

Yap Fishing Authority

The Yap Fishing Authority (YFA) was established by Yap District Law No. 6-13. The primary purpose of the Authority is to promote, develop, and support commercial utilization of living marine resources within the State of Yap.

Yap State Public Service Corporation

The Yap State Public Service Corporation (YSPSC) is a public corporation which administers electric and water utilities for Yap State. YSPSC commenced operations on April 1, 1996 with assets and liabilities transferred from the Yap State Department of Public Utilities and Contracts.

Component Units – governmental funds are legally separate organizations for which the elected officials of Yap State are financially accountable. Governmental funds are used to account for a government's general activities, including the collection and disbursement of specific revenue sources that are legally restricted to expenditure for specified purposes. Revenues and expenditures are recognized on a modified accrual basis, and the measurement focus is on the flow of current financial resources rather than the measurement of net profit. The State government's one component unit – governmental fund is described below:

Yap Community Action Program

The Yap Community Action Program (Yap CAP) was created in fiscal year 1968 by the Trust Territory Government, is governed by an eight member Board of Directors, two of which are appointed by the Governor and one each appointed by the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. Yap Community Action Program is a nonprofit organization which is determined to be a component unit of the State of Yap, due to the amount of financial control exercisable over YCAP by the State.

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

COMPONENT UNITS
Combining Balance Sheet
September 30, 2000

(With comparative totals as of September 30, 1999)

| ASSETS | Proprietary Fund Types | | | Totals Proprietary Fund Types | Governmental Fund Type | Totals | |
|--|---------------------------|-----------------------------|---|--|--------------------------------|----------------------|----------------------|
| | Yap Visitors Bureau | Yap Fishing Authority | Yap State Public Service Corporation | | Yap | 2000 | 1999 |
| | | | | | Community Action Program | | |
| Cash and equivalents | \$ 63,731 | \$ 15,702 | \$ 1,082,214 | 1,161,647 | \$ 655,435 | \$ 1,817,082 | \$ 1,721,082 |
| Cash, restricted | - | - | - | - | 1,089,530 | 1,089,530 | 878,493 |
| Time certificates of deposit | - | - | 848,543 | 848,543 | - | 848,543 | 1,149,275 |
| Investments | - | 885,164 | - | 885,164 | - | 885,164 | 1,399,858 |
| Federal and other grants receivable | - | - | 495,509 | 495,509 | 159 | 495,668 | 213,495 |
| General receivables, net | - | 11,834 | - | 11,834 | 9,352 | 21,186 | 448,269 |
| Loans receivable, net | - | - | - | - | 166,083 | 166,083 | 206,436 |
| Interest receivable | - | - | - | - | 3,777 | 3,777 | 10,333 |
| Advances and prepayments | 7,567 | - | 29,887 | 37,454 | - | 37,454 | 166,903 |
| Inventory | 25,410 | 90,720 | 494,308 | 610,438 | - | 610,438 | 566,258 |
| Fixed assets, net | 18,777 | 3,161,107 | 8,936,098 | 12,115,982 | 16,296 | 12,132,278 | 10,855,629 |
| Total assets | \$ 115,485 | \$ 4,164,527 | \$ 11,886,559 | \$ 16,166,571 | \$ 1,940,632 | \$ 18,107,203 | \$ 17,616,031 |
| LIABILITIES AND FUND EQUITY | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 93,560 | \$ 2,341 | \$ 29,578 | \$ 125,479 | \$ 4,441 | \$ 129,920 | \$ 166,292 |
| Accrued payroll and others | 7,334 | 2,158 | 101,417 | 110,909 | 68,034 | 178,943 | 227,011 |
| Due to grantor | - | 35,325 | - | 35,325 | 102,639 | 137,964 | 102,639 |
| Deferred revenues-grants | - | - | 292,323 | 292,323 | - | 292,323 | 142,590 |
| Other payables | 150 | 9,472 | 283,586 | 293,208 | - | 293,208 | 144,650 |
| Note payable | - | - | 1,009,729 | 1,009,729 | - | 1,009,729 | - |
| Total liabilities | 101,044 | 49,296 | 1,716,633 | 1,866,973 | 175,114 | 2,042,087 | 783,182 |
| Fund equity (net assets): | | | | | | | |
| Contributed capital | 46,865 | 6,453,795 | 10,170,178 | 16,670,838 | - | 16,670,838 | 15,941,495 |
| Retained earnings (deficit) | (32,424) | (2,338,564) | (252) | (2,371,240) | - | (2,371,240) | (890,412) |
| Net assets: | | | | | | | |
| Unrestricted | - | - | - | - | (146,539) | (146,539) | 16,056 |
| Temporarily restricted | - | - | - | - | 816,677 | 816,677 | 554,773 |
| Permanently restricted | - | - | - | - | 1,095,380 | 1,095,380 | 1,210,937 |
| Total fund equity | 14,441 | 4,115,231 | 10,169,926 | 14,299,598 | 1,765,518 | 16,065,116 | 16,832,849 |
| Total liabilities and fund equity | \$ 115,485 | \$ 4,164,527 | \$ 11,886,559 | \$ 16,166,571 | \$ 1,940,632 | \$ 18,107,203 | \$ 17,616,031 |

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

COMPONENT UNITS
Combining Statement of Revenues, Expenses and Changes in Fund Equity
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Proprietary Fund Types | | | Totals Proprietary Fund Types | Governmental Fund Type | Totals | |
|---|---------------------------|-----------------------------|---|--|--------------------------------|----------------------|----------------------|
| | Yap Visitors Bureau | Yap Fishing Authority | Yap State Public Service Corporation | | Yap | 2000 | 1999 |
| | | | | | Community Action Program | | |
| Operating revenues: | | | | | | | |
| Rental income | \$ - | \$ 9,140 | \$ - | \$ 9,140 | \$ - | \$ 9,140 | \$ 18,764 |
| Charges for goods and services | 5,117 | 182,512 | 2,781,136 | 2,968,765 | - | 2,968,765 | 2,692,161 |
| Grants and contracts | - | - | - | - | 857,498 | 857,498 | 1,372,420 |
| Interest | - | - | - | - | 72,040 | 72,040 | 64,318 |
| Other | - | - | - | - | 27,174 | 27,174 | 9,035 |
| Total operating revenues | 5,117 | 191,652 | 2,781,136 | 2,977,905 | 956,712 | 3,934,617 | 4,156,698 |
| Operating expenses: | | | | | | | |
| Headstart program | - | - | - | - | 826,613 | 826,613 | 872,806 |
| Other federal program | - | - | - | - | 37,802 | 37,802 | 102,934 |
| Other nonprofit and local programs | - | - | - | - | 18,441 | 18,441 | 17,740 |
| Personnel services | 53,520 | 50,012 | 633,802 | 737,334 | 150,550 | 887,884 | 884,633 |
| Travel | 80,346 | 5,470 | - | 85,816 | 2,610 | 88,426 | 48,526 |
| Supplies and materials | 4,029 | - | 1,457,028 | 1,461,057 | 2,594 | 1,463,651 | 39,142 |
| Production fuel | - | - | - | - | - | - | 985,288 |
| Contractual services | 8,102 | - | - | 8,102 | - | 8,102 | 9,419 |
| Depreciation | 13,678 | 64,516 | 701,057 | 779,251 | 45,173 | 824,424 | 798,042 |
| Bad debt expense | 3,389 | 38,925 | - | 42,314 | - | 42,314 | 103,259 |
| Communications | 11,332 | 5,925 | - | 17,257 | - | 17,257 | 7,561 |
| Matching funds | - | - | - | - | - | - | 18,174 |
| Other | 138,779 | 117,247 | 800,631 | 1,056,657 | 10,982 | 1,067,639 | 954,409 |
| Total operating expenses | 313,175 | 282,095 | 3,592,518 | 4,187,788 | 1,094,765 | 5,282,553 | 4,841,933 |
| Operating loss | (308,058) | (90,443) | (811,382) | (1,209,883) | (138,053) | (1,347,936) | (685,235) |
| Nonoperating revenues (expenses): | | | | | | | |
| Operating transfers from Yap State | 271,354 | - | - | 271,354 | 310,990 | 582,344 | 331,231 |
| Interest income | - | 1,279 | - | 1,279 | - | 1,279 | 1,135 |
| Loss on investment in unconsolidated subsidiary | - | (264,193) | - | (264,193) | - | (264,193) | - |
| Inventory loss | - | (164,315) | - | (164,315) | - | (164,315) | - |
| Other income (expense) | 6,973 | - | 144,633 | 151,606 | - | 151,606 | 259,588 |
| Loss on disposal of fixed assets | - | (53,676) | - | (53,676) | (325,648) | (379,324) | - |
| Recovery of bad debts | - | - | - | - | 136,463 | 136,463 | - |
| Total nonoperating revenues (expense), net | 278,327 | (480,905) | 144,633 | (57,945) | 121,805 | 63,860 | 591,954 |
| Net income (loss) | (29,731) | (571,348) | (666,749) | (1,267,828) | (16,248) | (1,284,076) | (93,281) |
| Retained earnings (deficit)/net assets | | | | | | | |
| at beginning of year | (2,693) | (1,554,216) | 666,497 | (890,412) | 1,781,766 | 891,354 | 1,227,610 |
| Prior period adjustment | - | (213,000) | - | (213,000) | - | (213,000) | (242,975) |
| Retained earnings (deficit)/net assets at end of year | (32,424) | (2,338,564) | (252) | (2,371,240) | 1,765,518 | (605,722) | 891,354 |
| Contributed capital at beginning of year | 39,408 | 6,108,619 | 9,793,468 | 15,941,495 | - | 15,941,495 | 15,273,348 |
| Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital | 7,457 | 345,176 | 376,710 | 729,343 | - | 729,343 | 668,147 |
| Contributed capital at end of year | 46,865 | 6,453,795 | 10,170,178 | 16,670,838 | - | 16,670,838 | 15,941,495 |
| Total fund equity | \$ 14,441 | \$ 4,115,231 | \$ 10,169,926 | \$ 14,299,598 | \$ 1,765,518 | \$ 16,065,116 | \$ 16,832,849 |

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

COMPONENT UNITS
Combining Statement of Cash Flows
Year Ended September 30, 2000
(With comparative totals for the year ended September 30, 1999)

| | Proprietary Fund Types | | | Totals Proprietary Fund Types | Governmental Fund Type | Totals | |
|--|---------------------------|-----------------------------|---|--|--------------------------------|---------------------|---------------------|
| | Yap Visitors Bureau | Yap Fishing Authority | Yap State Public Service Corporation | | Yap | 2000 | 1999 |
| | | | | | Community Action Program | | |
| Cash flows from operating activities: | | | | | | | |
| Operating loss | \$ (308,058) | \$ (90,443) | \$ (811,382) | \$ (1,209,883) | \$ (138,053) | \$ (1,347,936) | \$ (685,235) |
| Adjustments to reconcile operating loss to net cash provided by (used for) operating activities: | | | | | | | |
| Depreciation | 13,678 | 38,925 | 701,057 | 753,660 | 45,173 | 798,833 | 798,042 |
| Bad debts | 3,389 | 5,925 | - | 9,314 | - | 9,314 | 103,259 |
| Recovery of bad debts | - | - | - | - | (136,463) | (136,463) | - |
| Loss on disposal of fixed assets and other items | - | - | 26,267 | 26,267 | 273,034 | 299,301 | - |
| | <u>(290,991)</u> | <u>(45,593)</u> | <u>(84,058)</u> | <u>(420,642)</u> | <u>43,691</u> | <u>(376,951)</u> | <u>216,066</u> |
| Change in assets and liabilities: | | | | | | | |
| General receivables | - | 9,792 | (78,282) | (68,490) | 203,984 | 135,494 | (19,888) |
| Prepayments | - | - | (24,884) | (24,884) | - | (24,884) | 16,008 |
| Inventory of supplies, at cost | (7,567) | - | 22,430 | 14,863 | - | 14,863 | (55,114) |
| Advances | (25,410) | - | - | (25,410) | 6,489 | (18,921) | 3,066 |
| Loans receivable | - | - | - | - | 40,353 | 40,353 | 128,427 |
| Interest receivable | - | - | - | - | 6,556 | 6,556 | 741 |
| Accounts payable | 1,847 | (8,120) | 13,437 | 7,164 | (8,211) | (1,047) | (257,292) |
| Accrued payroll and others | 3,577 | (4,317) | (3,406) | (4,146) | (43,922) | (48,068) | 6,853 |
| Other payables | (3,781) | 9,472 | 292,600 | 298,291 | - | 298,291 | 124,765 |
| | <u>(31,334)</u> | <u>6,827</u> | <u>221,895</u> | <u>197,388</u> | <u>205,249</u> | <u>402,637</u> | <u>(52,434)</u> |
| Net cash provided by (used for) operating activities | <u>(322,325)</u> | <u>(38,766)</u> | <u>137,837</u> | <u>(223,254)</u> | <u>248,940</u> | <u>25,686</u> | <u>163,632</u> |
| Cash flows from noncapital financing activities: | | | | | | | |
| Operating transfer in and contributed capital | 278,811 | - | 431,073 | 709,884 | 310,990 | 1,020,874 | 1,381,692 |
| Grant from Federal Emergency Management Act | - | - | - | - | - | - | 8,949 |
| Other contributions and income | 6,973 | - | - | 6,973 | - | 6,973 | - |
| Net cash provided by noncapital financing activities | <u>285,784</u> | <u>-</u> | <u>431,073</u> | <u>716,857</u> | <u>310,990</u> | <u>1,027,847</u> | <u>1,390,641</u> |
| Cash flows from capital and related financing activities: | | | | | | | |
| Acquisition of fixed assets | - | - | (2,130,785) | (2,130,785) | - | (2,130,785) | (661,159) |
| Proceeds from loan | - | - | 1,009,729 | 1,009,729 | - | 1,009,729 | - |
| Net cash provided by (used for) capital and related financing activities | <u>-</u> | <u>-</u> | <u>(1,121,056)</u> | <u>(1,121,056)</u> | <u>-</u> | <u>(1,121,056)</u> | <u>(661,159)</u> |
| Cash flows from investing activities: | | | | | | | |
| Interest income | - | 1,279 | 90,270 | 91,549 | - | 91,549 | 83,790 |
| Acquisition of fixed assets | (9,427) | - | - | (9,427) | (8,294) | (17,721) | (53,450) |
| Acquisition of time certificate of deposits | - | - | 300,732 | 300,732 | (211,037) | 89,695 | (723,838) |
| Net cash provided by (used for) investing activities | <u>(9,427)</u> | <u>1,279</u> | <u>391,002</u> | <u>382,854</u> | <u>(219,331)</u> | <u>163,523</u> | <u>(693,498)</u> |
| Net increase (decrease) in cash and equivalents | <u>(45,968)</u> | <u>(37,487)</u> | <u>(161,144)</u> | <u>(244,599)</u> | <u>340,599</u> | <u>96,000</u> | <u>199,616</u> |
| Cash and equivalents at beginning of year | <u>109,699</u> | <u>53,189</u> | <u>1,243,358</u> | <u>1,406,246</u> | <u>314,836</u> | <u>1,721,082</u> | <u>1,521,466</u> |
| Cash and equivalents at end of year | <u>\$ 63,731</u> | <u>\$ 15,702</u> | <u>\$ 1,082,214</u> | <u>\$ 1,161,647</u> | <u>\$ 655,435</u> | <u>\$ 1,817,082</u> | <u>\$ 1,721,082</u> |

See accompanying Independent Auditors' Report.



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

Honorable Vincent Figir
Governor, State of Yap
Federated States of Micronesia:

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 2000, and have issued our report thereon dated November 15, 2001, which was qualified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of support for the carrying value of an investment of the Yap Fishing Authority, a Component Unit - Proprietary Fund, 2) our inability to determine the effects of not updating the General Fixed Assets Account Group and 3) our inability to determine the appropriate classifications of governmental fund type revenues. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

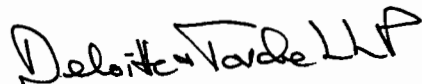
As part of obtaining reasonable assurance about whether the State of Yap's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 77 through 97) as items 00-01 and 00-07.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Yap's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Yap's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 00-07 through 00-10, 00-12a, 00-12b, and 00-15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding 00-07 to be a material weakness.

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

A handwritten signature in black ink, appearing to read "Deloitte Touche LLP". The signature is written in a cursive, stylized font.

November 15, 2001



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

Honorable Vincent Figir
Governor, State of Yap
Federated States of Micronesia:

Compliance

We have audited the compliance of the State of Yap with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2000. The State of Yap's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 77 through 97). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Yap's management. Our responsibility is to express an opinion on the State of Yap's compliance based on our audit.

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

As described in Findings 00-01 through 00-07, 00-10, 00-11, 00-13a, 00-13b and 00-14 in the accompanying Schedule of Findings and Questioned Costs, the State of Yap did not comply with requirements regarding equipment and real property management, eligibility, cash management, allowable costs/cost principles, procurement and suspension and debarment, reporting, and special terms and conditions that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Yap to comply with requirements applicable to its major federal programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Yap complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2000.

Internal Control Over Compliance

The management of the State of Yap 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 of Yap's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

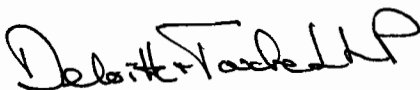
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Yap's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 00-01 through 00-07, 00-10, 00-11, 00-13a, 00-13b and 00-14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider finding 00-07 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 2000, and have issued our report thereon dated November 15, 2001, which was qualified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of support for the carrying value of an investment of the Yap Fishing Authority, a Component Unit - Proprietary Fund, 2) our inability to determine the effects of not updating the General Fixed Assets Account Group and 3) our inability to determine the appropriate classifications of governmental fund type revenues. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 64 through 73) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Yap. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

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



November 15, 2001

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2000

| <u>Grantor</u> <u>Program Title</u> | <u>CFDA No.</u> | <u>2000</u> <u>Fiscal Year</u> <u>Expenditures</u> |
|--|-----------------|--|
| <u>U.S. Department of Education:</u> | | |
| PREL-YR3 Vocational Education | 84.994S | \$ 6,508 |
| PREL-YR4 Vocational Education | 84.994S | 6,066 |
| PREL-YR5 Vocational Education | 84.994S | 5,674 |
| PREL-YR6 Vocational Education | 84.994S | 6,649 |
| PREL-YR7 Vocational Education | 84.994S | (9,643) |
| PREL-YR8 Vocational Education | 84.994S | 114,520 |
| PREL-Math/Science Project | 84.994S | 878 |
| PREL-Visions and Dreams | 84.994S | 3,911 |
| Total CFDA #84.994S | | <u>134,563</u> |
| FY98 Special Education | 84.027B | 73,543 |
| FY99 Special Education | 84.027B | 500,820 |
| Total CFDA #84.027B | | <u>574,363</u> |
| FY98 Yap Star | 84.256A | 8,493 |
| FY99 Yap Star | 84.256A | 348,132 |
| FY99 Yap Star | 84.256A | 446,675 |
| Total CFDA #84.256A | | <u>803,300</u> |
| FY99 Goal 2000 Program | 84.276A | 65,561 |
| FY00 Goal 2000 Program | 84.276A | 43,040 |
| Total CFDA #84.276A | | <u>108,601</u> |
| Total U.S. Department of Education | | <u>1,620,827</u> |
| <u>U.S. Department of Labor:</u> | | |
| 97 JTPA Youth Program | 17.250 | 1,058 |
| 97 JTPA Elderly Program | 17.250 | 2,904 |
| 97 JTPA Adult Program | 17.250 | 1,885 |
| 98 JTPA Administration | 17.250 | 1,249 |
| 98 JTPA Adult Program | 17.250 | 7,878 |
| 98 JTPA Youth Program | 17.250 | 15,876 |
| 98 JTPA Participant Support | 17.250 | 900 |
| 99 JTPA Administration | 17.250 | 16,921 |
| 99 JTPA Adult Program | 17.250 | 20,384 |
| 99 JTPA Youth Program | 17.250 | 20,318 |
| 99 JTPA Participant Support | 17.250 | 1,000 |
| 99 JTPA Elderly Project | 17.250 | 13,697 |
| 99 JTPA Translation | 17.250 | 3,100 |
| Total CFDA #17.250 | | <u>107,170</u> |
| 95 School-Work Program | 17.249 | 2,953 |
| 95 School-Work / Implement | 17.249 | 99,898 |
| Total CFDA #17.249 | | <u>102,851</u> |
| Total U.S. Department of Labor | | <u>210,021</u> |
| Balance Forwarded | | <u>1,830,848</u> |

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 2000

| <u>Grantor Program Title</u> | <u>CFDA No.</u> | <u>2000 Fiscal Year Expenditures</u> |
|--|-----------------|--|
| Balance Forwarded | | 1,830,848 |
| <u>U.S. Department of Agriculture:</u> | | |
| FY98 Forestry Resources | 10.664 | 1,482 |
| FY98 Forestry Urban Community | 10.664 | 8,748 |
| FY98 Forestry/SNIT 1 | 10.664 | 207 |
| FY99 Fire Prevention | 10.664 | 25,459 |
| FY99 Forestry Urban Community | 10.664 | 28,092 |
| FY99 Forestry Resources Mgmt. | 10.664 | 7,006 |
| FY99 Forestry / SN & TI | 10.664 | 2,292 |
| USDA Rural Dev. - Yap Health Service | 10.664 | 10,900 |
| Total CFDA #10.664 | | 84,186 |
| Total U.S. Department of Agriculture | | 84,186 |
| <u>U.S. Department of the Interior:</u> | | |
| FY98 HPO-Site Restoration | 15.904 | 600 |
| FY98 HPO | 15.904 | 1,512 |
| FY99 HPO - Historic Operation | 15.904 | 28,734 |
| FY99 Historic Special Program | 15.904 | 17,221 |
| Y2K Remediation Project | 15.904 | 33,602 |
| Total CFDA #15.904 | | 81,669 |
| OMIP Yap 00 Grant Summary: | | |
| Port Authority Dev. Study | 15.875 | 20,000 |
| Yap Port Authority Impl. | 15.875 | 12,700 |
| Computer Network R&M T. | 15.875 | 23,706 |
| Total CFDA #15.875 | | 56,406 |
| Total U.S. Department of the Interior | | 138,075 |
| <u>U.S. Department of Health and Human Services:</u> | | |
| FY00 Family Planning | 93.217 | 25,734 |
| Total CFDA #93.217 | | 25,734 |
| FY99 Immunization Program | 93.268 | 9,639 |
| Total CFDA #93.268 | | 9,639 |
| FY99 SAPT/Health Services | 93.959 | 32,711 |
| FY99 SAPT/Youth Services | 93.959 | 23,032 |
| Total CFDA #93.959 | | 55,743 |
| FY99 Diabetes Program | 93.988 | 1,606 |
| Total CFDA #93.988 | | 1,606 |
| Balance Forward | | 2,053,109 |

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 2000

| <u>Grantor Program Title</u> | <u>CFDA No.</u> | <u>2000 Fiscal Year Expenditures</u> |
|---|-----------------|--|
| Balance Forwarded | | \$ <u>2,053,109</u> |
| <u>U.S. Department of Health and Human Services, Continued:</u> | | |
| FY99 MCH Program | 93.994 | 2,000 |
| FY99 MCH Dental Program | 93.994 | <u>35,307</u> |
| Total CFDA #93.994 | | <u>37,307</u> |
| FY99 Tuberculosis & AIDS Program | 93.116 | 562 |
| FY00 Tuberculosis & AIDS Program | 93.116 | <u>15,171</u> |
| Total CFDA #96.116 | | <u>15,733</u> |
| Total U.S. Department of Health and Human Services | | <u>145,762</u> |
| Total Federal Grants Fund | | <u>\$ 2,198,871</u> |

Note: With the exception of the FY98 and FY99 Yap Star grants, (CFDA #84.256A), and the PREL grants (CFDA #84.994S), which are received directly from U.S. Department of Education, the above grants are received in a subrecipient capacity through the FSM National Government.

The expenditures for the U.S. Dept. of Health and Human Services above do not include expenditures for the Head Start Program (CFDA 93.600) by YCAP, the subrecipient for the first six months of the fiscal year and the Yap State Department of Education for the last six months. Expenditures for the Headstart Program are included in the Notes to Schedule of Expenditures of Federal Awards on page 74.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Other U.S. Grants Fund
Year Ended September 30, 2000

| <u>Grantor Program Title</u> | <u>CFDA No.</u> | <u>2000 Fiscal Year Expenditures</u> |
|--|-----------------|--|
| <u>Federal Emergency Management Agency</u> | | |
| <u>(FEMA) grants:</u> | | |
| Mitigation Food Crop Program | 83.516 | \$ 434 |
| FEMA - 1166 HMG OI Water Development | 83.516 | 64,550 |
| El Nino Drought/Sub-Grant | 83.516 | 2,107 |
| Typhoon Fern/Admin. | 83.516 | 718 |
| Typhoon Fern/Public Assistance | 83.516 | 22,457 |
| Typhoon Fern/Feduor-Darukan Road | 83.516 | 14,000 |
| Typhoon Fern/Euglidurey-Raeng Road | 83.516 | 46,353 |
| Typhoon Fern/Gagil Burial Ground Road | 83.516 | 18,074 |
| Typhoon Fern/Replant Crops Hazard Mitigation | 83.516 | 8,674 |
| Typhoon Fern/Qaylrech-Gargey Road | 83.516 | 61,527 |
| Typhoon Fern/Gilman Elementary School | 83.516 | 1,600 |
| Typhoon Fern/Tomil Community Building | 83.516 | 12,190 |
| Typhoon Fern/Gitam Men's House | 83.516 | 5,449 |
| Typhoon Fern/Binaw Women's House | 83.516 | 10,778 |
| Typhoon Fern/Incinerator Hospital | 83.516 | 6,865 |
| Typhoon Fern/Repair Building Pike Road | 83.516 | 74,500 |
| Typhoon Fern/Boat Ramp & Gas Pump | 83.516 | 12,922 |
| Typhoon Fern/Oakaw Men's House | 83.516 | (14,850) |
| Typhoon Fern/Building Rep. Rec. | 83.516 | 20,886 |
| Typhoon Fern/Yinuf-Repair Roof | 83.516 | 3,182 |
| Typhoon Fern/HMGP Management Cost | 83.516 | <u>42,446</u> |
| Total Federal Emergency Management Agency (CFDA #83.516) | | <u>414,862</u> |
| Total Other U.S. Grants Fund | | <u>\$ 414,862</u> |

Note: The above grants are received in a subrecipient capacity through the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Other U.S. Capital Projects Fund
Year Ended September 30, 2000

| <u>Grantor</u> <u>Program Title</u> | <u>CFDA No.</u> | <u>2000</u> <u>Fiscal Year</u> <u>Expenditures</u> |
|---|-----------------|--|
| <u>U.S. Department of the Interior</u> Yap Airport Runway Reconstruction | 15.875 | \$ <u>1,043,580</u> |
| Total Other U.S. Capital Projects Fund | | \$ <u><u>1,043,580</u></u> |

Note: The above grants are received in a subrecipient capacity through the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
TTPI Capital Projects Fund
Year Ended September 30, 2000

| <u>Grantor Program Title</u> | <u>2000 Fiscal Year Expenditures</u> |
|---|--|
| <u>Trust Territory of the Pacific Islands</u> | |
| Rural Sanitation | \$ <u>89,365</u> |
| Total TTPI Capital Projects Fund | \$ <u><u>89,365</u></u> |

Note: The above grants were originally received in a subgrant capacity through the Trust Territory of the Pacific Islands (TTPI) Government and bear CFDA No. 15.875.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Programs Fund
Section 221(B) Special Block Grant (CFDA No. 15.875)
Section 212(A) Special Development Grant (CFDA No. 15.875)
Section 216(A)(2) Health and Medical Programs (CFDA No. 15.875)
Section 216(A)(3) Post Secondary Education (CFDA No. 15.875)
Section 214(B) Energy Programs (CFDA No. 15.875)
Year Ended September 30, 2000

| <u>Grantor Program Title</u> | <u>2000 Fiscal Year Expenditures</u> |
|--|--|
| <u>Special Block Grant Programs</u> | |
| Administration | \$ 13,482 |
| Budget & Supply Division | 14,849 |
| Curriculum & Instruction | 76,938 |
| Various | 498 |
| Yap Proper Elementary SC | 135,925 |
| O.I. Elementary Schools | 10,311 |
| YAP Proper High SC | 351,840 |
| Outer Islands High SC | 122,245 |
| Outer Islands Middle SCH | 74,283 |
| Health Services Adminis | 20,215 |
| Public Health Care Division | 34,557 |
| Primary Health Care Division | 36,488 |
| Sanitation/Environmental | 16,409 |
| Mental and Substance Abuse | 8,174 |
| Medical Supply & Equipment | 25,438 |
| Ancillary Services Division | 22,133 |
| Clinical Care Division | 5,562 |
| Dental Services - YAP PROP | 34,201 |
| Dental Services - Outer Is | 13,571 |
| FY2000 Coastal Management | 4,490 |
| Various | 41,100 |
| PWT-Vehicle & Equipment MA | 21,477 |
| Total Compact of Free Association Compact Programs Fund-Section 221(B) | 1,084,188 |
| <u>Special Development Program</u> | |
| Community Development Program Matching | 150,000 |
| Yap Visitors Bureau | 50,000 |
| Computer Migration Project | 70,850 |
| Total Compact of Free Association Compact Programs Fund-Section 212(A) | 270,850 |
| <u>Health and Medical Programs</u> | |
| Medical Referral Program | 255,740 |
| Total Compact of Free Association Compact Programs Fund-Section 216(A)(2) | 255,740 |

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Programs Fund
Section 221(B) Special Block Grant (CFDA No. 15.875)
Section 212(A) Special Development Grant (CFDA No. 15.875)
Section 216(A)(2) Health and Medical Programs (CFDA No. 15.875)
Section 216(A)(3) Post Secondary Education (CFDA No. 15.875)
Section 214(B) Energy Programs (CFDA No. 15.875)
Year Ended September 30, 2000

| | |
|--|--------------|
| <u>Post Secondary Education</u> | |
| Scholarships and grants | 204,250 |
| Total Compact of Free Association Compact Programs Fund-Section 216(A)(3) | 204,250 |
| <u>Energy Programs</u> | |
| POL/Power Generation | 759,267 |
| Total Compact of Free Association Compact Programs Fund-Section 214(B) | 759,267 |
| Total Compact of Free Association Compact Program Fund | \$ 2,574,293 |
| Reconciliation to financial statements: | |
| Balance per above | \$ 2,574,293 |
| Transfer out to Yap Community Action Program | 150,000 |
| Transfer out to Yap Visitors Bureau | 50,000 |
| Balance per financial statements | \$ 2,374,293 |

Note: These funds are made by available by Title Two, Article I, Sections 221(B), 212(A), 216(A)(2), 216(A)(3) and 214(B) of the Compact of Free Association and are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211(A) Capital Account (CFDA No. 15.875)
Year Ended September 30, 2000

| <u>Grantor</u> <u>Program Title</u> | <u>2000</u> <u>Fiscal Year</u> <u>Expenditures</u> |
|---|--|
| <u>Office of Insular Affairs</u> | |
| Computer Migration - OAS | \$ 13,801 |
| Council of Tamol Office | 67,500 |
| Family Food Production & Nutrition | 43,138 |
| Feasibility Studies | 9,389 |
| Leb/Riken/Gachpar Water | 34,178 |
| Leb/Riken/Gachpar Water PR | (300) |
| Nims Vocational Building | 14,564 |
| OIHS Woleai Voc. Educ. B | 23,559 |
| Outer Island Airfields | 17,340 |
| Road Clearing/VII | 15,465 |
| Road Phase VII (3RD) | 9 |
| Roads Development | 2,323 |
| Three Outer Islands Airfields | 1,000,000 |
| Trochus Harvest & Monito | 3,373 |
| Trocus Fishery Mngmt and H.M. | 12,352 |
| Other | 869 |
| V6AI/TV New Building | 145,764 |
| Yap Airport Project | (72,203) |
| Yap International Airport Reconstruction | <u>612,999</u> |
| Total Compact of Free Association Capital Projects Fund - Section 211(A) | <u>\$ 1,944,120</u> |

Note: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association and are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association General Fund
Section 211(A) Current Account (CFDA No. 15.875)
Year Ended September 30, 2000

| <u>Grantor Program Title</u> | <u>2000 Fiscal Year Expenditures</u> |
|--|--|
| <u>Office of Insular Affairs</u> General Fund: Current Account | \$ <u>5,929,053</u> |

Note: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association and are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

(1) Scope of Review

The Yap State Government is a governmental entity governed by its own Constitution. All significant operations of the State 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 the Interior
- U.S. Department of Labor
- U.S. Federal Emergency Management Agency

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

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

(3) Component Units

The Yap Community Action Program, a component unit-governmental fund, separately satisfies audit requirements of OMB Circular A-133. Yap State is considered to have responsibility for any questioned costs that could result from Single Audits of this entity. Yap Community Action Program's Schedule of Expenditures of Federal Awards is as follows:

| <u>Grantor Agency/Program</u> | <u>CFDA#</u> | <u>Fiscal Year 2000 Expenditures</u> |
|--|--------------|--|
| U.S. Department of Health and Human Services: Headstart Program (Received in a subrecipient relationship through the State of Yap for period from October 1, 1999 through March 31, 2000) | 93.600 | \$ <u>466,375</u> |
| Expenditures disbursed by an entity sponsored by the Yap State Department of Education for the period from April 1, 2000 through September 30, 2000 | 93.600 | \$ <u>360,238</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

(3) Component Units. Continued

The Headstart programs are received from the State of Yap in a subrecipient capacity.

The Yap State Public Service Corporation programs are received in a subrecipient capacity. Following is the Schedule of Expenditures of Federal Awards for Yap State Public Service Corporation:

| <u>Grantor</u> | <u>CFDA #</u> | <u>Amounts Received</u> | <u>Prior Year Expenditures</u> | <u>2000 Expenditures</u> | <u>Remaining Balance</u> |
|---|---------------|-----------------------------|--|------------------------------|------------------------------|
| U.S. Department of the Interior, Pass through from the FSM National Government and through the State of Yap: | 15.875 | | | | |
| Compact of Free Association Section 211(a) Capital Account | | \$ 467,497 | \$ 376,070 | \$ 28,323 | \$ 63,104 |
| U.S. Department of the Interior, Direct Award-Operations and Maintenance Improvement Programs (OMIP) | 15.875 | | | | |
| Yap State Omnibus Maintenance Assistance | | 245,230 172,259 | 176,063 126,842 | 69,167 57,908 | - (12,491) |
| Trust Territory Capital Improvement Projects: | 15.875 | | | | |
| Yap Water Supply Yap Rural Sanitation | | 229,000 170,365 | 90,191 - | - 260,457 | 138,809 (90,092) |
| U.S. Federal Emergency Management Agency: | 83.516 | | | | |
| Hazard Mitigation: Yap State Water Projects | | <u>211,040</u> | <u>158,665</u> | <u>-</u> | <u>52,375</u> |
| | | <u>\$ 1,495,391</u> | <u>\$ 927,831</u> | <u>\$ 415,855</u> | <u>\$ 151,705</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for
Audit In Accordance With OMB Circular A-133
Year Ended September 30, 2000

| <u>Grantor Program Title</u> | <u>CFDA No.</u> | <u>2000 Fiscal Year Expenditures</u> |
|---|-----------------|--|
| <u>U.S. Department of the Interior</u> | | |
| Compact of Free Association, Capital Account, 211(A) | 15.875 | \$ 1,944,120 |
| Compact of Free Association, Energy Program, 214 (B) | 15.875 | <u>759,267</u> |
| Total U.S. Department of the Interior | | \$ <u>2,703,387</u> |
| <u>U.S. Department of Education</u> | | |
| Yap Star (TFAS Education Grant) | 84.256A | \$ 803,300 |
| Yap Special Education (SEPIIE Grant) | 84.027A | 574,363 |
| Goal 2000 Program | 84.276A | 108,601 |
| School Work Program | 17.249 | <u>102,851</u> |
| Total U.S. Department of Education | | \$ <u>1,589,115</u> |
| <u>U.S. Dept. of Health and Human Services</u> | | |
| Headstart Program | 93.600 | \$ <u>826,613</u> |
| Total U.S. Department of Health and Human Services | | \$ <u>826,613</u> |
| Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures | | \$ <u>5,119,115</u> |
| Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures | | \$ <u>9,091,704</u> |
| % of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures | | <u>56%</u> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2000

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number</u> |
|---|--------------------|
| Compact of Free Association Capital Funds | 15.875 |
| Yap STAR (TFAS Education Grant) | 84.256A |
| Special Education SEPIIE | 84.027A |
| Headstart Program | 93.600 |
| Compact of Free Association Energy Funds | 15.875 |
| Goals 2000 Program | 84.276A |
| School-Work Program | 17.249 |

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

| <u>Reference Number</u> | <u>Findings</u> | <u>Questioned Costs</u> |
|-------------------------|--|-------------------------|
| 00-07 | Prior Year Compliance Findings that Remain Outstanding | \$ - |
| 00-08 | Purchase Advances | \$ - |
| 00-09 | Yap Community Action Program – Cash Receipts | \$ - |
| 00-10 | Yap Community Action Program-Headstart | \$ - |
| 00-11 | Headstart Competitive Procurement | \$ - |
| 00-12 (a) | Yap Community Action Program and Headstart Payroll | \$ - |
| 00-12 (b) | Yap Community Action Program and Headstart Payroll | \$ - |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Part II - Financial Statement Findings Section, Continued

| <u>Reference Number</u> | <u>Findings</u> | <u>Questioned Costs</u> |
|-------------------------|---|-------------------------|
| 00-15 | Yap Community Action Program. Estimates for Allowance for Bad Debts | \$ - |

Part III - Federal Award Findings and Questioned Cost Section

| <u>Reference Number</u> | <u>Findings</u> | <u>Questioned Costs</u> |
|-------------------------|--|-------------------------|
| 00-01 | Headstart – Sufficiency of Service Provider | \$ - |
| 00-02 | Goals 2000 – Special Conditions | \$ - |
| 00-03 | Goals 2000 Program – Special Conditions | \$ - |
| 00-04 | Telephone Charges | \$ - |
| 00-05 | Yap Star – Competitive Procurement | \$ - |
| 00-06 | Special Education – Competitive Procurement | \$ 30,010 |
| 00-07 | Prior Year Compliance Findings that Remain Outstanding | \$ - |
| 00-10 | YAPCAP – Headstart-Allowable Costs | \$ - |
| 00-11 | Headstart – Competitive Procurement | \$ - |
| 00-12a | YAPCAP – Headstart-Payroll | \$ - |
| 00-12b | Headstart – Payroll | \$ - |
| 00-13a | YAPCAP-Headstart – Reporting and Cash Management | \$ - |
| 00-13b | Headstart Program – Reporting and Cash Management | \$ - |
| 00-14 | Headstart - Eligibility | \$ - |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Headstart – Sufficiency of Service Provider (CFDA #93.600)

| <u>Item No.</u> | <u>CFDA No.</u> | <u>Criteria:</u> | <u>Questioned Costs</u> |
|-----------------|-----------------|---|-----------------------------|
| 00-01 | 93.600 | A service provider should be legally constituted. | \$ - |

Condition: Operations of the Headstart Program (Headstart) were conducted by two entities during the year ended September 30, 2000. The Yap Community Action Program (Yap Cap) operated the program during the first six months and the last six months were purportedly the responsibility of the Yap State Department of Education. A memo dated July 16, 1999 to the Director, Children and Youth Development Unit, Pacific-West Regional Hub indicated that the State of Yap would operate the program after the removal of Yap Cap. We determined that the last six months of the program were not operated in accordance with the July 16 memo.

1. Headstart was not operated by the State of Yap or by a duly constituted non-profit corporation. It appears that the program was operated by a proprietorship that is not duly registered for tax purposes. As a result, it is possible that gross revenue taxes could be assessed on Headstart operations as they were not operated by the State or by a qualified non-profit corporation.
2. The aforementioned memo indicated that Headstart funds were to be deposited to the State's Treasury. Funds were actually drawn down under the prior arrangement with YapCap and were then deposited to a checking account maintained outside of the State's Treasury. We could not determine why the draw-down procedure was not revised by the federal government and why the funds were not deposited to the State's Treasury.
3. Employees of Headstart were previously employees of YapCap. It is not possible to determine their employer during the last six months.

We also note that the separately established checking account was in violation of State law that requires that such separately established checking accounts be established pursuant to Yap State law.

Cause: The cause of this condition appears to be that the State of Yap did not ensure compliance with the specifications of the July 16, 1999 memo.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Headstart – Sufficiency of Service Provider (CFDA #93.600), Continued

| <u>Item No.</u> | <u>CFDA No.</u> | <u>Effect:</u> | <u>Questioned Costs</u> |
|-----------------|-----------------|--|-----------------------------|
| 00-01 | 93.600 | The effect of this condition is difficult to determine as potential tax liabilities may be assessable by the Federated States of Micronesia. It is not possible to determine if an additional effect could occur. We note that this condition persisted throughout fiscal year 2001. | \$ - |

Recommendation: The State of Yap should communicate with the federal grantor and ensure that corrective action is undertaken. Either Headstart employees should become employees of the State or a properly incorporated service provider should be established to operate the program.

Auditee Response dated January 2, 2002: When Yap Cap (Former Delegate Agency) determined in their letter (dated 6/28/99) to the Grantee not to administer the Yap Head Start Program, the Grantee and the Policy Council made a decision to find another Non Profit Organization to administer the program. The decision was based on these factors:

The Government of Yap is in a downsizing process and is intent to increase its private sector roles, particularly in the delivery of services. To absorb the additional service delivery responsibilities and personnel would be contrary to its goals.

A non-governmental organization that is community based and in tune with the community structure is better equipped to administer the program. It is the mission of the Grantee to empower communities in all education programs with the goal of having all school and education programs to be community based and accountable to the community.

The desire of the Grantee and the Policy Council to delegate the program again was relayed to the regional office through meeting with Jan Len (Director of Children and Youth Development Unit) in San Francisco and again in Hawaii. All parties concurred with the concept of a delegate agency. The Grantee envisioned the transition would last no more than three months. However, a myriad of difficulties which were not anticipated caused the transition to linger up to this date.

Corrective Measure: An NGO has responded to the Grantees RFP and has submitted a proposal to administer the program. This proposal along with other related information was submitted to the regional office for their review and approval. The Grantee anticipated that once regional approval is granted, all Head Start personnel would be transferred to and become employees of this new organization. This organization would be able to draw down funds for program operations and relieve Yap Cap from drawing down Head Start funds into its account.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Goals 2000 – Special Conditions

| <u>Item No.</u> | <u>CFDA No.</u> | <u>Criteria:</u> | <u>Questioned Costs</u> |
|-----------------|-----------------|---|-----------------------------|
| 00-02 | 84.276A | <p>The Goals 2000 program requires that, after the initial year, at least 85% of the funds must be made available to individual schools to develop and implement comprehensive school improvement plans designed to help all children reach high academic standards.</p> <p><u>Condition:</u> The criteria was not set forth in the grant award received from the FSM National Government and we were unable to determine compliance with the criteria based on the approved budget.</p> <p><u>Cause:</u> The cause of this condition appears to be inadequate communication by the FSM National Government. Additionally, State officials did not appear to fully review applicable CFR requirements.</p> <p><u>Effect:</u> The effect of this condition is potential noncompliance with the Goals 2000 program. No specific costs are questioned as this matter would have to be assessed on a total FSM wide basis.</p> <p><u>Recommendation:</u> Prior to incurring expenditures under approved programs, State management should review and become familiar with applicable program requirements.</p> <p><u>Auditee Response and Corrective Action Plan dated December 22, 2001:</u> There are other requirements under the this specific program that we have no idea of as the National Government didn't give us any documentation as to how they should be met. We operated the program under the assumption that improvement to the overall system is the main focus.</p> | \$ - |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Goals 2000 Program – Special Conditions

| <u>Item No.</u> | <u>CFDA No.</u> | <u>Criteria:</u> | <u>Questioned Costs</u> |
|-----------------|-----------------|--|-----------------------------|
| 00-03 | 84.276A | <p>Proportionate to the number of children in a State or in a local educational agency who are enrolled in private elementary and secondary schools, an LEA using Title III funds for teacher and administrator training must provide for the training of teachers and administrators in private schools.</p> <p><u>Condition:</u> The State was not able to provide documentation to determine compliance with the above criteria.</p> <p><u>Cause:</u> The cause of this condition is failure of the State to document compliance with the criteria.</p> <p><u>Effect:</u> The effect of this condition is noncompliance with the criteria.</p> <p><u>Recommendation:</u> The State should formally document its method of complying with the above criteria.</p> <p><u>Auditee Response and Corrective Action Plan dated December 22, 2001:</u> Our trainings were scheduled in advance and before the summer so public and private school staff can plan on attending. Participants from both, private and public schools are selected by their school Principals. We are operating under the inclusive criteria and we don't exclude anyone as we strongly believe that no child should be left behind.</p> | \$ - |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Telephone Charges – Allowable Costs/Cost Principles (CFDA #84.994S, 84.027B, 84.256A and 84.276A)

| <u>Item No.</u> | <u>CFDA No.</u> | <u>Criteria:</u> | <u>Questioned Costs</u> |
|-----------------|--|---|-----------------------------|
| 00-04 | 84.994S 84.027B 84.256A 84.276A | <p>Program charges should be identified as to being specific to the program. Otherwise, an allocation method should be reasonable and be approved by the grantor agency.</p> <p><u>Condition:</u> The State Department of Education maintains telephone logs that are inadequate for the purpose of determining the specific relationship of the charge to the program.</p> <p><u>Cause:</u> The telephone log was not designed to provide support of program charges.</p> <p><u>Effect:</u> The effect of this condition is that inadequate information exists to support the eligibility of program expenditures.</p> <p><u>Recommendation:</u> The State Department of Education should revise its phone log and ensure that adequate information exists to substantiate the direct relationship between the telephone charge and the program benefit derived.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The Department of Education is reformatting the phone log to ensure that communication services relate to the program paying the bill.</p> | <p>\$ -</p> |

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Yap Star – Competitive Procurement (CFDA #84.256A)

| <u>Item No.</u> | <u>CFDA No.</u> | <u>Criteria:</u> | <u>Questioned Costs</u> |
|-----------------|-----------------|--|-----------------------------|
| 00-05 | 84.256A | <p>Adequate competition in procurement should occur.</p> <p><u>Condition:</u> The program procured computers and related equipment in excess of \$100,000 during the year from a vendor. The procurement documents provided in support of the transactions were primarily from two US mainland based vendors. The quotations from the two vendors were on very similarly formatted forms. The last name of each of the two CEO's was the same and the telephone numbers had similar digits. When inquiry of program officials occurred, we were advised that the two vendors were independent as of the date of the procurement and subsequently merged. Due to these conditions, we were unable to determine why only these two vendors responded to the solicitation and whether these two vendors were indeed independent.</p> <p><u>Cause:</u> Inadequate documentation exists on site to resolve this issue.</p> <p><u>Effect:</u> The effect of this condition is an inability to conclude on whether compliance with federal procurement procedures with respect to this condition.</p> <p><u>Recommendation:</u> We recommend that the grantor agency review this transaction and determine whether the underlying costs are allowable.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The grantee provided a response in a letter dated December 21, 2001. Please see attachment A.</p> | \$ - |

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Special Education – Competitive Procurement

| <u>Item No.</u> | <u>CFDA No.</u> | <u>Criteria:</u> | <u>Questioned Costs</u> |
|-----------------|-----------------|--|-----------------------------|
| 00-06 | 84.027A | Small procurement procedures should be informally documented to ensure compliance with federal procurement procedures. | \$ 30,010 |

Condition: No informal procedures could be ascertained to ensure compliance with federal procurement procedures for the following transactions:

| <u>Check number</u> | <u>\$ Amount</u> |
|---------------------|------------------|
| 2414 | \$ 1,800 |
| 2673 | 3,143 |
| 1046 | 1,080 |
| 2605 | 4,867 |
| 2670 | 2,425 |
| 2997 | 4,000 |
| 3695 | 3,260 |
| 2425 | 4,372 |
| 4370 | <u>5,063</u> |
| Total | \$ <u>30,010</u> |

Cause: The cause of this condition appears to be that no informal procedures have been documented to ensure compliance with the criteria.

Effect: The effect of this condition is questioned costs of \$30,010.

Prior Year Status: Noncompliance with the criteria was cited in the 1999 Single Audit report.

Recommendation: The State should ensure compliance with the specified criteria.

Auditee Response and Correction Action Plan dated December 21, 2001: All review of all suppliers resulted in one supplier found with the capability of taking locally designed materials and producing the items which related well directly to the village culture in our community. We utilized the sole source supplier because we could find “no one else” who could do this for even 4x the cost.

Items purchased helped tremendously with awareness effort and activities in the school and in the communities for students with special needs and their families.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Prior Year Compliance Findings that Remain Outstanding

| <u>Item No.</u> | <u>CFDA No.</u> | <u>Criteria:</u> | <u>Questioned Costs</u> |
|------------------------|-----------------|--|---|
| 00-07 | All | <p>Prior year findings should be addressed and resolved in a timely manner.</p> <p><u>Condition:</u> The following prior year findings remain unresolved:</p> <ol style="list-style-type: none"> 1. Finding 99-1 – Equipment and Real Property Management 2. Finding 99-2 – Equipment and Real Property Management <p><u>Cause:</u> The cause of this condition is the State of Yap’s failure to address the prior year findings.</p> <p><u>Effect:</u> The effect of this condition is noncompliance with federal rules and regulations.</p> <p><u>Recommendation:</u> The State should formulate and implement a plan of action. This plan is especially critical with respect to fixed assets due to the pending implementation of GASB 34.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The Chief of Procurement and Property Management with the Director of Administrative Services will make sure that the physical inventory for all government property will be complete by the end of this fiscal year.</p> <p>The Chief of Procurement and Property Management with the help of Computer Manager will establish and maintain an updated property ledger for funding sources in the General Fixed Assets Account. They will try to complete this by the end of this fiscal year, but we are aware that this must be completed prior to the impending implementation of GASB #34.</p> | <p>\$ -</p> |
| Total Questioned Costs | | | <hr style="width: 10%; margin-left: auto; margin-right: 0;"/> <p>\$ <u>30,010</u></p> |

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Purchase Advances

Finding Number 00-08

Criteria: If advances are paid to facilitate a purchase, adequate follow-up should occur to ensure that the goods or services are actually received.

Condition: Due to the effects of the early retirement program, the procurement office is short-staffed. Therefore, the State determined that each department would be responsible for preparation of receiving reports. However, it does not appear as if receiving reports have been furnished to Finance in a timely manner. Finance does not pay vendors without evidence of the receipt of goods or services. Due to the non-receipt of receiving reports from the departments, Finance did not make payments to vendors. The vendors, even Yap State based vendors, are therefore requiring payment in full prior to providing goods or services.

Cause: The cause of this condition is the absence of sufficient personnel in Procurement to perform the receiving function.

Effect: The effect of this condition is that the risk of paying for items not received has substantially increased.

Recommendation: We recommend that the Executive and Legislative branches address this issue. Consideration of transferring personnel to Procurement should occur to enable that entity to perform the receiving function.

Auditee Response and Corrective Action Plan dated December 21, 2001: We have discussed this finding with the Governor and our Procurement personnel and we have all agreed that our procurement personnel can handle all receiving reports. We have all concluded that our procedure is at fault here. Procurement personnel send all Purchase Orders to vendors; departments and offices receive the orders.

Since the above is the case, often times they do not let Procurement know that the orders have been received. We will institute a new procedure whereby Procurement sends out purchase orders and at the same time it will prepare a receiving report and sends it to Finance. Finance will prepare and send payments to vendors.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Yap Community Action Program –Cash Receipts

Finding Number 00-09

Criteria: Cash receipts should be banked in a timely manner, preferably daily.

Condition: We randomly selected 25 cash receipts and tested for timely deposit. Four samples were banked from six to twenty-two days after the date of receipt.

Cause: The cause of the above condition appears to be non-timely deposits..

Effect: The above condition has no material effect on the financial statements. However, untimely banking of receipts increases the susceptibility of collections to loss or theft.

Recommendation: We recommend that clerks be required to deposit collections to the bank on a daily basis.

Auditee Response: We are ensuring that cash receipts are deposited the next day after the receipt. The Fiscal Officer has been instructed to maintain this task and ensure it is performed.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Yap Community Action Program –Headstart (CFDA #93.600)

Finding Number 00-10

Criteria: All program disbursements should be adequately substantiated.

Condition: Supporting documents could not be provided for hotel accommodations charged to the Headstart program. Furthermore, per diem for a total of eight days in Hawaii was charged to the program. However, no documentation was provided to demonstrate how the program benefited from the expense.

Cause: The cause of the above condition is that supporting documentation is not retained to support disbursements.

Effect: No amount will be questioned as the total involved in the condition falls below the \$10,000 threshold.

Recommendation We recommend that all supporting documentation be retained to support all disbursements.

Auditee Response and Corrective Action Plan: We believe that this is an isolated case and we will review the transaction in question and provide documentation to fully substantiate the charge.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Headstart Competitive Procurement (CFDA #93.600)

Finding Number 00-11

Criteria: Compliance should occur with federal competitive procurement requirements.

Condition: There was no evidence of competitive procurement for the purchase of office equipment (check nos. 1010 & 1012) for the program.

Cause: The cause of the above is lack of procurement policies.

Effect: The impact of the above condition could be questioned costs and noncompliance with federal regulations.

Recommendation: We recommend that evidence of competitive procurement be maintained on file, in accordance with federal procurement procedures.

Auditee Response and Corrective Action Plan dated January 2, 2002: This over spending issue was actually brought up and discussed when the Program Director and the Fiscal Officer met with the Outer Pacific Program and Financial Specialists. Having been made aware of the nature of the over spending in the equipment budget category, the Program and Financial specialists had recommended that a documentation of such undertaking be filed both at the regional office as well as at the Program for audit purposes. However, they have cautioned that any future purchases with federal funds that requires procurement procedures must be in line with the federal procurement standards.

The Program Administration have implemented and will make sure that any purchases over \$10,000 will be acquired through competitive procurement procedure.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Yap Community Action Program – Headstart (CFDA #93.600)

Finding Number 00-12 (a)

Criteria: Payrolls should be accurately calculated and be reviewed and approved as to their accuracy.

Condition: Of thirty-five payroll disbursements tested, we noted the following:

- a. An employee was not paid three hours of approved annual leave for the pay period ended 8/26/00.
- b. For one item (check no. 11940), the employee was paid 4 more annual leave hours than approved. The excess hours were deducted from the leave balance.
- c. For one item (check no. 15042), social security taxes withheld were \$13.88 less than should have been withheld.
- d. For one item (check no. 11818), taxes withheld were \$6.62 less than should have been withheld.

Additionally, a pay increase effective April 1, 1999 was granted to all Headstart employees. The increase was paid retroactively in the pay period ended October 9, 1999. We noted that the calculation of the retroactive payments was erroneously based on 1,040 total hours rather than 1,016 (from April 1, 1999 through October 9, 1999).

Cause: The cause of the above is lack of an independent review of the payroll processing procedure.

Effect: The impact of the above is an immaterial misstatement of payroll expenses.

Recommendation: We recommend that another person outside of the payroll function review payroll calculations prior to disbursement.

Auditee Response and Corrective Action Plan dated December 21, 2001: The management do fully agree with the finding. So in our effort to prevent the same finding from reoccurring in the future, the management has fully tasked the Accounting to review and/or verify the timesheets and all payroll calculations prior to disbursements. For the miscalculated expenses, the management has advised the Accounting Section to make all necessary corrections in FY 2002 within one of the pay periods.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Headstart –Payroll (CFDA #93.600)

Finding Number 00-12 (b)

Criteria: Payrolls should be accurately calculated and be reviewed and approved as to their accuracy.

Condition: Of thirty-five payroll disbursements tested, we noted the following:

- a. For one item (check no. 10575), the employee was overpaid 4.5 hours.
- b. For one item (check no. 11427), the employee's 72 hours of approved annual leave were paid as regular hours.

Cause: The cause of the above is lack of an independent review of the payroll processing procedure.

Effect: The impact of the above is an immaterial misstatement of payroll expenses.

Recommendation: We recommend that another person outside of the payroll function review payroll calculations prior to disbursement.

Auditee Response and Corrective Action Plan dated January 2, 2002: The accounting of the Program funds have been computerized using a Quick Book Accounting software. The software have been set up by an outside source and is actively been used by the Program accounting division to enter and track cash disbursements and other required accounting uses.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Yap Community Action Program - Headstart Program- Reporting and Cash Management (CFDA #93.600)

Finding Number 00-13 (a)

Criteria: Required federal financial reports should be submitted in a timely manner.

Condition: PMS 269 reports are required to be submitted semi-annually 30 days after the end of the reporting period. The PMS 269 Report for the six-month period ended September 30, 2000 was submitted 152 days late.

PMS 272 reports are required to be submitted 45 days after quarter end. The PMS 272 Reports for all quarters were submitted late as follows:

| <u>Quarter</u> | <u>Date Due</u> | <u>Date Submitted</u> | <u>Days Late</u> |
|----------------|-----------------|-----------------------|------------------|
| 12/31/99 | 2/14/00 | 2/15/00 | 1 |
| 01/31/00 | 5/15/00 | 5/25/00 | 10 |

In addition, the reports submitted should be supported by the accounting records, and requests for advances of funds should be limited to immediate needs.

Total expenses reported on the PMS 269 reports had a \$59,625 variance with the supporting general ledger. Furthermore, requests for cash advances may not have been limited to immediate needs.

Cause: The cause of the above condition is inadequacies in the accounting records.

Effect: Noncompliance with federal financial reporting requirements occurs as a result of this condition.

Recommendation: We recommend that management ensure that required financial reports are submitted on a timely basis and are adequately supported by the accounting records.

Auditee Response and Corrective Action Plan dated December 21, 2001: This was caused by the challenges associated with the transition period and the program regulations. The Head Start Office will provide a more detail response and action plan separately.

Response from Head Start Office dated January 2, 2002: This particular finding had been, in essence, communicated to Region IX Office of the fact that when financial handling of the program was shifted to us from our former delegate agency, the Program was simply not informed of that particular requirement. The Program was only told by its former delegate agency that the PMS 272 was the only document that it should file 45 days after each quarter ended. Furthermore, that particular letter to Region IX Office sought for Region IX's acceptance of our late filing of that particular report.

The first late submission (1 day late) will be responded to by our former delegate agency since during these periods it (delegate agency) still handled the financial aspect of our Program. The latter late submission incidence (10 days late) was due in large to the then newly implemented PMS 272 internet reporting requirement. As a new system to file PMS 272 reports, the system actually needed some adjustments to become a viable reporting medium. Hence, PMS Office had to delay the regular submission date for that particular said report until to perfected the system. In effect, it had caused us to report that particular PMS 272 rather late.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Yap Community Action Program - Headstart Program– Reporting and Cash Management (CFDA #93.600), Continued

Finding Number 00-13 (a), Continued

Response from Head Start Office dated January 2, 2002, Continued:

Corrective Measure: Having been notified and made aware of this requirement at the early part of 2001 when the Program Director and the Fiscal Officer met with the Region IX Outer Pacific Specialists in San Francisco, our Program accounting division will make sure that this financial reporting requirement will always be filed and submitted in a timely manner.

To date from the above discussed delinquent PMS 272, we have been filing our PMS 272 report as per the readiness of the PMS Office internet system.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Headstart Program – Reporting and Cash Management (CFDA #93.600)

Finding Number 00-13 (b)

Criteria: Required federal financial reports should be submitted in a timely manner.

Condition: PMS 269 reports are required to be submitted semi-annually 30 days after the end of the reporting period. The PMS 269 Report for the six-month period ended September 30, 2000 was submitted 152 days late.

PMS 272 reports are required to be submitted 45 days after quarter end. The PMS 272 Reports for all quarters were submitted late as follows:

| <u>Quarter</u> | <u>Date Due</u> | <u>Date Submitted</u> | <u>Days Late</u> |
|----------------|-----------------|-----------------------|------------------|
| 6/30/00 | 8/14/00 | 10/09/00 | 56 |
| 9/30/00 | 11/14/00 | 01/16/01 | 63 |

In addition, the reports submitted should be supported by the accounting records, and requests for advances of funds should be limited to immediate needs.

Total expenses reported on the PMS 269 reports had a \$59,625 variance with the supporting general ledger. Furthermore, requests for cash advances may not have been limited to immediate needs.

Cause: The cause of the above condition is inadequacies in the accounting records.

Effect: Noncompliance with federal financial reporting requirements occurs as a result of this condition.

Recommendation: We recommend that management ensure that required financial reports are submitted on a timely basis and are adequately supported by the accounting records.

Auditee Response and Corrective Action Plan dated January 2, 2002: This finding resulted from purely human error. When the accounting division submitted its quarterly PMS reports which eventually totaled and transcribed on the PMS 269 Report, it had over calculated its actual disbursements. The amount reported as a variance is actually an over reporting on the Program actual cash disbursement. In addition, when these said reports were submitted, the accounts were never reconciled and therefore the reported PMS 269 figure was not accurate. The discrepancies which resulted in the variance was revealed when the Program accounting was computerized using an accounting software at the latter part of this year. The supporting general ledger is the accurate figure since all the program accounts at the local banks have been reconciled and every checks disbursed have been accounted for.

As hinted above, the accounting of the Program funds have been computerized using a Quick Book Accounting software. The software have been set up by an outside source and is actively been used by the Program accounting division to enter and track cash disbursements and other required accounting uses.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Yap Community Action Program and Headstart Program–Headstart Eligibility (CFDA #93.600)

Finding Number 00-14

Criteria: Student files maintained should support student eligibility.

Condition: Of twenty-five student files reviewed for eligibility, there was no application form/parent consent form on file for the 1999/2000 school year for two students. Furthermore, there is insufficient documentation on file to determine the annual income of one of the student's families.

Cause: Program management is not adequately reviewing student files to ensure that all pertinent documents/information is retained.

Effect: The effect of this condition is noncompliance with the program's established procedures for maintenance of student files.

Recommendation: We recommend that controls be strengthened to ensure that the eligibility determination procedures are complied with and that accurate records are maintained.

Auditee Response and Corrective Action Plan dated December 21, 2001: The files are no longer with us so Yap CAP can not research the finding. Consequently, the Head Start Office will provide the response and action plan which will be submitted separately.

Response from Head Start Office dated January 2, 2002: This is also a finding from the Federal Review Team during their monitoring in 1999. After the review, the Grantee (SEED), and the Regional Office have had consultant come in to provide technical assistance to the program. This has resulted in complete overall change in the management and structure of the program. The program now has specific staff assigned to ensure that all families meet eligibility criteria before enrolling in the program.

Corrective Measures: Under the new organizational structure, the Family & Community Partnership Manager and her staff (Family Service Worker) have been tasked to ensure that all families meet all Federal criteria and other pertinent information are documented and maintained in the student files. Procedures and policies have been developed to ensure that the program maintained compliance with Federal regulations.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Yap Community Action Program –Estimates for Allowance for Bad Debts

Finding Number 00-15

Criteria: Relevant financial information should be readily available to enable management to make accurate accounting estimates.

Condition: An analysis of the allowance for bad loans was prepared by YCAP, however, the allowance per books was not adjusted to agree with the result of this analysis. This was because the allowance per the analysis appeared to be too low. This was due to errors in the analysis. Furthermore, the analysis did not consider loans with the last payment over 90 days ago (as of September 30, 2000) as fully delinquent.

Cause: Inaccuracies in the analysis prepared by YCAP.

Effect: The effect of this is that a more accurate basis for determining the allowance for doubtful loans was unavailable. As of September 30, 2000, based on available information, the allowance for doubtful loans was \$1,288,912. This figure may be too high, however, a more realistic allowance could not be calculated because of the lack of pertinent information on delinquent accounts.

Recommendation: We recommend that management ensure that the analysis of delinquent loan principals and accrued interest balances is accurately prepared.

Auditee Response and Corrective Action Plan dated December 21, 2001: The management fully agree with the finding. In the course of our work, we are still trying to familiarize ourselves with the T-Value program to help provide the information needed for the loans. For more appropriate and accurate way to determine the allowance for doubtful accounts, the management has consulted with the Auditors. Hence, the management has decided to identify a few from the management level and the Board of Directors to review loans on a semi-annual basis to determine which loan(s) and how much shall be reserved for the allowance for bad debts. For every meeting, minutes will be provided to substantiate the amount allocated to the reserve account.

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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2000

QUESTIONED COSTS

For the year ended September 30, 2000, the following questioned costs were noted and prior year questioned costs resolved:

| | Questioned Costs Set Forth in Prior Audit Report <u>1999</u> | Questioned Costs Resolved in Fiscal Year <u>2000</u> | <u>Questioned Costs at September 30, 2000</u> |
|-----------------------------------|---|---|---|
| Unresolved Questioned Costs FY 96 | \$ 195,105 | \$ - | \$ 195,105 |
| Unresolved Questioned Costs FY 99 | 68,619 | - | 68,619 |
| Unresolved Questioned Costs FY 00 | <u>-</u> | <u>-</u> | <u>30,010</u> |
| | \$ <u>263,724</u> | \$ <u>-</u> | \$ <u>293,374</u> |