

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-128**

SEPTEMBER 30, 1993

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
YEAR ENDED SEPTEMBER 30, 1993**

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**INDEPENDENT AUDITORS' REPORT**

Honorable Petrus Tun
Governor, State of Yap
Federated States of Micronesia:

We have audited the accompanying general purpose financial statements of the State of Yap, as of September 30, 1993, and for the year then ended. These general purpose financial statements are the responsibility of the management of Yap State. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial and compliance 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 provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund, which, in our opinion, should be included to conform with generally accepted accounting principles. In fiscal year 1991, the Yap Economic Development Authority represented 78%, 99%, 60%, and 77% of the Proprietary Fund type - Enterprise Funds assets, liabilities, revenues, and expenses, respectively (see note 13).

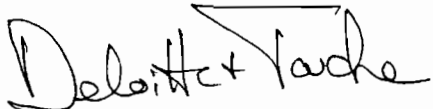
Due to absence of original cost data to support the carrying value of contributed fixed assets of the Yap State Fishing Authority, we are not able to express an opinion on those statements which comprise 95% of the Proprietary Fund Type - Enterprise Funds total assets. Additionally, the State has not recorded the original cost of infrastructure relating to the Southern Yap Water Authority as assets for that fund. We are therefore unable to express an opinion on those statements.

The State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1993, 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.

In our opinion, except for the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group, upon which we are unable to express an opinion because of the matters specified in the foregoing paragraphs, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Yap, as of September 30, 1993, and the results of its operations and the cash flows of its Proprietary Fund Type-Internal Service Fund for the year then ended, in conformity with generally accepted accounting principles.

As further explained in Note 13, an investee of the Yap Economic Development Authority is not in compliance with various debt covenants. The impact of this matter on the accompanying general purpose financial statements is currently not determinable. Accordingly, no provision for any liability that may result upon resolution of this matter has been recorded in the accompanying general purpose financial statements.

March 1, 1994

A handwritten signature in cursive script that reads "Deloitte + Taché". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types and Account Groups
September 30, 1993
(With comparative totals as of September 30, 1992)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	
	General Fund	Special Revenue Funds	Capital Project Funds	Enterprise Funds	Internal Service Fund	Fund Type Expendable Trust Fund	General Fixed Assets	General Long-Term Debt	(Memorandum Only)	
									1993	1992
<u>Assets</u>										
Cash and equivalents (Note 1)	\$ 3,100,610	\$ 883,341	\$ –	\$ 1,023,588	\$ –	\$ 185,137	\$ –	\$ –	\$ 5,192,676	\$ 2,837,179
Investments (Notes 1 & 10)	68,029,903	–	4,229,438	411,151	–	–	–	–	72,670,492	76,775,644
Receivables, net (Notes 1 & 2):										
Other governments	–	14,471	–	–	–	–	–	–	14,471	14,471
Federal agencies	–	–	79,550	–	–	–	–	–	79,550	283,703
Dept. of the Interior–TTPI	–	–	1,350,335	–	–	–	–	–	1,350,335	1,284,545
Federal & other–FSM government	230,296	1,328,848	1,339,067	–	–	–	–	–	2,898,211	1,410,171
General	206,565	–	–	281,048	7,887	–	–	–	495,500	1,070,061
Loans	7,400,000	–	2,000,000	–	–	–	–	–	9,400,000	14,457,384
Accrued interest on investments	319,250	–	–	–	–	–	–	–	319,250	–
Due from other funds (Note 6)	–	551,705	3,685,331	51,248	213,541	9,183	–	–	4,511,008	3,118,815
Advances	2,578	113,925	12,595	155,381	–	–	–	–	284,479	136,076
Inventory of supplies, at cost (Notes 1 & 3)	348,506	–	–	99,497	60,258	–	–	–	508,261	519,857
Prepayments	–	–	–	3,797	–	–	–	–	3,797	18,857
Investment in fixed assets, net of accumulated depreciation (Notes 1 & 4)	–	–	–	4,109,819	–	–	64,620,758	–	68,730,577	68,510,464
Amount to be provided for retirement of long-term debt	–	–	–	–	–	–	–	58,730,580	58,730,580	64,676,236
Total assets	\$ 79,637,708	\$ 2,892,290	\$ 12,696,316	\$ 6,135,529	\$ 281,686	\$ 194,320	\$ 64,620,758	\$ 58,730,580	\$ 225,189,187	\$ 235,113,463

See accompanying notes to combined financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combined Balance Sheet – All Fund Types and Account Groups
September 30, 1993
(With comparative totals as of September 30, 1992)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	
	General	Special	Capital	Enterprise	Internal	Fund Type	General	General	(Memorandum Only)	
	Fund	Revenue	Project	Funds	Service	Expendable	Fixed	Long-Term	1993	1992
	Funds	Funds	Funds	Funds	Fund	Trust Fund	Assets	Debt		
Liabilities and Fund Equity										
Liabilities:										
Accounts payable	\$ 414,648	\$ 72,221	\$ 169,123	\$ 54,397	\$ 6,395	\$ –	\$ –	\$ –	\$ 716,784	\$ 1,541,974
Accrued payroll and others	250,620	22,271	5,600	–	218	87	–	430,580	709,376	798,544
Intergovernmental payable	–	–	1,300,000	–	–	–	–	–	1,300,000	–
Due to other funds (Note 6)	2,313,578	1,191,465	1,488,148	–	–	–	–	–	4,993,191	3,152,735
Deferred revenues	–	54,415	–	–	–	–	–	–	54,415	189,301
Notes payable (Note 5)	–	–	–	–	–	–	–	58,300,000	58,300,000	64,200,000
Land acquisition claims payable	21,457	–	–	–	–	–	–	–	21,457	212,602
Other liabilities	–	–	–	33,329	–	–	–	–	33,329	4,600
Total liabilities	3,000,303	1,340,372	2,962,871	87,726	6,613	87	–	58,730,580	66,128,552	70,099,756
Contingent liabilities and commitments (Notes 8 and 9)										
Fund equity:										
Contributed capital	–	–	–	5,860,006	–	–	–	–	5,860,006	5,275,975
Investment in general fixed assets	–	–	–	–	–	–	64,620,758	–	64,620,758	64,042,409
Retained earnings:										
Unreserved	–	–	–	187,797	–	–	–	–	187,797	332,043
Fund balance:										
Reserved for (Note 1):										
Related assets	58,855,949	571,781	–	–	60,258	–	–	–	59,487,988	65,371,332
Loans	7,400,000	–	2,000,000	–	–	–	–	–	9,400,000	14,457,384
Investment diminution	–	–	–	–	–	–	–	–	–	271
Encumbrances	448,944	330,677	757,141	–	7,408	–	–	–	1,544,170	2,607,703
Continuing appropriations (Note 12)	272,937	–	4,291,368	–	–	–	–	–	4,564,305	4,639,559
Unreserved	9,659,575	649,460	2,684,936	–	207,407	194,233	–	–	13,395,611	8,287,031
Total fund equity	76,637,405	1,551,918	9,733,445	6,047,803	275,073	194,233	64,620,758	–	159,060,635	165,013,707
Total liabilities and fund equity	\$ 79,637,708	\$ 2,892,290	\$ 12,696,316	\$ 6,135,529	\$ 281,686	\$ 194,320	\$ 64,620,758	\$ 58,730,580	\$ 225,189,187	\$ 235,113,463

See accompanying notes to combined financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
All Governmental Fund Types and Fiduciary Fund Type
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Governmental Fund Types			Fiduciary Fund Type	Totals	
	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Fund	(Memorandum Only)	
					1993	1992
Revenues:						
Compact	\$ 6,909,113	\$ 2,984,609	\$ 4,251,319	\$ —	\$ 14,145,041	\$ 13,557,942
Taxes and licenses	1,429,834	—	—	—	1,429,834	1,395,358
Federal contributions	—	535,768	3,029	—	538,797	1,053,929
Dept. of the Interior—TTPI	—	—	478,431	—	478,431	592,572
CFSM grants	—	260,085	1,469,685	—	1,729,770	2,642,484
Revenue sharing (FSM)	1,494,080	—	—	—	1,494,080	1,215,220
Interest income	476,219	—	—	5,763	481,982	1,400,173
Other	1,726,671	62,215	482	8,389	1,797,757	1,507,907
Total revenues	12,035,917	3,842,677	6,202,946	14,152	22,095,692	23,365,585
Expenditures:						
General government	1,445,350	970	—	—	1,446,320	1,506,101
Health services	1,337,133	478,640	—	—	1,815,773	2,337,388
Education	1,643,381	1,144,916	—	5,815	2,794,112	2,804,506
Economic development	784,946	221,988	1,069,055	—	2,075,989	1,008,144
Public safety	497,046	117,240	—	—	614,286	647,627
Public works and utilities	1,532,556	994,139	2,611,856	—	5,138,551	6,727,277
Community affairs	513,277	221,141	—	—	734,418	1,466,741
Boards and commissions	281,808	—	—	—	281,808	258,319
Transportation	995,538	—	—	—	995,538	1,669,918
Other	310,861	—	142,289	—	453,150	189,600
Total expenditures	9,341,896	3,179,034	3,823,200	5,815	16,349,945	18,615,621
Revenues over expenditures	2,694,021	663,643	2,379,746	8,337	5,745,747	4,749,964
Other sources (uses):						
Investment income	3,134,545	—	—	—	3,134,545	5,901,086
Operating transfers in (Note 7)	—	813,674	6,035,825	—	6,849,499	5,300,662
Payments of notes payable (Note 5)	(6,540,385)	(779,800)	(4,010,110)	—	(11,330,295)	(11,602,615)
Operating transfers out (Note 7)	(6,895,697)	(23,762)	(4,475,715)	—	(11,395,174)	(5,509,962)
Total other sources (uses), net	(10,301,537)	10,112	(2,450,000)	—	(12,741,425)	(5,910,829)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(7,607,516)	673,755	(70,254)	8,337	(6,995,678)	(1,160,865)
Fund balances, beginning of year	84,244,921	878,163	9,803,699	185,896	95,112,679	96,273,544
Fund balances, end of year	\$ 76,637,405	\$ 1,551,918	\$ 9,733,445	\$ 194,233	\$ 88,117,001	\$ 95,112,679

See accompanying notes to combined 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, 1993
(With comparative totals for the year ended September 30, 1992)

	1993 General Fund			1992 General Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:						
Current account compact funds	\$ 6,762,110	\$ 6,909,113	\$ 147,003	\$ 6,713,110	\$ 6,762,110	\$ 49,000
FSM revenue sharing	865,300	1,494,080	628,780	705,300	1,215,220	509,920
Taxes and licenses	1,180,010	1,429,834	249,824	844,000	1,395,358	551,358
Interest income	768,300	476,219	(292,081)	565,200	1,385,184	819,984
Other	1,436,500	1,726,671	290,171	1,253,500	1,415,357	161,857
Total revenues	11,012,220	12,035,917	1,023,697	10,081,110	12,173,229	2,092,119
Expenditures budgetary basis:						
General government	1,716,850	1,447,448	269,402	1,476,575	1,425,008	51,567
Health services	1,481,312	1,293,980	187,332	1,430,186	1,581,755	(151,569)
Education	1,686,520	1,635,221	51,299	1,717,176	1,494,115	223,061
Economic development	733,140	663,469	69,671	823,695	761,652	62,043
Public safety	512,390	496,211	16,179	530,000	538,169	(8,169)
Public works and utilities	1,643,784	1,641,512	2,272	1,357,500	1,136,130	221,370
Transportation	1,163,310	992,106	171,204	1,596,174	1,654,142	(57,968)
Community affairs	556,690	507,423	49,267	518,702	439,433	79,269
Boards and commissions	286,110	265,801	20,309	321,450	268,600	52,850
Other	230,480	312,064	(81,584)	205,400	69,474	135,926
Total expenditures	10,010,586	9,255,235	755,351	9,976,858	9,368,478	608,380
Revenues over expenditures	1,001,634	2,780,682	1,779,048	104,252	2,804,751	2,700,499
Other sources (uses):						
Investment income	–	3,134,545	3,134,545	–	5,901,086	5,901,086
Payments of notes payable	(1,110,090)	(6,540,385)	(5,430,295)	(1,722,429)	(6,525,044)	(4,802,615)
Operating transfers in (out)	(6,895,697)	(6,895,697)	–	(5,415,738)	(5,415,738)	–
Total other sources (uses)	(8,005,787)	(10,301,537)	(2,295,750)	(7,138,167)	(6,039,696)	1,098,471
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	(7,004,153)	(7,520,855)	(516,702)	(7,033,915)	(3,234,945)	3,798,970
Fund balance, unreserved, beginning of year	6,296,509	6,296,509	–	1,767,630	1,767,630	–
Changes in reserves for:						
Related assets	–	5,811,087	5,811,087	–	7,122,524	7,122,524
Loans	–	5,057,384	5,057,384	–	(957,384)	(957,384)
Investment diminution	–	271	271	–	(271)	(271)
Continuing appropriations	–	15,179	15,179	1,598,955	1,598,955	–
Fund balance – unreserved, end of year	\$ (707,644)	\$ 9,659,575	\$ 10,367,219	\$ (3,667,330)	\$ 6,296,509	\$ 9,963,839

See accompanying notes to combined financial statements

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combined Statement of Revenues, Expenses and Changes in Fund Equity –
All Proprietary Fund Types
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Proprietary Fund Types		Totals	
	Internal Service Fund	Enterprise Funds	(Memorandum Only)	
			1993	1992
Operating revenues:				
Charges for goods and services	\$ 58,543	\$ 1,242,968	\$ 1,301,511	\$ 1,055,353
Rental income	15,763	805,116	820,879	471,071
Stock issues	31,509	–	31,509	16,247
Other	2,891	10,847	13,738	36,901
Total revenues	<u>108,706</u>	<u>2,058,931</u>	<u>2,167,637</u>	<u>1,579,572</u>
Operating expenses:				
Personnel	5,630	367,904	373,534	321,988
Supplies and materials	35,842	988,816	1,024,658	1,189,436
Printing and reproduction	–	–	–	95
Contratual services/commissions	8,420	254,943	263,363	55,034
Travel	–	–	–	2,590
Capital acquisitions	25,147	–	25,147	21,980
Depreciation	–	466,454	466,454	406,919
Other	9,195	431,370	440,565	81,693
Total operating expenses	<u>84,234</u>	<u>2,509,487</u>	<u>2,593,721</u>	<u>2,079,735</u>
Operating income (loss)	<u>24,472</u>	<u>(450,556)</u>	<u>(426,084)</u>	<u>(500,163)</u>
Nonoperating revenues:				
Intergovernmental contributions:				
FSM	–	–	–	5,410
State:				
General Fund	–	69,960	69,960	191,500
Capital Projects Fund	–	–	–	17,800
Total nonoperating revenues	<u>–</u>	<u>69,960</u>	<u>69,960</u>	<u>214,710</u>
Net income (loss)	<u>24,472</u>	<u>(380,596)</u>	<u>(356,124)</u>	<u>(285,453)</u>
Add depreciation on fixed assets acquired by grants that reduce contributed capital	<u>–</u>	<u>236,350</u>	<u>236,350</u>	<u>235,770</u>
Fund equity, beginning of year	<u>250,601</u>	<u>5,608,018</u>	<u>5,858,619</u>	<u>6,124,073</u>
Contributed capital increase (decrease) for the year, net of depreciation on fixed assets acquired by grants that reduce contributed capital	<u>–</u>	<u>584,031</u>	<u>584,031</u>	<u>(215,771)</u>
Fund equity, end of year	<u>\$ 275,073</u>	<u>\$ 6,047,803</u>	<u>\$ 6,322,876</u>	<u>\$ 5,858,619</u>

See accompanying notes to combined financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combined Statement of Cash Flows
Proprietary Fund Types
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>Proprietary Fund Types</u>		<u>Totals</u>	
	<u>Internal Service</u>	<u>Enterprise Funds</u>	<u>(Memorandum Only)</u>	
			<u>1993</u>	<u>1992</u>
Increase (Decrease) in Cash and Cash Equivalents:				
<u>Cash flows from operating activities:</u>				
Net income (loss)	\$ 24,472	\$ (144,246)	\$ (119,774)	\$ (49,683)
Adjustments to reconcile net income (loss) to net cash used for operating activities:				
Transfers in	-	(69,960)	(69,960)	(209,300)
Doubtful debt expenses	-	261,345	261,345	-
Depreciation	-	230,104	230,104	171,149
	<u>24,472</u>	<u>277,243</u>	<u>301,715</u>	<u>(87,834)</u>
Changes in assets and liabilities:				
Due from other funds	(170,751)	21,990	(148,761)	57,056
General receivables (gross)	(2,892)	278,693	275,801	(520,630)
Inventory of supplies	142,711	17,023	159,734	96,648
Prepaid expenses	-	9,908	9,908	(13,705)
Payments in advance	-	(155,381)	(155,381)	-
Other liabilities	-	29,309	29,309	-
Accounts payable – trade	6,395	(32,272)	(25,877)	49,901
Accrued payroll	65	-	65	153
	<u>(24,472)</u>	<u>169,270</u>	<u>144,798</u>	<u>(330,577)</u>
Cash provided(used) by operating activities	<u>-</u>	<u>446,513</u>	<u>446,513</u>	<u>(418,411)</u>
<u>Cash flows from noncapital financing activities:</u>				
Contributed capital received and transfers in	<u>-</u>	<u>890,341</u>	<u>890,341</u>	<u>229,300</u>
Cash provided by noncapital financing activities	<u>-</u>	<u>890,341</u>	<u>890,341</u>	<u>229,300</u>
<u>Cash flows from capital related financing activities:</u>				
Acquisition of fixed assets	<u>-</u>	<u>(159,283)</u>	<u>(159,283)</u>	<u>(100,752)</u>
Cash used by capital related financing activities	<u>-</u>	<u>(159,283)</u>	<u>(159,283)</u>	<u>(100,752)</u>
<u>Cash flows from investing related activities:</u>				
Acquisition of investment	<u>-</u>	<u>(411,511)</u>	<u>(411,511)</u>	<u>-</u>
Cash used by investing related activities	<u>-</u>	<u>(411,511)</u>	<u>(411,511)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	-	766,060	766,060	(289,863)
Cash and equivalents, beginning of year	-	257,528	257,528	547,391
Cash and equivalents, end of year	<u>\$ -</u>	<u>\$ 1,023,588</u>	<u>\$ 1,023,588</u>	<u>\$ 257,528</u>

See accompanying notes to combined financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements
September 30, 1993

(1) Significant Accounting Policies

A. Basis of Presentation

The accompanying general purpose financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Government Accounting Standards Board (GASB) except for the omission of the Yap Economic Development Authority as discussed in Note 13. The accompanying statements include all fund types and account groups as accounted for by the State of Yap. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

The State has identified the following component units which meet the criteria set forth above:

Yap Fishing Authority (an Enterprise Fund) created to promote commercial marine resources within Yap State.

Public Transportation System (an Enterprise Fund) created to provide transportation services to residents of Yap.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Significant Accounting Policies, Continued

A. Basis of Presentation, Continued

Other Miscellaneous activities (Enterprise Funds) which are water authorities, feed sales, a slaughter house, and other miscellaneous projects.

B. Fund Structure and Basis of Accounting

The accompanying general purpose financial statements are structured into three categories of funds and two account groups. The fund categories include governmental, proprietary and fiduciary funds. The Account Groups include General Fixed Assets and General Long-Term Debt.

The State of Yap's governmental funds include:

1. The General Fund - used to account for all financial transactions not accounted for in another fund.
2. The Special Revenue Funds - used to account for specific revenues earmarked to finance particular programs and activities.
3. The Capital Projects Funds - used to account for the acquisition or construction of all major governmental general fixed assets.

All of the governmental funds are presented on the modified accrual basis of accounting. In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recorded at the time liabilities are incurred except:

- a. Inventories generally are considered expenditures at acquisition.
- b. Prepayments usually are not recorded.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Significant Accounting Policies, Continued

B. Fund Structure and Basis of Accounting, Continued

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 reservations of fund balance until becoming expended or cancelled. If an encumbrance is subsequently cancelled, the funds revert to the applicable unreserved fund balance unless otherwise required by law.

The proprietary funds are accounted for on the accrual basis of accounting. In accordance with the accrual basis, revenues are recognized when earned and expenses are recognized as incurred. At September 30, 1993, the State's proprietary funds include the following:

1. The Enterprise Fund accounts for the operations of State agencies which were designed to be self-sufficient and which render services to the general public or other governmental agencies on a user charge basis.
2. The Internal Service Fund accounts for various stock operations of State agencies which render services to other State agencies on a cost reimbursement basis.

The fiduciary fund includes an Expendable Trust Fund, which is used to account for assets appropriated by the State Legislature to be used for scholarship funds. These funds are held by the State as trustee. The Expendable Trust Fund is accounted for on the modified accrual basis of accounting.

C. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spending resources".

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Significant Accounting Policies, Continued

C. Fixed Assets and Long-Term Liabilities, Continued

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available resources" during a period.

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. 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 general fixed assets. 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 4 for a breakdown of fixed assets and the related estimated useful life).

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.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds. 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 General Fund or in the Special Revenue Funds as the amounts are immaterial to those funds.

The two account groups are not "funds". They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Significant Accounting Policies, Continued

C. Fixed Assets and Long-Term Liabilities, Continued

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

D. Budgetary Process

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.

E. Receivables

Receivables in the State's governmental funds primarily consist of taxes and federal revenues. Since few government fund revenues are susceptible to accrual prior to receipt, most taxes, licenses, fees, permits and similar revenues are recognized primarily on the cash basis. Federal receivables include those funds which are earned, primarily from the FSM National Government administered federal grants and U.S. Department of the Interior operating and special grants, which have yet to be reimbursed by the applicable grantor.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Significant Accounting Policies, Continued

F. Interfund Transactions

The State of Yap basically has three types of potential interfund transactions, as follows:

1. 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 interfund balance therefore represents a net interest in the State's actual cash. Interest earned on the "pooled" funds benefits the General Fund.
2. Operating appropriations/subsidies are accounted for as operating transfers in the funds involved.
3. Equity contributions are accounted for as equity transfers (additions to or deductions from beginning governmental fund balances or proprietary fund contributed capital).

For all funds, the combining balance sheets separately classify interfund activity with the general fund.

G. Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost (principally average cost) or market.

H. Fund Balance Reserves and Designations

The State's fund balance reserves represent those portions of fund balance (1) that cannot be appropriated for expenditures or (2) that are legally segregated for a specific future use. In the accompanying combined balance sheet, the reserves for related assets, loans and investment diminution are examples of the former and the reserves for encumbrances and continuing appropriations are examples of the latter.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Significant Accounting Policies, Continued

I. Totals - Memorandum Only

The "Totals - Memorandum Only" columns represent an aggregate of the individual general purpose financial statements. The totals column is presented for overview informational purposes and does not represent consolidated financial information.

J. Deposits in Banks

State law requires that cash held in foreign banks must be with banks which have total assets in excess of one billion dollars. There is no such requirement for local banks. At September 30, 1993, the State had deposits as follows:

	<u>Cost</u>
General Fund:	
Time certificates of deposit with a bank which is a FDIC member	\$ 600,000
Cash in checking and savings accounts with FDIC insured banks	2,257,519
Cash on deposit with trustees	242,243
Cash on hand	848
	<u>\$3,100,610</u>
Expendable Trust Fund:	
Cash in savings account with a FDIC insured bank	\$ 185,137
Special Revenue Funds:	
Cash on deposit with trustees	\$ 883,341
Enterprise Funds:	
Cash on hand	\$ 305
Time certificates of deposit with bank which is a FDIC member	137,699
Cash in checking and savings accounts with a FDIC insured bank	885,584
	<u>\$1,023,588</u>

Of the above cash, \$400,000 is covered by FDIC, and the balance exceeds insurable amounts. The State does not require collateralization of its deposits by its banks. Therefore, the amounts which exceed FDIC insurable limitations are characterized as uncollateralized.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(1) Significant Accounting Policies, Continued

K. Cash and Equivalents

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

- L. Investments are generally recorded at the lower of cost or market. 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 10)

M. Actual Expenditures Contrasted with Budgetary Expenditures

1. Actual expenditures are charges which represent the total of all current year liabilities incurred which were attributable to operations, such liabilities may represent liquidations of either current year or prior year encumbrances.
2. In contrast, budgetary expenditures represent current charges against appropriations; current charges consist of all current year liquidated and unliquidated encumbrances. Budgetary expenditures are 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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(2) Receivables, Advances and Loans

A summary of receivables, advances, loans and the corresponding allowance for doubtful accounts for the General Fund as of September 30, 1993 (with comparative totals as of September 30, 1992), is summarized below:

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1993</u>	<u>1992</u>
FSM Government:				
FSM Revenue Sharing	\$ 230,296	\$ -	\$ 230,296	\$ 21,231
General:				
Utilities	\$ 542,009	\$472,743	\$ 69,266	\$ 117,884
Taxes	161,433	146,086	15,347	54,186
General	63,869	-	63,869	-
Reimbursable	40,182	-	40,182	71,911
Other	17,901	-	17,901	-
	<u>\$ 825,394</u>	<u>\$618,829</u>	<u>\$ 206,565</u>	<u>\$ 243,981</u>
Advances:				
Travel/payroll	\$ 58,032	\$ 55,454	\$ 2,578	\$ 15,915
Loans:				
- Industria De Pesca	\$ -	\$ -	\$ -	\$ 1,600,000
- Yap Fishing Corporation	7,400,000	-	7,400,000	10,857,384
	<u>\$7,400,000</u>	<u>\$ -</u>	<u>\$7,400,000</u>	<u>\$12,457,384</u>

The loan to Industria De Pesca, a California Corporation, was appropriated under Yap State Law No. 2-96, and was paid in full on October 6, 1992. A \$6,400,000 note from Yap Fishing Corporation (YFC) was also 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).

A \$3,500,000 loan to YFC, originally appropriated under Yap State Law No. 3-15, was paid in full on October 6, 1992.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(2) Receivables, Advances and Loans, Continued

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, 1993, the full \$1,000,000 (\$957,384 at September 30, 1992) had been utilized by YFC.

A summary of loans of receivables, advances and the corresponding allowance for doubtful accounts for the Special Revenue Funds as of September 30, 1993 (with comparative totals as of September 30, 1992).

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1993</u>	<u>1992</u>
Other governments	<u>\$ 14,471</u>	<u>\$ -</u>	<u>\$ 14,471</u>	<u>\$ 14,471</u>
Federal agencies and CFSM	<u>\$1,385,110</u>	<u>\$ 56,262</u>	<u>\$1,328,848</u>	<u>\$1,298,008</u>
Advances - travel/payroll	<u>\$ 119,606</u>	<u>\$ 5,681</u>	<u>\$ 113,925</u>	<u>\$ 107,400</u>

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 1993 (with comparative totals as of September 30, 1992).

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1993</u>	<u>1992</u>
Federal agencies	<u>\$ 79,550</u>	<u>\$ -</u>	<u>\$ 79,550</u>	<u>\$ 283,703</u>
Department of the Interior - TTPI	<u>\$1,350,335</u>	<u>\$ -</u>	<u>\$1,350,335</u>	<u>\$1,284,545</u>
CFSM Grants	<u>\$1,339,067</u>	<u>\$ -</u>	<u>\$1,339,067</u>	<u>\$ 90,932</u>
Advances - travel	<u>\$ 12,595</u>	<u>\$ -</u>	<u>\$ 12,595</u>	<u>\$ 11,014</u>
Loan - YEDA	<u>\$2,000,000</u>	<u>\$ -</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(2) Receivables, Advances and Loans, Continued

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 subsequent loan from YEDA to YFC is subordinated to OPIC (a U.S. Corporation) debt held by YFC. (Refer Note 13).

A summary of receivables and the corresponding allowance for doubtful accounts for the Enterprise Funds as of September 30, 1993 (with comparative totals as of September 30, 1992), is summarized below:

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1993</u>	<u>1992</u>
General:				
Trade	\$ 575,790	\$ 318,437	\$ 257,353	\$ 607,718
Employees	17,452	-	17,452	7,377
Other	<u>6,243</u>	<u>-</u>	<u>6,243</u>	<u>205,990</u>
	<u>\$ 599,485</u>	<u>\$ 318,437</u>	<u>\$ 281,048</u>	<u>\$ 821,085</u>

(3) Inventory of Supplies

The General Fund inventory consists of road materials prepaid in fiscal year 1986 and received in 1987. The contract for the road was initiated in fiscal year 1989 and a portion of the road materials were used in the construction. A remaining balance of the materials exists as of September 30, 1993, and is being offered for sale at approximately half cost in the amount of \$200,368. The General Fund inventory also consists of medical and pharmaceutical supplies of \$148,138 at September 30, 1993. The Internal Service Fund's inventory consists of general stores supplies of \$60,258.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(4) Investment in Fixed Assets

A summary of general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1993 and 1992, follows:

	Estimated Useful Life	<u>1993</u>	<u>1992</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>18,769,702</u>
		<u>\$64,620,758</u>	<u>\$ 64,042,409</u>

A summary of fixed assets accounted for in the Enterprise Funds as of September 30, 1993 and 1992, follows:

	Estimated Useful Life	<u>1993</u>	<u>1992</u>
Buildings	3-25 years	\$ 1,698,854	\$ 1,683,853
Dock	40 years	2,003,000	2,003,000
Fleet	3-10 years	1,135,828	1,135,828
Refrigeration and cold storage equipment	2-10 years	570,985	503,653
Other equipment	2-25 years	553,815	395,835
Motor vehicles	3-10 years	<u>417,701</u>	<u>549,795</u>
		6,380,183	6,271,964
Less accumulated depreciation		<u>(2,270,364)</u>	<u>(1,803,909)</u>
		<u>\$ 4,109,819</u>	<u>\$ 4,468,055</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(5) Changes in Long-Term Debt

Changes in long-term debt for the fiscal years ended September 30, 1993 and 1992, follow:

	<u>1993</u>	<u>1992</u>
Balance, beginning of year	\$64,676,236	\$71,490,113
Payments made on medium-term notes	(5,900,000)	(6,800,000)
Decrease in accrued annual leave	<u>(45,656)</u>	<u>(13,877)</u>
Balance, end of year	<u>\$58,730,580</u>	<u>\$64,676,236</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 thru September 30, 1993. Interest paid on the bonds was \$5,430,295 in the fiscal year ended September 30, 1993 (\$4,802,615 in the fiscal year ended September 30, 1992).

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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(5) Changes in Long-Term Debt, Continued

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, 1993, there is no shortfall as the related investment balance was \$65,243,594 and there was no accrued interest at that date so the reserve of fund balance is equal to the outstanding debt principal balance of \$58,300,000. This amount is included in the reserve for related assets of the General Fund fund balance.

Maturities of the notes over the succeeding five fiscal years and thereafter, is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1994	\$ 6,600,000	\$ 4,966,295	\$11,566,295
1995	7,200,000	4,413,600	11,613,600
1996	7,700,000	3,786,048	11,486,048
1997	6,100,000	3,160,211	9,260,211
1998	6,700,000	2,595,578	9,295,578
Thereafter	<u>24,000,000</u>	<u>3,800,951</u>	<u>27,800,951</u>
Total	<u>\$58,300,000</u>	<u>\$22,722,683</u>	<u>\$81,022,683</u>

(6) Interfund Receivables and Payables

As of September 30, 1993, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
General Fund	\$ -	\$2,313,578
Special Revenue Funds:		
Compact Programs	492,372	-
Federal Grants	-	640,591
Other U.S. Grants	-	125,960
Non-U.S. Grants	-	9,410
CFSM Grants	-	415,504
Traditional Award	59,333	-

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(6) Interfund Receivables and Payables, Continued

Capital Projects Funds:		
Compact Capital Projects	3,685,331	-
TTPI Capital Projects	-	1,349,916
CFSM Capital Projects	-	39,053
Other U.S. Capital Projects	-	79,155
Other Capital Projects	-	20,024
Enterprise Funds	51,248	-
Expendable Trust Fund	9,183	-
Internal Service Fund	<u>213,541</u>	<u>-</u>
	<u>\$4,511,008</u>	<u>\$4,993,191</u>

The reported interfund balances do not agree by \$482,183 due to the noninclusion of YEDA's financial statements (Refer Note 13).

(7) Transfers In/Out

Material General Fund transfers out for the year ended September 30, 1993, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers to Enterprise Funds:		
Public Transportation System	\$ 69,960	\$ -
Transfer to Special Revenue Funds:		
For bond payments	779,800	-
Matching for FEMA grants	10,112	-
Transfer to Capital Projects Funds:		
For bond payments	4,010,110	-
For investment in Yap Fishing Corporation (YFC)	1,000,000	-
To transfer receivable from YFC to YEDA	775,715	-
For investment in Bank of the FSM	<u>250,000</u>	<u>-</u>
	<u>\$6,895,697</u>	<u>\$ -</u>

The receivable transferred to YEDA originated from a note payable from YFC to the Government of the State of Yap. The note was assigned to YEDA on November 9, 1992. YFC subsequently entered into a Note Purchase Agreement with YEDA whereby YFC issued 775,715 shares of special class preferred stock to YEDA in exchange for cancellation of the promissory note.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(7) Transfers In/Out, Continued

Material Special Revenue Funds transfers in/out for the year ended September 30, 1993, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
For bond payments	\$ -	\$ 779,800
Matching for FEMA grants	-	10,112
Transfers to/from other Special Revenue Funds:		
CFSM FEMA matching	23,762	-
Matching for FEMA grants	<u>-</u>	<u>23,762</u>
	<u>\$ 23,762</u>	<u>\$ 813,674</u>

Material Capital Projects Funds transfers in/out for the year ended September 30, 1993, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
For bond payments	\$ -	\$4,010,110
For investment in YFC	-	1,000,000
Transfer receivable from YFC to YEDA	-	775,715
For investment in Bank of the FSM	-	250,000
Transfers to Enterprise Funds:		
For CFSM investment in Yap Fresh Tuna	1,300,000	-
For investment in YFC	1,000,000	-
To transfer receivable from YFC to YEDA	775,715	-
For investment in Pacific Islands Development Bank	650,000	-
For investment in Yap Fresh Tuna	500,000	-
For investment in Bank of the FSM	<u>250,000</u>	<u>-</u>
	<u>\$4,475,715</u>	<u>\$6,035,825</u>

The investments in the Yap Fresh Tuna, YFC, Pacific Islands Development Bank, and Bank of the FSM represent capital contributions or acquisition of common stock in the related companies.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(8) 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, \$216,280 in cumulative questioned costs exist for the operation of fiscal year 1984-93 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, 1993, the Public Auditor of the Federated States of Micronesia questioned \$24,695 of expenditures incurred in addition to the \$67,400 previously questioned in the 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.

Sick Leave

It is the policy of the Yap State Government to record the expenditure for sick leave when leave is actually taken. Sick leave is compensated time for absence during work hours arising from employee illness or injury. The accumulated amount of unused sick leave at September 30, 1993, for all governmental funds, is estimated to be \$1,214,809.

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, 1993, 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 to currently possible to estimate the State's potential liability, if any, arising from these claims.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(8) Contingent Liabilities, Continued

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. Accordingly, no provision in the accompanying general purpose financial statements has been made for these sites.

Medical Referrals

Under the terms of the Compact of Free Association (Compact), the U.S. Government has tentatively agreed to fund medical referral bills incurred prior to September 1, 1985. To date, no appropriation for such has been made by the U.S. Government. Based on this agreement, Yap State has not recorded accounts payable for medical referrals of approximately \$83,596. If an appropriation for medical referrals is not made by the U.S. Government, Yap State could be liable for this amount.

Yap Economic Development Authority

As further explained in Note 13, the State of Yap may be required to fund advances required of the Yap Economic Development Authority.

(9) Commitments

The State of Yap appropriated \$1,000,000 as a revolving line of credit to be used by the Yap Fishing Corp. (YFC). As of September 30, 1993, \$1,000,000 was outstanding against this line. The line bears interest at 6% and expires on September 30, 2004 (See Note 5).

(10) 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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(10) Investments, Continued

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 forgoing 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.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(10) Investments, Continued

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.

The State's investment at September 30, 1993, in this pooled investment fund was \$72,690,925. At September 30, 1993, the market value of the State's investment approximated \$77,924,633. These investments have been reported at cost (original acquisition price plus earnings registered from interest, dividends and realized trading gains, net of losses).

The State's investment income as of September 30, 1993, (with comparative totals as of September 30, 1992), is summarized below:

	1993	1992
Interest	\$2,617,443	\$3,332,623
Dividends	358,551	552,212
Realized gains	1,400,665	2,825,983
Realized losses	(576,007)	(4,158)
Management fees	(524,505)	(715,179)
Other expenses	(141,602)	(90,395)
	<u>\$3,134,545</u>	<u>\$5,901,086</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 includes investments that are insured or registered or for which securities are held by the Government or its agent in the name of the Government. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the Government. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Government's name. All of the Government's investments are classified as Category 2 as all investments are held in the name of the Federated Development Authority.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(10) Investments, Continued

Additionally, as of September 30, 1993, the State holds 10.8% of the shares of the Bank of the Federated States of Micronesia, carried at cost, in the amount of \$1,000,000 and 51% of the shares of the Pacific Islands Development Bank in the amount of \$1,000,000. The total investment of \$2,000,000 is recorded in the Yap Economic Development Authority (Enterprise Fund). (Refer Note 13). 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.

Also, the Yap Fishing Authority (YFA), an Enterprise Fund, has invested a total of \$411,151 as of September 30, 1993, in Yap Fresh Tuna, a joint venture between YFA and the National Fisheries Corporation, an Enterprise of the FSM National Government, in the form of equity contributions. As of September 30, 1993, YFA's investment represents approximately 47% of Yap Fresh Tuna's equity; however no shares have yet been issued.

(11) Segment Data for Enterprise Funds

The following presents key data extracted from the financial statements of the two material enterprise funds of the State as of September 30, 1993, and for the year then ended.

	<u>Yap Fishing Authority</u>	<u>Public Transportation System</u>
Operating revenues	<u>\$1,957,525</u>	<u>\$ 60,279</u>
Depreciation expense	<u>\$ 388,803</u>	<u>\$ 69,322</u>
Operating loss	<u>\$ 252,237</u>	<u>\$ 181,365</u>
Operating transfer-in	<u>\$ -</u>	<u>\$ 69,960</u>
Net loss	<u>\$ 15,887</u>	<u>\$ 111,405</u>
Capital contributions	<u>\$ 650,000</u>	<u>\$ 155,381</u>
Fixed assets additions and deletions, net	<u>\$ 140,105</u>	<u>\$ 4,178</u>
Net working capital	<u>\$1,165,123</u>	<u>\$ 65,478</u>
Total assets	<u>\$5,562,549</u>	<u>\$ 305,980</u>
Total equity	<u>\$5,477,318</u>	<u>\$ 304,469</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(12) Continuing Appropriations

Continuing appropriations as of September 30, 1993, are as follows:

General Fund

Typhoon Robin Rehabilitation	\$ 84,937
Agriculture and Forestry Division	25,000
Yap Sports Council	25,000
Corporate and Foundation Matching Funds	100,000
"Welcome to Yap" Booklet	<u>38,000</u>
	<u>\$ 272,937</u>

Capital Projects Funds:

Yap State Public Library Building	\$ 50,000
Daboch Outer Island Community Center	176,633
Outer Island Turtle Project IV	4,232
St. Mary's Classroom Building	50,000
Marine Resources Coastal Management Plan	2,775
O.I. Agriculture Support Program	188
O.I. Trochus Survey/Harvest Monitor	2,937
Small Business Centers	145,310
Yap High School Computer Lab	32,228
Power Development Projects	3,206
Fire Truck Procurement Project	12,081
Yap Air Terminal Facility Extension	37,032
Council of Pilung Office Building	39,425
Manpower Development Program	70,000
Land Lease Acquisition Program	59,234
Bael Elementary School Project	13,809
Dental Services, O.I. Building Renovation	21,741
Power and Water Plants Upgrade	57,570
Agriculture Equipment Purchase	17,650
Multiple Crop Production	1,679
EPA Storage Room	1,705
Daboch Water Extension Project	194,900
New Water Wells Development	75,000
SDA Classroom Building	6,060
Hospital Roof Repair	88,000
Muyub Bridge - Construction	14,000
Bileeyuw/Tagareng Water System	31,010
Radio and WAAB TV Building Project	280,257
IADP, Woleai Sanitation Project	60,661
Roads Development Phase V & VI	672,077
Roads Development Phase VII	1,449,383
Project Feasibility Study Program	35,419
Manpower Training and Development Survey	20,000
Sewer Treatment/Sludge Dry Beds	230,566
Community Center Renovation	194,500
Outer Islands Airfields Project	<u>140,100</u>
	<u>\$4,291,368</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(13) Yap Economic Development Authority

In the fiscal year ending September 30, 1990, the Yap Economic Development Authority (YEDA) was created as an enterprise fund by Yap State Law No. 2-97 for the purpose of promoting certain economic development projects in the State. YEDA's primary function in fiscal year 1992 and 1993 was to serve as the conduit for establishing a joint venture purse seiner fishing project. 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 as consolidated statements of YEDA, YPSC, and YFC with the sole elimination being YEDA's investment in YFC.

In the fiscal year ended September 30, 1991, YEDA had an operating loss of \$2,239,573, total assets of \$20,171,871, and total equity of \$2,050,988. 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 2 for a description of the subordinated debt).

As in the prior year, an audit of the YFC financial statements has not been finalized. YFC is not in compliance with certain debt covenants regarding their debt to OPIC and discussions and negotiations regarding this condition are on-going. Yap State has therefore decided not to include unaudited financial statements for YEDA within the general purpose financial statements, rather than disclose numbers which could be significantly effected by the outcome of the discussion with OPIC.

The lender (OPIC) may require payment of advances from YEDA in the event that YFC, in the opinion of the lender, is determined to have insufficient funds. If YEDA has insufficient funds to meet the required advance, the State of Yap may have to fund the deficiency.

(14) Fund Deficit

As discussed in footnote 13, the Yap Economic Development Authority (YEDA) is not included in the current year financial statements; however, in fiscal year 1991, YEDA incurred a deficit in retained earnings of \$1,849,012. No other funds have material deficits as of September 30, 1993.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Notes to Combined Financial Statements, Continued
September 30, 1993

(15) Subsequent Event

On December 30, 1993, Yap State Government, through YEDA, loaned to Yap Purse Seiner Owner, Inc. (YPSO) \$6,500,000 for the purchase and refitting of one purse seiner fishing vessel. YPSO has chartered the vessel to YFC and Yap State Government holds a First Preferred Ship Mortgage to collateralize the loan to YPSO.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Honorable Petrus Tun
Governor, State of Yap
Federated States of Micronesia:

Our audit was made 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 III 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 matters specified in our report dated December 1, 1994, in our opinion, is fairly presented in all material respects when considered in relation to the general purpose financial statements taken as a whole.

March 1, 1994

Certified Public Accountants

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Combining Statement of Expenditures by Account –
All Governmental Fund Types
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	<u>Governmental Fund Types</u>			<u>Totals</u>	
	<u>General</u>	<u>Special</u>	<u>Capital</u>		
	<u>Fund</u>	<u>Revenue</u>	<u>Projects</u>	<u>1993</u>	<u>1992</u>
		<u>Funds</u>	<u>Funds</u>		
Expenditures:					
Salaries and wages	\$ 5,830,776	\$ 453,582	\$ 195,678	\$ 6,480,036	\$ 6,189,414
Travel	340,569	266,355	41,219	648,143	807,743
Freight	53,986	53,877	47,360	155,223	154,179
Communications	108,846	13,467	2,442	124,755	144,653
Printing and reproduction	36,277	13,948	1,466	51,691	106,770
Professional services	43,617	86,946	124,091	254,654	136,849
Food stuffs	137,519	68,288	2,396	208,203	294,670
Medical supplies	52,095	157,322	5,147	214,564	210,939
Supplies and materials	858,038	401,981	757,362	2,017,381	1,977,642
Medical referral	(7,610)	62,387	–	54,777	459,917
POL	357,220	980,987	10,892	1,349,099	1,426,252
Capital outlay	343,327	139,731	2,528,832	3,011,890	3,975,595
Contractual services	268,124	39,351	73,157	380,632	562,645
Rentals	138,681	34,675	10,714	184,070	210,742
Repairs and maintenance	151,810	34,468	3,150	189,428	170,448
Allowance	117,281	1,200	–	118,481	93,000
Grants and subsidies	119,320	13,333	–	132,653	298,933
Scholarships and training	50,000	261,410	–	311,410	314,766
Other	342,020	95,726	19,294	457,040	1,045,073
Total expenditures	<u>\$ 9,341,896</u>	<u>\$ 3,179,034</u>	<u>\$ 3,823,200</u>	<u>\$ 16,344,130</u>	<u>\$ 18,580,230</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL FUND
September 30, 1993

General Fund

The general fund is used to account for resources traditionally associated with governments which are not required 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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in Fund Balance by Function

Year Ended September 30, 1993

(With comparative totals for the year ended September 30, 1992)

	1993	1992
Revenues:		
Compact funds:		
Current 211A base grant	\$ 4,900,080	\$ 4,900,080
Inflation adjustment 217	2,009,033	1,862,030
	6,909,113	6,762,110
 Revenue sharing:		
Import tax	421,558	205,480
Fuel tax	167,570	84,874
Income tax	276,117	296,269
Business gross revenue tax	628,835	628,597
	1,494,080	1,215,220
 Excise taxes:		
Alcohol beverages	507,254	563,189
Gasoline and diesel	104,956	103,742
Tobacco	122,643	128,780
Other excise taxes	317,162	280,667
	1,052,015	1,076,378
 Licenses and permits	118,331	99,783
Fines/sale of confiscated property	85,269	75,120
Leases and other rentals	174,219	144,077
	377,819	318,980
 Departmental charges:		
Sea transportation	268,690	341,429
Hospital services	110,117	91,815
Utilities	1,182,244	904,412
Other	112,593	66,710
	1,673,644	1,404,366
 Interest income	476,219	1,385,184
Other income	53,027	10,991
 Total revenues	12,035,917	12,173,229

(Continued)

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL FUND**

**Statement of Revenues, Expenditures and Changes in Fund Balance by Function, Continued
Year Ended September 30, 1993**

(With comparative totals for the year ended September 30, 1992)

	1993	1992
Expenditures:		
General Government:		
Office of the Governor	\$ 227,796	\$ 230,371
State Legislature	437,940	451,309
Office of Administrative Services	439,759	459,692
Office of Planing, Budget, and Statistics	252,844	254,667
Division of Revenue and Taxation	73,687	33,614
Legislative Projects	13,324	35,159
	1,445,350	1,464,812
Health Services:		
Department of Health Services	1,337,133	1,594,674
Education:		
Department of Education	1,612,591	1,538,851
Legislative Projects	30,790	61,000
	1,643,381	1,599,851
Economic Development:		
Department of Resources and Development	769,283	605,694
Legislative Projects	15,663	29,783
	784,946	635,477
Public safety:		
Department of Public Safety/Attorney General	497,046	536,364
Public Works and Utilities:		
PUC	1,532,556	1,184,806
Transportation	995,538	1,667,601
Community Affairs:		
Department of Public Affairs	224,451	227,842
Legislative Projects	288,826	228,309
	513,277	456,151

(Continued)

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL FUND**

Statement of Revenues, Expenditures and Changes in Fund Balance by Function, Continued
Year Ended September 30, 1993

(With comparative totals for the year ended September 30, 1992)

	1993	1992
Boards and Commissions:		
Council of Pilung	77,870	86,851
Council of Tamol	109,205	82,585
Outer Island Planning	(4,000)	11,952
EPA Administration	98,733	49,730
Yap Sports Council	-	25,000
Yap State Code Commission	-	2,201
	281,808	258,319
Other:		
Judiciary	170,473	122,209
Public Auditor	42,536	35,313
Other	97,852	(90,422)
	310,861	67,100
Total expenditures	9,341,896	9,465,155
Revenues over expenditures	2,694,021	2,708,074
Other sources (uses):		
Payments of notes payable	(6,540,385)	(6,525,044)
Operating transfers out	(6,895,697)	(5,415,738)
Investment income	3,134,545	5,901,086
	(10,301,537)	(6,039,696)
Deficiency of revenues and other sources over expenditures and other uses	(7,607,516)	(3,331,622)
Fund balance, beginning of year	84,244,921	87,576,543
Fund balance, end of year	\$ 76,637,405	\$ 84,244,921

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL FUND**

**Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Budgetary Basis by Function
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)**

	1993			1992		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:						
Current/211A compact funds	\$ 6,762,110	\$ 6,909,113	\$ 147,003	\$ 6,713,110	\$ 6,762,110	\$ 49,000
FSM revenue sharing	865,300	1,494,080	628,780	705,300	1,215,220	509,920
Taxes and licenses	1,180,010	1,429,834	249,824	844,000	1,395,358	551,358
Interest	768,300	476,219	(292,081)	565,200	1,385,184	819,984
Other	1,436,500	1,726,671	290,171	1,253,500	1,415,357	161,857
Total revenues	11,012,220	12,035,917	1,023,697	10,081,110	12,173,229	2,092,119
Expenditures budgetary basis:						
General Government:						
Office of the Governor	245,000	221,143	23,857	245,600	220,659	24,941
State legislature	532,500	441,648	90,852	512,100	445,283	66,817
Office of administrative services	463,420	440,343	23,077	480,640	467,945	12,695
Office of planning, budget, and personnel	377,920	257,510	120,410	226,735	255,962	(29,227)
Division of revenue and taxation	90,570	73,480	17,090	–	–	–
Legislative projects	7,440	13,324	(5,884)	11,500	35,159	(23,659)
	1,716,850	1,447,448	269,402	1,476,575	1,425,008	51,567
Health Services:						
Department of health services	1,481,312	1,293,980	187,332	1,430,186	1,581,755	(151,569)
Education:						
Department of education	1,650,720	1,601,931	48,789	1,656,176	1,433,115	223,061
Legislative projects	35,800	33,290	2,510	61,000	61,000	–
	1,686,520	1,635,221	51,299	1,717,176	1,494,115	223,061
Economic development:						
Department of resources and development	723,140	651,952	71,188	814,195	727,722	86,473
Legislative projects	10,000	11,517	(1,517)	9,500	33,930	(24,430)
	733,140	663,469	69,671	823,695	761,652	62,043
Public safety:						
Department of public safety and attorney general	512,390	496,211	16,179	530,000	538,169	(8,169)
Public works and utilities:						
PUC	1,643,784	1,641,512	2,272	1,357,500	1,136,130	221,370
Transportation	1,163,310	992,106	171,204	1,596,174	1,654,142	(57,968)

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL FUND**

**Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Budgetary Basis by Function, Continued
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)**

	1993			1992		
	Budget	Actual	Variance	Budget	Actual	Variance
Community affairs:						
Department of public affairs	\$ 242,000	\$ 221,527	\$ 20,473	\$ 271,550	\$ 207,566	\$ 63,984
Legislative projects	314,690	285,896	28,794	247,152	231,867	15,285
	<u>556,690</u>	<u>507,423</u>	<u>49,267</u>	<u>518,702</u>	<u>439,433</u>	<u>79,269</u>
Boards and commissions:						
Council of Piling	87,790	78,014	9,776	90,300	86,498	3,802
Council of Tamol	96,960	96,926	34	95,300	90,095	5,205
Yap State code commission	–	–	–	8,250	2,201	6,049
Outer island planning	–	(4,250)	4,250	11,300	11,252	48
EPA administration board	101,360	95,111	6,249	66,300	53,554	12,746
Sports council	–	–	–	50,000	25,000	25,000
	<u>286,110</u>	<u>265,801</u>	<u>20,309</u>	<u>321,450</u>	<u>268,600</u>	<u>52,850</u>
Other:						
Judiciary	176,530	171,582	4,948	160,700	124,937	35,763
Public Auditor	53,950	42,630	11,320	44,700	34,959	9,741
Other	–	97,852	(97,852)	–	(90,422)	90,422
	<u>230,480</u>	<u>312,064</u>	<u>(81,584)</u>	<u>205,400</u>	<u>69,474</u>	<u>135,926</u>
Total expenditures	<u>10,010,586</u>	<u>9,255,235</u>	<u>755,351</u>	<u>9,976,858</u>	<u>9,368,478</u>	<u>608,380</u>
Revenues over expenditures	<u>1,001,634</u>	<u>2,780,682</u>	<u>1,779,048</u>	<u>104,252</u>	<u>2,804,751</u>	<u>2,700,499</u>
Other sources (uses):						
Investment income	–	3,134,545	3,134,545	–	5,901,086	5,901,086
Payment of notes payable	(1,110,090)	(6,540,385)	(5,430,295)	(1,722,429)	(6,525,044)	(4,802,615)
Operating transfers out	(6,895,697)	(6,895,697)	–	(5,415,738)	(5,415,738)	–
Total other sources (uses), net	<u>(8,005,787)</u>	<u>(10,301,537)</u>	<u>(2,295,750)</u>	<u>(7,138,167)</u>	<u>(6,039,696)</u>	<u>1,098,471</u>
Deficiency of revenues and other sources over expenditures and other uses	<u>(7,004,153)</u>	<u>(7,520,855)</u>	<u>(516,702)</u>	<u>(7,033,915)</u>	<u>(3,234,945)</u>	<u>3,798,970</u>
Fund balance, unreserved, beginning of year	6,296,509	6,296,509	–	1,767,630	1,767,630	–
Changes in reserves:						
– Related assets	–	5,811,087	5,811,087	–	7,122,524	7,122,524
– Loans	–	5,057,384	5,057,384	–	(957,384)	(957,384)
– Investment diminution	–	271	271	–	(271)	(271)
– Continuing appropriations	–	15,179	15,179	1,598,955	1,598,955	–
Fund balance, unreserved, end of year	<u>\$ (707,644)</u>	<u>\$ 9,659,575</u>	<u>\$ 10,367,219</u>	<u>\$ (3,667,330)</u>	<u>\$ 6,296,509</u>	<u>\$ 9,963,839</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Special Revenue Funds
September 30, 1993

Specific revenues earmarked to finance particular activities of Yap State are accounted for in Special Revenue Funds. A brief discussion of the State's Special Revenue Funds as of September 30, 1993, follows:

Compact Programs

This fund accounts for financial transactions related to the Compact program accounts under Section 221B, 213B, 214C, and 216A2 of the Compact of Free Association.

Federal Grants Fund

This fund accounts for all financial transactions related to federally assisted funds which are subgranted to Yap State from the FSM National Government.

Other U.S. Grants Fund

This fund accounts for all Federal Emergency Management Assistance (FEMA) grants received in a subrecipient capacity through the FSM National Government.

Non U.S. Grants Fund

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

CFSM Grants Fund

This fund accounts for appropriations made to Yap State from the Congress of the Federated States of Micronesia. These grants are earned on a reimbursable basis.

Traditional Award Fund

This fund accounts for financial transactions related to preserving Yapese traditions, customs, and heritage by construction of traditional men's meeting house.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 1993
(With comparative totals as of September 30, 1992)

<u>Assets</u>	Compact	Federal	Other U.S.	Non U.S.	CFSM	Traditional	<u>Totals</u>	
	Programs	Grants Fund	Grants Fund	Grants Fund	Grants Fund	Award Fund	1993	1992
Cash and equivalents	\$ 883,341	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 883,341	\$ 278,951
Receivables, net:								
Others	-	-	-	14,471	-	-	14,471	14,471
FSM National Government	161,320	610,218	144,448	-	412,862	-	1,328,848	1,298,008
Due from other funds	492,372	-	-	-	-	59,333	551,705	787,497
Advances	21,779	48,837	-	2,945	40,364	-	113,925	107,400
Total assets	\$ 1,558,812	\$ 659,055	\$ 144,448	\$ 17,416	\$ 453,226	\$ 59,333	\$ 2,892,290	\$ 2,486,327
<u>Liabilities and Fund Balance</u>								
Liabilities:								
Accounts payable	\$ 59,453	\$ 5,796	\$ (603)	\$ 7,841	\$ (266)	\$ -	\$ 72,221	\$ 258,946
Accrued payroll	10,824	3,474	-	158	7,815	-	22,271	20,689
Due to other funds	-	640,591	125,960	9,410	415,504	-	1,191,465	1,049,228
Deferred revenue	-	5,652	19,025	-	29,738	-	54,415	189,301
Land acquisition liability	-	-	-	-	-	-	-	90,000
Total liabilities	70,277	655,513	144,382	17,409	452,791	-	1,340,372	1,608,164
Fund balance:								
Reserved for:								
Related assets	-	-	144,448	14,471	412,862	-	571,781	501,327
Encumbrances	137,235	28,157	10,651	4,709	149,925	-	330,677	406,246
Continuing appropriations	-	-	-	-	-	-	-	30,060
Unreserved	1,351,300	(24,615)	(155,033)	(19,173)	(562,352)	59,333	649,460	(59,470)
Total fund balance	1,488,535	3,542	66	7	435	59,333	1,551,918	878,163
Total liabilities and fund balance	\$ 1,558,812	\$ 659,055	\$ 144,448	\$ 17,416	\$ 453,226	\$ 59,333	\$ 2,892,290	\$ 2,486,327

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balance
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact Programs	Federal Grants Fund	Other U.S. Grants Fund	Non U.S. Grants Fund	CFSM Grants Fund	Traditional Award Fund	Totals	
							1993	1992
Revenues:								
Compact	\$ 2,984,609	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,984,609	\$ 2,634,966
Federal contributions	-	424,075	111,693	-	-	-	535,768	971,973
CFSM grants	-	-	-	-	260,085	-	260,085	421,117
Other	(12)	-	-	62,227	-	-	62,215	59,858
Total revenues	2,984,597	424,075	111,693	62,227	260,085	-	3,842,677	4,087,914
Expenditures:								
General government	-	970	-	-	-	-	970	41,289
Health services	361,639	116,682	-	-	319	-	478,640	742,714
Education	929,531	94,527	1,077	37,960	81,821	-	1,144,916	1,204,655
Economic development	-	185,861	-	27,432	8,695	-	221,988	193,424
Public safety	-	-	-	-	117,240	-	117,240	111,263
Public works and utilities	983,596	-	-	-	10,543	-	994,139	1,055,966
Community affairs	-	26,035	144,490	1,577	17,705	31,334	221,141	1,010,590
Transportation	-	-	-	-	-	-	-	2,317
Other	-	-	-	-	-	-	-	31,163
Total expenditures	2,274,766	424,075	145,567	66,969	236,323	31,334	3,179,034	4,393,381
Revenues over (under) expenditures	709,831	-	(33,874)	(4,742)	23,762	(31,334)	663,643	(305,467)
Other sources (uses):								
Transfers/general fund	779,800	-	10,112	-	-	-	789,912	1,214,128
Transfers/CFSM Fund	-	-	23,762	-	(23,762)	-	-	-
Payments of notes payable	(779,800)	-	-	-	-	-	(779,800)	(1,067,461)
Total other sources (uses), net	-	-	33,874	-	(23,762)	-	10,112	146,667
Excess (deficiency) of revenues and other sources over expenditures and other uses	709,831	-	-	(4,742)	-	(31,334)	673,755	(158,800)
Fund balance, beginning of year	778,704	3,542	66	4,749	435	90,667	878,163	1,036,963
Fund balance, end of year	\$ 1,488,535	\$ 3,542	\$ 66	\$ 7	\$ 435	\$ 59,333	\$ 1,551,918	\$ 878,163

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact Programs	Federal Grants Fund	Other U.S. Grants Fund	Non U.S. Grants Fund	CFSM Grants Fund	Traditional Award Fund	Totals	
							1993	1992
Revenues:								
Compact	\$ 2,984,609	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,984,609	\$ 2,634,966
Federal contributions	-	424,075	111,693	-	-	-	535,768	971,973
CFSM grants	-	-	-	-	260,085	-	260,085	421,117
Other	(12)	-	-	62,227	-	-	62,215	59,858
Total revenues	2,984,597	424,075	111,693	62,227	260,085	-	3,842,677	4,087,914
Expenditures:								
Salaries and wages	329,281	94,849	31	7,514	21,907	-	453,582	480,315
Travel	133,828	71,334	933	8,212	52,048	-	266,355	390,443
Freight	46,496	2,610	380	1,178	3,213	-	53,877	68,612
Communications	5,519	1,401	-	163	6,384	-	13,467	10,642
Printing and reproduction	5,615	3,849	-	2,531	1,953	-	13,948	23,720
Professional services	15,518	56,636	-	14,050	742	-	86,946	62,562
Food stuffs	57,012	325	-	4,687	6,264	-	68,288	100,627
Medical supplies	150,962	5,710	354	-	296	-	157,322	101,106
Supplies and materials	190,692	21,262	126,943	10,531	52,553	-	401,981	597,292
Medical referral	62,387	-	-	-	-	-	62,387	307,630
POL	970,159	1,266	893	601	8,068	-	980,987	1,079,917
Capital outlay	70,684	33,196	10,170	13,658	12,023	-	139,731	152,073
Contractual services	19,329	7,389	-	150	12,483	-	39,351	288,920
Rentals	29,860	2,920	-	-	1,895	-	34,675	180,685
Repairs and maintenance	11,747	1,160	-	58	21,503	-	34,468	26,793
Allowances	-	350	-	-	850	-	1,200	-
Grants and subsidies	-	-	-	-	-	13,333	13,333	31,163
Scholarship and training	124,500	116,910	-	-	20,000	-	261,410	180,066
Other	51,177	2,908	5,863	3,636	14,141	18,001	95,726	310,815
Total expenditures	2,274,766	424,075	145,567	66,969	236,323	31,334	3,179,034	4,393,381
Revenues over (under) expenditures	709,831	-	(33,874)	(4,742)	23,762	(31,334)	663,643	(305,467)
Other sources (uses):								
Transfers/general fund	779,800	-	10,112	-	-	-	789,912	1,214,128
Transfers/CFSM Fund	-	-	23,762	-	(23,762)	-	-	-
Payments of notes payable	(779,800)	-	-	-	-	-	(779,800)	(1,067,461)
Total other sources (uses), net	-	-	33,874	-	(23,762)	-	10,112	146,667
Excess (deficiency) of revenue and other sources over expenditures and other uses	709,831	-	-	(4,742)	-	(31,334)	673,755	(158,800)
Fund balance, beginning of year	778,704	3,542	66	4,749	435	90,667	878,163	1,036,963
Fund balance, end of year	\$ 1,488,535	\$ 3,542	\$ 66	\$ 7	\$ 435	\$ 59,333	\$ 1,551,918	\$ 878,163

STATE OF YAP
FEDERATED STATES OF MICRONESIA
COMPACT PROGRAM FUND
Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Budgetary Basis by Function
Year Ended September 30, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Other compact funds	\$ 2,546,287	\$ 2,984,609	\$ 438,322
Other	–	(12)	(12)
Total revenues	<u>2,546,287</u>	<u>2,984,597</u>	<u>438,310</u>
Expenditures budgetary basis:			
Health services	500,228	362,390	137,838
Education	979,480	817,079	162,401
Public works and utilities	910,000	936,275	(26,275)
Total expenditures	<u>2,389,708</u>	<u>2,115,744</u>	<u>273,964</u>
Revenues over expenditures	<u>156,579</u>	<u>868,853</u>	<u>712,274</u>
Other sources (uses):			
Transfers/general fund	779,800	779,800	–
Payments of notes payable	(779,800)	(779,800)	–
Total other sources (uses)	<u>–</u>	<u>–</u>	<u>–</u>
Excess of revenues and other sources over expenditures and other uses	156,579	868,853	712,274
Fund balance, unreserved, beginning of year	452,387	452,387	–
Change in reserve for continuing appropriations	–	30,060	30,060
Fund balance, unreserved, end of year	<u>\$ 608,966</u>	<u>\$ 1,351,300</u>	<u>\$ 742,334</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Capital Projects Funds
September 30, 1993

Appropriations or grants earmarked to finance capital projects of Yap State are accounted for in the Capital Projects Funds. A brief discussion of the Yap State's Capital Projects Fund as of September 30, 1993, follows:

Compact Capital Projects Fund

This fund accounts for financial transactions related to compact capital current account funds as provided by Section 211A of the Compact of Free Association.

TTPI - Capital Projects Fund

This fund accounts for various capital projects received under grant awards from the Trust Territory of the Pacific Islands Government. Project costs upon completion are accounted for in the General Fixed Assets Account Group as are completed projects from other funding sources.

CFSM Capital Projects Fund

This fund accounts for grants awarded by the Congress of the Federated States of Micronesia (CFSM) for improvement and betterment projects within the State of Yap.

Public Projects Fund

This fund accounts 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.

Other U.S. Capital Projects Fund

This fund accounts for all financial transactions related to federally assisted funds of a capital nature which are subgranted to Yap State from the FSM National Government.

Other Capital Projects Fund

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS**

Combining Balance Sheet

September 30, 1993

(With comparative totals as of September 30, 1992)

<u>Assets</u>	Compact	TTPI	CFSM	Public	Other U.S.	Other	<u>Totals</u>	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	Capital Projects Fund	1993	1992
Investments	\$ 4,229,438	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,229,438	\$ 8,488,228
Receivables, net:								
Loans	-	-	-	2,000,000	-	-	2,000,000	2,000,000
Federal agencies	-	-	-	-	79,550	-	79,550	283,703
CFSM	-	-	1,339,067	-	-	-	1,339,067	90,932
U.S. Dept. of Interior - TTPI	-	1,350,335	-	-	-	-	1,350,335	1,284,545
Due from other funds	3,685,331	-	-	-	-	-	3,685,331	-
Advances	7,285	5,310	-	-	-	-	12,595	11,014
Total assets	\$ 7,922,054	\$ 1,355,645	\$ 1,339,067	\$ 2,000,000	\$ 79,550	\$ -	\$ 12,696,316	\$ 12,158,422
<u>Liabilities and Fund</u>								
<u>Balance (Deficit)</u>								
Liabilities:								
Accounts payable	\$ 163,176	\$ 5,552	\$ -	\$ -	\$ 395	\$ -	\$ 169,123	\$ 251,088
Intergovernmental payable	-	-	1,300,000	-	-	-	1,300,000	-
Due to other funds	-	1,349,916	39,053	-	79,155	20,024	1,488,148	2,096,033
Accrued payroll	5,142	444	14	-	-	-	5,600	7,602
Total liabilities	168,318	1,355,912	1,339,067	-	79,550	20,024	2,962,871	2,354,723
Fund balance:								
Reserved for:								
Loans	-	-	-	2,000,000	-	-	2,000,000	2,000,000
Encumbrances	467,131	288,893	1,117	-	-	-	757,141	1,656,397
Continuing appropriations	4,291,368	-	-	-	-	-	4,291,368	4,321,383
Unreserved	2,995,237	(289,160)	(1,117)	-	-	(20,024)	2,684,936	1,825,919
Total fund balance (deficit)	7,753,736	(267)	-	2,000,000	-	(20,024)	9,733,445	9,803,699
Total liabilities and fund balance (deficit)	\$ 7,922,054	\$ 1,355,645	\$ 1,339,067	\$ 2,000,000	\$ 79,550	\$ -	\$ 12,696,316	\$ 12,158,422

STATE OF YAP
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balance (Deficit)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact	TTPI	CFSM	Public	Other U.S.	Other	Totals	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	Capital Projects Fund	1993	1992
Revenues:								
Compact capital	\$ 4,251,319	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,251,319	\$ 4,160,866
Federal contributions	-	-	-	-	3,029	-	3,029	81,956
U.S. Dept. of Interior - TTPI	-	478,431	-	-	-	-	478,431	592,572
CFSM grants	-	-	1,469,685	-	-	-	1,469,685	2,221,367
Other	482	-	-	-	-	-	482	-
Total revenues	4,251,801	478,431	1,469,685	-	3,029	-	6,202,946	7,056,761
Expenditures:								
Economic development	1,069,055	-	-	-	-	-	1,069,055	179,243
Public works and utilities	1,960,711	478,431	169,685	-	3,029	-	2,611,856	4,486,505
Other	142,289	-	-	-	-	-	142,289	55,946
Total expenditures	3,172,055	478,431	169,685	-	3,029	-	3,823,200	4,721,694
Revenues over expenditures	1,079,746	-	1,300,000	-	-	-	2,379,746	2,335,067
Other sources (uses):								
Transfers/general fund	6,035,825	-	-	-	-	-	6,035,825	4,010,110
Transfers/enterprise funds	(3,175,715)	-	(1,300,000)	-	-	-	(4,475,715)	(17,800)
Payment of notes payable	(4,010,110)	-	-	-	-	-	(4,010,110)	(4,010,110)
Total other sources (uses), net	(1,150,000)	-	(1,300,000)	-	-	-	(2,450,000)	(17,800)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(70,254)	-	-	-	-	-	(70,254)	2,317,267
Fund balance (deficit), beginning of year	7,823,990	(267)	-	2,000,000	-	(20,024)	9,803,699	7,486,432
Fund balance (deficit), end of year	\$ 7,753,736	\$ (267)	\$ -	\$ 2,000,000	\$ -	\$ (20,024)	\$ 9,733,445	\$ 9,803,699

STATE OF YAP
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balance (Deficit)
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Compact	TTPI	CFSM	Public	Other U.S.	Other	Totals	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	Capital Projects Fund	1993	1992
Revenues:								
Compact	\$ 4,251,319	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,251,319	\$ 4,160,866
Federal contributions	-	-	-	-	3,029	-	3,029	81,956
Dept. of the Interior - TTPI	-	478,431	-	-	-	-	478,431	592,572
CFSM grants	-	-	1,469,685	-	-	-	1,469,685	2,221,367
Other	482	-	-	-	-	-	482	-
Total revenues	4,251,801	478,431	1,469,685	-	3,029	-	6,202,946	7,056,761
Expenditures:								
Salaries and wages	132,043	30,042	33,593	-	-	-	195,678	231,749
Travel	37,992	3,080	-	-	147	-	41,219	19,128
Freight	43,415	564	499	-	2,882	-	47,360	17,734
Communications	2,087	355	-	-	-	-	2,442	1,573
Printing and reproduction	1,816	(150)	(200)	-	-	-	1,466	24,150
Professional services	124,091	-	-	-	-	-	124,091	13,521
Food stuffs	2,396	-	-	-	-	-	2,396	9,007
Medical supplies	5,147	-	-	-	-	-	5,147	-
Supplies and materials	680,555	2,614	74,193	-	-	-	757,362	572,744
POL	10,375	517	-	-	-	-	10,892	18,672
Capital outlay	2,037,703	440,562	50,567	-	-	-	2,528,832	3,659,818
Contractual services	64,817	-	8,340	-	-	-	73,157	80,419
Rentals	8,021	-	2,693	-	-	-	10,714	13,498
Repairs and maintenance	3,016	134	-	-	-	-	3,150	9,415
Grants and subsidies	-	-	-	-	-	-	0	20,000
Scholarship and training	-	-	-	-	-	-	0	19,300
Other	18,581	713	-	-	-	-	19,294	10,966
Total expenditures	3,172,055	478,431	169,685	-	3,029	-	3,823,200	4,721,694
Revenues over expenditures	1,079,746	-	1,300,000	-	-	-	2,379,746	2,335,067
Other sources (uses):								
Transfers/general fund	6,035,825	-	-	-	-	-	6,035,825	4,010,110
Transfers/enterprise funds	(3,175,715)	-	(1,300,000)	-	-	-	(4,475,715)	(17,800)
Payments of notes payable	(4,010,110)	-	-	-	-	-	(4,010,110)	(4,010,110)
Total other sources (uses), net	(1,150,000)	-	(1,300,000)	-	-	-	(2,450,000)	(17,800)
Excess (deficiency) of revenue and other sources over expenditures and other uses	(70,254)	-	-	-	-	-	(70,254)	2,317,267
Fund balance (deficit), beginning of year	7,823,990	(267)	-	2,000,000	-	(20,024)	9,803,699	7,486,432
Fund balance (deficit), end of year	\$ 7,753,736	\$ (267)	\$ -	\$ 2,000,000	\$ -	\$ (20,024)	\$ 9,733,445	\$ 9,803,699

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Enterprise Funds
September 30, 1993

Enterprise funds are used to account for the operations of certain agencies which provide goods or services to the general public or other governmental agencies on a user charge basis. The State's enterprise operations are described hereunder.

Yap Fishing Authority

The Yap Fishing Authority (YFA) was created in April, 1979, through Yap State Law 7-111. YFA is operated by a Board of Directors, which is appointed by the Governor of the State. YFA was established to promote, develop, and support commercial utilization of living marine resources within Yap State.

Gagil-Tomil Water Authority

The Gagil-Tomil Water Authority (GTWA) was created in October, 1984, through Yap State Law 1-183. GTWA is operated by a Board of Directors, consisting of one member appointed by the Governor, four members appointed by the Gagil representative to the Council of Pilung, and four members appointed by the Tomil representative to the Council of Pilung. GTWA was created to carry on the business of establishing, developing, maintaining, operating and managing the Gagil-Tomil Water System.

Southern Yap Water Authority

The Southern Yap Water Authority (SYWA) was created in November, 1986, through Yap State Law 1-221. SYWA is operated by a Board of Directors consisting of one member appointed by the Governor and four members appointed by the municipalities' representative to the Council of Pilung to represent Gilman, Kanifay, Dalipebinaw, and Rull. SYWA was created to carry out the business of establishing, developing, maintaining, operating and managing the Southern Yap Water System.

Public Transportation System

The Public Transportation System's (PTS) operation is subsidized by the Yap State Government. PTS was created to provide reliable and inexpensive transportation for those people living outside of the Colonia area.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Enterprise Funds, Continued
September 30, 1993

Feed Sales

The feed sales operates under the direction and management of the Agriculture Division. The intent was to create an operation which would supply animal feed to the farmers and the State.

Slaughterhouse

The slaughterhouse operation is administered by the State and operates as livestock supplies are available.

Project Fund

The Project Fund was separately established in fiscal year 1990 to account for certain initial revenues and expenses relating to the establishment of the Tuna Joint Venture Project. The operating activities in prior years related to the periods prior to the formation of the Yap Economic Development Authority and Yap Fishing Corporation.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
Combining Balance Sheet
September 30, 1993

(With comparative totals as of September 30, 1992)

<u>Assets</u>	Yap	Gagil-Tomil	Southern	Public	Feed	Slaughter	Project	<u>Totals</u>	
	Fishing Authority	Water Authority	Yap Water Authority	Transportation System				Sales	House
Cash and equivalents	\$ 948,058	\$ 32,126	\$ 39,136	\$ 4,268	\$ -	\$ -	\$ -	\$ 1,023,588	\$ 257,528
General receivables	249,051	16,661	2,664	12,672	-	-	-	281,048	821,085
Inventory of supplies, at cost	50,846	-	-	48,651	-	-	-	99,497	116,520
Prepays	2,399	-	-	1,398	-	-	-	3,797	-
Payments in advance	-	-	-	155,381	-	-	-	155,381	-
Investments	411,151	-	-	-	-	-	-	411,151	13,705
Due from other funds	-	-	-	-	46,737	3,814	697	51,248	21,813
Investment in fixed assets, net of accumulated depreciation	3,901,044	125,165	-	83,610	-	-	-	4,109,819	4,468,055
Total assets	\$ 5,562,549	\$ 173,952	\$ 41,800	\$ 305,980	\$ 46,737	\$ 3,814	\$ 697	\$ 6,135,529	\$ 5,698,706
<u>Liabilities and Fund Equity</u>									
Liabilities:									
Accounts payable – trade	\$ 53,581	\$ 769	\$ 26	\$ 21	\$ -	\$ -	\$ -	\$ 54,397	\$ 86,088
Accounts payable – other	31,650	189	-	1,490	-	-	-	33,329	4,600
Total liabilities	85,231	958	26	1,511	-	-	-	87,726	90,688
Fund equity:									
Contributed capital	5,172,702	147,903	-	539,401	-	-	-	5,860,006	5,275,975
Retained earnings (deficit)	304,616	25,091	41,774	(234,932)	46,737	3,814	697	187,797	332,043
Total fund equity	5,477,318	172,994	41,774	304,469	46,737	3,814	697	6,047,803	5,608,018
Total liabilities and fund equity	\$ 5,562,549	\$ 173,952	\$ 41,800	\$ 305,980	\$ 46,737	\$ 3,814	\$ 697	\$ 6,135,529	\$ 5,698,706

STATE OF YAP
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
Combining Statement of Revenues, Expenses and Changes in Fund Equity
Year Ended September 30, 1993
(With comparative totals for the year ended September 30, 1992)

	Yap	Gagil-Tomil	Southern	Public	Feed	Slaughter	Project	Totals	
	Fishing	Water	Yap Water	Transportation				Sales	House
	Authority	Authority	Authority	System					
Operating revenues:									
Charges for services/goods	\$ 1,146,043	\$ 12,332	\$ 10,535	\$ 60,279	\$ 13,779	\$ -	\$ -	\$ 1,242,968	\$ 1,055,353
Rental income	805,116	-	-	-	-	-	-	805,116	442,134
Other	6,366	908	3,573	-	-	-	-	10,847	26,139
Total revenues	1,957,525	13,240	14,108	60,279	13,779	-	-	2,058,931	1,523,626
Operating expenses:									
Salaries and wages	304,778	8,260	-	49,646	-	5,220	-	367,904	318,812
Supplies and materials	908,867	1,053	1,355	57,338	13,011	7,192	-	988,816	1,122,802
Commissions - contractual services	208,246	-	-	46,554	-	143	-	254,943	47,239
Travel	-	-	-	-	-	-	-	-	2,425
Depreciation	388,803	8,329	-	69,322	-	-	-	466,454	406,919
Other	399,068	1,228	2,087	18,784	7,696	2,507	-	431,370	76,186
Total operating expenses	2,209,762	18,870	3,442	241,644	20,707	15,062	-	2,509,487	1,974,383
Operating income (loss)	(252,237)	(5,630)	10,666	(181,365)	(6,928)	(15,062)	-	(450,556)	(450,757)
Non-operating revenues:									
Intergovernmental contributions:									
FSM and others	-	-	-	-	-	-	-	-	5,410
State	-	-	-	69,960	-	-	-	69,960	209,300
Total non-operating revenues	-	-	-	69,960	-	-	-	69,960	214,710
Net income (loss)	(252,237)	(5,630)	10,666	(111,405)	(6,928)	(15,062)	-	(380,596)	(236,047)
Add depreciation on fixed assets acquired by grants that reduces contributed capital	236,350	-	-	-	-	-	-	236,350	235,770
Retained earnings (deficit), beginning of year	320,503	30,721	31,108	(123,527)	53,665	18,876	697	332,043	332,320
Retained earnings (deficit), end of year	\$ 304,616	\$ 25,091	\$ 41,774	\$ (234,932)	\$ 46,737	\$ 3,814	\$ 697	\$ 187,797	\$ 332,043
Contributed capital, beginning of year	\$ 4,759,052	\$ 132,903	\$ -	\$ 384,020	\$ -	\$ -	-	\$ 5,275,975	\$ 5,491,746
Current year changes, net	413,650	15,000	-	155,381	-	-	-	584,031	(215,771)
Contributed capital, end of year	\$ 5,172,702	\$ 147,903	\$ -	\$ 539,401	\$ -	\$ -	\$ -	\$ 5,860,006	\$ 5,275,975
Fund equity, end of year	\$ 5,477,318	\$ 172,994	\$ 41,774	\$ 304,469	\$ 46,737	\$ 3,814	\$ 697	\$ 6,047,803	\$ 5,608,018

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS**

Combining Statement of Cash Flows

Year Ended September 30, 1993

(With comparative totals for the year ended September 30, 1992)

	Yap	Gagil-Tomil	Southern	Public	Feed	Slaughter	Project	Totals	
	Fishing Authority	Water Authority	Yap Water Authority	Transportation System				Sales	House
Cash flows from operating activities									
Net income (loss)	\$ (15,887)	\$ (5,630)	\$ 10,666	\$ (111,405)	\$ (6,928)	\$ (15,062)	\$ -	\$ (144,246)	\$ (277)
Adjustments to net income (loss) to net cash provided by (used for) operating activities:									
Transfers-in	-	-	-	(69,960)	-	-	-	(69,960)	(209,300)
Doubtful debt expenses	261,344	-	1	-	-	-	-	261,345	-
Depreciaton	152,453	8,329	-	69,322	-	-	-	230,104	171,149
	<u>397,910</u>	<u>2,699</u>	<u>10,667</u>	<u>(112,043)</u>	<u>(6,928)</u>	<u>(15,062)</u>	<u>-</u>	<u>277,243</u>	<u>(38,428)</u>
Change in assets and liabilities:									
Due from other funds	-	-	-	-	6,928	15,062	-	21,990	(571)
General receivables (gross)	282,781	(1,485)	(2,664)	61	-	-	-	278,693	(515,635)
Inventory of supplies	36,669	-	-	(19,646)	-	-	-	17,023	96,648
Prepaid expenses	8,494	-	-	1,414	-	-	-	9,908	(13,705)
Payments in advance	-	-	-	(155,381)	-	-	-	(155,381)	-
Other liabilities	27,050	769	-	1,490	-	-	-	29,309	-
Accounts payable - trade	(29,029)	(284)	25	(2,984)	-	-	-	(32,272)	53,280
	<u>325,965</u>	<u>(1,000)</u>	<u>(2,639)</u>	<u>(175,046)</u>	<u>6,928</u>	<u>15,062</u>	<u>-</u>	<u>169,270</u>	<u>(379,983)</u>
Cash provided by (used for) operating expenses	<u>723,875</u>	<u>1,699</u>	<u>8,028</u>	<u>(287,089)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>446,513</u>	<u>(418,411)</u>
Cash flows from noncapital financing activities:									
Contributed capital received and transfers-in	650,000	15,000	-	225,341	-	-	-	890,341	229,300
Cash provided by noncapital related financing activities	<u>650,000</u>	<u>15,000</u>	<u>-</u>	<u>225,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>890,341</u>	<u>229,300</u>
Cash flows from capital and related activities:									
Acquisition of fixed assets	(140,105)	(15,000)	-	(4,178)	-	-	-	(159,283)	(100,752)
Cash used by investment related activities	<u>(140,105)</u>	<u>(15,000)</u>	<u>-</u>	<u>(4,178)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(159,283)</u>	<u>(100,752)</u>
Cash flows from investing and related activities:									
Acquisition of investment	(411,511)	-	-	-	-	-	-	(411,511)	-
Cash used by investing and related activities	<u>(411,511)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(411,511)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	822,259	1,699	8,028	(65,926)	-	-	-	766,060	(289,863)
Cash and equivalents, beginning of year	125,799	30,427	31,108	70,194	-	-	-	257,528	547,391
Cash and equivalents, end of year	<u>\$ 948,058</u>	<u>\$ 32,126</u>	<u>\$ 39,136</u>	<u>\$ 4,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,023,588</u>	<u>\$ 257,528</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 1993**



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
BASED ON THE AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS

Honorable Petrus Tun
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, 1993, and have issued our report thereon dated March 1, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts, and grants applicable to the State of Yap is the responsibility of the State of Yap's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the State of Yap's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

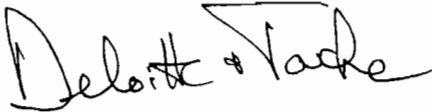
The results of our tests indicate that, with respect to the items tested, the State of Yap, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Yap had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Yap, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 through 97).

We also noted matters including compliance with laws and regulations related to federal financial assistance which we reported to the management of the State of Yap in our reports dated March 1, 1994 on general requirements, on specific requirements for major programs and on specific compliance for nonmajor program transactions.

This report is intended for the information of the State of Yap and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 1, 1994

A handwritten signature in cursive script, appearing to read "Deloitte & Touche".

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE
TO MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Honorable Petrus Tun
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, 1993, and have issued our report thereon dated March 1, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group.

We have also audited the State of Yap's compliance with the requirements governing the Compact of Free Association that are applicable to its one major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance (pages 73 through 91), for the year ended September 30, 1993. The management of the State of Yap is responsible for the State of Yap's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

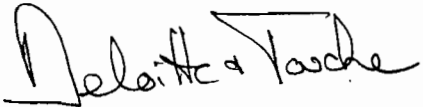
We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Yap's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 through 97). We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Yap complied, in all material respects, with the requirements governing the Compact of Free Association that are applicable to its one major federal financial assistance program for the year ended September 30, 1993.

This report is intended for the information of the State of Yap and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 1, 1994

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH GENERAL REQUIREMENTS APPLICABLE TO
FEDERAL FINANCIAL ASSISTANCE

Honorable Petrus Tun
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, 1993, and have issued our report thereon dated March 1, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group. We have also audited the State of Yap's compliance applicable to requirements of major federal financial assistance programs and have issued our report thereon dated March 1, 1994.

We have applied procedures to test the State of Yap's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance (pages 73 through 91), for the year ended September 30, 1993: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

The requirements of political activity, Davis-Bacon Act, civil rights, and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the Federated States of Micronesia, which are identified in the Schedule of Federal Financial Assistance (pages 73 through 91).

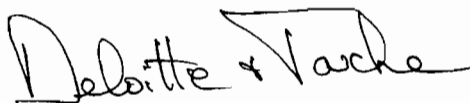
Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Yap's compliance with the requirements listed in the second paragraph of this report. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Yap had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 to 97).

We also noted matters involving compliance with laws and regulations related to our audit of the general purpose financial statements and with requirements related to major and nonmajor federal financial assistance programs which we reported to the management of the State of Yap in our reports dated March 1, 1994.

This report is intended for the information of the State of Yap and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 1, 1994

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH SPECIFIC REQUIREMENTS APPLICABLE TO NONMAJOR
FEDERAL FINANCIAL ASSISTANCE PROGRAM TRANSACTIONS

Honorable Petrus Tun
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, 1993, and have issued our report thereon dated March 1, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group. We have also audited the State of Yap's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated March 1, 1994.

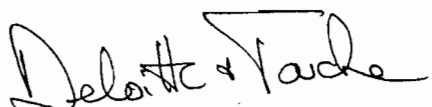
In connection with our audit of the 1993 general purpose financial statements of the State of Yap, and with our consideration of the State of Yap's control structure used to administer federal financial assistance programs, and assessment of control risk, as required by Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1993.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Yap's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Yap had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 to 97).

This report is intended for the information of the State of Yap and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 1, 1994

A handwritten signature in cursive script, appearing to read "Deloitte & Touche".

Certified Public Accountants



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING
FEDERAL FINANCIAL ASSISTANCE**

Honorable Petrus Tun
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, 1993, and have issued our report thereon dated March 1, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group. We have also audited the State of Yap's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated March 1, 1994.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether the State of Yap complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended September 30, 1993, we considered the State of Yap's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Yap's general purpose financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated March 1, 1994.

The management of the State of Yap is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

General Requirements

- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Specific Requirements

- Compact of Free Association
- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Monitoring subrecipients

Accounting Requirements

- Revenue and receipt cycle
- Purchases and disbursement cycle
- Payroll and personnel cycle
- External financial reporting
- Cash and equivalents
- Investments
- Receivables
- Payables and accrued liabilities
- Fund balances

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended September 30, 1993, the State of Yap expended 91.8% of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements that are applicable to the State of Yap's one major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance (pages 73 through 91). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

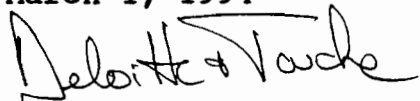
Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure used in administering federal financial assistance programs and its operations that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 through 97).

We also noted matters involving the internal control structure and its operation based on our audit of the general purpose financial statements which we reported to the management of the State of Yap in a report dated March 1, 1994.

This report is intended for the information of the State of Yap and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 1, 1994

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in dark ink and is positioned above the printed name of the firm.

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

Honorable Petrus Tun
Governor, State of Yap
Federated States of Micronesia:

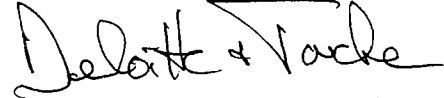
We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1993, and have issued our report thereon dated March 1, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group. These general purpose financial statements are the responsibility of the State of Yap's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Yap taken as a whole. The accompanying Schedule of Federal Financial Assistance (pages 73 through 91) for the year ended September 30, 1993, which is also the responsibility of the management of the State of Yap, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the State of Yap and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 1, 1994

A handwritten signature in cursive script that reads "Deloitte & Touche". The signature is written in black ink and is positioned above the printed name of the firm.

Certified Public Accountants

STATE OF YAP
FEDERATED STATES OF MICRONESIA
INTRODUCTION TO COMPACT OF FREE ASSOCIATION
FUNDING, FEDERAL AND OTHER ASSISTANCE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 1993

Compact Funds

The FSM National Government and the Government of the United States implemented the Compact of Free Association during fiscal year 1987. The Compact funding replaced the U.S. Department of the Interior funding for general operations received through the TTPI Government in previous fiscal years. Based on the terms of the Compact agreement, the FSM National Government receives funding in five year increments over a fifteen year period. The Compact funding is received in four different account classifications: current operations, capital projects, block grants, and inflation adjustments. A mutually agreed upon financial institution was selected as the trustee of the Compact funding to facilitate the FSM National Governments' and its four State entities' drawdown requirements.

During fiscal year 1993, the State of Yap Government submitted monthly allocation requests to the FSM National Government for the current account. The current operation funds were transferred to the State of Yap's designated banking institution based on the monthly allocation requests. The capital project funds, which must comprise at least 40 percent of the total annual allocation, remain with the trustee institution and are drawn down upon request by the State of Yap. Capital account funds are transferred in their annual base amounts on the first day of the fiscal year. Block grant funds are transferred with the initial monthly current account allocation request and these funds are then appropriated by the Yap State Legislature in accordance with the guidelines of the Compact. The United States Government annually adjusts Compact funding for inflation.

Pursuant to section 233 of the Compact of Free Association and paragraph 1(d), Article IV of the Agreement Concerning Procedures for the Implementation of U.S. Economic Assistance, Programs, and Services provided in the Compact of Free Association between the Government of the U.S. and the Government of the FSM, audits of Compact funding shall be performed in compliance with Government Auditing Standards, issued by the Comptroller General of the United States, and the Single Audit Act of 1984. The above states that audits shall be performed in accordance with the Office of Management and Budget (OMB) Circular A-128, however compliance testing of Compact funding shall not include specific federal guidelines applicable to federal program assistance grants, but rather shall be in conformance with local laws and regulations and the program intent as provided in the Compact of Free Association.

Federal Funds

The State of Yap Government remained the subrecipient of several federal grant programs from U.S. agencies, but with the implementation of the successor-in-interest agreements, the role of the primary recipient transferred from the TTPI government to the FSM National Government. The State of Yap Government applies to the FSM National Government for grant funds, or receives an allocation of funds awarded to the FSM National Government. The award of the subrecipient grant typically comes in the form of an allotment advice, rather than a formal notice. The allotment advice specifies any imposed expenditure limitations. However, the limitations are normally represented solely by object code authorization totals and not by detailed budgets.

Revenues are recorded and recognized on the basis of expenditures. Drawdowns, typically occurring after expenditures are recorded, are made upon request by the State of Yap Government to the FSM National Government.

Although program guidelines may not be specifically referenced in the allotment advice, subgrantees of federal programs other than Compact funding must adhere to the same cost principles as the grantee, as stated in OMB Circular A-87. Additionally, beneficiaries and program objectives may not typically depart from the federal purpose, as may be determined by an Act of Congress, and in accordance with such program regulations which may be promulgated in the Code of Federal Regulations.

Introduction To Special Revenue and Capital Projects Funds

Receipt and use of monetary assistance from sources outside the general fund are accounted for in the following funds:

Special Revenue Funds:
Compact Programs Fund
Federal Grants Fund
Other U.S. Grants Fund
Non U.S. Grants Fund
CFMS Grants Fund

Capital Projects Funds:
Compact Capital Projects Funds
TTPI Capital Projects Fund
CFMS Capital Projects Fund
Other U.S. Capital Projects Fund

As mentioned above, the Compact Programs and Compact Capital Project Funds are administered under the guidelines of the Compact of Free Association. With the exception of a few of the grants in the Non U.S. Grants Fund and the CFSM Funds, the revenue of the Special Revenue and Capital Projects Funds is derived through allotments from the TTPI or the FSM National Government for specific purposes. All TTPI allotments are originally derived from U.S. Congressional appropriations. As the subrecipient, the State of Yap reports to the FSM National Government. The CFSM Funds are funded by appropriations from the Congress of the Federated States of Micronesia, while grants recorded in the Non U.S. Grants Fund are received from various foreign governments and international organizations. The State of Yap, through the Federated States of Micronesia, reports to the applicable grantor concerning Non U.S. grants.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FEDERAL GRANTS FUND
YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Department of Education:</u>			
FY92 Teacher Training	84.124A	3002	\$ 56,386
FY93 Special Education	84.027A	3003	<u>28,407</u>
			<u>84,793</u>
<u>Department of Labor:</u>			
FY92 JTPA Administration	17.250	3202	19,297
FY92 JTPA Adult Program	17.250	3203	31,219
FY92 JTPA Youth Program	17.250	3204	27,715
FY92 JTPA Participant Support	17.250	3205	17,297
FY91 Elderly	17.250	3206	2,076
FY92 JTPA Education Coordination	17.250	3208	6,611
FY91 JTPA Administration	17.250	3261	8,746
FY91 JTPA Adult Program	17.250	3262	2,341
FY91 JTPA Youth Program	17.250	3263	14,495
FY89 JTPA Adult Training	17.250	3267	216
FY91 JTPA Participant Support	17.250	3280	17,238
FY90 JTPA Administration	17.250	3293	3,755
FY90 JTPA Adult Training	17.250	3294	17,787
FY90 JTPA Youth Training	17.250	3295	<u>17,068</u>
			<u>185,861</u>
<u>Department of Agriculture:</u>			
Forestry Research	10.664	3302	4,257
FY91 Forestry Project	10.664	3326	6,507
FY89 Food Services	10.560	3346	7,767
FY92 Forestry Project	10.664	3349	<u>33</u>
			<u>18,564</u>
<u>Department of the Interior:</u>			
FY91 Historic Preservation	15.904	3453	15,238
Technical Training/Maint. Personnel	15.904	3551	<u>1,967</u>
			<u>17,205</u>
<u>Office of Territorial and International Affairs:</u>			
Tax and Revenue Consultant	15.875	3509	<u>970</u>
			<u>970</u>
Balance Forward			<u>307,393</u>

**STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 FEDERAL GRANTS FUND
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 307,393
<u>Department of Health and Human Services:</u>			
FY91 PH & PH/ADAMS	13.991	3659	2,669
FY91 PH & PH	13.991	3660	2,021
FY92 Immunization	13.994	3661	1,340
FY92 PH & PH	13.991	3663	10,186
FY93 Family Planning	13.217	3670	10,107
FY92 MCH FSM	13.994	3671	37,653
FY92 ADAMHS – Health	13.991	3672	10,179
FY92 ADAMHS – Youth	13.991	3673	27,150
FY93 Immunization	13.994	3674	3,674
FY91 MCH	13.994	3730	3,488
FY91 MCH/CSHCN	13.994	3731	3,088
FY94 Family Planning	13.217	3732	2,400
FY92 AIDS Prevention	13.217	3781	<u>2,727</u>
			<u>116,682</u>
Total Federal Grants Fund			<u>\$ 424,075</u>

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
OTHER U.S. GRANTS FUND
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Federal Emergency Management Agency (FEMA) grants:</u>			
Typhoon Owen			
* Owen Public Assistance Admin.	83.516	3808	\$ 31
			<u>31</u>
Owen IFG/Housing/Feeding			
* Owen – Housing Prog. Admin.	83.516	3849	<u>1,525</u>
			<u>1,525</u>
Orchid "B"			
* Food/Fuel/Freight – Fais/Ulithi	83.516	0923	<u>361</u>
			<u>361</u>
Yap Government Owen "A"			
Chainsaw – Debris Removal	83.516	0812	<u>8,957</u>
			<u>8,957</u>
Ifalik Owen "E"			
Nursing Mom's House	83.516	0058	172
Liutaitai Men's House	83.516	0060	120
Ifalik Water Catchment Building	83.516	0061	59
Maiyefang Men's House	83.516	0062	1,203
Fannilua Men's House	83.516	0063	300
Heapress Women's House	83.516	0064	191
Sabolap Men's House	83.516	0065	222
Fareig Women's House	83.516	0090	500
Ifalik Dispensary	83.516	0091	752
Ifalik Headstart Building	83.516	0094	3,310
Ifalik Community Storage Building	83.516	0095	609
Elementary School Tool Shed	83.516	0096	465
Chapilpiy Men's House	83.516	0097	40
Three Ifalik Benjos	83.516	0903	<u>1,795</u>
			<u>9,738</u>
Balance Forward			<u>20,612</u>

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 OTHER U.S. GRANTS FUND
 YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 20,612
Lamotrek Owen "E"			
Kulong Men's House	83.516	0015	63
Lebul Men's House	83.516	0019	3,230
Replace Fish Dryer	83.516	0022	300
Replace Copra House	83.516	0026	228
			<hr/> 3,821
Satawal Owen "E"			
Wairaew Women's House	83.516	0001	30
Sigafila Men's House	83.516	0003	66
Replace Boathouse	83.516	0004	178
Water Catchment Buildings	83.516	0005	6,823
Satawal Dispensary	83.516	0008	354
Community Radio Hut	83.516	0009	95
Lemengad Boathouse	83.516	0066	1,890
School Pig Building	83.516	0074	5,596
Headstart Building	83.516	0075	375
Water Catchment Building #1	83.516	0076	219
Woleiteo Men's House	83.516	0078	(709)
Suntory Canoe	83.516	0080	647
Water Catchment Building #4	83.516	0082	5,746
Community Storage Building	83.516	0084	10,264
Latiulsew Womens House	83.516	0086	26
Water Catchment Woleito	83.516	0890	596
Four Copra House	83.516	0894	131
			<hr/> 32,327
Ulithi Owen "E"			
Mowel Men's House	83.516	0970	2,000
Mogmog Dispensary Repairs	83.516	0972	75
Mogmog Storage Building Repairs	83.516	0973	75
Mogmog School Cultural Hut	83.516	0974	252
Fassaray Boathouse	83.516	0979	1,679
Fassaray Dispensary	83.516	0984	134
			<hr/> 4,215
Balance Forward			<hr/> 60,975

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 OTHER U.S. GRANTS FUND
 YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 60,975
Woleai Owen "E"			
Falalop Headstart House	83.516	0190	541
Fasefang Men's House	83.516	0229	861
Lamwoliwel Community Building	83.516	0905	341
Falalop Water Catchment	83.516	0906	2,228
Galimmgelfeo Mens House	83.516	0907	38
Faliyelat Men's House	83.516	0908	240
Walamw Men's House	83.516	0909	770
Gachelma Men's House	83.516	0911	641
Galingwa Men's House	83.516	0912	315
Falyangiyang Men's House	83.516	0913	435
Falalop Community Storage Building	83.516	0914	2,571
Falfeo Men's House	83.516	0916	495
Tagailap Water Catchment Building	83.516	0917	75
Tagailap Dispensary	83.516	0918	542
Halinglam Men's House	83.516	0919	120
Tegailop Fish Dryer Building	83.516	0921	75
Falingelo Men's House	83.516	0927	272
Fewalilfe Men's House	83.516	0928	532
Seliap Community Storage Building	83.516	0929	1,788
Pyshe Men's House	83.516	0930	1,370
Wottegai Island Cookhouse	83.516	0932	120
Paliyetiw Men's House	83.516	0937	120
Falemashog Men's Storage House	83.516	0940	1,338
Falimas Men's House	83.516	0942	750
Falmai Men's House	83.516	0943	312
Imelpol Men's Storage House	83.516	0944	351
Falalus Storage Building	83.516	0945	168
Haungafano Men's House	83.516	0946	1,327
Falalus Copra House	83.516	0950	520
			<u>19,256</u>
Faraulep Owen "E"			
Chapilpiy Men's House	83.516	0047	20,861
Faraulep Dispensary Repair	83.516	0048	1,919
Repair Faraulep Copra House	83.516	0049	669
Faraulep Storage Building Replacement	83.516	0051	4,750
Copra Storage Building	83.516	0052	400
Gatiyemog Men's House	83.516	0053	6,035
			<u>34,634</u>
Balance Forward			<u>114,865</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
OTHER U.S. GRANTS FUND
YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
Balance Forwarded			\$ 114,865
Department of Education Owen "E"			
Lamtrok Elementary School Repair	83.516	0025	2,714
Faraulep Elementary School Repair	83.516	0054	2,652
Satawal Classroom Building #2	83.516	0069	3,463
Satawal Classroom Building #3	83.516	0071	4,396
Satawal School Reading Hut	83.516	0072	7,336
Satawal School Playground Equipment	83.516	0827	650
Satawal Cultural Hut Building	83.516	0828	1,280
Fais Elementary School Pump House	83.516	0831	750
Elato Elementary School Cultural Hut	83.516	0833	832
Elato School Storage Shelter	83.516	0834	778
Piig Island Elementary School Repair	83.516	0837	22
Junior High School Repair	83.516	0904	378
Cement for Tegailop Elementary	83.516	0915	500
Seliap School Cultural Hut	83.516	0924	340
Seliap School Office Repair	83.516	0925	242
Falalus Elementary School Repair	83.516	0948	1,763
Falalus School Cultural Hut	83.516	0949	909
Fassaray Elementary School Roof	83.516	0980	620
			<u>29,625</u>
Total FEMA			<u>144,490</u>
Department of Commerce			
* Trochus Reseeding	11.300	3401	<u>1,077</u>
			<u>1,077</u>
Total Other U.S. Grants Fund			<u>\$ 145,567</u>

Note: The above grants are received directly from the Federal Emergency Management Agency (FEMA) for typhoon relief aid except for grants marked by an asterisk (*) which are received in a subrecipient capacity through the FSM National Government.

**STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 OTHER U.S. CAPITAL PROJECTS FUND
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Environmental Protection Agency</u>			
Ulithi Sewer	66.418	6851	\$ 2,929
House Sewer Connection II	66.418	6853	<u>100</u>
Total Other U.S. Capital Projects			<u>\$ 3,029</u>

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
NON U.S. GRANTS FUND
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1993</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>UNICEF</u>		
Family Education Prod./Nutrition	3961	\$ 1,328
<u>UNDP</u>		
Population Education	3991	133
<u>Other Non-U.S. Grants</u>		
University of Guam Child Abuse	3981	50
SPREP Outer Island Turtle Project	3985	3,050
SPREP Turtle PIV	3986	24,382
UOG 93 Child Abuse	3987	199
PREL Vocational Education	3988	<u>37,827</u>
Total Non U.S. Grants Fund		<u>\$ 66,969</u>

Note: The above grants are received directly from foreign governments and private organizations.

**STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 CFSM GRANTS FUND
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Yap Youth	5808	\$ 3
Gilman Elementary School	5812	67
Outer Island Agriculture Projects	5813	2,052
Colonia Community Center	5816	6,202
FY93 State Court	5826	55,050
Yap State Court	5831	5,415
Gagil Elementary School	5846	1,397
Medical Supply	5855	135
Youth Services	5858	222
FY93 Joint Law Enforcement	5867	64,310
Piggery Productions	5871	6,498
Public Library	5872	186
Maq Youth	5878	4,691
Joint Law Enforcement	5882	(7,535)
Medical Supply	5884	184
Outer Island Agriculture	5888	145
Road Development and Maintenance	5889	7,043
Education Operations	5890	10,780
Madrich Development	5892	5,672
GTWA Building	5896	3,500
Teacher Training	5899	17,682
Balebat BB	5900	730
School Toilet	5901	4,081
Elementary and Secondary Education	5903	47,813
Total CFSM Grants Fund		<u>\$ 236,323</u>

Note: The above grants are received based on appropriations made by the Congress of the Federated States of Micronesia.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
CFSM CAPITAL PROJECTS FUND
YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
FSM Congress		
Yyinn Power Line	6611	\$ 1,516
Daboch Center	6613	50,367
Rumung Water	6614	1,869
Faralep School	6615	2,011
Elato School	6616	258
Falalop School	6617	1,874
Malay BB Center	6618	1,933
TTPI CIP Administration	6621	485
DB School Building	6623	16,509
Pilung Office	6624	3,013
Amun CL/RD	6625	11
Okaw Bridge	6626	4,095
Gaanelay MS	6628	61,388
Waned/Wacho	6630	17,300
Broiler Project	6634	7,056
Yap Fresh Tuna Equity Purchase	6635	<u>1,300,000</u>
Total CFMSM Capital Projects Fund		<u>\$ 1,469,685</u>

Note 1: \$1,300,000, to the Yap Fishing Authority (YFA) has been accounted for as a transfer from the CFMSM Capital Projects Fund in the General Purpose Financial Statements. A reconciliation of the above expenditures to the General Purpose Financial Statements is shown below :

CFMSM Capital Expenditures	\$ 1,469,685
Less transfer to YFA	<u>1,300,000</u>
General Purpose Financial Statement Expenditures	<u>\$ 169,685</u>

Note 2: The above grants are received based on appropriations made by the Congress of the Federated States of Micronesia.

**STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 TTPI CAPITAL PROJECTS FUND
 YEAR ENDED SEPTEMBER 30, 1993**

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1993</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>		
Rural Sanitation – Yap Cap	6382	\$ 68,320
Colonia Power Upgrade	6383	25
Well Development	6385	85,883
Additional Water Sources	6386	50,303
Village Water System	6387	1,983
Southern Yap Water	6394	11,686
Colonia Sewage Improvement	6395	<u>260,231</u>
Total TTPI Capital Projects Fund		<u>\$ 478,431</u>

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

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND
SECTION 221(B) SPECIAL BLOCK GRANT (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1993</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Department of Education Budget Supply/Maintenance	2113	\$ 36,500
Instruction and Curriculum	2115	187,675
Yap Elementary Schools	2116	172,712
Outer Island Elementary Schools	2117	74,492
Yap High School	2118	87,495
Outer Island High School	2119	87,443
Post Secondary Student Services	2122	18,580
Department of Education Staff Development	2123	47,981
Outer Island Middle School	2126	66,891
Special Education Program	2127	25,262
Primary Health Care	2132	14,768
Preventive Health Care	2133	5,691
Alcohol/Drug Abuse and Mental Health	2136	11,253
Medical Referral	2137	4,549
Medical Supply and Equipment	2138	177,798
Ancillary Services	2140	<u>15,518</u>
Total Compact of Free Association Compact Programs Fund—Section 221(B)		<u>\$ 1,034,608</u>

(Note: These funds are made available by Title Two, Article I, Section 221(B) of the Compact of Free Association.)

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), 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

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND
SECTION 212(A) SPECIAL DEVELOPMENT PROGRAMS (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Microfilm Renovation	2206	\$ 6,233
Computer Storeroom	2207	<u>11,824</u>
Total Compact of Free Association Compact Programs Fund—Section 212(A)		<u>\$ 18,057</u>

(Note: These funds are made available by Title Two, Article I, Section 212(A) of the Compact of Free Association.)

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), 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 component States.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND
SECTION 216(A)(2) HEALTH AND MEDICAL PROGRAMS (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u> Medical Referral Program	2448	\$ <u>132,062</u>
Total Compact of Free Association Compact Programs Fund—Section 216(A)(2)		\$ <u>132,062</u>

(Note: These funds are made available by Title Two, Article I, Section 216(A)(2) of the Compact of Free Association.)

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), 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 reallocates such to component States.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND
SECTION 216(A)(3) POST SECONDARY EDUCATION (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u> Scholarships and grants	2641	\$ <u>124,500</u>
Total Compact of Free Association Compact Programs Fund—Section 216(A)(3)		\$ <u>124,500</u>

(Note: These funds are made available by Title Two, Article I, Section 216(A)(3) of the Compact of Free Association.)

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), 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 reallocates such to component States.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND
SECTION 214(B) ENERGY PROGRAMS (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1993 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u> POL/Power Generation	2853	\$ <u>965,539</u>
Total Compact of Free Association Compact Programs Fund—Section 214(B)		\$ <u><u>965,539</u></u>

(Note: These funds are made available by Title Two, Article I, Section 214(B) of the Compact of Free Association.)

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), 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 component States.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
SECTION 211(A) CAPITAL ACCOUNT (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1993</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Daboch Community Center	6101	\$ 85,160
Outer Island Turtle Project	6102	32,297
GTWA Warehouse	6103	11,500
YFA Dock Extension	6105	650,000
PTS Bus Purchase	6107	155,331
FY93 Coastal Management	6108	8,195
FY93 Tourism Promotion	6109	15,966
FY93 Outer Island Agriculture Support	6111	8,812
FY93 Reef Fish	6112	1,246
FY93 Trochus/Yap	6113	1,011
FY93 Outer Island Trochus	6114	1,422
Ifalik Elementary	6115	57,707
Small Business Center	6116	42,859
Gilman Elementary	6117	44,746
H.S. Computer Lab	6118	32,393
Power System Development	6119	224,715
PU&C Power Upgrade	6120	73,967
Fire Truck Project	6121	187,419
FY93 Equipment Purchase	6122	78,061
Airport Extension	6123	84,091
Council of Pilung Building	6125	575
FY93 Vegetable and Root Crop	6126	6,557
FY93 Land Lease and Acquisition	6128	40,766
Yapoway Men's House	6129	8,352
FY93 Forestry Program	6130	5,538
Bael Elementary School	6131	23,741
Outer Island Dental Building	6132	1,119
Power and Water Plant Upgrade	6133	46,690
Agriculture Equipment Purchase	6134	43,350
Multiple Crop Production	6135	11,821
Agro Forestry Project	6136	12,160
EPA Storage Building	6137	4,995
SDA School Building	6140	33,940
Fruit Production/Matching	6210	13,513
FY91 Power Upgrade	6214	23,814
Livestock Extension Improvement	6215	8,203
Outer Island Turtle Project	6218	1,997
Satawal Elementary School	6220	1,617
Coastal Management Plan	6222	24,037
BUIY Fish Study	6223	145
Power System Development	6225	64,990
Power System Improvement Upgrade	6226	35,493
PU&C Equipment Purchase	6227	57,793
WSZA/WAAB Building	6228	12,372
Daboch/Outer Island Settlement	6230	3,977
Mogmog School Extension	6232	5,264
Department of Education Storage Extension	6233	2,251
Balance Forward		<u>2,291,968</u>

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
 COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND
 SECTION 211(A) CAPITAL ACCOUNT (CFDA NO. 15.875)
 STATEMENT OF EXPENDITURES AND QUESTIONED COSTS BY GRANTOR, CONTINUED
 YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1993</u> <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded		\$ 2,291,968
<u>Office of Territorial and International Affairs, continued</u>		
Agroforestry Project	6234	54
Waloy Road Culverts	6235	10,723
Hospital Equipment Purchase	6236	97,420
Outer Island High School Facility Improvement	6237	36,940
IADP – Water Sanitation Project	6238	2,413
Agriculture Station Fencing and Lighting	6239	39,000
Road Development	6242	132,265
Road Development Phase VII	6243	476,584
Livestock Project	6253	20,697
Feasibility Studies	6263	4,056
Gaanelay Middle School	6264	44,617
Sludge Dryage Beds	6267	8,357
Vegetables and Root Crops	6270	3,845
Yap Fresh Tuna Project	6275	500,000
Northwest Power Extension	6285	69
Tuna Fisheries Project	6295	47
Outer Island Airfields	6298	<u>3,000</u>
Total Compact of Free Association Capital Projects Fund – Section 211(A)		<u>\$ 3,672,055</u>

Note 1: \$500,000, to the Yap Fishing Authority (YFA) has been accounted for as a transfer from the Compact Capital Projects Fund in the General Purpose Financial Statements. A reconciliation of the above expenditures to the General Purpose Financial Statements is shown below:

Compact Capital Expenditures	\$ 3,672,055
Less transfer to YFA	<u>500,000</u>
General Purpose Financial Statement Expenditures	<u>\$ 3,172,055</u>

(Note 2: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association.)

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), 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 component States.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED
COMPACT OF FREE ASSOCIATION GENERAL FUND
SECTION 211(A) CURRENT ACCOUNT (CFDA NO. 15.875)
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1993</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u> General Fund: Current Account	Various	\$ <u>6,909,113</u>
Total Compact of Free Association expenditures		\$ <u>12,855,934</u>

(Note: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association.)

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), 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 reallocates such to component States.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SCHEDULE OF PROGRAMS SELECTED FOR
AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128
YEAR ENDED SEPTEMBER 30, 1993

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>1993</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Dept. of the Interior</u>		
Compact of Free Association:	15.875	
211(A) Capital Account		\$ 3,672,055
221(B) Special Block Grant		1,034,608
Special Development Assistance		18,057
Health and Medical		132,062
Post Secondary Education		124,500
Energy Programs		965,539
TTPI Capital Projects		478,431
OTIA Technical Assistance		<u>970</u>
Total CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>6,426,222</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		<u>\$ 6,426,222</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		<u>\$ 6,997,923</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>91.8%</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1993

Federal Findings

Federal Grants - Questioned Costs

<u>Program</u>	<u>Reason for Questioned Cost</u>	<u>Questioned Costs</u>				
U.S. Dept. of Labor/ Job Training Partnership Act / C F D A #17.250	<p><u>Criteria:</u> Per OMB Circular A-87, Attachment A, Section A, paragraph 2(b), the grantee assumes the responsibility for ensuring that federally assisted program funds have been expended and accounted for consistently with underlying agreements and program objectives.</p> <p><u>Condition:</u> Expenditures aggregating \$2,241 out of a contract of \$2,938, did not have authorizations documented, were not certified against a contract and were not properly encumbered in the system.</p> <table style="margin-left: auto; margin-right: auto; border: none;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;"><u>Org. No.</u></td> <td style="text-align: center; border-bottom: 1px solid black;"><u>Contract No.</u></td> </tr> <tr> <td style="text-align: center;">3263/3280</td> <td style="text-align: center;">C20027</td> </tr> </table> <p>(The above was drawn from a sample of 25 general disbursements aggregating \$73,551 out of total general disbursements aggregating \$9,058,716.)</p> <p><u>Cause:</u> Unknown.</p> <p><u>Effect:</u> The effect of the above condition is a questioned cost.</p> <p><u>Recommendation:</u> We recommend that payments not be made without proper authorizations and certifications against an approved document in compliance with federal grants requirements and the Financial Management Act.</p> <p><u>Auditee Response:</u> The State will pursue resolution of this matter with the FSM National Government and the grantor agency.</p> <p><u>Corrective Action Plan:</u> The State will heighten its review of JTPA transactions.</p>	<u>Org. No.</u>	<u>Contract No.</u>	3263/3280	C20027	<p><u>\$2,241</u></p>
<u>Org. No.</u>	<u>Contract No.</u>					
3263/3280	C20027					

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1993

Federal Findings, continued

Resolution of Prior Year Findings

1. **Criteria:** Audit findings should be resolved in a timely manner.

Condition: The following findings presented in the 1989 and 1992 reports are not yet resolved:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
		Report for FY89
21	1	Compact administrative expense criteria.
22	3	Accounting for general fixed assets.
		Report for FY92
95	2	Drug-Free Workplace Act
97	3	Documentation Controls - JTPA

Cause: Unknown

Effect: The non-resolution of these conditions has the same impact as is the prior years.

Recommendation: All prior year findings should be addressed and resolved in a timely manner.

Auditee Response:

Prior Year Federal Findings - FY89

For finding no. 1, It is the position of the State of Yap that the term "project administration costs" means "indirect cost charges". As Yap does not calculate or charge indirect costs to any capital project there is compliance with the 1.5% limitation.

For finding no. 3, no response.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1993

Federal Findings, continued

Auditee Response, continued:

Prior Year Federal Findings - FY92

For finding no. 2, all of the FSM States have requested the FSM National Government Department of Health Services to develop a program for all the FSM that will result in compliance. As there has been no response to this request, the State of Yap had decided to develop its own plan.

For finding no. 3, no response.

Corrective Action Plan:

Prior Year Federal Findings - FY89

There is no corrective action plan for finding no. 1. For finding no. 3, the Chief Accountant is responsible to coordinate whatever is necessary for compliance by September 30, 1995.

Prior Year Federal Findings - FY92

For finding no. 2, the Personnel Division of the Office of Administrative Services of the State of Yap has been instructed to develop a plan that would result in compliance by September 30, 1994 and to implement the development plan not later than September 30, 1995. For finding no. 3, the JTPA Coordinator has been instructed to review the records and correct any deficiencies by September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1993

Federal Findings, continued

FEMA Matching

2. Criteria: Matching funds should be appropriated on a timely basis.

Condition: No fiscal year 1993 appropriations were made for Yap State's portion of FEMA matching funds related to the Public Assistance Program for Typhoon Owen.

Cause: It appears that this condition was caused by not properly tracking the FEMA Public Assistance Program related expenditures to ensure proper matching of funds on a timely basis.

Effect: In order to avoid a deficit position in the reimbursable Other U.S. Grants Fund (FEMA funding), the General Fund absorbed the deficit, thus meeting the match and avoiding a questioned cost. However, this action did not occur on a timely basis.

Recommendation: We recommend that FEMA expenditures be closely monitored so that proper matching funds are applied on a timely basis.

Auditee Response: None.

Corrective Action Plan: The Chief Accountant is responsible to ensure that matching is done on a timely basis.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1993

Local Findings

Resolution of Prior Year Findings

1. **Criteria:** Audit findings should be resolved in a timely manner.

Condition: The following finding presented in the 1992 report has not been resolved:

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
94	3	CFSM Receivables

Cause: Unknown.

Effect: The non-resolution of these conditions has the same impact as in the prior years.

Recommendation: All prior year findings should be addressed and resolved in a timely manner.

Auditee Response: None.

Corrective Action: The Chief Accountant is responsible to investigate all prior year receivable balances and make adjustments as appropriate by September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Findings and Questioned Costs
Year Ended September 30, 1993

Local Finding, continued

Disbursement Control

2. **Criteria:** Compliance should occur with the Financial Management Act.

Condition: Shipping authorization No. D320017 was for \$75.90; however, the actual expenditure was for \$590.40 with no explanation or additional authorization for the variance. (This was noted in one out of 22 selections aggregating \$64,964, out of a total population aggregating \$1,946,741).

Cause: Unknown.

Effect: No material effect on the financial statement resulted.

Recommendation: We recommend that expenditures not be made without proper, documented authorizations.

Auditee Response: None.

Corrective Action: The accounts payable processing staff have been instructed to ensure that proper authorizations support all disbursements.

STATE OF YAP
FEDERATE STATES OF MICRONESIA
RESOLUTION OF PRIOR YEARS' QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 1993

For the year ended September 30, 1993, the following questioned costs were noted and prior year questioned costs resolved:

Unresolved federal questioned costs at September 30, 1992	\$229,216
FY93 questioned costs	2,241
FY85 resolved questioned costs	(7,730)
FY86 resolved questioned costs	<u>(7,447)</u>
 Total unresolved federal questioned costs at September 30, 1993	 <u>\$216,280</u>

The resolved costs relate to Congress of the Federated States of Micronesia (CFSM) projects and one non-U.S. grant project. The CFSM related questioned costs are disclosed in footnote eight to the general purpose financial statements.

Consequently, the following is a summary of unresolved federal questioned costs for the State of Yap:

FY84 unresolved questioned costs	\$ 28,904
FY85 unresolved questioned costs	16,364
FY86 unresolved questioned costs	168,555
FY92 unresolved questioned costs	216
FY93 unresolved questioned costs	<u>2,241</u>
	<u>\$216,280</u>

Note: Pursuant to Title I, Section 105 of United States Public Law 99-239 the Government of the Federated States of Micronesia (FSM) is no longer liable for debts to U.S. Federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL STRUCTURE
SEPTEMBER 30, 1993**

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE
BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Honorable Petrus Tun
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, 1993, and have issued our report thereon dated March 1, 1994. Our report on the audit of the general purpose financial statements was modified as a result of our inability to form an opinion as to the fairness of presentation of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group.

We conducted our audit in accordance with generally accepted auditing standards and 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.

In planning and performing our audit of the general purpose financial statements of the State of Yap for the year ended September 30, 1993, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of the State of Yap, is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected.

Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories.

- Revenue and receipt cycle
- Purchases and disbursement cycle
- Payroll and personnel cycle
- External financial reporting
- Cash and equivalents
- Investments
- Receivables
- Payables and accrued liabilities
- Fund balances

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

The following items, which are further explained in the following pages, represent reportable conditions:

Finding No. 1 (FY92 Finding No. 6) - Yap Fishing Authority
- Fixed Assets.

Finding No. 1 (FY91 Finding No. 2) - Fixed Asset Account
Group.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material, in relation to the general purpose financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

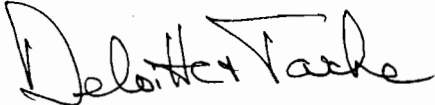
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation which are described in the accompanying Schedule of Internal Control Findings (pages 104 through 124).

We also noted matters involving the internal control structure and its operation used to administer federal financial assistance programs which we reported to the management of the State of Yap in a report dated March 1, 1994.

This report is intended for the information of the management of the State of Yap and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

March 1, 1994

A handwritten signature in cursive script, appearing to read "Deloitte & Touche", written in dark ink.

Certified Public Accountants

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings
For the Year Ended September 30, 1993

Prior Year Findings

Finding No. 1

Criteria: All prior year findings should be adequately addressed and resolved with corrective action being undertaken in a timely manner.

Condition: The following matters addressed in previous internal control reports are not yet resolved.

<u>Page No.</u>	<u>Finding No.</u>	<u>Description</u>
		Report for FY87
8	10	Yap Fishing Authority - Receivable Collection & Write-offs
		Report for FY90
74	5	Payroll
		Report for FY91
82	6	Yap Fishing Authority - Fixed Assets
		Report for FY92
108	2	General Fixed Assets Account Group
113	10	Accounts Receivable
114	11	Accounts Receivable
115	13	Accounts Payable
117	15	Travel Advances

Cause: Unknown

Effect: The non-resolution of these prior year findings will continue to hinder the effective maintenance of the State's accounting records.

Recommendation: Yap State management should take action to resolve these prior year audit findings.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Prior Year Findings, continued

Finding No. 1, continued

Auditee Response:

FY 87 - Yap Fishing Authority - Receivables - None.

FY 90 - Payroll - The calculation of Payroll tax withholding is directed by the FSM Revenue Office therefore we cannot change the program, only the FSM National Government can make appropriate changes.

FY 91 - Yap Fishing Authority - Fixed Assets - None.

FY 92 - Fixed Asset Account Group - It is impossible for Yap to resolve this finding until it locates certain property records that have been missing for several years.

FY 92 - Findings 10, 11, 13 & 15 - None.

Corrective Action:

FY 87 - Yap Fishing Authority - Receivables - The finding has been referred to the YFA Board of Directors for corrective action.

FY 90 - Payroll - This item was discussed at the Finance Conference held in Kosrae in march of 1994. The Secretary of Finance agreed to investigate the matter and attempt to resolve this finding.

FY 91 - Yap Fishing Authority - Fixed Assets - This finding has been referred to the YFA Board of Directors for corrective action plan.

FY 92 - Fixed Asset Account Group - The Financial Management Consultant in the Office of Administrative Services is the only person employed by the State of Yap who claims to know what these file looks like. Therefore he is responsible to make one financial search for these files not later than September 30, 1995.

FY 92 - Findings 10, 11, 13 & 15 - The Chief Accountant is responsible to carry out the recommendations not later than September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

General Disbursement Control

Finding No. 2

Criteria: Expenditures should be fully supported by the APV package.

Condition: We noted that TA Nos. A30072, A30487, and A30143 were not filed with the APV package.

Cause: Unknown.

Effect: We were able to locate the TAs in the TA control copy file. Therefore no questioned costs resulted.

Recommendation: We recommend that a copy of the TA always be included in the related APV package to leave a complete audit trail.

Auditee response: None.

Corrective Action: The Travel Clerk has been instructed to ensure that a copy of the Travel Authorization (T/A) is attached to each APV.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

General Disbursement Controls

Finding No. 3

Criteria: Advance payments should be tracked to ensure receipt of goods and services.

Condition: For goods or services which do not go through the supply department, there is no control over goods or services not received.

Cause: A formal policy covering advance payments has not been established.

Effect: No material effect on the financial statements results from this condition.

Recommendation: We recommend that advance payments be accounted for in a receivable account by the Finance Division. This account should be periodically reviewed to determine the disposition of goods or services not received in a timely manner.

Auditee Response: None.

Corrective Action: A receivable account for advances on purchases is now being used and the Chief Accountant is purchases is now being used and the Chief Accountant is responsible to reconcile the account at September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll

Finding No. 4

Criteria: Payroll payment calculations should be made in conformity with public service regulations.

Condition: Stand-by differential is not being calculated in conformity with the public service regulations. Employees received stand-by differential for all hours worked rather than just for approved time on call.

Cause: It appears the payroll staff were not properly trained in the proper calculation of the stand-by differential.

Effect: Payroll expenditures are being incurred contrary to public service regulations.

Recommendation: We recommend that the stand-by differential calculations be properly supported and calculated. The calculation should be periodically reviewed by the personnel department to ensure compliance with public service regulations.

Auditee Response: None.

Corrective Action: The Payroll Section has now been instructed in the proper accounting for stand-by differential.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll, Continued

Finding No. 5

Criteria: Payroll payment calculations should be based on current personnel policies.

Condition: One employee is continuing to receive a housing differential. However, per the Director of Personnel, housing differential payments were eliminated many years ago.

Cause: Payroll personnel were not aware of the change in policy and were simply calculating the pay based on what had been done in the past.

Effect: The finding appears to be an isolated incident and therefore, there is no material effect on the financial statements.

Recommendation: We recommend that the payroll policies be reviewed by the payroll staff, that new policy changes be routed through the payroll staff, and that the personnel department occasionally review the payroll records to ensure that payroll payments are being calculated in conformity with current personnel policies.

Auditee Response: None.

Corrective Action: The Chief of the Personnel Division has been instructed to review the payroll records by September 30, 1994 to insure that payroll payments are in accordance with personnel policies.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll, continued

Finding No. 6

Criteria: Personnel changes, authorized by a personnel action form (PAF), should be prepared and filed in a timely manner.

Condition: One employee had a personnel change in August 1987. However, the personnel action form (PAF) was not completed and filed until November 1993.

Cause: Unknown.

Effect: As this appears to be an isolated incident and the personnel change was authorized, no effect on the financial statements results.

Recommendation: We recommend personnel changes be documented by a PAF in file on a timely basis and that payroll staff periodically review personnel files to ensure that proper supporting documentation is on file.

Auditee Response: None.

Corrective Action: The Payroll Section has been instructed to review all personnel files not later than September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll, continued

Finding No. 7

Criteria: Employees should sign some form of acknowledgment when picking up checks to document their receipt and to catch other errors or irregularities on a timely basis.

Condition: Many employees sign no form of acknowledgment when obtaining paychecks and often, one employee will pick up all the paychecks for a department with no subsequent sign-offs prepared when employees actually receive the checks.

Cause: Unknown.

Effect: One amount on the check register was related to a direct deposit and was therefore a check for a zero amount. However, due to an input error in the employee's system payroll file, the direct deposit amount was listed on the check register.

Recommendation: We recommend that employees sign when they receive their pay checks. If one employee collects for a department, the employees should still sign at the department and the support should be maintained by Finance.

Auditee Response: From a logistical standpoint it would be difficult if not impossible to monitor such a procedure to ensure compliance thus accomplishing the objective of such a procedure.

Corrective Action: As an alternative, it is believed that the objective of the recommended procedure would more likely be accomplished by having the Yap State Public Auditor, on a surprise basis, observe the payoff of each office, department, section, etc. at least once a year. Arrangements will be made with the Public Auditor not later than September 30, 1994 to establish the appropriate audit program to observe payroll payoffs.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll, continued

Finding No. 8

Criteria: Supporting documents should be properly filed and maintained so as to leave a clear audit trail.

Condition: Certain payroll reports such as the "transactions distribution report" and the "hours entry report" for certain pay periods were not filed and were missing.

Cause: Payroll has numerous reports to file and some have been lost.

Effect: No effect on the financial statement results from this condition.

Recommendation: We recommend that a checklist of the necessary payroll reports be prepared and checked-off and signed-off after each pay period to ensure that a clear audit trail is maintained.

Auditee Response: None.

Corrective Action: The Payroll Section has been instructed to comply with the recommendation not later than September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll Imprest Accounts

Finding No. 9

Criteria: Imprest accounts should be reconciled on a monthly basis.

Condition: Both payroll accounts have unexplained balances after being reconciled as of September 30, 1993.

Cause: It appears excess cash has been transferred to cover payroll.

Effect: The effect is that the payroll imprest accounts are not being tracked as imprest accounts and the excess funds are not accruing interest.

Recommendation: We recommend that excess funds in the payroll imprest accounts be transferred to savings accounts to maximize interest earnings.

Auditee Response: None.

Corrective Action: The Chief Accountant is responsible to carryout the recommendations not later than September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Bank Reconciliation

Finding No. 10

Criteria: Unreconciled variances in bank reconciliations should be cleared in a timely manner.

Condition: A material unreconciled variance of \$138,147 for the general account bank reconciliation existed as of September 30, 1993.

Cause: Unknown.

Effect: The unreconciled variance was cleared in the audit process.

Recommendation: We recommend that unreconciled variances in bank reconciliations be investigated and be cleared in the subsequent month to avoid accumulation of prior unreconciled variances. Material fiscal year-end unreconciled variances should be investigated and cleared prior to preparation of financial statements.

Auditee Response: None.

Corrective Action: The Chief Accountant is responsible to properly reconcile the bank accounts not later than September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Outstanding Checklist

Finding No. 11

Criteria: The outstanding checklist should list only the checks classified as outstanding at the date requested.

Condition: The outstanding checklist as of September 30, 1993, included checks dated subsequent to the cut-off date. The outstanding checklist had to be manually reviewed and footed.

Cause: It appears the computer system update is causing the problem.

Effect: No effect on the financial statement results from this condition.

Recommendation: We recommend that the system be updated so that a proper outstanding checklist can be provided on a timely basis.

Auditee Response: None.

Corrective Action: The Chief Accountant is responsible to investigate the problem and correct the situation by September 30, 1994

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Stale Dated Checks

Finding No. 12

Criteria: Stale dated checks should be reclassified as accounts payable and investigated and cleared in a timely manner.

Condition: Approximately \$45,030 and \$12,641 of stale dated checks are in the general account and payroll account, respectively. Stale dated checks are those greater than one year old.

Cause: Unknown.

Effect: The effect on the financial statements is to immaterially understate cash and accounts payable.

Recommendation: We recommend that stale dated checks greater than one year old be reclassified to accounts payable and be investigated and properly cleared on a timely basis.

Auditee Response: None.

Corrective Action: The Chief Accountant is responsible to carryout the recommendation not later than September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Yap Fishing Authority (YFA) - Receivables

Finding No. 13

Criteria: Proper management of receivables entails pursuing delinquent accounts and not extending credit to delinquent customers.

Condition: YFA has not imposed strict credit requirements as we noted a number of credits to delinquent customers. Additionally, the allowance for doubtful accounts did not appear adequate.

Cause: Unknown.

Effect: Due to the audit process, the allowance for doubtful accounts was not materially misstated for financial statement purposes.

Recommendation: We recommend the suspension of credit of customers who fail to make payments. A regular analysis of the allowance for doubtful accounts should occur in concert with heightened pursuit of delinquent accounts.

Auditee Response: None.

Corrective Action: This item has been referred to the YFA Board of Directors for corrective action.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Investments

Finding No. 14

Criteria: Investments and related activities should be properly stated for financial statement purposes.

Condition: Most investment accounts had not been adjusted from the prior year audit and cash drawdowns were often incorrectly applied.

Cause: Unknown.

Effect: Prior to the audit process, investment and related activities appear to be materially misstated.

Recommendation: We recommend that Finance personnel adjust records to agree with manual records or the FSM National Government's records.

Auditee Response: None.

Corrective Action: The Chief Accountant is responsible to carryout this recommendation not later than September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Payroll Service Charges

Finding No. 15

Criteria: All revenue sources should be treated as required by the Financial Management Act.

Condition: Payments related to charges for payroll services for non-Yap State entities were credited against Finance Division expenditures.

Cause: Management represents that this practice has been in effect for many years.

Effect: No material effect on the financial statements exists as a result of this condition. However, the present treatment may not be in compliance with legislative expectations.

Recommendation: Management should review this matter to ensure compliance with the Financial Management Act.

Auditee Response: None.

Corrective Action: None.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Unappropriated Disbursement

Finding No. 16

Criteria: Section 1261 and 1262 of the Financial Management Act specifies that no funds shall be obligated or disbursed without prior appropriation and allotment.

Condition: A \$200,000 settlement for past land use fees for the Loran-Station land occurred in 1993, \$90,000 of which had been previously appropriated. However, the remaining \$110,000 had not been appropriated or allotted.

Cause: Unknown.

Effect: Unappropriated expenditures should be funded by the General Fund. The General Fund was charged for the \$110,000.

Recommendation: We recommend that disbursements not be authorized or made until properly appropriated and allotted in compliance with the Financial Management Act.

Auditee Response: None.

Corrective Action: A joint government committee under the chairmanship of Hilary Tacheliol has been formed to establish procedures for the acquiring of land in the future.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Year-end Accruals

Finding No. 17

Criteria: Year-end accruals should be prepared on a timely basis.

Condition: The majority of year-end accruals related to reimbursable funds as some transfers-out had not been effected prior to the audit.

Cause: Unknown.

Effect: Due to the audit process, the year-end accruals and transfers are not materially misstated for financial statement disclosure purposes.

Recommendation: We recommend that the year-end accruals related to reimbursable funds and transfers be properly recorded.

Auditee Response: None.

Corrective Action: The Chief Accountant is responsible to record the proper year end accruals at September 30, 1994.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Journal Vouchers

Finding No. 18

Criteria: Transactions should only be recorded once.

Condition: Voyage 3/93 of the Microspirit was recorded by both JV37002 and JV38002.

Cause: Unknown.

Effect: Due to the audit process, this double posting was noted and corrected in the financial statements.

Recommendation: We recommend that voyages be tracked so that double postings do not occur. An overall review of JV's may catch errors such as this in a timely manner.

Auditee Response: None.

Corrective Action: The Accounting Supervisor has been instructed to track the recording of voyages.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Cash Management

Finding No. 19

Criteria: Proper cash management should avoid insufficient funds (NSF) bank charges and utilize all credit memos from vendors on a timely basis.

Condition: Numerous NSF charges occurred during the year. We noted one credit memo for approximately \$50 (out of 25 general disbursements tested) for which we could not locate documentation to show timely utilization of the credit.

Cause: Bank charges appear to be incurred due to an attempt to maximize the float on checks in Yap. It is unknown why the credit memo was not documented or being followed up on.

Effect: The results of the above finding appear to be properly recorded in the financial statements.

Recommendation: We recommend that sufficient funds be transferred in a timely manner to cover checks or discussions be held with the bank to avoid such charges. Credit memos should be documented and utilized on a timely basis.

Auditee Response: None.

Corrective Action: The Yap State Treasurer has been instructed to keep adequate cash in the checking account.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Internal Control Findings, Continued
Year Ended September 30, 1993

Inventory Counts

Finding No. 20

Criteria: Inventory counts should be performed on at least an annual basis.

Condition: Fiscal year-end inventory counts had not been performed at the Pharmacy, Laboratory, and Dental Clinic at the Hospital, and the warehouse for PU&C.

Cause: Unknown.

Effect: There is no material effect on the financial statement as inventory, if recognized for governmental fund types, does not represent an available expendable resource and is reserved in fund balance. Expenditures, however, may be materially overstated by the above unrecognized inventories.

Recommendation: We recommend that for more efficient management and operation of the above departments, a physical inventory should be performed at least annually.

Auditee Response: None.

Corrective Action: The Departments, Divisions, and Sections will be instructed to take a physical inventory at September 30, 1994.