

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

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

YEAR ENDED SEPTEMBER 30, 1995

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Year Ended September 30, 1995

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STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
GENERAL-PURPOSE FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 1995



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the State of Yap, as set forth in Section II of the foregoing table of contents, as of September 30, 1995, and for the year then ended. These general-purpose financial statements are the responsibility of the management of the State of Yap. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the Yap Community Action Program, a Component Unit - Governmental Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Yap Community Action Program, is based solely on the report of the other auditors.

Except as discussed in the following paragraphs, 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 general-purpose financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

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

The Yap Economic Development Authority (YEDA), a Proprietary Fund Type - Enterprise Fund, holds a greater than 50% interest in the Yap Fishing Corporation (YFC). YFC, however, has not provided financial statements; therefore YEDA's financial statements, included within the general-purpose financial statements, do not include the financial statements of YFC, which is not in conformity with generally accepted accounting principles.



The general-purpose financial statements referred to above do not include the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council, Component Units-Proprietary Funds, which, in our opinion, should be included to conform with generally accepted accounting principles. The entities comprising these omitted component units were not able to produce financial statements.

Yap State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1995, 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, based on our audit and the report of other auditors, except for the effects on the general-purpose financial statements of such adjustments, if any, as might have been determined to be necessary had; 1) original cost data been available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit-Proprietary Fund; 2) audited financial statements been available for the Yap Fishing Corporation, a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund, and for the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council, Component Units - Proprietary Funds; and 3) the General Fixed Assets Account Group been updated, the accompanying general-purpose financial statements, as set forth in Section II of the table of contents, with the exception of 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, present fairly, in all material respects, the financial position of the State of Yap, as of September 30, 1995, and the results of its operations and the cash flows of its Proprietary Fund Type - Internal Service Fund and Component Unit - Proprietary Fund for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated April 22, 1996 on our consideration of the State of Yap's (Primary Government and Yap Fishing Authority) internal control structure and a report dated April 22, 1996 on its compliance with laws and regulations.

As further explained in note 15, an investee of the Yap Economic Development Authority has been placed in receivership as of February 25, 1995, is involved in significant litigation, and is not in compliance with various debt covenants. The impact of these matters 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.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section 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 April 22, 1996, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

*Deloitte + Touche LLP*

April 22, 1996

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1995  
(With comparative totals as of September 30, 1994)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	Component Units		Totals	
	General	Special	Capital	Enterprise	Internal	Expendable	General	General	Primary	Yap	Yap	Reporting	
		Revenue	Projects		Service	Trust	Fixed	Long-Term	Government	Fishing	Community	Entity	
						Assets	Debt	(Memorandum	Authority	Action	(Memorandum Only)		
								Only)		Program	1995	1994	
<b>Assets</b>													
Cash and equivalents (note 3)	\$ 611,667	\$ -	\$ -	\$ 86,152	\$ -	\$ 197,855	\$ -	\$ -	\$ 895,674	\$ (38,702)	\$ 104,949	\$ 961,921	\$ 3,060,647
Investments (note 4)	56,782,765	1,615,343	30	8,500,000	-	-	-	-	66,898,138	2,196,780	-	69,094,918	74,840,023
Receivables, net (note 5):													
Other governments	-	440,572	-	-	-	-	-	-	440,572	-	-	440,572	68,650
Federal agencies	-	-	38,333	-	-	-	-	-	38,333	-	136,594	174,927	156,760
U.S. Department of the Interior-TTPI	-	-	886,516	-	-	-	-	-	886,516	-	-	886,516	722,721
Federal and other-FSM government	161,430	1,572,279	72,146	-	-	-	-	-	1,805,855	-	-	1,805,855	1,871,567
General	49,451	-	-	-	5,049	-	-	-	54,500	181,606	120,359	356,465	545,697
Loans	7,498,589	-	8,500,000	2,000,000	-	-	-	-	17,998,589	-	530,029	18,528,618	17,874,747
Accrued interest on investments	-	-	-	-	-	-	-	-	-	3,677	-	3,677	319,250
Due from other funds (note 9)	-	1,193,204	6,571,339	4,641	193,978	33,636	-	-	7,996,798	-	-	7,996,798	8,328,210
Advances and prepayments (note 5)	110,817	43,879	3,132	-	-	-	-	-	157,828	38,997	-	196,825	270,082
Restricted assets	-	-	-	-	-	-	-	-	-	-	1,100,955	1,100,955	1,308,023
Inventory of supplies, at cost													
(note 6)	398,975	-	-	41,424	62,247	-	-	-	502,646	54,638	-	557,284	423,261
Fixed assets, net (note 7)	-	-	-	310,348	-	-	64,620,758	-	64,931,106	3,880,845	445,757	69,257,708	69,630,684
Amount to be provided for retirement													
of long-term debt (note 8)	-	-	-	-	-	-	-	45,016,897	45,016,897	-	-	45,016,897	52,189,520
<b>Total assets</b>	<b>\$ 65,613,694</b>	<b>\$ 4,865,277</b>	<b>\$ 16,071,496</b>	<b>\$ 10,942,565</b>	<b>\$ 261,274</b>	<b>\$ 231,491</b>	<b>\$ 64,620,758</b>	<b>\$ 45,016,897</b>	<b>\$ 207,623,452</b>	<b>\$ 6,317,841</b>	<b>\$ 2,438,643</b>	<b>\$ 216,379,936</b>	<b>\$ 231,609,842</b>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1995  
(With comparative totals as of September 30, 1994)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	Component Units		Totals	
	General	Special	Capital	Enterprise	Internal	Expendable	General	General	Primary	Yap	Yap	Reporting	
		Revenue	Projects		Service	Trust	Fixed	Long-Term	Government	Fishing	Community	Entity	
						Assets	Debt	(Memorandum	Authority	Action	(Memorandum Only)		
								Only)		Program	1995	1994	
<b>Liabilities and Fund Equity</b>													
<b>Liabilities:</b>													
Accounts payable	\$ 314,935	\$ 316,575	\$ 40,708	\$ 19,700	\$ 331	\$ 630	\$ -	\$ -	\$ 692,879	\$ 25,474	\$ 25,421	\$ 743,774	\$ 1,154,302
Accrued payroll and others	346,818	-	-	2,428	-	-	-	516,897	866,143	22,454	86,784	975,381	952,581
Intergovernmental note payable	-	-	-	2,000,000	-	-	-	-	2,000,000	-	-	2,000,000	2,000,000
Notes payable Yap State	-	-	-	6,500,000	-	-	-	-	6,500,000	-	-	6,500,000	-
Due to other funds (notes 9)	5,029,457	1,971,144	996,197	-	-	-	-	-	7,996,798	-	-	7,996,798	8,320,275
Due to grantor	-	-	-	-	-	-	-	-	-	-	109,750	109,750	115,940
Deferred revenue	-	63,981	-	-	-	-	-	-	63,981	4,600	97,019	165,600	236,067
Notes payable (notes 8 and 13)	-	-	-	-	-	-	44,500,000	-	44,500,000	-	-	44,500,000	58,200,000
Land acquisition claims payable	-	-	-	-	-	-	-	-	-	-	-	-	7,894
<b>Total liabilities</b>	<b>5,691,210</b>	<b>2,351,700</b>	<b>1,036,905</b>	<b>8,522,128</b>	<b>331</b>	<b>630</b>	<b>-</b>	<b>45,016,897</b>	<b>62,619,801</b>	<b>52,528</b>	<b>318,974</b>	<b>62,991,303</b>	<b>70,987,059</b>
<b>Fund equity:</b>													
Contributed capital	-	-	-	7,270,398	-	-	-	-	7,270,398	6,512,670	-	13,783,068	14,008,017
Investment in general fixed assets	-	-	-	-	-	-	64,620,758	-	64,620,758	-	-	64,620,758	64,620,758
<b>Retained earnings (deficit):</b>													
Reserved	-	-	-	(4,849,961)	64,363	-	-	-	(4,785,598)	-	-	(4,785,598)	-
Unreserved	-	-	-	-	196,580	-	-	-	196,580	(247,357)	-	(50,777)	(4,501,709)
<b>Fund balances:</b>													
<b>Reserved for:</b>													
Related assets	46,169,285	297,120	-	-	-	-	-	-	46,466,405	-	-	46,466,405	53,730,902
Loans	7,498,589	-	8,500,000	-	-	-	-	-	15,998,589	-	1,630,984	17,629,573	17,332,078
Eneumbrances	828,985	784,979	1,671,057	-	-	29	-	-	3,285,050	-	-	3,285,050	2,839,571
Continuing appropriations (note 14)	26,021	-	2,873,888	-	-	-	-	-	2,899,909	-	-	2,899,909	5,086,458
Unreserved	5,399,604	1,431,478	1,989,646	-	-	230,832	-	-	9,051,560	-	488,685	9,540,245	7,506,708
<b>Total fund equity</b>	<b>59,922,484</b>	<b>2,513,577</b>	<b>15,034,591</b>	<b>2,420,437</b>	<b>260,943</b>	<b>230,861</b>	<b>64,620,758</b>	<b>-</b>	<b>145,003,651</b>	<b>6,265,313</b>	<b>2,119,669</b>	<b>153,388,633</b>	<b>160,622,783</b>
<b>Contingent liabilities and commitments (notes 12 and 13)</b>													
<b>Total liabilities and fund equity</b>	<b>\$ 65,613,694</b>	<b>\$ 4,865,277</b>	<b>\$ 16,071,496</b>	<b>\$ 10,942,565</b>	<b>\$ 261,274</b>	<b>\$ 231,491</b>	<b>\$ 64,620,758</b>	<b>\$ 45,016,897</b>	<b>\$ 207,623,452</b>	<b>\$ 6,317,841</b>	<b>\$ 2,438,643</b>	<b>\$ 216,379,936</b>	<b>\$ 231,609,842</b>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances  
All Governmental Fund Types, Expendable Trust Fund and Discretely Presented Component Unit  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)**

	Governmental Fund Types			Fiduciary	Totals	Component	Totals	
	General	Special Revenue	Capital Projects	Expendable Trust	Primary Government (Memorandum Only)	Unit Yap Community Action Program	Reporting Entity (Memorandum Only)	
							1995	1994
<b>Revenues:</b>								
Compact of Free Association	\$ 7,154,117	\$ 2,868,294	\$ 4,402,075	\$ -	\$ 14,424,486	\$ -	\$ 14,424,486	\$ 14,248,181
Taxes and licenses	970,276	-	-	25,000	995,276	-	995,276	1,796,743
Federal contributions	-	1,485,530	36,308	-	1,521,838	813,468	2,335,306	1,799,489
U.S. Dept. of the Interior-TTPI	-	-	163,795	-	163,795	-	163,795	85,611
CFSM grants	-	1,057,921	129,251	-	1,187,172	27,335	1,214,507	1,121,292
Revenue sharing (FSM)	1,260,862	-	-	-	1,260,862	-	1,260,862	1,724,687
Interest income	211,646	-	-	5,626	217,272	73,286	290,558	174,981
Other	2,298,858	228,245	4,196	30,075	2,561,374	259,422	2,820,796	1,651,613
<b>Total revenues</b>	<b>11,895,759</b>	<b>5,639,990</b>	<b>4,735,625</b>	<b>60,701</b>	<b>22,332,075</b>	<b>1,173,511</b>	<b>23,505,586</b>	<b>22,602,597</b>
<b>Expenditures:</b>								
General government	1,594,819	-	-	-	1,594,819	-	1,594,819	1,524,121
Health services	1,344,014	1,224,479	-	-	2,568,493	-	2,568,493	1,987,745
Education	1,846,872	2,761,954	-	-	4,608,826	-	4,608,826	3,548,842
Economic development	906,378	438,990	591,012	-	1,936,380	-	1,936,380	1,419,612
Public safety	647,417	156,360	-	-	803,777	-	803,777	727,003
Public works and utilities	1,823,770	790,932	3,917,121	-	6,531,823	-	6,531,823	5,176,605
Community affairs	694,621	248,168	170,247	34,909	1,147,945	1,080,135	2,228,080	1,931,664
Boards and commissions	347,258	-	-	-	347,258	-	347,258	291,646
Transportation	1,251,092	-	-	-	1,251,092	-	1,251,092	1,666,760
Other	182,821	-	26,676	-	209,497	-	209,497	585,947
<b>Total expenditures</b>	<b>10,639,062</b>	<b>5,620,883</b>	<b>4,705,056</b>	<b>34,909</b>	<b>20,999,910</b>	<b>1,080,135</b>	<b>22,080,045</b>	<b>18,859,645</b>
Excess of revenues over expenditures	1,256,697	19,107	30,569	25,792	1,332,165	93,376	1,425,541	3,742,952
<b>Other financing sources (uses):</b>								
Investment income (Note 4)	3,464,496	-	-	-	3,464,496	-	3,464,496	4,531,819
Operating transfers in (Note 10)	-	1,086,384	4,060,110	-	5,146,494	-	5,146,494	9,290,711
Payments of notes payable and interest (Note 8)	(6,517,106)	(1,086,384)	(4,010,110)	-	(11,613,600)	-	(11,613,600)	(11,566,295)
Operating transfers out (Note 10)	(5,303,204)	-	-	-	(5,303,204)	-	(5,303,204)	(9,218,499)
<b>Total other financing sources (uses), net</b>	<b>(8,355,814)</b>	<b>-</b>	<b>50,000</b>	<b>-</b>	<b>(8,305,814)</b>	<b>-</b>	<b>(8,305,814)</b>	<b>(6,962,264)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(7,099,117)</b>	<b>19,107</b>	<b>80,569</b>	<b>25,792</b>	<b>(6,973,649)</b>	<b>93,376</b>	<b>(6,880,273)</b>	<b>(3,219,312)</b>
Fund balances at beginning of year	67,021,601	2,494,470	14,954,022	205,069	84,675,162	2,026,293	86,701,455	89,646,921
<b>Fund balances at end of year</b>	<b>\$ 59,922,484</b>	<b>\$ 2,513,577</b>	<b>\$ 15,034,591</b>	<b>\$ 230,861</b>	<b>\$ 77,701,513</b>	<b>\$ 2,119,669</b>	<b>\$ 79,821,182</b>	<b>\$ 86,427,609</b>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual - General Fund  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995 General Fund			1994 General Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Current account compact funds	\$ 7,203,118	\$ 7,154,117	\$ (49,001)	\$ 7,056,115	\$ 7,056,115	\$ -
FSM revenue sharing	1,314,060	1,260,862	(53,198)	1,263,250	1,724,687	461,437
Taxes and licenses	1,431,750	1,444,907	13,157	1,586,310	1,776,743	190,433
Interest income	550,000	211,646	(338,354)	550,000	110,373	(439,627)
Other	1,847,000	1,824,227	(22,773)	1,578,100	1,403,649	(174,451)
<b>Total revenues</b>	<b>12,345,928</b>	<b>11,895,759</b>	<b>(450,169)</b>	<b>12,033,775</b>	<b>12,071,567</b>	<b>37,792</b>
<b>Expenditures-budgetary basis:</b>						
General government	1,664,953	1,593,365	71,588	1,582,780	1,504,078	78,702
Health services	1,668,840	1,353,136	315,704	1,549,625	1,498,444	51,181
Education	2,063,040	1,853,165	209,875	1,791,205	1,680,775	110,430
Economic development	1,050,769	913,792	136,977	771,650	696,160	75,490
Public safety	626,500	635,275	(8,775)	640,000	598,292	41,708
Public works and utilities	1,969,680	1,883,746	85,934	1,724,330	1,684,495	39,835
Transportation	1,456,780	1,359,758	97,022	1,807,690	1,824,087	(16,397)
Community affairs	828,316	732,842	95,474	945,374	496,888	448,486
Boards and commissions	360,215	335,778	24,437	327,170	303,664	23,506
Other	254,980	182,947	72,033	251,440	418,328	(166,888)
<b>Total expenditures</b>	<b>11,944,073</b>	<b>10,843,804</b>	<b>1,100,269</b>	<b>11,391,264</b>	<b>10,705,211</b>	<b>686,053</b>
<b>Excess of revenues over expenditures</b>	<b>401,855</b>	<b>1,051,955</b>	<b>650,100</b>	<b>642,511</b>	<b>1,366,356</b>	<b>723,845</b>
<b>Other financing sources (uses):</b>						
Investment income	-	3,464,496	3,464,496	-	4,531,819	4,531,819
Payments of notes payable	-	(6,517,106)	(6,517,106)	(1,522,429)	(6,488,724)	(4,966,295)
Operating transfers out	(5,303,204)	(5,303,204)	-	(9,218,499)	(9,218,499)	-
Residual equity transfers	-	-	-	17,945	17,945	-
<b>Total other financing sources (uses), net</b>	<b>(5,303,204)</b>	<b>(8,355,814)</b>	<b>(3,052,610)</b>	<b>(10,722,983)</b>	<b>(11,157,459)</b>	<b>(434,476)</b>
<b>Deficiency of revenues and other financing sources under expenditures and other financing uses</b>	<b>(4,901,349)</b>	<b>(7,303,859)</b>	<b>(2,402,510)</b>	<b>(10,080,472)</b>	<b>(9,791,103)</b>	<b>289,369</b>
<b>Fund balance, unreserved at beginning of year</b>	<b>4,485,251</b>	<b>4,485,251</b>	<b>-</b>	<b>9,659,575</b>	<b>9,659,575</b>	<b>-</b>
<b>Other changes in unreserved fund balance:</b>						
Related assets	-	7,495,866	7,495,866	-	5,190,798	5,190,798
Loans	-	(123,842)	(123,842)	-	25,253	25,253
Continuing appropriations	-	846,188	846,188	-	(599,272)	(599,272)
<b>Fund balance, unreserved at end of year</b>	<b>\$ (416,098)</b>	<b>\$ 5,399,604</b>	<b>\$ 5,815,702</b>	<b>\$ (420,897)</b>	<b>\$ 4,485,251</b>	<b>\$ 4,906,148</b>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
 Combined Statement of Revenues, Expenses and Changes in Fund Equity -  
 All Proprietary Fund Types and Discretely Presented Component Unit  
 Year Ended September 30, 1995  
 (With Comparative Totals for the Year Ended September 30, 1994)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Unit Yap Fishing Authority	Totals Reporting Entity (Memorandum Only)	
	Enterprise	Internal Service			1995	1994
Operating revenues:						
Rental income	\$ -	\$ 18,358	\$ 18,358	\$ 175,174	\$ 193,532	\$ 550,809
Charges for goods and services	72,961	15,945	88,906	246,578	335,484	342,132
Stock issues	-	28,860	28,860	-	28,860	21,976
Other	50,000	-	50,000	-	50,000	116,673
<b>Total operating revenues</b>	<b>122,961</b>	<b>63,163</b>	<b>186,124</b>	<b>421,752</b>	<b>607,876</b>	<b>1,031,590</b>
Operating expenses:						
Personnel services	60,013	-	60,013	280,396	340,409	345,088
Supplies and materials	45,274	24,632	69,906	85,685	155,591	261,152
Printing and reproduction	-	5,887	5,887	-	5,887	390
Contractual services/commissions	8,279	1,160	9,439	-	9,439	137,164
Capital acquisitions	-	9,364	9,364	-	9,364	13,454
Depreciation	62,909	-	62,909	355,834	418,743	406,823
Other	122,639	3,405	126,044	207,362	333,406	4,864,594
<b>Total operating expenses</b>	<b>299,114</b>	<b>44,448</b>	<b>343,562</b>	<b>929,277</b>	<b>1,272,839</b>	<b>6,028,665</b>
<b>Operating (loss) income</b>	<b>(176,153)</b>	<b>18,715</b>	<b>(157,438)</b>	<b>(507,525)</b>	<b>(664,963)</b>	<b>(4,997,075)</b>
Nonoperating revenues (expenses):						
Loss on equity investment (note 17)	-	-	-	(119,470)	(119,470)	(94,156)
Intergovernmental contributions:						
General Fund (Note 10)	156,710	-	156,710	-	156,710	77,790
<b>Total nonoperating revenues (expenses)</b>	<b>156,710</b>	<b>-</b>	<b>156,710</b>	<b>(119,470)</b>	<b>37,240</b>	<b>(16,366)</b>
<b>Net (loss) income</b>	<b>(19,443)</b>	<b>18,715</b>	<b>(728)</b>	<b>(626,995)</b>	<b>(627,723)</b>	<b>(5,013,441)</b>
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	224,949	224,949	235,083
<b>Increase (decrease) in retained earnings</b>	<b>(19,443)</b>	<b>18,715</b>	<b>(728)</b>	<b>(402,046)</b>	<b>(402,774)</b>	<b>(4,778,358)</b>
Retained earnings (deficit) at beginning of year (note 17)	(4,830,518)	242,228	(4,588,290)	154,689	(4,433,601)	344,757
Retained earnings (deficit) at end of year	(4,849,961)	260,943	(4,589,018)	(247,357)	(4,836,375)	(4,433,601)
Contributed capital at beginning of year	7,270,398	-	7,270,398	6,737,619	14,008,017	12,287,818
Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	(224,949)	(224,949)	1,720,199
Contributed capital at end of year	7,270,398	-	7,270,398	6,512,670	13,783,068	14,008,017
<b>Fund equity at end of year</b>	<b>\$ 2,420,437</b>	<b>\$ 260,943</b>	<b>\$ 2,681,380</b>	<b>\$ 6,265,313</b>	<b>\$ 8,946,693</b>	<b>\$ 9,574,416</b>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
 Combined Statement of Cash Flows  
 All Proprietary Fund Types and Discretely Presented Component Unit  
 Year Ended September 30, 1995  
 (With Comparative Totals for the Year Ended September 30, 1994)

	Proprietary Fund Types		Totals	Component	Totals	
	Enterprise	Internal Service	Primary Government (Memorandum Only)	Unit Yap Fishing Authority	Reporting Entity (Memorandum Only)	
					1995	1994
<b>Cash flows from operating activities:</b>						
Operating (loss) income	\$ (176,153)	\$ 18,715	\$ (157,438)	\$ (507,525)	\$ (664,963)	\$ (4,997,075)
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities:						
Bad debts	-	-	-	-	-	4,674,524
Depreciation	62,909	-	62,909	355,834	418,743	406,823
	<u>(113,244)</u>	<u>18,715</u>	<u>(94,529)</u>	<u>(151,691)</u>	<u>(246,220)</u>	<u>84,272</u>
<b>Change in assets and liabilities:</b>						
General receivables	25	3,681	3,706	131,015	134,721	(154,252)
Due from other funds	45,359	(15,148)	30,211	-	30,211	(15,289)
Inventory of supplies, at cost	(29,476)	3,504	(25,972)	16,224	(9,748)	11,194
Prepayments	-	-	-	(30,570)	(30,570)	(4,630)
Advances	-	-	-	-	-	155,381
Accounts payable	18,737	(10,752)	7,985	(11,133)	(3,148)	(11,344)
Accrued payroll and others	1,018	-	1,018	(2,363)	(1,345)	(7,131)
Deferred revenue	-	-	-	-	-	4,600
	<u>35,663</u>	<u>(18,715)</u>	<u>16,948</u>	<u>103,173</u>	<u>120,121</u>	<u>(21,471)</u>
Net cash (used for) provided by operating activities	<u>(77,581)</u>	<u>-</u>	<u>(77,581)</u>	<u>(48,518)</u>	<u>(126,099)</u>	<u>62,801</u>
<b>Cash flows from noncapital financing activities:</b>						
Operating transfers in	156,710	-	156,710	-	156,710	77,790
Net cash provided by noncapital financing activities	<u>156,710</u>	<u>-</u>	<u>156,710</u>	<u>-</u>	<u>156,710</u>	<u>77,790</u>
<b>Cash flows from capital and related financing activities:</b>						
Contributed capital	-	-	-	-	-	155,282
Acquisition of fixed assets	(12,022)	-	(12,022)	(16,974)	(28,996)	(376,432)
Net cash used for capital and related financing activities	<u>(12,022)</u>	<u>-</u>	<u>(12,022)</u>	<u>(16,974)</u>	<u>(28,996)</u>	<u>(221,150)</u>
<b>Cash flows from investing activities:</b>						
Contributed capital	-	-	-	-	-	1,800,000
Acquisition of investment	-	-	-	(199,192)	(199,192)	(2,426,740)
Net cash used for investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(199,192)</u>	<u>(199,192)</u>	<u>(626,740)</u>
Net increase (decrease) in cash and equivalents	67,107	-	67,107	(264,684)	(197,577)	(707,299)
Cash and equivalents at beginning of year	19,045	-	19,045	225,982	245,027	952,326
Cash and equivalents at end of year	<u>\$ 86,152</u>	<u>\$ -</u>	<u>\$ 86,152</u>	<u>\$ (38,702)</u>	<u>\$ 47,450</u>	<u>\$ 245,027</u>

**Supplemental Schedule of noncash transactions:**

In 1995 and 1994, Yap Fishing Authority incurred losses on its equity investment in Yap Fresh Tuna, Inc. of \$119,470 and \$94,156, respectively.

See accompanying notes to financial statements.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

1. Blended Component Units

- a) The Public Transportation System (PTS) is responsible to provide reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is not a legally separate entity. However the State of Yap has determined that accountability on a proprietary basis is appropriate for PTS as it primarily provides services to the State. PTS was established in fiscal year 1984 by Yap State Law No. 1-170 and is governed by a five member Board of Directors appointed by the Governor. PTS is reported as an enterprise fund.
- b) The Yap Economic Development Authority (YEDA) is responsible to promote and support economic development in the State of Yap. YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 and is governed by a eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YEDA is reported as an enterprise fund as it is designed to hold various Yap State investments in for-profit making activities.
- c) The Yap Investment Trust (YIT) is responsible to act as trustee for Deed of Trust guarantees as provided for under the Yap State Deed of Trust Act and to promote and support economic development in the State of Yap. YIT was created in fiscal year 1994 by Yap State Law No. 3-84 and is governed by an eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YIT is reported as an enterprise fund as its mission is similar to that of the YEDA.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units

- a) The Yap Fishing Authority (YFA) is responsible to promote, develop, and support commercial utilization of living marine resources within the State of Yap. YFA was created in fiscal year 1979 by Yap District Law No. 6-13, provides services to private enterprises and the government, and is governed by a five member Board of Directors, three of which are appointed by the Governor, with the remaining two coming from specific Legislative Committees. YFA is reported as a component unit - propriety fund.
- b) The Yap Community Action Program (Yap CAP) is a non-profit corporation. Yap CAP was created in fiscal year 1968 by the Trust Territory Government, is governed by an eight member Board of Directors, two of which are appointed by the Governor and one each appointed by the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. Yap CAP is reported as a component unit - governmental fund.

3. Omitted Component Units

- a) The Gagil-Tomil Water Authority (GTWA) is responsible to provide services in the operation and maintenance of the Gagil-Tomil Water System. GTWA was created in fiscal year 1985 by Yap State Law No. 1-183, serves all citizens of the Gagil-Tomil Water System, and is governed by a nine member Board of Directors, four of which are appointed by the Gagil member of the Council of Pilung, four appointed by the Tomil member of the Council of Pilung, and one appointed by the Governor. GTWA would be reported as a component unit-proprietary fund.
- b) The Southern Yap Water Authority (SYWA) is responsible to operate and maintain the Southern Yap Water System. SYWA was created in fiscal year 1987 by Yap State Law No. 1-221, serves all citizens of the Southern Yap Water System, and is governed by a five member Board of Directors, one of which is appointed by the Governor with the remaining four appointed by the municipal chiefs of the four related municipalities represented in the Council of Pilung. SYWA would be reported as a discretely presented component unit-proprietary fund.
- c) Information with respect to the Yap Sports Council is not available.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting

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

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

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

Governmental funds are used to account for all or most of government's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the acquisition or construction of general fixed assets (capital projects funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

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

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation

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

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

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

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

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

D. Budgets

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

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year-end are reported as reservations of fund balance and will be funded as expenditures in the ensuing year. Encumbrances remain 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.

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

E. Cash and Equivalents

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

F. Investments

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 4).

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

G. Receivables

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

H. Due From/To Other Funds

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

I. Advances and Prepayments

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

J. Inventories

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

K. Fixed Assets

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

K. Fixed Assets, Continued

Depreciation is not charged on assets in the General Fixed Assets Account Group. However, depreciation is charged on proprietary fund fixed assets and is provided over the estimated useful lives of the assets through use of the straight line method. (See Note 7 for a breakdown of fixed assets and the related estimated useful lives).

L. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. (See also Note 1M). Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. The liability as of September 30, 1995 is \$516,897. No expenditure is reported for these amounts. Vested accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of FASB Statement No. 43 - Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated amount of unused sick leave at September 30, 1995, for all governmental funds, is estimated to be \$1,391,211.

M. Long-Term Obligations

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

N. Fund Equity

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

N. Fund Equity, Continued

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

MTN principal payable (See Note 8)	\$ 44,500,000
Advances	93,035
Inventory of supplies	398,975
Prepayments	17,782
Restricted cash, held by Trustee, in support of MTN outstanding debt (See Note 8)	362,062
Interfund receivables which may require in excess of one year to affect collection	<u>797,431</u>
	\$ <u>46,169,285</u>

The reserve for related assets of \$297,120 of Compact Program Funds, a Special Revenue Fund, represents restricted cash, held by Trustee, in support of MTN outstanding debt (See note 8).

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

O. Interfund Transactions

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

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



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(1) Summary of Significant Accounting Policies, Continued

P. Memorandum Only - Total Columns

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

Q. Comparative Data/Reclassification

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

R. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Budgetary Information

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

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

(3) Cash and Equivalents

State law requires that cash held in foreign banks must be with banks which have total assets in excess of one billion dollars. There is no such requirement for local banks. At September 30, 1995, the State had deposits as follows:

**STATE OF YAP  
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(3) Cash and Equivalents, Continued

	<u>Cost</u>
<b>General Fund:</b>	
Cash in checking and savings accounts with FDIC insured banks	\$ 610,819
Cash on hand	<u>848</u>
	\$ <u>611,667</u>
<b>Expendable Trust Fund:</b>	
Cash in savings accounts with a FDIC insured bank	\$ <u>197,855</u>
<b>Enterprise Funds:</b>	
Cash in a checking account with a FDIC insured bank	\$ <u>86,152</u>
<b>Discretely Presented Component Unit:</b>	
Time certificate of deposit with bank which is a FDIC member	\$ 658,802
Cash in checking and savings accounts with a FDIC insured bank	<u>405,788</u>
	\$ <u>1,064,590</u>

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

Yap Community Action Program (YapCap) does not require collateralization of its accounts. As of September 30, 1995, \$200,000 is subject to FDIC insurance and the remaining balance is uncollateralized.

(4) Investments

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

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:
  - 1. Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.

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FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(4) Investments, Continued

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.
  
- 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, 1995, in this pooled investment fund was \$57,079,215. At September 30, 1995, the market value of the State's investment approximated \$63,742,995. These investments have been reported at cost (original acquisition price plus earnings registered from interest, dividends and realized trading gains, net of realized losses). The State also has \$1,300,000 in time certificates of deposit as of September 30, 1995 which have initial maturities of in excess of ninety days and are accordingly classified as investments.

The State's investment income for the year ended September 30, 1995, (with comparative totals for the year ended September 30, 1994), is summarized below:

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(4) Investments, Continued

	<u>1995</u>	<u>1994</u>
Interest	\$ 2,577,323	\$ 2,141,889
Dividends	561,246	284,384
Realized gains	1,965,270	3,228,540
Realized losses	(972,393)	(588,208)
Management fees	(639,578)	(511,319)
Other expenses	<u>(27,372)</u>	<u>(23,467)</u>
	<u>\$ 3,464,496</u>	<u>\$ 4,531,819</u>

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

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

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

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

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

Additionally, as of September 30, 1995, the State holds 10.726% of the shares of the Bank of the Federated States of Micronesia, carried at cost, in the amount of \$1,000,000 and 31.6% of the shares of the Pacific Islands Development Bank, also carried at cost, in the amount of \$1,000,000. \$1,107,043 of these investments are held by the Yap Economic Development Authority (YEDA) with the remaining \$892,957 held by the Yap Investment Trust (YIT) - Enterprise Funds. 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.

YIT is also the sole member in Yap Purse Seiner Owner, Inc. (YPSO), a non-profit corporation, and has contributed \$6,500,000 to that entity. YPSO's sole function is to own a fishing vessel which is chartered to the Yap Fishing Corporation.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(4) Investments, Continued

Also, the Yap Fishing Authority (YFA), a Discretely Presented Component Unit, has invested a total of \$2,196,780 as of September 30, 1995, in Yap Fresh Tuna, Inc., (YFTI) a joint venture between YFA and the National Fisheries Corporation (NFC), a Component Unit of the FSM National Government, in the form of equity contributions. As of September 30, 1995, YFA's investment represents approximately 81.54% of YFTI's equity; however only 50% of the voting shares. As NFC appears to be the controlling partner, YFTI is consolidated with NFC's financial statements and is carried on the equity method in YFA's financial statements. Summary financial data as of and for the year ended September 30, 1995 for Yap Fresh Tuna, Incorporated is as follows.

Total current assets	\$ 633,708
Property, plant and equipment, net	<u>6,705,110</u>
	<u>\$ 7,338,818</u>
Current liabilities	\$ 1,444,319
Long-term debt	3,517,210
Stockholder's equity	<u>2,377,289</u>
	<u>\$ 7,338,818</u>
Revenues	\$ 1,931,549
Cost of sales	(1,083,050)
Costs and expenses	(1,014,374)
Interest expense	<u>(73,064)</u>
Net loss	<u>\$ (238,939)</u>

(5) Receivables, Advances and Loans

A. General Fund

A summary of receivables, advances, loans and the corresponding allowance for doubtful accounts for the General Fund as of September 30, 1995 (with comparative totals as of September 30, 1994), is presented below:

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(5) Receivables, Advances and Loans, Continued

A. General Fund, Continued

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1995</u>	<u>1994</u>
FSM Government and Other reimbursable	\$ <u>161,430</u>	\$ <u>-</u>	\$ <u>161,430</u>	\$ <u>439,951</u>
General:				
Utilities	\$ 988,832	\$ 988,832	\$ -	\$ 71,940
Taxes	58,392	53,392	5,000	6,216
General	21,022	-	21,022	7,900
Leases	46,041	46,041	-	8,725
Airport operation	54,275	36,208	18,067	50,894
Deferred interest-YFC	176,917	176,917	-	-
WAAB Forklift	192,500	192,500	-	-
Other	<u>135,362</u>	<u>130,000</u>	<u>5,362</u>	<u>74,969</u>
	\$ <u>1,673,341</u>	\$ <u>1,623,890</u>	\$ <u>49,451</u>	\$ <u>220,644</u>
Advances:				
Travel/payroll	\$ 108,035	\$ 15,000	\$ 93,035	\$ 125,306
Purchases	<u>17,782</u>	<u>-</u>	<u>17,782</u>	<u>89,859</u>
	\$ <u>125,817</u>	\$ <u>15,000</u>	\$ <u>110,817</u>	\$ <u>215,165</u>
Loans:				
Yap Fishing Corporation	\$ 7,416,341	\$ -	\$ 7,416,341	\$ 7,350,000
Accrued interest-YFC	<u>82,248</u>	<u>-</u>	<u>82,248</u>	<u>24,747</u>
	\$ <u>7,498,589</u>	\$ <u>-</u>	\$ <u>7,498,589</u>	\$ <u>7,374,747</u>

A \$6,400,000 note from Yap Fishing Corporation (YFC) was originally appropriated under Yap State Law No. 2-96, and is due and payable on or before June 11, 2004; however it is subordinated to the Overseas Private Investment Corporation (OPIC), a U.S. Corporation, debt held by YFC. (Refer Note 15).

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, 1995, \$1,000,000 (\$950,000 at September 30, 1994) has been utilized by YFC.

**STATE OF YAP  
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Notes to Financial Statements  
September 30, 1995

(5) Receivables, Advances and Loans, Continued

B. Special Revenue Funds

A summary of loans receivable, advances and the corresponding allowance for doubtful accounts for the Special Revenue Funds as of September 30, 1995 follows (with comparative totals as of September 30, 1994).

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1995</u>	<u>1994</u>
Other governments	\$ <u>450,572</u>	\$ <u>10,000</u>	\$ <u>440,572</u>	\$ <u>20,074</u>
Federal agencies and CFSM	\$ <u>1,612,279</u>	\$ <u>40,000</u>	\$ <u>1,572,279</u>	\$ <u>1,278,952</u>
Advances - travel/ payroll	\$ <u>57,379</u>	\$ <u>13,500</u>	\$ <u>43,879</u>	\$ <u>35,473</u>

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 1995 (with comparative totals as of September 30, 1994).

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1995</u>	<u>1994</u>
Federal agencies	\$ <u>38,333</u>	\$ <u>-</u>	\$ <u>38,333</u>	\$ <u>45,966</u>
Department of the Interior - TTPI	\$ <u>886,516</u>	\$ <u>-</u>	\$ <u>886,516</u>	\$ <u>722,721</u>
CFSM Grants	\$ <u>82,146</u>	\$ <u>10,000</u>	\$ <u>72,146</u>	\$ <u>152,664</u>
Advances - travel	\$ <u>3,132</u>	\$ <u>-</u>	\$ <u>3,132</u>	\$ <u>2,294</u>
Loan - YEDA	\$ <u>2,000,000</u>	\$ <u>-</u>	\$ <u>2,000,000</u>	\$ <u>2,000,000</u>
Loan - YIT	\$ <u>6,500,000</u>	\$ <u>-</u>	\$ <u>6,500,000</u>	\$ <u>-</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(5) Receivables, Advances and Loans, Continued

C. Capital Project Funds, 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 15).

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

D. Enterprise Funds

A summary follows of receivables and the corresponding allowance for doubtful accounts for the Enterprise Funds as of September 30, 1995 (with comparative totals as of September 30, 1994):

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1995</u>	<u>1994</u>
General:				
Trade	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>25</u>

E. Discretely Presented Component Units

A summary follows of receivables and the corresponding allowance for doubtful accounts for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1995 (with comparative totals as of September 30, 1994)::

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1995</u>	<u>1994</u>
General:				
Trade	\$ 586,180	\$ (404,574)	\$ 181,606	\$ 285,038
Employees	<u>38,997</u>	<u>-</u>	<u>38,997</u>	<u>31,260</u>
	\$ <u>625,177</u>	\$ <u>(404,574)</u>	\$ <u>220,603</u>	\$ <u>316,298</u>



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Notes to Financial Statements  
September 30, 1995

(5) Receivables, Advances and Loans, Continued

E. Discretely Presented Component Units, Continued

Included within restricted assets and loans receivable of the Yap Community Action Program are gross loans receivable of \$760,895 net of an allowance account of \$100,723.

(6) Inventory of Supplies

The General Fund inventory consists of Condor S.S. Sulphonate oil received in 1987 and partially used in the construction of Yap State roads. In fiscal year 1992, the carrying value was reduced by 50% to \$200,368 based on estimated market price. This balance remains as of September 30, 1995, and is expected to be used on the continuing road construction project. General Fund inventory also includes medical and pharmaceutical supplies of \$198,607 at September 30, 1995. The Internal Service Fund's inventory consists of general stores supplies of \$62,247.

(7) Investment in Fixed Assets

A. General Fixed Asset Account Group

A summary of general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1995 (with comparative totals as of September 30, 1994), follows:

	<u>Estimated Useful Life</u>	<u>1995</u>	<u>1994</u>
Land	-	\$ 1,822,614	\$ 1,822,614
Infrastructure	20-50 years	41,645,543	41,645,543
Outer-island capital assets	5-10 years	1,804,550	1,804,550
All others - equipment, vehicles and machinery	5-10 years	<u>19,348,051</u>	<u>19,348,051</u>
		<u>\$ 64,620,758</u>	<u>\$ 64,620,758</u>

B. Enterprise Funds

A summary of fixed assets accounted for in the Enterprise Funds as of September 30, 1995 (with comparative totals as of September 30, 1994), follows:

	<u>Estimated Useful Life</u>	<u>1995</u>	<u>1994</u>
Buildings	25 years	\$ 66,404	\$ 56,690
Motor vehicles	4-7 years	721,162	721,162
Other equipment	2-12 years	<u>59,243</u>	<u>56,933</u>
		846,809	834,785
Less accumulated depreciation		<u>(536,461)</u>	<u>(473,550)</u>
		<u>\$ 310,348</u>	<u>\$ 361,235</u>

**STATE OF YAP  
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Notes to Financial Statements  
September 30, 1995

(7) Investment in Fixed Assets, Continued

C. Discretely Presented Component Units

A summary of fixed assets accounted for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1995 (with comparative totals as of September 30, 1994), follows:

	<u>Estimated Useful Life</u>	<u>1995</u>	<u>1994</u>
Buildings	3-20 years	\$ 1,651,117	\$1,651,117
Dock	40 years	2,629,677	2,629,677
Fleet	3-10 years	1,135,827	1,135,827
Refrigeration and cold storage equipment	2-10 years	582,731	582,431
Motor vehicles	2-20 years	179,159	180,759
Other equipment	2-25 years	<u>138,410</u>	<u>121,734</u>
		6,316,921	6,301,545
Less accumulated depreciation		<u>(2,436,076)</u>	<u>(2,081,840)</u>
		<u>\$ 3,880,845</u>	<u>\$4,219,705</u>

Details of fixed assets of the Yap Community Action Program are as follows:

	<u>Estimated Useful Life</u>	<u>1995</u>
Vehicles	2 - 8 years	\$ 207,073
Office furniture and equipment	2 - 10 years	105,212
Recreational equipment	2 - 5 years	8,763
Other	3 - 25 years	33,241
Building	25 years	<u>261,263</u>
Total fixed assets, at cost		615,552
Less: accumulated depreciation		<u>(169,795)</u>
Fixed asset, net		<u>\$ 445,757</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
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(8) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 1995 (with comparative totals for the year ended September 30, 1994), follow:

	<u>1995</u>	<u>1994</u>
Balance, beginning of year	\$ 52,189,520	\$58,730,580
Payments made on medium-term notes	(7,200,000)	(6,600,000)
Increase in accrued annual leave	<u>27,377</u>	<u>58,940</u>
Balance, end of year	\$ <u>45,016,897</u>	\$ <u>52,189,520</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, 1995. Interest paid on the bonds was \$4,413,600 in the fiscal year ended September 30, 1995 (\$4,966,295 in the fiscal year ended September 30, 1994).

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

Any shortfall restricts the State's general fund unreserved fund balance equal to the amount of the shortfall. As a result, the amount of the investment which may be withdrawn and utilized by the State is that amount which corresponds to the Compact drawdown apportionments plus related earnings, provided that the investment balance exceeds the outstanding debt plus accrued interest. As of September 30, 1995, there is no shortfall as the reserve of fund balance equals the outstanding principal of \$44,500,000. This amount (\$44,500,000) is included in the reserve for related assets of the General Fund.

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Notes to Financial Statements  
September 30, 1995

(8) Long-Term Debt, Continued

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>
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
1999	7,300,000	1,969,153	9,269,153
2000	7,900,000	1,289,768	9,189,768
Thereafter	<u>8,800,000</u>	<u>542,030</u>	<u>9,342,030</u>
Total	\$ <u>44,500,000</u>	\$ <u>13,342,788</u>	\$ <u>57,842,788</u>

(9) Interfund Receivables and Payables

As of September 30, 1995, 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	\$ 5,029,457	\$ -
Special Revenue Funds:		
Compact Programs	-	1,113,848
Federal Grants	932,033	-
Other U.S. Grants	282,778	-
Non U.S. Grants	-	47,623
CFSM Grants	693,954	-
Traditional Award	-	31,733
Feed Sales	10,322	-
Slaughter House	52,057	-
Capital Projects Funds:		
Compact Capital Projects	-	6,517,000
TTPI Capital Projects	886,516	-
CFSM Capital Project	71,348	-
Public Projects	-	54,339
Other U.S. Capital Projects	38,333	-
Enterprise Funds	-	4,641
Expendable Trust Fund	-	33,636
Internal Service Fund	<u>-</u>	<u>193,978</u>
	\$ <u>7,996,798</u>	\$ <u>7,996,798</u>

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Notes to Financial Statements  
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(10) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 1995, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer to Enterprise Funds:		
Public Transportation System	\$ 156,710	\$ -
Transfer to Special Revenue Funds:		
For bond payments	1,086,384	-
Transfer to Capital Projects Funds:		
For bond payments	4,010,110	-
For appropriated capital projects	<u>50,000</u>	<u>-</u>
	<u>\$ 5,303,204</u>	<u>\$ -</u>

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 1995, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
For bond payments	\$ <u>-</u>	\$ <u>1,086,384</u>

C. Capital Projects Funds

Material Capital Projects Funds transfers in/out for the year ended September 30, 1995, are as follows:

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FEDERATED STATES OF MICRONESIA**

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(10) Transfers In/Out, Continued

C. Capital Projects Funds, Continued

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
For bond payments	\$ -	\$ 4,010,110
For appropriation of capital projects	<u>-</u>	<u>50,000</u>
	<u>\$ -</u>	<u>\$ 4,060,110</u>

D. Enterprise Funds

Material Enterprise Funds transfers in/out for the year ended September 30, 1995, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Subsidy for operations	<u>\$ -</u>	<u>\$ 156,710</u>

Details of the transfer-in to the Yap Community Action Program, a discretely presented component unit, are not available.

(11) Segment Information - Enterprise Funds

The following presents key data extracted from the financial statements of the Enterprise Funds of the State of Yap as of September 30, 1995, and for the year then ended.

	<u>Public Trans- portation System</u>	<u>Yap Economic Development Authority</u>	<u>Yap Investment Trust</u>
Operating revenues	\$ <u>72,961</u>	\$ <u>50,000</u>	\$ <u>-</u>
Depreciation expense	\$ <u>62,909</u>	\$ <u>-</u>	\$ <u>-</u>
Operating loss	\$ <u>(130,794)</u>	\$ <u>(45,359)</u>	\$ <u>-</u>
Operating transfer-in	\$ <u>156,710</u>	\$ <u>-</u>	\$ <u>-</u>
Net income (loss)	\$ <u>25,916</u>	\$ <u>(45,359)</u>	\$ <u>-</u>
Contributed capital	\$ <u>694,683</u>	\$ <u>5,682,758</u>	\$ <u>892,957</u>
Fixed assets additions	\$ <u>12,022</u>	\$ <u>-</u>	\$ <u>-</u>
Total assets	\$ <u>437,924</u>	\$ <u>3,111,684</u>	\$ <u>7,392,957</u>
Total equity	\$ <u>415,976</u>	\$ <u>1,116,684</u>	\$ <u>892,957</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(12) 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, \$316,873 in cumulative questioned costs exist for the operation of fiscal year 1984-95 grants. If these costs are ultimately disallowed, the General Fund will be charged for the necessary reimbursement to the grantor agencies.

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

Litigation

Yap State is party to several legal proceedings arising from governmental operations. Claims are filed with the Yap State Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. At September 30, 1995, there existed several unapproved claims. The Attorney General of the State of Yap is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths. Current claims against the State exist but do not appear to be material. Management has not provided for such claims in the accompanying general-purpose financial statements as it is not currently possible to estimate the State's potential liability, if any, arising from these claims.

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI). TTPI's obligation on these lands ceased in May, 1984. After that year, responsibility to rent or purchase the sites was transferred to Yap State. The Yap State Division of Land and Surveys has estimated that Yap State may be responsible for funding the indefinite land use sites for back rent with interest. The State is actively attempting to negotiate purchase prices for these properties. Accordingly, no provision in the accompanying general-purpose financial statements has been made for these sites.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(12) Contingent Liabilities, Continued

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 15, the State of Yap is party to numerous legal proceedings involving the Yap Economic Development Authority and its investee, the Yap Fishing Corporation.

Yap Community Action Program (YapCap)

As of September 30, 1995, questioned costs in the amount of \$20,091 exist. The entity separately satisfies its OMB Circular A-133 requirements. However, the State of Yap may be ultimately liable for a portion of these costs if resolution with YapCap does not occur.

(13) 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, 1995, \$1,000,000 was outstanding against this line. The line bears interest at 6% and expires on September 30, 2004 (See Note 5A).

(14) Continuing Appropriations

Continuing appropriations as of September 30, 1995, are as follows:

General Fund

Copra Subsidy	\$ <u>26,021</u>
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**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(14) Continuing Appropriations, Continued

Capital Projects Funds:

Lebinaw, Riken, Gachpar Water Line Ext. Proj.	\$ 189,750
Power Plant Generators	68,512
Colonia Water Treatment Plant Upgrade	15,165
Manpower Development Program	72,991
Daboch Water Extension Project	44,964
New Water Wells Development	60,998
Bileeyuw/Tagareng Water System	31,010
Power System Improvement	2,674
Maap School Centralization Project	2,980
North Fanif Elementary School Building	9,444
Dalipebinaw Elementary School Building	23,439
Yap State Public Library Building	50,000
Gaanelay Middle School Building	11,913
Radio and WAAB TV Building Project	280,470
Malay/Thabeth Causering	144,580
Marine Resource Laboratory	19,240
Legislature Building Repairs	40,000
OMIP Matching Funds	54,500
Satawal loan	60,000
Roads Development - Phase V & VI	130,162
Roads Development - Phase VII	1,366,041
Project Feasibility Study Program	35,120
Manpower Training and Development Survey	20,000
Outer Islands Airfields Project	<u>139,935</u>
	<b>\$ <u>2,873,888</u></b>

(15) Yap Economic Development Authority

The Yap Economic Development Authority (YEDA) statutorily owns 100% of the Yap Purse Seiner Corporation (YPSC) and controlling interest of the Yap Fishing Corporation (YFC) common stock. YPSC's sole function is to own the fishing vessels and assume the associated debt for the joint venture. Based on the ownership circumstances described above, YEDA's financial statements are prepared consolidating statements of YEDA, YPSC, and YFC with the primary elimination being YEDA's investment in YFC.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(15) Yap Economic Development Authority, Continued

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 (See also Note 17). Therefore, YEDA's financial statements included within the State of Yap general-purpose financial statements do not include the consolidated financial statements of YFC.

In fiscal year 1992, YFC acquired \$9,000,000 in debt from the Overseas Private Investment Corporation (OPIC), a U.S. corporation, which has subordinated all YFC debt to Yap State Government and YEDA to the OPIC debt. (Refer to Note 5 for a description of the subordinated debt).

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.

Additionally, YEDA and the State of Yap are party to numerous legal proceedings involving YFC and its principals. It is not possible to estimate the potential impact of such litigation on YEDA's financial statements or on the State's general fund. Therefore, no provision for any liability that may result, if any, has been made in those financial statements.

(16) Fund Deficit

The following funds have material fund deficits as of September 30, 1995:

Enterprise Funds:

Public Transportation System Fund	\$ <u>278,887</u>
Yap Economic Development Authority Fund	\$ <u>4,571,074</u>

Special Revenue Funds:

Feed Sales Fund	\$ <u>10,332</u>
Slaughter House Fund	\$ <u>52,057</u>

Deficits of the Public Transportation System Fund and Yap Economic Development Authority Fund are offset within fund equity by contributions of \$694,683 and \$5,682,758, respectively.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1995

(17) Loss on Equity Investment

The Yap Fishing Authority, a proprietary fund - component unit, holds a 50% investment in Yap Fresh Tuna, Inc. (YFTI). The Company is managed by the National Fisheries Corporation, a component unit of the FSM National government, which holds the remaining equity investment. Condensed financial information for YFTI is as follows:

	<u>1995</u>	<u>1994</u>
Balance sheet:		
Current assets	\$ 633,708	\$ 98,451
Property, plant and equipment	<u>6,705,110</u>	<u>6,417,728</u>
	<u>\$ 7,338,818</u>	<u>\$ 6,516,179</u>
Current liabilities	\$ 1,444,319	\$ 255,603
Long-term debt	3,517,210	3,735,485
Stockholders' equity	<u>2,377,289</u>	<u>2,525,091</u>
	<u>\$ 7,338,818</u>	<u>\$ 6,516,179</u>
Sales	\$ 1,931,549	\$ 100
Cost of sales	(1,083,050)	-
Operating expenses	(1,014,374)	(154,834)
Interest expense	<u>(73,064)</u>	<u>(18,445)</u>
Net loss	<u>\$ (238,939)</u>	<u>\$ (173,179)</u>

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

Previously, Yap State management was not provided audited results of YFTI. This information has been received and the accompanying general-purpose financial statements have been restated to reflect Yap Fishing Authority's share of YFTI's net loss for 1994.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -  
All Governmental Fund Types  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Governmental Fund Types			Totals	
	General	Special Revenue	Capital Projects	1995	1994
Expenditures:					
Salaries and wages	\$ 6,303,072	\$ 706,333	\$ 238,342	\$ 7,247,747	\$ 6,970,993
Travel	528,450	448,622	55,728	1,032,800	711,337
Freight	65,213	64,467	8,404	138,084	161,910
Communications	152,456	21,564	1,698	175,718	160,428
Printing and reproduction	79,848	82,764	26,935	189,547	83,217
Professional services	14,596	45,544	14,835	74,975	203,389
Food stuffs	126,188	90,356	35,870	252,414	294,808
Medical supplies	50,057	116,683	626	167,366	252,647
Supplies and materials	912,324	764,217	405,113	2,081,654	2,078,171
Medical referral	-	326,643	-	326,643	156,956
POL	546,371	933,858	15,103	1,495,332	1,423,636
Capital outlay	318,208	681,717	3,438,316	4,438,241	2,639,863
Contractual services	208,360	119,059	361,403	688,822	331,309
Rentals	27,718	60,972	11,071	99,761	59,960
Repairs and maintenance	298,788	83,543	28,024	410,355	895,825
Allowances	160,008	27,146	-	187,154	106,984
Grants and subsidies	356,248	108,432	-	464,680	85,988
Scholarships and training	97,120	539,942	-	637,062	428,839
Other	394,037	399,021	63,588	856,646	713,784
<b>Total expenditures</b>	<b>\$ 10,639,062</b>	<b>\$ 5,620,883</b>	<b>\$ 4,705,056</b>	<b>\$ 20,965,001</b>	<b>\$ 17,760,044</b>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

General Fund  
September 30, 1995

General Fund

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

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	<u>1995</u>	<u>1994</u>
<b>Revenues:</b>		
<b>Compact funds:</b>		
Current 211A base grant	\$ 4,900,080	\$ 4,900,080
Inflation adjustment 217	<u>2,254,037</u>	<u>2,156,035</u>
	<u>7,154,117</u>	<u>7,056,115</u>
<b>Revenue sharing:</b>		
Import tax	301,999	463,432
Fuel tax	79,350	119,019
Income tax	376,595	579,063
Business gross revenue tax	<u>502,918</u>	<u>563,173</u>
	<u>1,260,862</u>	<u>1,724,687</u>
<b>Excise taxes:</b>		
Alcoholic beverages	453,824	429,532
Gasoline and diesel	71,649	311,951
Tobacco	132,112	129,054
Other excise taxes	<u>312,691</u>	<u>400,575</u>
	<u>970,276</u>	<u>1,271,112</u>
Licenses and permits	146,044	135,600
Fines/sale of confiscated property	137,808	174,179
Leases and other rentals	<u>190,779</u>	<u>195,852</u>
	<u>474,631</u>	<u>505,631</u>
<b>Departmental charges:</b>		
Sea transportation	217,529	226,020
Hospital services	120,331	88,556
Utilities	1,372,689	947,235
Other	<u>87,589</u>	<u>85,282</u>
	<u>1,798,138</u>	<u>1,347,093</u>
Interest income	<u>211,646</u>	<u>110,373</u>
Other income	<u>26,089</u>	<u>56,556</u>
Total revenues	<u>11,895,759</u>	<u>12,071,567</u>

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	<u>1995</u>	<u>1994</u>
Expenditures:		
General Government:		
Office of the Governor	\$ 277,209	\$ 240,566
State Legislature	478,407	484,223
Office of Administrative Services	521,943	471,622
Office of Planning, Budget and Statistics	279,761	276,526
Division of Revenue and Taxation	37,499	34,740
Legislative projects	-	16,444
	<u>1,594,819</u>	<u>1,524,121</u>
Health Services:		
Department of Health Services	<u>1,344,014</u>	<u>1,500,878</u>
Education:		
Department of Education	1,801,666	1,638,688
Legislative projects	<u>45,206</u>	<u>25,543</u>
	<u>1,846,872</u>	<u>1,664,231</u>
Economic Development:		
Department of Resources and Development	637,290	672,255
Legislative projects	<u>269,088</u>	<u>14,952</u>
	<u>906,378</u>	<u>687,207</u>
Public safety:		
Department of Public Safety/Attorney General	<u>647,417</u>	<u>583,069</u>
Public Works and Utilities:		
PUC	<u>1,823,770</u>	<u>1,701,217</u>
Transportation	<u>1,251,092</u>	<u>1,666,760</u>
Community Affairs:		
Department of Public Affairs	246,124	230,821
Legislative projects	<u>448,497</u>	<u>261,013</u>
	<u>694,621</u>	<u>491,834</u>

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	<u>1995</u>	<u>1994</u>
Boards and Commissions:		
Council of Pilung	86,051	102,615
Council of Tamol	150,202	88,129
EPA administration board	<u>111,005</u>	<u>100,902</u>
	<u>347,258</u>	<u>291,646</u>
Other:		
Judiciary	177,200	168,953
Public Auditor	7,967	30,002
Legislative projects	-	4,464
Other	<u>(2,346)</u>	<u>215,530</u>
	<u>182,821</u>	<u>418,949</u>
Total expenditures	<u>10,639,062</u>	<u>10,529,912</u>
Excess of revenues over expenditures	<u>1,256,697</u>	<u>1,541,655</u>
Other financing sources (uses):		
Payments of notes payable and interest	(6,517,106)	(6,488,724)
Operating transfers out	(5,303,204)	(9,218,499)
Investment income	3,464,496	4,531,819
Residual equity transfers	<u>-</u>	<u>17,945</u>
Total other financing sources (uses), net	<u>(8,355,814)</u>	<u>(11,157,459)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	(7,099,117)	(9,615,804)
Fund balance at beginning of year	<u>67,021,601</u>	<u>76,637,405</u>
Fund balance at end of year	<u>\$ 59,922,484</u>	<u>\$ 67,021,601</u>



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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -  
Budget and Actual - Budgetary Basis  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995			1994		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Current account Compact funds	\$ 7,203,118	\$ 7,154,117	\$ (49,001)	\$ 7,056,115	\$ 7,056,115	\$ -
FSM revenue sharing	1,314,060	1,260,862	(53,198)	1,263,250	1,724,687	461,437
Taxes and licenses	1,431,750	1,444,907	13,157	1,586,310	1,776,743	190,433
Interest income	550,000	211,646	(338,354)	550,000	110,373	(439,627)
Other	1,847,000	1,824,227	(22,773)	1,578,100	1,403,649	(174,451)
<b>Total revenues</b>	<b>12,345,928</b>	<b>11,895,759</b>	<b>(450,169)</b>	<b>12,033,775</b>	<b>12,071,567</b>	<b>37,792</b>
<b>Expenditures budgetary basis:</b>						
<b>General Government:</b>						
Office of the Governor	296,050	284,627	11,423	255,370	243,691	11,679
State Legislature	536,623	471,609	65,014	494,100	474,841	19,259
Office of Administrative Services	514,520	524,624	(10,104)	509,970	457,833	52,137
Office of Planning, Budget and Statistics	279,510	278,914	596	259,730	272,449	(12,719)
Division of Revenue and Taxation	38,250	33,591	4,659	40,510	38,700	1,810
Legislative projects	-	-	-	23,100	16,564	6,536
	<u>1,664,953</u>	<u>1,593,365</u>	<u>71,588</u>	<u>1,582,780</u>	<u>1,504,078</u>	<u>78,702</u>
<b>Health Services:</b>						
Department of Health Services	1,668,840	1,353,136	315,704	1,549,625	1,498,444	51,181
<b>Education:</b>						
Department of Education	2,034,040	1,824,512	209,528	1,730,320	1,639,965	90,355
Legislative projects	29,000	28,653	347	60,885	40,810	20,075
	<u>2,063,040</u>	<u>1,853,165</u>	<u>209,875</u>	<u>1,791,205</u>	<u>1,680,775</u>	<u>110,430</u>
<b>Economic development:</b>						
Department of Resources and Development	756,030	644,704	111,326	710,670	681,208	29,462
Legislative projects	294,739	269,088	25,651	60,980	14,952	46,028
	<u>1,050,769</u>	<u>913,792</u>	<u>136,977</u>	<u>771,650</u>	<u>696,160</u>	<u>75,490</u>
<b>Public safety:</b>						
Department of Public Safety and Attorney General	626,500	635,275	(8,775)	640,000	598,292	41,708
<b>Public Works and Utilities:</b>						
PUC	1,969,680	1,883,746	85,934	1,724,330	1,684,495	39,835
<b>Transportation</b>	<u>1,456,780</u>	<u>1,359,758</u>	<u>97,022</u>	<u>1,807,690</u>	<u>1,824,087</u>	<u>(16,397)</u>

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -  
Budget and Actual - Budgetary Basis, Continued  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995			1994		
	Budget	Actual	Variance	Budget	Actual	Variance
Community affairs:						
Department of Public Affairs	\$ 262,270	\$ 242,277	\$ 19,993	\$ 253,634	\$ 235,956	\$ 17,678
Legislative projects	566,046	490,565	75,481	691,740	260,932	430,808
	<u>828,316</u>	<u>732,842</u>	<u>95,474</u>	<u>945,374</u>	<u>496,888</u>	<u>448,486</u>
Boards and commissions:						
Council of Pilung	93,175	85,780	7,395	108,290	102,757	5,533
Council of Tamol	146,450	138,628	7,822	111,120	100,400	10,720
EPA administration board	120,590	111,370	9,220	107,760	100,507	7,253
	<u>360,215</u>	<u>335,778</u>	<u>24,437</u>	<u>327,170</u>	<u>303,664</u>	<u>23,506</u>
Other:						
Judiciary	188,420	177,535	10,885	177,980	168,460	9,520
Public Auditor	66,560	7,758	58,802	57,460	29,874	27,586
Legislative projects	-	-	-	16,000	4,464	11,536
Other	-	(2,346)	2,346	-	215,530	(215,530)
	<u>254,980</u>	<u>182,947</u>	<u>72,033</u>	<u>251,440</u>	<u>418,328</u>	<u>(166,888)</u>
<b>Total expenditures</b>	<u>11,944,073</u>	<u>10,843,804</u>	<u>1,100,269</u>	<u>11,391,264</u>	<u>10,705,211</u>	<u>686,053</u>
<b>Excess of revenues over expenditures</b>	<u>401,855</u>	<u>1,051,955</u>	<u>650,100</u>	<u>642,511</u>	<u>1,366,356</u>	<u>723,845</u>
Other financing sources (uses):						
Investment income	-	3,464,496	3,464,496	-	4,531,819	4,531,819
Payment of notes payable	-	(6,517,106)	(6,517,106)	(1,522,429)	(6,488,724)	(4,966,295)
Operating transfers out	(5,303,204)	(5,303,204)	-	(9,218,499)	(9,218,499)	-
Residual equity transfers	-	-	-	17,945	17,945	-
	<u>(5,303,204)</u>	<u>(8,355,814)</u>	<u>(3,052,610)</u>	<u>(10,722,983)</u>	<u>(11,157,459)</u>	<u>(434,476)</u>
<b>Deficiency of revenues and other financing sources under expenditures and other financing uses</b>	<u>(4,901,349)</u>	<u>(7,303,859)</u>	<u>(2,402,510)</u>	<u>(10,080,472)</u>	<u>(9,791,103)</u>	<u>289,369</u>
<b>Fund balance, unreserved, at beginning of year</b>	<u>4,485,251</u>	<u>4,485,251</u>	<u>-</u>	<u>9,659,575</u>	<u>9,659,575</u>	<u>-</u>
Other changes in unreserved fund balance:						
Related assets	-	7,495,866	7,495,866	-	5,190,798	5,190,798
Loans	-	(123,842)	(123,842)	-	25,253	25,253
Continuing appropriations	-	846,188	846,188	-	(599,272)	(599,272)
	<u>(416,098)</u>	<u>5,399,604</u>	<u>5,815,702</u>	<u>(420,897)</u>	<u>4,485,251</u>	<u>4,906,148</u>
<b>Fund balance, unreserved, at end of year</b>	<u>\$ (416,098)</u>	<u>\$ 5,399,604</u>	<u>\$ 5,815,702</u>	<u>\$ (420,897)</u>	<u>\$ 4,485,251</u>	<u>\$ 4,906,148</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds  
September 30, 1995

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in Special Revenue Funds. A brief discussion of Yap State's Special Revenue Funds as of September 30, 1995, follows:

Compact Programs Fund

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

Federal Grants Fund

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

Other U.S. Grants Fund

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

Non U.S. Grants Fund

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

CFSM Grants Fund

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

Traditional Award Fund

This fund is used to account for funds restricted to preserving Yapese traditions, customs, and heritage by construction of traditional men's meeting houses.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds, Continued  
September 30, 1995

Feed Sales Fund

This fund is used to account for the feed sales operation which is 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 Fund

This fund is used to account for the slaughterhouse operation which is administered by the State and operates as livestock supplies are available.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SPECIAL REVENUE FUNDS**  
**Combining Balance Sheet**  
**September 30, 1995**  
(With comparative totals as of September 30, 1994)

Assets	Compact	Federal	Other U.S.	Non U.S.	CFSM	Traditional	Feed	Slaughter	Totals	
	Programs	Grants	Grants	Grants	Grants	Award	Sales	House	1995	1994
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund		
Cash and equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investments	1,615,343	-	-	-	-	-	-	-	1,615,343	1,246,793
Receivables, net:										
Others	-	435,350	-	5,222	-	-	-	-	440,572	20,074
FSM National										
Government	-	518,120	288,069	-	766,090	-	-	-	1,572,279	1,278,952
Due from other funds	1,113,848	-	-	47,623	-	31,733	-	-	1,193,204	1,451,307
Advances	6,396	18,512	1,758	2,550	14,663	-	-	-	43,879	35,473
<b>Total assets</b>	<b>\$ 2,735,587</b>	<b>\$ 971,982</b>	<b>\$ 289,827</b>	<b>\$ 55,395</b>	<b>\$ 780,753</b>	<b>\$ 31,733</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,865,277</b>	<b>\$ 4,032,599</b>
<b>Liabilities and</b>										
<b>Fund Balances (Deficit)</b>										
Liabilities:										
Accounts payable	\$ 191,364	\$ 39,949	\$ 1,998	\$ 15,117	\$ 68,147	\$ -	\$ -	\$ -	\$ 316,575	\$ 470,622
Due to other funds	-	932,033	282,778	-	693,954	-	10,322	52,057	1,971,144	945,395
Due to grantor	-	-	-	-	-	-	-	-	-	18,388
Deferred revenue	-	-	5,051	40,278	18,652	-	-	-	63,981	103,724
<b>Total liabilities</b>	<b>191,364</b>	<b>971,982</b>	<b>289,827</b>	<b>55,395</b>	<b>780,753</b>	<b>-</b>	<b>10,322</b>	<b>52,057</b>	<b>2,351,700</b>	<b>1,538,129</b>
Fund balances (deficit):										
Reserved for:										
Related assets	297,120	-	-	-	-	-	-	-	297,120	-
Encumbrances	340,558	365,515	11,987	21,426	-	-	45,493	-	784,979	1,152,768
Unreserved	1,906,545	(365,515)	(11,987)	(21,426)	-	31,733	(55,815)	(52,057)	1,431,478	1,341,702
<b>Total fund balances</b>	<b>2,544,223</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,733</b>	<b>(10,322)</b>	<b>(52,057)</b>	<b>2,513,577</b>	<b>2,494,470</b>
<b>Total liabilities and</b>	<b>\$ 2,735,587</b>	<b>\$ 971,982</b>	<b>\$ 289,827</b>	<b>\$ 55,395</b>	<b>\$ 780,753</b>	<b>\$ 31,733</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,865,277</b>	<b>\$ 4,032,599</b>
<b>fund balances (deficit)</b>										

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SPECIAL REVENUE FUNDS**  
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Traditional	Feed	Slaughter	Totals	
	Programs	Grants	Grants	Grants	Grants	Award	Sales	House	1995	1994
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund		
<b>Revenues:</b>										
Compact	\$ 2,868,294	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,868,294	\$ 2,850,293
Federal contributions	-	1,354,762	130,768	-	-	-	-	-	1,485,530	795,825
CFSM grants	-	-	-	-	1,057,921	-	-	-	1,057,921	913,043
Other	-	-	-	129,211	-	-	73,580	25,454	228,245	158,193
<b>Total revenues</b>	<b>2,868,294</b>	<b>1,354,762</b>	<b>130,768</b>	<b>129,211</b>	<b>1,057,921</b>	<b>-</b>	<b>73,580</b>	<b>25,454</b>	<b>5,639,990</b>	<b>4,717,354</b>
<b>Expenditures:</b>										
Health services	785,267	172,050	-	-	267,162	-	-	-	1,224,479	486,567
Education	1,236,646	937,070	-	129,211	459,027	-	-	-	2,761,954	1,871,482
Economic development	-	200,237	-	-	39,114	-	130,056	69,583	438,990	105,556
Public safety	-	-	-	-	156,360	-	-	-	156,360	143,934
Public works and utilities	719,069	-	-	-	71,863	-	-	-	790,932	908,496
Community affairs	-	45,405	130,768	-	64,395	7,600	-	-	248,168	213,520
Other	-	-	-	-	-	-	-	-	-	94,424
<b>Total expenditures</b>	<b>2,740,982</b>	<b>1,354,762</b>	<b>130,768</b>	<b>129,211</b>	<b>1,057,921</b>	<b>7,600</b>	<b>130,056</b>	<b>69,583</b>	<b>5,620,883</b>	<b>3,823,979</b>
Excess (deficiency) of revenues over (under) expenditures	127,312	-	-	-	-	(7,600)	(56,476)	(44,129)	19,107	893,375
<b>Other financing sources (uses):</b>										
Transfers/general fund	1,086,384	-	-	-	-	-	-	-	1,086,384	1,067,461
Payments of notes payable	(1,086,384)	-	-	-	-	-	-	-	(1,086,384)	(1,067,461)
Residual equity transfers	-	-	-	-	-	-	-	-	-	(2,071)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,071)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	127,312	-	-	-	-	(7,600)	(56,476)	(44,129)	19,107	891,304
<b>Fund balances (deficit) at beginning of year</b>										
	2,416,911	-	-	-	-	39,333	46,154	(7,928)	2,494,470	1,603,166
<b>Fund balances (deficit) at end of year</b>										
	\$ 2,544,223	\$ -	\$ -	\$ -	\$ -	\$ 31,733	\$ (10,322)	\$ (52,057)	\$ 2,513,577	\$ 2,494,470

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SPECIAL REVENUE FUNDS**  
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Traditional	Feed	Slaughter	Totals	
	Programs	Grants	Grants	Grants	Grants	Award	Sales	House	1995	1994
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund		
<b>Revenues:</b>										
Compact	\$ 2,868,294	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,868,294	\$ 2,850,293
Federal contributions	-	1,354,762	130,768	-	-	-	-	-	1,485,530	795,825
CFSM grants	-	-	-	-	1,057,921	-	-	-	1,057,921	913,043
Other	-	-	-	129,211	-	-	73,580	25,454	228,245	158,193
<b>Total revenues</b>	<b>2,868,294</b>	<b>1,354,762</b>	<b>130,768</b>	<b>129,211</b>	<b>1,057,921</b>	<b>-</b>	<b>73,580</b>	<b>25,454</b>	<b>5,639,990</b>	<b>4,717,354</b>
<b>Expenditures:</b>										
Salaries and wages	289,333	356,891	34,514	4,746	20,849	-	-	-	706,333	576,831
Travel	185,910	127,255	23,743	28,768	82,946	-	-	-	448,622	316,236
Freight	22,406	18,430	188	1,005	22,438	-	-	-	64,467	86,090
Communications	7,964	8,446	945	327	3,882	-	-	-	21,564	29,169
Printing and reproduction	34,644	47,084	407	-	629	-	-	-	82,764	10,597
Professional services	41,337	4,207	-	-	-	-	-	-	45,544	32,216
Food stuffs	74,481	13,872	-	-	2,003	-	-	-	90,356	76,348
Medical supplies	79,826	15,322	-	-	21,535	-	-	-	116,683	70,184
Supplies and materials	219,903	79,634	2,774	45,537	216,730	-	130,056	69,583	764,217	562,455
Medical referral	326,643	-	-	-	-	-	-	-	326,643	156,956
POL	927,575	4,352	119	-	1,812	-	-	-	933,858	790,407
Capital outlay	140,613	240,705	40,080	35,302	225,017	-	-	-	681,717	373,728
Contractual services	13,800	11,580	11,881	2,220	79,578	-	-	-	119,059	48,241
Rentals	56,617	1,505	2,850	-	-	-	-	-	60,972	37,561
Repairs and maintenance	9,036	4,203	-	-	70,304	-	-	-	83,543	41,411
Allowances	-	27,146	-	-	-	-	-	-	27,146	4,270
Grants and subsidies	-	832	-	-	100,000	7,600	-	-	108,432	20,000
Scholarship and training	298,233	167,392	-	-	74,317	-	-	-	539,942	339,943
Other	12,661	225,906	13,267	11,306	135,881	-	-	-	399,021	251,336
<b>Total expenditures</b>	<b>2,740,982</b>	<b>1,354,762</b>	<b>130,768</b>	<b>129,211</b>	<b>1,057,921</b>	<b>7,600</b>	<b>130,056</b>	<b>69,583</b>	<b>5,620,883</b>	<b>3,823,979</b>
Excess (deficiency) of revenues over (under) expenditures	127,312	-	-	-	-	(7,600)	(56,476)	(44,129)	19,107	893,375
<b>Other financing sources (uses):</b>										
Transfers/general fund	1,086,384	-	-	-	-	-	-	-	1,086,384	1,067,461
Payments of notes payable	(1,086,384)	-	-	-	-	-	-	-	(1,086,384)	(1,067,461)
Residual equity transfers	-	-	-	-	-	-	-	-	-	(2,071)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,071)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	127,312	-	-	-	-	(7,600)	(56,476)	(44,129)	19,107	891,304
Fund balances (deficit) at beginning of year	2,416,911	-	-	-	-	39,333	46,154	(7,928)	2,494,470	1,603,166
Fund balances (deficit) at end of year	\$ 2,544,223	\$ -	\$ -	\$ -	\$ -	\$ 31,733	\$ (10,322)	\$ (52,057)	\$ 2,513,577	\$ 2,494,470

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
COMPACT PROGRAM FUND**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -  
Budget and Actual - Budgetary Basis  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	1995			1994		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Other Compact funds	\$ 2,868,294	\$ 2,868,294	\$ -	\$ 2,850,293	\$ 2,850,293	\$ -
<b>Total revenues</b>	<u>2,868,294</u>	<u>2,868,294</u>	<u>-</u>	<u>2,850,293</u>	<u>2,850,293</u>	<u>-</u>
<b>Expenditures budgetary basis:</b>						
Health services	463,758	769,108	(305,350)	506,748	353,352	153,396
Education	1,227,140	1,245,145	(18,005)	836,570	896,244	(59,674)
Public works and utilities	955,640	748,702	206,938	936,140	848,779	87,361
<b>Total expenditures</b>	<u>2,646,538</u>	<u>2,762,955</u>	<u>(116,417)</u>	<u>2,279,458</u>	<u>2,098,375</u>	<u>181,083</u>
<b>Excess of revenues over expenditures</b>	<u>221,756</u>	<u>105,339</u>	<u>(116,417)</u>	<u>570,835</u>	<u>751,918</u>	<u>181,083</u>
<b>Other financing sources (uses):</b>						
Transfers/general fund	1,086,384	1,086,384	-	1,067,461	1,067,461	-
Payments of notes payable	(1,086,384)	(1,086,384)	-	(1,067,461)	(1,067,461)	-
Residual equity transfer	-	-	-	(4,892)	(4,892)	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,892)</u>	<u>(4,892)</u>	<u>-</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<u>221,756</u>	<u>105,339</u>	<u>(116,417)</u>	<u>565,943</u>	<u>747,026</u>	<u>181,083</u>
<b>Fund balance, unreserved at beginning of year</b>	<u>2,098,326</u>	<u>2,098,326</u>	<u>-</u>	<u>1,351,300</u>	<u>1,351,300</u>	<u>-</u>
<b>Changes in reserve for related assets</b>	<u>-</u>	<u>(297,120)</u>	<u>(297,120)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance, unreserved at end of year</b>	<u>\$ 2,320,082</u>	<u>\$ 1,906,545</u>	<u>\$ (413,537)</u>	<u>\$ 1,917,243</u>	<u>\$ 2,098,326</u>	<u>\$ 181,083</u>



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds  
September 30, 1995

The acquisition and construction of major capital facilities, other than those financed by proprietary funds and trust funds, are accounted for in Capital Projects Funds. A brief discussion of Yap State's Capital Projects Funds as of September 30, 1995, follows:

Compact Capital Projects Fund

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

TTPI - Capital Projects Fund

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

CFSM Capital Projects Fund

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

Public Projects Fund

This fund is used to account for an appropriation from the FSM National Government which initially has been loaned to the Yap Fishing Corporation (through YEDA) and after repayment will be used to fund certain capital projects. Appropriations by the Yap State Legislature for capital improvement projects funded by the General Fund are also accounted for within this fund.

Other U.S. Capital Projects Fund

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**CAPITAL PROJECTS FUNDS**  
Combining Balance Sheet  
September 30, 1995  
(With comparative totals as of September 30, 1994)

Assets	Compact	TTPI	CFSM	Public	Other U.S.	Totals	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	1995	1994
Investments	\$ 30	\$ -	\$ -	\$ -	\$ -	\$ 30	\$ 30
Receivables, net:							
Loans	6,500,000	-	-	2,000,000	-	8,500,000	8,500,000
Federal agencies	-	-	-	-	38,333	38,333	45,966
CFSM	-	-	72,146	-	-	72,146	152,664
U.S. Dept. of Interior - TTPI	-	886,516	-	-	-	886,516	722,721
Due from other funds	6,517,000	-	-	54,339	-	6,571,339	6,633,990
Advances	2,815	-	317	-	-	3,132	2,294
<b>Total assets</b>	<b>\$ 13,019,845</b>	<b>\$ 886,516</b>	<b>\$ 72,463</b>	<b>\$ 2,054,339</b>	<b>\$ 38,333</b>	<b>\$ 16,071,496</b>	<b>\$ 16,057,665</b>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Accounts payable	37,930	-	1,115	1,663	-	40,708	182,278
Due to other funds	-	886,516	71,348	-	38,333	996,197	921,365
<b>Total liabilities</b>	<b>37,930</b>	<b>886,516</b>	<b>72,463</b>	<b>1,663</b>	<b>38,333</b>	<b>1,036,905</b>	<b>1,103,643</b>
Fund balances:							
Reserved for:							
Loans	6,500,000	-	-	2,000,000	-	8,500,000	8,500,000
Encumbrances	1,474,317	181,037	15,703	-	-	1,671,057	1,055,714
Continuing appropriations	2,873,888	-	-	-	-	2,873,888	4,214,249
Unreserved	2,133,710	(181,037)	(15,703)	52,676	-	1,989,646	1,184,059
<b>Total fund balances</b>	<b>12,981,915</b>	<b>-</b>	<b>-</b>	<b>2,052,676</b>	<b>-</b>	<b>15,034,591</b>	<b>14,954,022</b>
<b>Total liabilities and fund balances</b>	<b>\$ 13,019,845</b>	<b>\$ 886,516</b>	<b>\$ 72,463</b>	<b>\$ 2,054,339</b>	<b>\$ 38,333</b>	<b>\$ 16,071,496</b>	<b>\$ 16,057,665</b>

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

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Compact	TTPI	CFSM	Public	Other U.S.	Totals	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	1995	1994
<b>Revenues:</b>							
Compact	\$ 4,402,075	\$ -	\$ -	\$ -	\$ -	\$ 4,402,075	\$ 4,341,773
Federal contributions	-	-	-	-	36,308	36,308	4,907
U.S. Dept. of the Interior-TTPI	-	163,795	-	-	-	163,795	85,611
CFSM grants	-	-	129,251	-	-	129,251	146,271
Other	4,196	-	-	-	-	4,196	904
<b>Total revenues</b>	<b>4,406,271</b>	<b>163,795</b>	<b>129,251</b>	<b>-</b>	<b>36,308</b>	<b>4,735,625</b>	<b>4,579,466</b>
<b>Expenditures:</b>							
Economic development	591,012	-	-	-	-	591,012	626,849
Public works and utilities	3,584,908	163,795	99,648	32,462	36,308	3,917,121	2,566,892
Community affairs	133,644	-	29,603	7,000	-	170,247	139,838
Other	26,676	-	-	-	-	26,676	72,574
<b>Total expenditures</b>	<b>4,336,240</b>	<b>163,795</b>	<b>129,251</b>	<b>39,462</b>	<b>36,308</b>	<b>4,705,056</b>	<b>3,406,153</b>
Excess (deficiency) of revenues over (under) expenditures	70,031	-	-	(39,462)	-	30,569	1,173,313
<b>Other financing sources (uses):</b>							
Transfers/general fund	4,010,110	-	-	50,000	-	4,060,110	8,073,248
Payments of notes payable	(4,010,110)	-	-	-	-	(4,010,110)	(4,010,110)
Residual equity transfer	-	-	-	-	-	-	(15,874)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,000</b>	<b>-</b>	<b>50,000</b>	<b>4,047,264</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	70,031	-	-	10,538	-	80,569	5,220,577
<b>Fund balances at beginning of year</b>	<b>12,911,884</b>	<b>-</b>	<b>-</b>	<b>2,042,138</b>	<b>-</b>	<b>14,954,022</b>	<b>9,733,445</b>
<b>Fund balances at end of year</b>	<b>\$ 12,981,915</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,052,676</b>	<b>\$ -</b>	<b>\$ 15,034,591</b>	<b>\$ 14,954,022</b>

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

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Compact	TIPI	CFSM	Public	Other U.S.	Totals	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	1995	1994
<b>Revenues:</b>							
Compact	\$ 4,402,075	\$ -	\$ -	\$ -	\$ -	\$ 4,402,075	\$ 4,341,773
Federal contributions	-	-	-	-	36,308	36,308	4,907
U.S. Dept. of the Interior-TIPI	-	163,795	-	-	-	163,795	85,611
CFSM grants	-	-	129,251	-	-	129,251	146,271
Other	4,196	-	-	-	-	4,196	904
<b>Total revenues</b>	<b>4,406,271</b>	<b>163,795</b>	<b>129,251</b>	<b>-</b>	<b>36,308</b>	<b>4,735,625</b>	<b>4,579,466</b>
<b>Expenditures:</b>							
Salaries and wages	214,162	-	8,584	1,677	13,919	238,342	224,409
Travel	54,613	-	1,115	-	-	55,728	37,237
Freight	7,461	-	-	106	837	8,404	24,499
Communications	1,698	-	-	-	-	1,698	1,666
Printing and reproduction	26,523	-	412	-	-	26,935	13,253
Professional services	14,835	-	-	-	-	14,835	102,777
Food stuffs	35,870	-	-	-	-	35,870	12,664
Medical supplies	626	-	-	-	-	626	-
Supplies and materials	279,681	-	76,359	37,679	11,394	405,113	799,885
POL	15,103	-	-	-	-	15,103	11,428
Capital outlay	3,397,099	840	36,777	-	3,600	3,438,316	1,989,218
Contractual services	192,773	162,955	-	-	5,675	361,403	80,160
Rentals	6,408	-	4,663	-	-	11,071	13,101
Repairs and maintenance	28,024	-	-	-	-	28,024	16,888
Scholarship and training	-	-	-	-	-	-	2,766
Other	61,364	-	1,341	-	883	63,588	76,202
<b>Total expenditures</b>	<b>4,336,240</b>	<b>163,795</b>	<b>129,251</b>	<b>39,462</b>	<b>36,308</b>	<b>4,705,056</b>	<b>3,406,153</b>
Excess (deficiency) of revenues over (under) expenditures	70,031	-	-	(39,462)	-	30,569	1,173,313
<b>Other financing sources (uses):</b>							
Transfers/general fund	4,010,110	-	-	50,000	-	4,060,110	8,073,248
Payments of notes payable	(4,010,110)	-	-	-	-	(4,010,110)	(4,010,110)
Residual equity transfer	-	-	-	-	-	-	(15,874)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,000</b>	<b>-</b>	<b>50,000</b>	<b>4,047,264</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	70,031	-	-	10,538	-	80,569	5,220,577
<b>Fund balances at beginning of year</b>	<b>12,911,884</b>	<b>-</b>	<b>-</b>	<b>2,042,138</b>	<b>-</b>	<b>14,954,022</b>	<b>9,733,445</b>
<b>Fund balances at end of year</b>	<b>\$ 12,981,915</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,052,676</b>	<b>\$ -</b>	<b>\$ 15,034,591</b>	<b>\$ 14,954,022</b>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Enterprise Funds  
September 30, 1995

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

Public Transportation System Fund

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

Yap Economic Development Authority Fund

This fund is used to account for the activities of the Yap Economic Development Authority (YEDA) (a blended component unit of the Yap State Government). YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 to promote and support economic development in the State of Yap. As of September 30, 1995, the major project undertaken by YEDA has been to establish the Yap Purse Seiner Corporation to lease tuna purse seiners to the Yap Fishing Corporation (YFC) for tuna fishing in the Western Tropical Pacific.

Yap Investment Trust Fund

This fund is used to account for the activities of the Yap Investment Trust (YIT) (a blended component unit of the Yap State Government). YIT was created in fiscal year 1994 by Yap State Law No. 3-84 to act as trustee for Deed of Trust guarantees as provided for under the Yap State Deed of Trust Act and to promote and support economic development in the State of Yap. As of September 30, 1995, the major project undertaken by YIT has been to accept the transfer from YEDA of sole membership in Yap Purse Seiner Owner, Inc. (YPSO) and a related Note Payable to the State of Yap. YPSO also leases a tuna purse seiner to YFC for tuna fishing in the Western Tropical Pacific.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**ENTERPRISE FUNDS**  
Combining Balance Sheet  
September 30, 1995  
(With comparative totals as of September 30, 1994)

<u>Assets</u>	Public	Yap	Yap	Totals	
	Transportation System Fund	Economic Development Authority Fund	Investment Trust Fund	1995	1994
Cash and equivalents	\$ 86,152	\$ -	\$ -	\$ 86,152	\$ 19,045
Investments	-	1,107,043	7,392,957	8,500,000	8,500,000
General receivables	-	-	-	-	25
Loans receivable	-	2,000,000	-	2,000,000	2,000,000
Due from other funds	-	4,641	-	4,641	50,000
Inventory of supplies, at cost and other assets	41,424	-	-	41,424	11,948
Investment in fixed assets, net of accumulated depreciation	<u>310,348</u>	<u>-</u>	<u>-</u>	<u>310,348</u>	<u>361,235</u>
<b>Total assets</b>	<b>\$ <u>437,924</u></b>	<b>\$ <u>3,111,684</u></b>	<b>\$ <u>7,392,957</u></b>	<b>\$ <u>10,942,565</u></b>	<b>\$ <u>10,942,253</u></b>
<u>Liabilities and Fund Equity</u>					
Liabilities:					
Accounts payable	\$ 19,700	\$ -	\$ -	\$ 19,700	\$ 963
Accrued payroll and others	2,428	-	-	2,428	1,410
Notes payable:					
Yap State	-	-	6,500,000	6,500,000	6,500,000
Intergovernmental	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>	<u>2,000,000</u>
<b>Total liabilities</b>	<b><u>22,128</u></b>	<b><u>2,000,000</u></b>	<b><u>6,500,000</u></b>	<b><u>8,522,128</u></b>	<b><u>8,502,373</u></b>
Fund equity:					
Contributed capital	694,683	5,682,758	892,957	7,270,398	7,270,398
Deficit	<u>(278,887)</u>	<u>(4,571,074)</u>	<u>-</u>	<u>(4,849,961)</u>	<u>(4,830,518)</u>
<b>Total fund equity</b>	<b><u>415,796</u></b>	<b><u>1,111,684</u></b>	<b><u>892,957</u></b>	<b><u>2,420,437</u></b>	<b><u>2,439,880</u></b>
<b>Total liabilities and fund equity</b>	<b>\$ <u>437,924</u></b>	<b>\$ <u>3,111,684</u></b>	<b>\$ <u>7,392,957</u></b>	<b>\$ <u>10,942,565</u></b>	<b>\$ <u>10,942,253</u></b>

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

Combining Statement of Revenues, Expenses and Changes in Fund Equity  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Public Transportation System Fund	Yap Economic Development Authority Fund	Yap Investment Trust Fund	Totals	
				1995	1994
Operating revenues:					
Charges for goods and services	\$ 72,961	\$ -	\$ -	\$ 72,961	\$ 62,971
Other	-	50,000	-	50,000	50,000
<b>Total operating revenues</b>	<b>72,961</b>	<b>50,000</b>	<b>-</b>	<b>122,961</b>	<b>112,971</b>
Operating expenses:					
Personnel services	60,013	-	-	60,013	54,743
Supplies and materials	45,274	-	-	45,274	38,652
Contractual services/commissions	8,279	-	-	8,279	4,896
Depreciation	62,909	-	-	62,909	34,871
Other	27,280	95,359	-	122,639	4,653,185
<b>Total operating expenses</b>	<b>203,755</b>	<b>95,359</b>	<b>-</b>	<b>299,114</b>	<b>4,786,347</b>
<b>Operating loss</b>	<b>(130,794)</b>	<b>(45,359)</b>	<b>-</b>	<b>(176,153)</b>	<b>(4,673,376)</b>
Nonoperating revenues:					
Intergovernmental contributions:					
General Fund	156,710	-	-	156,710	77,790
<b>Total nonoperating revenues</b>	<b>156,710</b>	<b>-</b>	<b>-</b>	<b>156,710</b>	<b>77,790</b>
<b>Net income (loss)</b>	<b>25,916</b>	<b>(45,359)</b>	<b>-</b>	<b>(19,443)</b>	<b>(4,595,586)</b>
<b>Deficit at beginning of year</b>	<b>(304,803)</b>	<b>(4,525,715)</b>	<b>-</b>	<b>(4,830,518)</b>	<b>(234,932)</b>
<b>Deficit at end of year</b>	<b>(278,887)</b>	<b>(4,571,074)</b>	<b>-</b>	<b>(4,849,961)</b>	<b>(4,830,518)</b>
Contributed capital at beginning of year	694,683	5,682,758	892,957	7,270,398	7,115,116
Current year changes, net	-	-	-	-	155,282
Contributed capital at end of year	694,683	5,682,758	892,957	7,270,398	7,270,398
<b>Fund equity at end of year</b>	<b>\$ 415,796</b>	<b>\$ 1,111,684</b>	<b>\$ 892,957</b>	<b>\$ 2,420,437</b>	<b>\$ 2,439,880</b>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**ENTERPRISE FUNDS**  
Combining Statement of Cash Flows  
Year Ended September 30, 1995  
(With comparative totals for the year ended September 30, 1994)

	Public Transportation System Fund	Yap Economic Development Authority Fund	Yap Investment Trust Fund	Totals	
				1995	1994
Cash flows from operating activities:					
Operating loss	\$ (130,794)	\$ (45,359)	\$ -	\$ (176,153)	\$ (4,673,376)
Adjustments to reconcile operating loss to net cash provided by operating activities:					
Bad debts	-	-	-	-	4,588,387
Depreciation	62,909	-	-	62,909	34,871
	<u>(67,885)</u>	<u>(45,359)</u>	<u>-</u>	<u>(113,244)</u>	<u>(50,118)</u>
Change in assets and liabilities:					
General receivables	25	-	-	25	(25)
Due from other funds	-	45,359	-	45,359	(50,000)
Inventory of supplies, at cost	(29,476)	-	-	(29,476)	36,703
Prepayments	-	-	-	-	1,398
Advances	-	-	-	-	155,381
Accounts payable	18,737	-	-	18,737	942
Accrued payroll and others	1,018	-	-	1,018	(80)
	<u>(9,696)</u>	<u>45,359</u>	<u>-</u>	<u>35,663</u>	<u>144,319</u>
Net cash (used for) provided by operating activities	<u>(77,581)</u>	<u>-</u>	<u>-</u>	<u>(77,581)</u>	<u>94,201</u>
Cash flows from noncapital financing activities:					
Operating transfers in	<u>156,710</u>	<u>-</u>	<u>-</u>	<u>156,710</u>	<u>77,790</u>
Net cash provided by noncapital financing activities	<u>156,710</u>	<u>-</u>	<u>-</u>	<u>156,710</u>	<u>77,790</u>
Cash flows from capital and related financing activities:					
Contributed capital	-	-	-	-	155,282
Acquisition of fixed assets	<u>(12,022)</u>	<u>-</u>	<u>-</u>	<u>(12,022)</u>	<u>(312,496)</u>
Net cash used for capital and related financing activities	<u>(12,022)</u>	<u>-</u>	<u>-</u>	<u>(12,022)</u>	<u>(157,214)</u>
Net increase in cash and equivalents	67,107	-	-	67,107	14,777
Cash and equivalents at beginning of year	<u>19,045</u>	<u>-</u>	<u>-</u>	<u>19,045</u>	<u>4,268</u>
Cash and equivalents at end of year	<u>\$ 86,152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,152</u>	<u>\$ 19,045</u>



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE  
WITH LAWS AND REGULATIONS  
YEAR ENDED SEPTEMBER 30, 1995**



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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1995, and have issued our report thereon dated April 22, 1996. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating 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 of the general-purpose financial statements 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 disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

However, 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 89 through 103) in Federal Findings No. 1 through 12 and in Local Findings No. 1 and 2.

We also noted matters involving 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 April 22, 1996 on compliance related to federal financial assistance programs.

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.

Deloitte + Touche LLP

April 22, 1996



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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1995, and have issued our report thereon dated April 22, 1996. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating 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; types of services allowed or unallowed; eligibility; reporting; and claims for advances and reimbursements that are applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 71 through 85), for the year ended September 30, 1995. 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 89 through 103) in Federal Findings 9, 11 and 12. 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; types of services allowed or unallowed; eligibility; reporting; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs for the year ended September 30, 1995.

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.

*Deloitte + Tatch LLP*

April 22, 1996



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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1995, and have issued our report thereon dated April 22, 1996. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating 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 April 22, 1996.

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 71 through 85), for the year ended September 30, 1995: 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 State of Yap, which are identified in the Schedule of Federal Financial Assistance

Our procedures were limited to the applicable procedures described in 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 89 through 103) in Federal Findings 1, 3, 4, 5, 6, 7 and 8.

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 April 22, 1996.

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.

*Deloitte + Tardie LLP*

April 22, 1996



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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1995, and have issued our report thereon dated April 22, 1996. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating 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 April 22, 1996.

In connection with our audit of the 1995 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, 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, 1995.

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; reporting; and monitoring subrecipients 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 89 through 103) in Federal Findings 2 and 10.



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.

*Deloitte + Touche LLP*

April 22, 1996



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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1995, and have issued our report thereon dated April 22, 1996. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type-Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating 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 April 22, 1996.

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, 1995, 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 April 22, 1996.

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:

Controls Used in Administering Federal Programs

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

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

Accounting Controls

- Revenue and receipt cycle
- Purchases and disbursement cycle
- Payroll
- External financial reporting
- Cash and equivalents
- Receivables
- Inventory
- Fixed assets

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, 1995, the State of Yap expended 89% of its total federal financial assistance under the major federal financial assistance programs listed on page 86.

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 governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the State of Yap's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 71 through 85). 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.

We noted certain matters involving the internal control structure and its operation that we consider 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 judgement, could adversely affect Yap State's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The following items, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 89 - 103), represent reportable conditions:

Federal Finding No. 1 - Drug Free Workplace Act

Federal Finding No. 2 - Allowable Costs/Cost Principles - JTPA (CFDA # 17.250)

Federal Findings No. 3 & 4 - Administrative Requirements - Equipment Management

Federal Finding No. 11 - Compact Capital CIP Funds

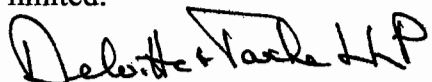
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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 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 matters involving the internal control structure and its operation based on our audit of the general-purpose financial statements that we reported to the management of the State of Yap in a report dated April 22, 1996.

We also noted other matters involving the internal control structure and its operation, which are described in the accompanying Schedule of Findings and Questioned Costs in Federal Findings No. 5-10 and 12, and in Local Findings No. 1 and 2, which we have reported to the management of the State of Yap.

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.



April 22, 1996

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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1995, and have issued our report thereon dated April 22, 1996. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Types - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating 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 conducted 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 71 through 85) for the year ended September 30, 1995, which is also the responsibility of the management of the State of Yap, is presented for the purpose 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 our audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

This report is intended for the information of the 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.

April 22, 1996

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Federal Financial Assistance  
Federal Grants Fund  
Year Ended September 30, 1995

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1995</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of Education:</u>			
FY93 Special Education	84.027A	3003	\$ 117,084
FY94 Yap Star	84.256A	3005	190,955
FY94 Special Education	84.027A	3006	333,221
FY94 Teacher Training	84.124A	3007	51,414
FY93 Yap Star	84.256A	3149	244,395
			<hr/> 937,069 <hr/>
<u>U.S. Department of Labor:</u>			
FY92 JTPA Adult Program	17.250	3203	15,475
FY92 JTPA Youth Program	17.250	3204	4,392
FY92 JTPA Participant Support	17.250	3205	1,416
FY93 JTPA Administration	17.250	3209	2,337
FY93 JTPA Adult Program	17.250	3210	14,830
FY93 JTPA Youth Program	17.250	3211	14,517
FY93 JTPA Participant Support	17.250	3212	3,070
FY94 JTPA Administration	17.250	3214	27,693
FY94 JTPA Adult Program	17.250	3215	33,134
FY94 JTPA Youth Program	17.250	3216	34,497
FY94 JTPA Participant Support	17.250	3217	2,272
FY94 JTPA Technical Assistance	17.250	3218	3,520
FY94 JTPA Education Coordination	17.250	3220	11,474
			<hr/> 168,627 <hr/>
<u>U.S. Department of Agriculture:</u>			
FY93 Forestry Project	10.560	3304	7,000
FY89 Food Services	10.560	3346	24,610
			<hr/> 31,610 <hr/>
<u>U.S. Department of the Interior:</u>			
FY93 Historic Preservation	15.904	3454	4,381
FY94 Historic Preservation	15.904	3460	35,996
FY94 Fire Prevention	10.664	3461	2,705
PU&C Heavy Equipment Spare	15.904	3523	523
PU&C Facility Maintenance	15.904	3528	1,800
			<hr/> 45,405 <hr/>
Balance Forward			<hr/> 1,182,711 <hr/>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
Federal Grants Fund  
Year Ended September 30, 1995

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
Balance Forwarded			\$ <u>1,182,711</u>
<u>U.S. Department of Health and Human Services:</u>			
FY94 Tuberculosis	93.116	3664	2,465
FY95 Family Planning	93.217	3665	11,881
FY94 MCH Program	93.994	3666	57,986
FY94 Preventive Health	93.911	3667	10,132
FY95 State System Development	93.110	3668	8,744
FY95 Immunization Program	93.268	3669	7,294
FY93 Substance Abuse Youth	93.959	3676	890
FY93 Substance Abuse Other	93.994	3677	5,452
FY93 MCH	93.994	3678	4,045
FY93 MCH/Dental	93.994	3679	3,878
FY94 Immunization Program	93.268	3682	1,819
FY94 Substance Abuse P&T - Other	93.959	3683	18,961
FY93 Substance Abuse P&T - Youth	93.959	3684	26,364
FY94 Diabetes Program	93.988	3685	611
FY95 Aids Prevention	93.940	3686	2,578
FY95 Tuberculosis and Aids	93.116	3687	5,381
FY96 Family Planning	93.214	3688	1,783
FY95 Diabetes Program	93.988	3689	1,787
			<u>172,051</u>
Total Federal Grants Fund			\$ <u><u>1,354,762</u></u>

Note: With the exception of the FY93 and FY94 Yap Star grants, Yap Org. No. 3149 and 3005 (CFDA #84.256A), which are received directly from the U.S. Department of Education, 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, 1995

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>Federal Emergency Management Agency</u>			
<u>(FEMA) grants:</u>			
Hazard Mitigation/Administration	83.516	3855	\$ 10,876
Hazard Mitigation/Food Crop/PR&RE	83.516	3856	61,591
Hazard Mitigation/Communication Equi	83.516	3857	44,964
Lamotrek Elementary School Repair	83.516	0025	3,518
Satawal Classroom Building #3	83.516	0071	<u>9,819</u>
Total Other U.S. Grants Fund			<u>\$ 130,768</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, 1995

<u>Grantor Program Title</u>	<u>U.S. Grantor</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
UNICEF:				
Family Education Production/Nutrition	N/A	N/A	3961	\$ 2,665
Other Grants:				
PREL Math-Science Project	U.S. DOE	84.994S	3976	13,210
YR3 PREL Vocational Education	U.S. DOE	84.994S	3977	56,361
SPREP Coastal Management Plan	N/A	N/A	3978	4,943
Australia YHS Nursery	N/A	N/A	3979	20,186
PREL Science Program	U.S. DOE	84.994S	3984	6,668
YR2 PREL Vocational Education	U.S. DOE	84.994S	3989	24,339
Population Education	N/A	N/A	3991	839
				<hr/>
Total Non U.S. Grants Fund				\$ <u><u>129,211</u></u>

Note: The above grants annotated "N/A" are received in a subrecipient capacity through the FSM National Government.

The remaining grants are received in a direct capacity from the U.S. Department of Education.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued  
CFSM Grants Fund  
Year Ended September 30, 1995

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Medical Supplies	5804	\$ 1,596
Madrich Vil	5805	509
FY95 State Court	5827	59,076
FY95 Joint Law Enforcement	5828	82,833
Education	5829	49,295
Rull Supplies	5842	428
Plaw Water	5859	1,584
O/I Agriculture	5888	114
Education Operations	5890	988
Teacher Training	5899	1,259
Elementary and Secondary Education	5903	19,939
St. Mary's School	5904	50,000
FY94 Yap State Court	5905	4,104
FY94 Joint Law Enforcement	5906	10,347
ALCO Repair	5907	70,503
FY94 Education	5908	182,618
FY94 Health	5909	268,758
Yap Cultural Education Project	5910	39,375
State Tourism Development	5911	1,000
Continuing Education	5912	3,015
South Pacific Agriculture	5915	38,000
St. Mary's School	5916	100,000
Gachpar Civic Center	5917	22,500
YSS Paluwlap Repair	5918	1,180
Yap Scholarship Fund	5919	48,900
Total CFSM Grants Fund		\$ <u>1,057,921</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  
TTPI Capital Projects Fund  
Year Ended September 30, 1995

Grantor <u>Program Title</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>		
Rural Sanitation - Yap Cap	6382	\$ 99,308
Southern Yap Water	6394	840
Colonia Sewage Improvement	6395	<u>63,647</u>
Total TTPI Capital Projects Fund		<u>\$ 163,795</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  
CFSM Capital Projects Fund  
Year Ended September 30, 1995

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Faraulep School	6615	\$ 425
Falalop School	6617	316
Meerur Center	6619	21,950
TTPICIP Administration	6621	1,527
Tegailap DPN	6631	5,384
Seabee Renovation	6632	13,152
Runway Repair	6636	76,282
Dabach Retaining Wall	6638	<u>10,215</u>
Total CFSM Capital Projects Fund		<u>\$ 129,251</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  
Other U.S. Capital Projects Fund  
Year Ended September 30, 1995

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1995</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Environmental Protection Agency</u>			
Ulithi Sewer FSM	66.418	6851	\$ 24,295
Waste Water Treatment Plant	66.418	6855	11,129
<u>U.S. Department of the Interior</u>			
Yap Airport Runway	15.875	6858	<u>884</u>
Total Other U.S. Capital Projects			\$ <u><u>36,308</u></u>

Note: The above grant is received in a subrecipient capacity through the FSM National Government.

**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, 1995

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Department of Education Budget Supply/Maintenance	2113	\$ 21,602
Education Administration	2114	935
Instruction and Curriculum	2115	211,429
Yap Elementary Schools	2116	175,373
Outer Island Elementary Schools	2117	53,135
Yap High School	2118	216,935
Outer Island High School	2119	99,367
Post Secondary Student Services	2122	20,941
Department of Education Staff Development	2123	64,764
Outer Island Middle School	2126	74,605
Family Health Planning	2130	3,258
Primary Health Care	2132	17,288
Preventive Health Care	2133	4,286
Alcohol/Drug Abuse and Mental Health	2136	11,314
Medical Referral	2137	92,997
Medical Supply and Equipment	2138	96,372
Ancillary Services	2140	41,337
		<hr/>
Total Compact of Free Association Compact Programs Fund-Section 221(B)		\$ <u><u>1,205,938</u></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), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

**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, 1995

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Medical Referral Program	2448	\$ <u>518,415</u>
Total Compact of Free Association Compact Programs Fund-Section 216(A)(2)		\$ <u><u>518,415</u></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), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

**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, 1995

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Scholarships and grants	2641	\$ <u>297,560</u>
Total Compact of Free Association Compact Programs Fund-Section 216(A)(3)		\$ <u><u>297,560</u></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), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.



**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, 1995

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
POL/Power Generation	2853	\$ <u>719,069</u>
Total Compact of Free Association Compact Programs Fund-Section 214(B)		\$ <u><u>719,069</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), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallocates such to the 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, 1995

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Daboch Community Center	6101	\$ 21,451
St. Mary's School Building	6106	50,000
FY93 Coastal Management	6108	414
Small Business Center	6116	17,275
High School Computer Lab	6118	10,727
FY93 Manpower Development	6127	19,143
FY93 Land Lease and Acquisition	6128	5,946
Outer Island Dental Building	6132	2,088
Power and Water Plant Upgrade	6133	622
Daboch Water Extension	6138	39,816
Water Wells Development	6139	7,765
Hospital Roof	6141	7,889
Muyub Culvert	6142	12,977
Tagareng and Bileeyuw Water System	6143	(41)
Agriculture Extension and Research	6144	7,910
Forestry Development	6145	2,100
Livestock Extension	6146	648
FY94 Tourism Promotion	6147	14,946
FY94 Outer Island Agriculture Development	6148	162
FY94 Vegetable and Root Crop	6149	924
FY94 Cadastral Program	6150	726
Falalop Water System	6151	1,701
FY94 Power System Development	6153	7,160
FY94 Power System Improvement	6154	39,012
Sponge Farming	6155	3,827
FY94 Trochus Monitor	6157	1,637
FY94 Turtle Research	6158	75
Water Plant Upgrade	6160	21,417
Outer Island High School Library	6161	26,527
Maap Central School Building	6162	58,196
Dalipebinaw Elementary School	6164	5,608
Wottegai Typhoon Shelter	6165	7,500
Lamotrk Typhoon Shelter	6166	7,500
Seliap Typhoon Shelter	6167	5,000
Ganelay Middle School	6169	11,281
PIIG Dispensary	6170	11,251
Airport Repairs	6171	282
Magachil Seawall	6172	33,381
Road Chearing	6173	23,703
Airport Repair	6174	100,189
Council of Pilung Building	6175	40,437
Forestry Project	6176	26,403
R&D Extension and Research	6177	81,602
Livestock Extension	6178	110,441
Balance Forward		<u>847,618</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)  
Year Ended September 30, 1995

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1995</u> <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded		\$ 847,618
<u>Office of Territorial and International Affairs, continued</u>		
Tourism Promotion	6179	49,613
Bus Expansion/Extension	6180	8,229
Turtle Research	6182	2,166
Outer Island Sponge Farming	6183	9,415
Trochus Harvest	6184	19,229
MRMD Renovation	6185	15,861
Agriculture Q. and Q. Control	6186	6,407
Cadastral Program	6188	162,518
Land Lease and Aquisition	6189	23,463
Power System Improvement	6190	54,683
Generator Project	6192	2,591,709
Lipmur Water Extension	6193	45
WSZA/Waab Building	6228	(213)
Dabach/IO Settlement	6230	17,489
IADP-Water/Sanitation Project	6238	26,179
Roads Development	6242	386,707
Road Development Phase VII	6243	15,848
Feasibility Studies	6263	254
Sludge Dryage Beds	6267	29,044
Colonia Community Center Basketball Court Extension	6290	69,976
Total Compact of Free Association Capital Projects Fund - Section 211(A)		\$ 4,336,240

(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), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
 Schedule of Federal Financial Assistance, Continued  
 Compact of Free Associationa General Fund  
 Section 211(A) Current Account (CFDA NO. 15.875)  
 Year Ended September 30, 1995

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1995</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
General Fund:		
Current Account	Various	\$ <u>7,154,117</u>
Total Compact of Free Association expenditures		\$ <u>14,231,339</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 reallots such to the component States.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance  
Year Ended September 30, 1995

(1) Scope of Review

The Yap State Government is a governmental entity governed by its own Constitution. All significant operations of the State are included in the scope of the OMB Circular A-128 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the State's cognizant agency for the Single Audit.

A. Programs Subject to Single Audit

- U.S. Department of Agriculture
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior
- U.S. Department of Labor
- U.S. Environmental Protection Agency
- U.S. Federal Emergency Management Agency

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures.

B. Reporting Entity

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

(3) Component Units

The Yap Community Action Program, a component unit-governmental fund has separately satisfied audit requirements of OMB Circular A-133. Yap State is considered to have responsibility for any questioned costs that could result from Single Audits of this entity.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance, Continued  
Year Ended September 30, 1995

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FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For  
Audit In Accordance With OMB Circular A-128  
Year Ended September 30, 1995

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>1995 Fiscal Year Expenditures</u>
<u>U.S. Dept. of the Interior</u>		
Compact of Free Association:	15.875	
211(A) Capital Account		\$ 4,336,240
221(B) Special Block Grant		1,205,938
Health and Medical		518,415
Post Secondary Education		297,560
Energy Programs		<u>719,069</u>
Total CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>7,077,222</u>
<u>U.S. Department of Education</u>		
Special Education	84.027A	450,305
Yap Star	84.256A	<u>435,350</u>
Total U.S. Department of Education		<u>885,655</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>7,962,877</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>8,863,433</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>89%</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1995

**Federal Findings**

**Drug-Free Workplace Act**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
1.	All	<p>Per the Office of Management and Budget Compliance Supplement, grantees are required to provide employees a drug-free workplace. In order to satisfy the above requirement, the following procedures must be performed:</p> <p>a) Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;</p> <p>b) Establishing an ongoing drug-free awareness program to inform employees about:</p> <ul style="list-style-type: none"><li>• The dangers of drug abuse in the workplace;</li><li>• The grantee's policy of maintaining a drug-free workplace;</li><li>• Any available drug counseling, rehabilitation, and employee assistance programs, and,</li><li>• The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;</li></ul> <p>c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);</p> <p>d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will:</p> <ul style="list-style-type: none"><li>• Abide by the terms of the statement; and</li><li>• Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;</li></ul> <p>e) Notifying the agency in writing within ten calendar days after receiving notice under subparagraph (d) (2) from an employee or otherwise receiving actual notice of such conviction;</p>	



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Federal Finding No. 1 - Drug-Free Workplace Act, Continued**

Item No.   CFDA No.   Criteria, Continued:

Questioned  
Costs

- f) Taking one of the following actions, within 30 calendar days of receiving notice under subparagraph (d) (2), with respect to any employee who is so convicted:
- Taking appropriate personnel action against such an employee, up to and including termination; or
  - Requiring such employees to participate satisfactorily in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State, or local health, law enforcement, or other appropriate agency.

Condition: Per our inquiries, we noted the State of Yap has not complied with the above required procedures.

Cause: Yap State has been waiting for the FSM National Government to take a lead on this finding as it also relates to the FSM in general.

Effect: The effect is noncompliance with the Drug-Free Workplace Act.

Recommendation: We recommend that in addition to issuing a policy statement in compliance with the Drug-Free Workplace Act, procedures be implemented to document that employees engaged in the performance of federal grants are aware of the policy statement.

Prior Year Status: Noncompliance with the Drug-Free Workplace Act was reported as a finding in the Single Audits of the Yap State Government for fiscal years 1992, 1993 and 1994.

Auditee Response and Corrective Action Plan: The Financial Consultant has been assigned by the Governor to draft policy. All agencies that use U.S. Federal Grants are aware of requirements in OMB Circular A-102 although statements on drug free workplace have not been published locally.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Allowable Costs/Cost Principles - JTPA**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
2.	17.250	<p>Supporting documentation for expenditures under federal programs should be complete and accurate.</p> <p><u>Condition:</u> We noted situations where a project had been extended, but the paperwork for the extension had not been filed; a timesheet filed for support was not signed as being properly authorized; and the files we reviewed had no documentation of progress reports and follow-up reports being performed.</p> <p><u>Cause:</u> The cause appears to be a lack of complete and accurate filing and adequacy of supporting documentation.</p> <p><u>Effect:</u> The effect is possible future questioned costs related to the lack of documentation.</p> <p><u>Recommendation:</u> We recommend that files supporting expenditures under federal programs be complete and accurate.</p> <p><u>Prior Year Status:</u> Incomplete and inaccurate supporting documents for JTPA program expenditures was reported as a finding in the Single Audits of the Yap State Government for fiscal years 1992, 1993 and 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We realize that we should have coordination between the JTPA Office and Finance Office to make sure that supporting documents are present and properly filed. We will make our review of all problems and make sure that we take previous years problems into consideration.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Administrative Requirements - Equipment Management**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
3.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 33 (d) (2) requires that a physical inventory of property acquired with federal funds be performed at least every two years and that the inventory be reconciled to property records.</p> <p><u>Condition:</u> A physical inventory of property has not been performed in over two years.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that a physical inventory of property be taken and the results reconciled to the property records at least once every two years.</p> <p><u>Prior Year Status:</u> Noncompliance with the administrative requirements - equipment management was reported as a finding in the Single Audit of the Yap State Government for fiscal year 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> Physical inventory of all properties bought under all U.S. Federal programs in the states is difficult to accomplish. We have discussed with RPPM that we need to engage the assistance of all departments and agencies, particularly those which use Federal Grants, in this effort. We will try to have, at least, a partial list by the end of this year.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Administrative Requirements - Equipment Management, Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
4.	All	<p>An updated property ledger by funding source should be maintained for all of Yap State Government.</p> <p><u>Condition:</u> The Division of Real and Personal Property Management (RPPM) maintains property cards. However, these records have not been updated in the accounting system.</p> <p><u>Cause:</u> The off-site terminal used by RPPM no longer works and no manual ledgers appear to have been prepared.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants due to not being able to test the accuracy of fixed asset inventory ledgers.</p> <p><u>Recommendation:</u> We recommend that property ledgers be maintained on a timely basis by funding source in the General Fixed Assets Account Group.</p> <p><u>Prior Year Status:</u> Noncompliance with the administrative requirements - equipment management was reported as a finding in the Single Audit of the Yap State Government for fiscal year 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> Since the breakdown of the cable that linked Finance with RPPM, there has not been any updated records. However, with the new system, the records will be updated. Additionally, a week ago, hardware was given to RPPM to update its records and submit printed records to Finance.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Administrative Requirements - Procurement**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
5.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 36 (b) (12) requires grantees and subgrantees to have written protest procedures to handle and resolve disputes relating to their procurements.</p> <p><u>Condition:</u> We noted no written procedures regarding protests over procurement procedures.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that a written policy be adopted and added to the regulations regarding procedures to handle and resolve disputes relating to procurement procedures.</p> <p><u>Prior Year Status:</u> Noncompliance with the administrative requirements - procurement was reported as a finding in the Single Audit of the Yap State Government for fiscal year 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> A week ago, the Manual on Procurement Procedures was finished and is now being reviewed. We will have those procedures in place by October 1, 1996.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Administrative Requirements - Subawards to Debarred and Suspended Parties**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
6.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 35 requires that grantees and subgrantees not award or permit any award to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal Assistance programs.</p> <p><u>Condition:</u> We noted that Yap State did not have a copy of the Lists of Parties Excluded from Federal Procurement or Nonprocurement Programs, issued by the General Services Administration (GSA). Additionally, Yap State does not require that recipients of contracts, subcontracts, or subgrants certify that the organization and its principals are not suspended or debarred.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that Yap State obtain copies of the GSA lists and require certification, for their contracts and subgrants greater than \$25,000, that the organization and its principals are not suspended or debarred.</p> <p><u>Prior Year Status:</u> Noncompliance with the administrative requirements - subawards to debarred and suspended parties was reported as a finding in the Single Audit of the Yap State Government for fiscal year 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We have written a letter to the Federal Supply Service bureau requesting such list be sent to us periodically. We will require, in the Procurement Manual, that the list be considered before orders are placed.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Allowable Costs/Cost Principles**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
7.	All	<p>Office of Management and Budget (OMB) Circular A-87 covering cost principles for State and Local Governments over federal grants should be incorporated into Yap State's policies and procedures over procurements.</p> <p><u>Condition:</u> The individual in the Division of Finance responsible for screening procurements for compliance with OMB Circular A-87 has a copy and is familiar with the criteria; however, some program coordinators do not appear to be aware of the criteria.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> We noted no material effect due to the review by the responsible individual in Finance. However, if that employee is gone, noncompliance may occur.</p> <p><u>Recommendation:</u> We recommend that OMB Circular A-87 requirements be incorporated into Yap State's policies and procedures for more complete control and documentation over these requirements.</p> <p><u>Prior Year Status:</u> Noncompliance with the allowable costs/cost principles was reported as a finding in the Single Audit of the Yap State Government for fiscal year 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We will incorporate this criteria in the procedure to be enforced by October 1, 1996.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Cash Management - FEMA**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
8.	83.516	<p>Compliance Supplement cash management requirements require recipients to minimize the time between receiving grant funds and the related disbursement.</p> <p><u>Condition:</u> Per the Program Coordinator for the Federal Emergency Management Agency (FEMA) Public Assistance Program - Typhoon Owen, the program was completed in December 1993. The Coordinator was under the impression all of the funds had been expended. Therefore, the remaining advanced funds of \$18,388 has been reclassified from Deferred Revenue to Due to Grantor as of September 30, 1995.</p> <p><u>Cause:</u> This appears to be due to lack of coordination between the program administrators and the Division of Finance in closing out the program.</p> <p><u>Effect:</u> The effect is noncompliance with cash management requirements and possible future questioned costs if the funds are improperly disbursed.</p> <p><u>Recommendation:</u> We recommend that the remaining advanced funds be investigated to determine whether they are to be properly applied to the program or to be returned to the grantor. If the funds are to be applied to the program, proper supportive documentation should be thoroughly reviewed and copies maintained by the Division of Finance.</p> <p><u>Prior Year Status:</u> Noncompliance with the cash management - FEMA was reported as a finding in the Single Audit of the Yap State Government for fiscal year 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> It has been decided that the money should be utilized and documentation should be maintained in the Finance Office.</p>	



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Yap State - Special Education**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
9.	84.027	<p>Every child receiving services from Special Education should have a completed and current Individualized Education Program (IEP) on file.</p> <p><u>Condition:</u> Two of the files reviewed did not have completed IEP's. (Derived from a sample of 16 files representing 9 out of 17 SLD children and 7 out of 14 homebased children.)</p> <p><u>Cause:</u> Yap officials appeared to be awaiting additional information which has yet to be received.</p> <p><u>Effect:</u> There is no direct effect on the financial statements as a result of this condition.</p> <p><u>Recommendation:</u> Documentation of services provided and goals achievable should be obtained prior to obtaining specialist assistance.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The IEP for all the SLD children is now complete. The specialist we mentioned in the FY94 audit has come and gone and all the records have been set up.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Yap State - Disbursements**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
10.	84.994	All purchases made with Federal grant funds should reflect evidence of informal price quotations.  <u>Condition:</u> Per Org. #3977 - Vocational Education, a purchase occurred in the amount of \$592.85 (PV #170747). There was no evidence on file indicating the lowest price was obtained.  <u>Cause:</u> The cause of this condition is unknown.  <u>Effect:</u> The effect for this condition is a questioned cost.  <u>Recommendation:</u> When completing a purchase order, a note should be written on the PO stating which vendors had been contacted, the date of contact, the person contacted and the quoted price. This process will provide evidence of obtaining the lowest bid and is easily retrievable.  <u>Auditee Response and Corrective Action Plan:</u> This has been discussed with the Director of Education and it is now clearly understood that informal bids and documentation of all actions taken will be kept on file.	\$ 593

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Yap State - Compact CIP Funds**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
11.	15.875	<p>A subrecipient of federal funds must substantiate the use of those funds in order to determine that funds are expended in accordance with grant terms and conditions.</p> <p><u>Condition:</u> Two payments of \$50,000 each (PV 169248 and 176728) were made to Saint Mary's School. However, there is no indication that the use of the funds has been monitored by the State and there is no indication that these funds have been audited per OMB Circular A-128 requirements.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The result of this condition is that questioned costs of \$100,000 exist which can only be resolved through an audit of these funds.</p> <p><u>Recommendation:</u> The State should ensure that subrecipient use of funds is subject to State monitoring efforts and that A-128 award requirements are met.</p> <p><u>Auditee Response and Corrective Action Plan:</u> An expenditure report is being prepared while at the same time we have asked the Speaker of the Legislature to direct the State Auditor to audit the program.</p>	\$ 100,000

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Federal Findings, continued**

**Special Education**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
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12.	84.027	Expenditures of federal funds, which deviate from required budgetary ceilings, should obtain approval from the applicable funding source prior to preceding with the contract/procedures.	
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Condition: Yap State received special education funds in 1995 which have exceeded the requirements for the number of children processed into the program. Therefore, Yap State petitioned the FSM National Government, the grantor, for permission to use Special Education Funds to rehabilitate an unusable structure on the Yap High School premises (128' H 32' prefabricated building). Also, funds were requested to furnish the classrooms. The State obtained budgetary authority from the FSM National Government and proceeded with a contract for construction (\$142,000) and to furnish the classrooms. The contracts were let in conformity with local laws wherein the Governor declared an emergency procurement and therefore competitive procurement requirements were not utilized.

Cause: The State utilized its local procurement standards which authorized sole source procurement based on the emergency declaration.

Effect: There is no effect on the financial statements as a result of this condition. No costs have been questioned as the grantor agency has provided written guidelines indicating that State procurement practices should be utilized.

Recommendation: We recommend that emergency procurements be used in situations where external factors indicate the presence of emergency conditions and not in a situation where funding must be used prior to its expiration.

Auditee Response and Corrective Action Plan: The State will ensure that emergency procurements utilizing Special Education funds will be limited to bonafide emergency situations.

Total Questioned Costs	\$ <u>100,593</u>
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**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings**

**CFSM Receivables**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
1.	N/A	<p>Receivable balances should be reconciled and analyzed for collectibility.</p> <p><u>Condition:</u> A receivable from the FSM National Government for CFSM grants (Fund 500000) recorded in the amount of approximately \$814,207 at fiscal year end compared to the FSM National Government recorded liability to Yap State for CFSM grants of approximately \$85,908.</p> <p><u>Cause:</u> This condition appears to be related to a carry forward of prior year unreconciled variances.</p> <p><u>Effect:</u> The effect is that the receivable difference is now reserved as a related asset against fund balance.</p> <p><u>Recommendation:</u> We recommend that Yap State reconcile its receivable balance with the FSM National Government and determine the collectibility of the balance. Any uncollectible amounts will need to be written off against the General Fund.</p> <p><u>Prior Year Status:</u> The unreconciled CFSM receivable balance with the FSM National Government was reported as a finding in the Single Audits of the Yap State Government for fiscal years 1992, 1993 and 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We are in the process of working with the FSM Government to reconcile all receivables for the states.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1995

**Local Findings, continued**

**Purchases and Disbursement Cycle**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
2.		<p>N/A      Advanced funds should be properly applied in a timely manner and any restrictions or requirements should be documented.</p> <p><u>Condition:</u> \$18,651 of funds advanced by the FSM National Government, as matching funds for the Federal Emergency Management Agency Public Assistance Program-Typhoon Owen, remain in deferred revenue as of September 30, 1995, while the Program was completed in December, 1993. The program Coordinator was not aware of these funds and uncertain whether they were to be returned to the FSM National Government or whether other restrictions were placed on them.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is possible noncompliance in not returning the funds or in future uses of the funds.</p> <p><u>Recommendation:</u> We recommend that the remaining advanced funds be investigated to determine whether they are to be properly applied to the program and that the FSM National Government be contacted to determine the proper disposition of these funds.</p> <p><u>Prior Year Status:</u> Noncompliance with deferred revenue - CFSM was reported as a finding in the Single Audits of the Yap State Government for fiscal year 1994.</p> <p><u>Auditee Response and Corrective Action Plan:</u> It has been discussed that the remaining funds be applied to the local program. Documentation will be prepared to reflect action taken.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 1995

QUESTIONED COSTS

For the year ended September 30, 1995, the following questioned costs were noted and prior year questioned costs resolved:

Unresolved federal questioned costs at September 30, 1994	\$ 216,280
FY95 questioned costs	100,593
Resolved questioned costs	<u>-</u>
Total unresolved federal questioned costs at September 30, 1995	\$ <u>316,873</u>

Consequently, the following is a summary of prior year 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.

FINDINGS

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 89 to 103).

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL STRUCTURE  
YEAR ENDED SEPTEMBER 30, 1995**





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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1995, and have issued our report thereon dated April 22, 1996. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating 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.

The management of the State of Yap, is responsible for establishing and maintaining the 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, and 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. 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.

In planning and performing our audit of the general-purpose financial statements of the State of Yap for the year ended September 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider 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 State of Yap'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 described in the accompanying Schedule of Internal Control Findings (pages 108 to 133), represent reportable conditions:

Finding No. 5 - Compact CIP Fund.

Finding No. 13 - Receivables.

Finding No. 15 - Fixed Assets.

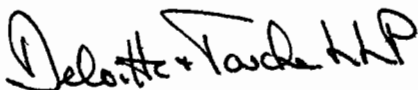
A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general-purpose financial 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 in Findings No. 4 through 25, which we have reported to the management of the State of Yap.

We also noted matters involving the internal control structure and its operations used to administer federal financial assistance programs which we reported to the management of the State of Yap in a report dated April 22, 1996.

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.



April 22, 1996

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings  
Year Ended September 30, 1995

**Yap State - Cash**

**Finding No. 1**

**Criteria:** Bank reconciliations should be performed and variances addressed to prove the accuracy of recorded cash balances.

**Condition:** Differences existed between bank reconciliations and book balances as of September 30, 1995. However, these differences were adjusted in the audit process.

**Cause:** Bank reconciliations were not performed and agreed to book balances in a timely manner.

**Effect:** Material misstatements could exist in the financial statements as a result of this condition.

**Recommendation:** Cash accounts should be reconciled on a monthly basis and adjusted results should be reflected in book balances.

**Auditee Response and Corrective Action Plan:** This item has been discussed extensively and it is agreed that monthly reconciliation be done to adjust results which will be reflected in book balances.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap State - Cash**

**Finding No. 2**

**Criteria:** A review of bank reconciliations indicates the presence of checks outstanding in excess of six months.

**Condition:** It appears that the bank reconciliation process does not encompass a review, investigation and disposition of stale dated checks.

**Cause:** Outstanding checks are not periodically reviewed to discover dated items.

**Effect:** This condition can lead to an immaterial misstatement of cash in bank balances.

**Recommendation:** Management should cancel all checks outstanding in excess of six months. If checks are not collected within a certain time frame (usually one year), the payable should be written off to other income.

**Auditee Response and Corrective Action Plan:** This item has been discussed widely and extensively with employees in finance and it is agreed that all outstanding checks are reviewed and corrective actions are taken. We will guard that this does not occur in the future.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap State - Special Education - CFDA #84.027**

**Finding No. 3**

**Criteria:** Every child receiving services from Special Education should have a completed and current IEP on file.

**Condition:** Two of the files reviewed did not have completed IEP's. (Derived from a sample of 16 files representing 9 out of 17 SLD children and 7 out of 14 homebased children.)

**Cause:** Yap officials appeared to be awaiting additional information which has yet to be received.

**Effect:** There is no direct effect on the financial statements as a result of this condition.

**Recommendation:** Documentation of services provided and goals achievable should be obtained prior to obtaining specialist assistance.

**Auditee Response and Corrective Action Plan:** The IEP for all the SLD children is now complete. The specialist we mentioned in the FY94 audit has come and gone and all the records have been set up.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap State - Disbursements**

**Finding No. 4**

**Criteria:** All purchases made with Federal grant funds should reflect evidence of informal price quotations.

**Condition:** Per Org. #3977 - Vocational Education, a purchase occurred in the amount of \$592.85 (PV #170747). There was no evidence on file indicating the lowest price was obtained.

**Cause:** The cause of this condition is unknown.

**Effect:** There is no effect on the financial statements as a result of this condition.

**Recommendation:** When completing a purchase order, a note should be written on the PO stating which vendors had been contacted, the date of contact, the person contacted and the quoted price. This process will provide evidence of obtaining the lowest bid and is easily retrievable.

**Auditee Response and Corrective Action Plan:** The State from time to time will perform informal bidding which will be documented so as to provide evidence of auctions taken as required by U.S. Federal Programs.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap State - Compact CIP Funds - CFDA #15.875**

**Finding No. 5**

**Criteria:** A subrecipient of federal funds must substantiate the use of those funds in order to determine that funds are expended in accordance with grant terms and conditions.

**Condition:** Two payments of \$50,000 each (PV 169248 and 176728) were made to Saint Mary's School. However, there is no indication that the use of the funds has been monitored by the State and there is no indication that these funds have been audited per OMB Circular A-128 requirements.

**Cause:** The cause of this condition is unknown.

**Effect:** The result of this condition is that questioned costs of \$100,000 exist which can only be resolved through an audit of these funds.

**Recommendation:** The State should ensure that subrecipient use of funds is subject to State monitoring efforts and that A-128 award requirements are met.

**Auditee Response and Corrective Action Plan:** Advice from St. Mary's School is that all expenditures receipts are available and they would be sent to Finance. We have requested the Speaker of the Legislature to have the State Auditor audit the appropriation.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap State - Travel Advances**

**Finding No. 6**

**Criteria:** Travel advances should be cleared by the traveler in a timely manner or automatic collection through payroll deduction should commence.

**Condition:** It appears that a substantial number of travel advances have been outstanding for in excess of one year and no collection of these advances has been made.

**Cause:** The cause of this condition is unknown.

**Effect:** An opportunity cost to the State exists as the outstanding travel advances are not available for investment purposes.

**Recommendation:** The State should implement procedures to ensure that travel advances are collected in a timely manner.

**Auditee Response and Corrective Action Plan:** We are in the process of reviewing the travel account with the view of writing-off those uncollectibles and litigate those that we have problems with and increase the amounts that travelers are paying now at the rate of \$10 to \$50.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap State - CFSM Receivables**

**Finding No. 7**

**Criteria:** Receivables should represent only those amounts which are deemed collectible.

**Condition:** CFSM grants receivable from the FSM National Government include amounts withheld by the FSM National Government from prior years in the amount of \$262,495.

**Cause:** The cause of this condition is unknown.

**Effect:** A possible overstatement of general fund unreserved fund balance could result from this condition. However this amount has been reserved for as a related asset in the general fund.

**Recommendation:** Management should review the details of the CFSM grant receivables and transfer out to the General Fund those amounts deemed to be uncollectible from the National Government.

**Auditee Response and Corrective Action Plan:** We are now in the process of reviewing all receivables for the states.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Encumbrances**

**Finding No. 8**

**Criteria:** Encumbrances should be periodically reviewed to attempt to determine the existence of amounts which may already have been liquidated.

**Condition:** One general fund encumbrance (P5012601) is listed as an outstanding encumbrance as of September 30, 1995 in the amount of \$3,700 yet it was actually liquidated in October, 1994.

**Cause:** The cause of this condition appears to be inadequate review and investigation of long outstanding encumbrances.

**Effect:** The effect of this condition is an immaterial overstatement of encumbrances.

**Recommendation:** Long outstanding unliquidated encumbrances should be reviewed and investigated.

**Auditee Response and Corrective Action Plan:** This has been discussed and agreed that this should not occur again, as it will be reviewed and monitored.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Interfund Balances**

**Finding No. 9**

**Criteria:** Excessive earnings should not be retained in the Internal Service Fund.

**Condition:** As of September 30, 1995, approximately \$194,000 of interfund receivables exist in the Internal Service Fund.

**Cause:** Earnings have accumulated and have not been utilized.

**Effect:** The accumulation may be more appropriately designated for alternative uses.

**Recommendation:** The accumulated earnings should be reviewed to determine if the Internal Service Fund will make use of this amount.

**Auditee Response and Corrective Action Plan:** The State is reviewing this matter and will ensure that excess funds are not retained in the Internal Service Fund.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Appropriations -Compact Capital Account - CFDA #15.875**

**Finding No. 10**

**Criteria:** Appropriations of Compact Capital funding should be reviewed to ensure that Compact use criteria are met.

**Condition:** An appropriation of \$40,000 was made for ordinary repair work to the Legislature building. The source of the appropriation is Compact Capital Funds.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of this condition is that potential questioned costs may result upon the expenditure of these funds. (As of September 30, 1995, the full value of the appropriation is recorded as a continuing appropriation as no fiscal year 1995 expenditures were incurred.)

**Recommendation:** The Yap State Legislature should review the project to determine how compliance with Compact Capital use requirements is met.

**Auditee Response and Corrective Action Plan:** We have sent a letter to the Speaker of the Legislature bringing this problem to his attention. In the letter we pointed out that Yap State will have to replace the portion of the money which has been used and also that we have ceased all charges to the appropriation.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Disbursements**

**Finding No. 11**

**Criteria:** Funds should not be expended without requisite statutory authority.

**Condition:** The feed sales fund and the slaughterhouse operations have each incurred deficits as of September 30, 1995 (\$55,815 and \$42,057, respectively). We cannot determine the underlying statutory authority for the incurrence of these deficit positions.

**Cause:** The cause of this condition is unknown.

**Effect:** The general fund has advanced funds to allow the deficit to occur. Unless repaid, the general fund will be required to absorb these amounts.

**Recommendation:** This matter should be addressed and resolved.

**Auditee Response and Corrective Action Plan:** Based on FY-93, 94 and 95 132-P reports, Feed Sales Fund should have incurred a deficit of \$29,488. Slaughterhouse Operations Fund should have a remaining balance of \$7,184 plus a \$17,000 transfer-in from the General Fund which is authorized under YSL 3-86. \$30,179 in encumbrances for the Feed Sales Fund will be canceled. The deficit of \$29,488 will be covered by FY-96 revenue collections. An audit of both funds will be made prior to September 30, 1996.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Encumbrances**

**Finding No. 12**

**Criteria:** State procurement laws governing competitive procurement activities should be complied with unless an authorized exemption is obtained.

**Condition:** The State currently requires competitive procurement for all local purchases exceeding \$5,000. However, a review of the encumbrance subledger indicates the presence of many split purchase orders, a process which appears to circumvent State legal requirements.

**Cause:** The cause of this condition is that enforcement of State procurement laws is not occurring.

**Effect:** The effect of this condition on the financial statements is indirect as the State may be paying more for its procurements than required.

**Recommendation:** This condition should be reviewed and if necessary, competitive procurement thresholds should be revised. However, until that time, the practice of authorizing split purchase orders should be discontinued and compliance with State law should occur.

**Auditee Response and Corrective Action Plan:** This has been discussed with all departments and agencies of the government. Supply and Finance have been directed to be on the alert for split purchase orders.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Receivables**

**Finding No. 13**

**Criteria:** Receivables from other governments should be collected in a timely manner.

**Condition:** Certain receivables do not appear to be collected in a timely manner and therefore have been recorded as a component of the reserve for related assets:

FEMA receivables	\$ 186,847
CFSM projects	232,495
TTPI projects	268,707
CFSM CIP projects	18,105
US CIP projects	25,119
Federal programs through the FSM	<u>66,158</u>
	\$ <u>797,431</u>

**Cause:** The cause of this condition is unknown.

**Effect:** If the receivables are not collected, the General Fund will recognize a corresponding bad debt. However, the above has been reserved as a related asset in the general fund's fund balance.

**Recommendation:** The State should devote all resources necessary to collecting the above amounts.

**Auditee Response and Corrective Action Plan:** Finance is now working diligently on the issue. At present, we have resolved almost all of the TTPI. We are preparing the billings for the rest.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Revenues**

**Finding No. 14**

**Criteria:** Analysis of revenue collection trends would be an effective management tool to ensure excise taxes are collected and reported.

**Condition:** Revenue and Tax officials could not explain significant decreases in excise taxes for gasoline and others for fiscal year 1995 as compared to fiscal year 1994 and 1993.

**Cause:** Revenue agents are not required to investigate and report variances to management.

**Effect:** Revenues could be misstated.

**Recommendation:** Management should require the Revenue Office to investigate and report significant variances in collection of taxes.

**Auditee Response and Corrective Action Plan:** The actual revenue for Fiscal Year 1995 was understated by \$71,972. The payee of the check was erroneously typed. This amount has been credited to FY96 as a result of the error. However, the shortfall of FY95 compared to FY94 is still under study.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Fixed Assets**

**Finding No. 15**

**Criteria:** Fixed assets should be properly supported.

**Condition:** A large percentage of the General Fixed Assets Account Group represents unsupported costs.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect is an inability to substantiate the carrying value of fixed assets included in the General Fixed Assets Account Group.

**Recommendation:** The State of Yap should establish a fixed asset capitalization policy related to external financial reporting and should inventory and cost related assets.

**Prior Year Status:** The lack of documentation supporting fixed assets was reported as a finding in the Yap State Government Single Audits for fiscal years 1992, 1993 and 1994.

**Auditee Response and Corrective Action Plan:** When the Property Management Policy Manual is finished and such property policy is enforced, we will not have this problem in the future.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Payroll**

**Finding No. 16**

**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.

**Prior Year Status:** The finding was reported in the Yap State Government Single Audits for fiscal years 1993 and 1994.

**Auditee Response and Corrective Action Plan:** This will be discussed with the agencies affected and the FSM Government as most of the agreement are with the FSM Government with the view of having the Finance Representative of the FSM Government handle all payroll activities for those agencies.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap Fishing Authority - Cash Receipts**

**Finding No. 17**

**Criteria:** The source of cash deposits should be identified and be properly recorded in the accounting records.

**Condition:** Checking account No. 006365 reflects four deposits, as of the September 30, 1995 bank reconciliation, aggregating \$8,620 which have yet to be properly credited in the books.

**Cause:** The source of the deposits has yet to be identified.

**Effect:** The effect of this condition is that errors may exist in the financial statements until this condition is corrected.

**Recommendation:** These deposits should be identified and properly recorded.

**Auditee Response and Corrective Action Plan:** The sources of all these deposits have been identified and credited except for two deposits totaling \$3,539 which will be credited to their proper accounts when identified.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap Fishing Authority - Bank Reconciliations**

**Finding No. 18**

**Criteria:** Checks which are outstanding per the bank reconciliation should be identified and investigated when applicable.

**Condition:** The September 30, 1995 bank reconciliation for account number 00636-5 lists a check outstanding in excess of two years.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of this condition is cash may be improperly stated by an immaterial amount.

**Recommendation:** Checks outstanding in excess of six months should be subject to periodic review to determine appropriate disposition.

**Auditee Response and Corrective Action Plan:** Most of the outstanding checks are payable to our crew members who are now residing in the neighboring islands. We will write off those in excess of six months this fiscal year.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Yap Fishing Authority - Cash Receipts**

**Finding No. 19**

**Criteria:** Grants received should be acted upon in a timely manner with appropriate communication occurring with the grantor agency.

**Condition:** The Authority received a South Pacific Commission award of \$4,600 in 1991. However, the grant has not been acted on and the funds received remain recorded as deferred revenue.

**Cause:** The cause of this condition is unknown.

**Effect:** There is no effect on the financial statements as a result of this condition.

**Recommendation:** Management should discuss this matter with the South Pacific Commission and resolve this matter by performing per the grant requirements or by returning the funds.

**Auditee Response and Corrective Action Plan:** The Outer Island Shell Project never took place as the Peace Corp. Volunteer in-charge left as soon as the grant was received. YFA management feels the award will not be used therefore, it will be returned to SPC upon location of the agreement papers.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Public Transportation System - Bank Reconciliations**

**Finding No. 20**

**Criteria:** Bank reconciliations should be performed on a monthly basis.

**Condition:** From our examination of the cash account, it was noted that bank reconciliations were not performed after June 1995.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of the condition is that financial statements can contain material errors due to the nonperformance of these reconciliations.

**Recommendation:** Bank reconciliations should be performed on a monthly basis. Training in bank reconciliations would be desirable for accounting staff.

**Auditee Response and Corrective Action Plan:** Bank reconciliation has been completed up to the end of 30 April 1996. It is a policy now of PTS to have all the statements reconciled at month end.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Public Transportation System - Inventory**

**Finding No. 21**

**Criteria:** Annual inventories should be taken. The results should be costed and adjustment to the general ledger balance should occur.

**Condition:**

1. While an inventory was performed at year end, there appeared to be no costing of the inventory to determine its aggregate value.
2. The inventory account balance had not changed since September 30, 1994.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of this condition is that material errors can be contained in the financial statements.

**Recommendation:**

1. Inventory counts should be periodically performed reconciling the actual inventory on hand to the general ledger.
2. Inventory controls should be implemented to ensure all inventory movements are recorded through the general ledger.

**Auditee Response and Corrective Action Plan:** An inventory of parts was done 15 October 1995. It has been recommended to the General Manager that quarterly physical inventory be conducted and reconciled with perpetual records to determine its aggregate value.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Public Transportation System - Fixed Assets**

**Finding No. 22**

**Criteria:** Depreciation expense should be recorded on a monthly basis.

**Condition:** There was no depreciation expense recorded for the last five months of the year. This results in an understatement of depreciation expense for the fiscal year.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of this condition is that material errors can exist in the financial statements.

**Recommendation:** The fixed asset register should be updated each month and depreciation expense should be reconciled from the fixed asset register to the general ledger.

**Prior Year Status:** This finding was also presented in the 1994 report on the internal control structure.

**Auditee Response and Corrective Action Plan:** An advisor is assisting PTS to record depreciation in the computerized system. Training is also being conducted with office staff on how to identify, record and handle future fixed asset purchases and monthly depreciation postings.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Public Transportation System - Disbursements**

**Finding No. 23**

**Criteria:** Acquisitions of fixed assets or inventory should be properly recorded in the financial statements.

**Condition:** A number of fixed assets and inventory purchases were expensed rather than recorded in the balance sheet.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of this condition is that material errors may exist in the financial statements.

**Recommendation:** More care should be taken when posting items to the general ledger to ensure that purchases are treated in accordance with generally accepted accounting principles.

**Auditee Response and Corrective Action Plan:** As the staff is undergoing training, we feel comfortable that they will be able to post items to general ledger to ensure it is done in accordance with generally accepted accounting principles.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Public Transportation System - External Financial Reporting**

**Finding No. 24**

**Criteria:** All amounts recorded in the financial statements should be supported by underlying evidential information.

**Condition:** An amount of \$22,000 was recorded in the equity account. The origins of this amount could not be ascertained and it appears to be a plug figure to balance the balance sheet.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of this condition is that the financial statements contain an unexplained balance.

**Recommendation:** The equity account should be reconciled to ensure that the account does not contain miscellaneous balancing figures.

**Auditee Response and Corrective Action Plan:** We are now reconciling all the accounts. We will make sure that the equity account does not contain miscellaneous balancing figures.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

**Public Transportation System**

**Finding No. 25**

**Criteria:** Prepaid items should be amortized over periods benefited.

**Condition:** The total insurance premium paid in 1995 was expensed rather than recorded as a prepaid item and amortized over the average period.

**Cause:** The cause of this condition is unknown.

**Effect:** The effect of this condition is that errors can exist in the financial statements.

**Recommendation:** Amounts which benefit future periods should be recorded as prepaid expenses and be amortized over the period benefited.

**Auditee Response and Corrective Action Plan:** We will make sure that the auditors recommendation is complied with in the future although we did not see much difference in the treatment of the premium payment in 1995 as opposed to 1994.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1995

Unresolved Prior Year Findings

The status of unresolved prior year internal control findings is disclosed within the Schedule of Internal Control Findings (pages 108 to 132).