

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 1997

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1997

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FEDERATED STATES OF MICRONESIA**

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STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL PURPOSE FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 1997

**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, 1997, 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.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides 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 Yap Investment Trust (YIT), a Proprietary Fund Type - Enterprise Fund, holds a 100% interest in Diving Seagull Inc. Financial information for Diving Seagull Inc. as of September 30, 1997 was not available and was not consolidated with YIT in the accompanying general purpose financial statements, which is not in conformity with generally accepted accounting principles.

Yap Community Action Program, a Component Unit - Governmental Fund, has not provided financial information for inclusion in the accompanying general purpose financial statements, which in our opinion, should be included to conform with generally accepted accounting principles.

Records substantiating transactions of Public Transportation System, a Proprietary Fund Type - Enterprise Fund were not sufficient to allow an audit of its financial statements. Those statements, which comprise approximately 5% and 89% of assets and operating revenues, respectively, of the Proprietary Fund Type - Enterprise Fund, have been omitted from the general purpose financial statements. In our opinion, such statements should be included to conform 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, 1997, 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.

Yap State did not provide adequate detail of its supplies inventory at September 30, 1997. We were unable to apply sufficient alternative procedures to assure ourselves that supplies inventory is fairly stated.

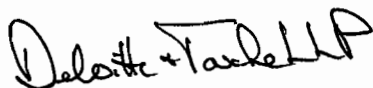
In our opinion, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had; 1) original cost data been available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit-Proprietary 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 Diving Seagull Inc., a 100% investee of the Yap Investment Trust, 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; 3) financial statements of Yap Community Action Program, a Component Unit - Governmental Fund, been available; 4) the propriety of financial statements of the Public Transportation System, a Proprietary Fund Type - Enterprise Fund been ascertainable; 5) the General Fixed Assets Account Group been updated; and 6) sufficient information to determine the propriety of pharmaceutical and medical supplies inventory been available, 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, 1997, and the results of its operations and the cash flows of its Proprietary Fund Type - Internal Service Fund and Component Units - Proprietary Funds for the year then ended, in conformity with generally accepted accounting principles.

As further explained in note 14, the Yap Fishing Corporation, an investee of the Yap Economic Development Authority, was undergoing liquidation as of September 30, 1997. The impact of this matter on the accompanying financial statement is currently not determinable. Accordingly, no provision for any adjustments which may result upon resolution of YFC's liquidation has been recorded in the accompanying general purpose financial statements.

During the year ended September 30, 1997, Yap State changed its method of accounting for certain investments (See Note 4).

Our audit was performed 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 effects of the items described in the third through tenth paragraphs above, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 1998 on our consideration of the State of Yap's (Primary Government and Yap Fishing Authority only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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

May 13, 1998

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 1997
(With comparative totals as of September 30, 1996)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	Component Units		Totals	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Expendable Trust	General	General	Primary Government (Memorandum Only)	Yap Fishing Authority	Yap State Public Service Corporation	Reporting Entity (Memorandum Only)	
							Fixed Assets	Long-Term Debt				1997	1996
<u>Assets</u>													
Cash and equivalents (note 3)	\$ 689,561	\$ -	\$ -	\$ -	\$ -	\$ 208,324	\$ -	\$ -	\$ 897,885	\$ 9,169	\$ 1,190,708	\$ 2,097,762	\$ 1,664,900
Investments (note 4)	58,758,722	2,341,882	47,266	8,500,000	-	-	-	-	69,647,870	1,642,833	100,000	71,390,703	65,436,863
Receivables, net (note 5):													
Other governments	-	382,938	-	-	-	-	-	-	382,938	-	-	382,938	299,733
Federal agencies	-	-	509,868	-	-	-	-	-	509,868	-	-	509,868	-
U.S. Department of the Interior-TIPI	-	-	366,441	-	-	-	-	-	366,441	-	-	366,441	453,697
Federal and other-FSM government	231,247	891,967	183,140	-	-	-	-	-	1,306,354	-	-	1,306,354	2,169,499
General	156,137	-	-	-	2,997	-	-	-	159,134	32,135	294,991	486,260	511,628
Loans	41,360	-	6,500,000	284	-	-	-	-	6,541,644	-	-	6,541,644	18,088,543
Accrued interest on investments	395,833	-	-	-	-	-	-	-	395,833	-	-	395,833	-
Due from other funds (note 9)	-	1,743,274	8,313,437	-	260,250	28,778	-	-	10,345,739	-	-	10,345,739	6,845,027
Advances and prepayments (note 5)	264,117	54,249	7,211	-	-	-	-	-	325,577	152,022	-	477,599	275,295
Inventory of supplies, at cost (note 6)	198,607	-	-	-	45,279	-	-	-	243,886	66,252	396,382	706,520	872,058
Fixed assets, net (note 7)	-	-	-	-	-	-	64,620,758	-	64,620,758	3,430,301	7,213,293	75,264,352	75,748,736
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	31,710,966	31,710,966	-	-	31,710,966	37,369,816
Total assets	\$ 60,735,584	\$ 5,414,310	\$ 15,927,363	\$ 8,500,284	\$ 308,526	\$ 237,102	\$ 64,620,758	\$ 31,710,966	\$ 187,454,893	\$ 5,332,712	\$ 9,195,374	\$ 201,982,979	\$ 209,735,795

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, 1997
(With comparative totals as of September 30, 1996)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Units		Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt	Yap Fishing Authority	Yap State Public Service Corporation	1997	1996	
Liabilities and Fund Equity													
Liabilities:													
Bank overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 319,056
Accounts payable	321,136	160,253	86,833	-	-	-	-	-	568,222	94,702	110,339	773,263	896,369
Accrued payroll and others	330,315	7,223	-	469	-	-	-	556,607	894,614	17,888	96,798	1,009,300	1,017,453
Intergovernmental note payable	-	-	-	2,000,000	-	-	-	-	2,000,000	-	-	2,000,000	2,000,000
Loans payable - Yap State	-	-	-	6,500,000	-	-	-	-	6,500,000	-	-	6,500,000	6,500,000
Due to other funds (note 9)	8,397,798	867,364	977,301	103,276	-	-	-	-	10,345,739	-	-	10,345,739	5,518,365
Deferred revenue	-	507,036	4,088	-	-	-	-	-	511,124	-	-	511,124	1,461,267
Notes payable (notes 8 and 14)	-	-	-	-	-	-	-	30,700,000	30,700,000	-	-	30,700,000	36,800,000
Land acquisition claims payable (note 8)	-	-	-	-	-	-	-	454,359	454,359	-	-	454,359	-
Total liabilities	9,049,249	1,541,876	1,068,222	8,603,745	-	-	-	31,710,966	51,974,058	112,590	207,137	52,293,785	54,512,510
Fund equity (deficit):													
Contributed capital	-	-	-	6,575,715	-	-	-	-	6,575,715	6,544,477	8,268,193	21,388,385	21,996,681
Investment in general fixed assets	-	-	-	-	-	-	64,620,758	-	64,620,758	-	-	64,620,758	64,620,758
Retained earnings (deficit):													
Reserved	-	-	-	(6,679,176)	-	-	-	-	(6,679,176)	-	-	(6,679,176)	(4,796,142)
Unreserved	-	-	-	-	-	-	-	-	-	(1,324,355)	720,044	(604,311)	155,091
Fund balances:													
Reserved for:													
Related assets (note 8)	32,886,948	-	-	-	45,278	-	-	-	32,932,226	-	-	32,932,226	38,552,383
Loans	41,360	-	6,500,000	-	-	-	-	-	6,541,360	-	-	6,541,360	16,088,543
Encumbrances	350,208	923,737	635,458	-	2,857	-	-	-	1,912,260	-	-	1,912,260	2,363,417
Continuing appropriations (note 13)	1,707,747	1,400,000	8,845,986	-	260,391	-	-	-	12,214,124	-	-	12,214,124	2,164,117
Unreserved	16,700,072	1,548,697	(1,122,303)	-	-	237,102	-	-	17,363,568	-	-	17,363,568	14,078,437
Total fund equity (deficit)	51,686,335	3,872,434	14,859,141	(103,461)	308,526	237,102	64,620,758	-	135,480,835	5,220,122	8,988,237	149,689,194	155,223,285
Contingent liabilities and commitments (notes 12 and 14)													
Total liabilities and fund equity (deficit)	\$ 60,735,584	\$ 5,414,310	\$ 15,927,363	\$ 8,500,284	\$ 308,526	\$ 237,102	\$ 64,620,758	\$ 31,710,966	\$ 187,454,893	\$ 5,332,712	\$ 9,195,374	\$ 201,982,979	\$ 209,735,795

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1997	1996
Revenues:						
Compact of Free Association	5,764,800	2,904,298	3,547,200	-	12,216,298	14,600,791
Federal contributions	-	1,839,231	1,048,688	-	2,887,919	1,920,078
U.S. Dept. of the Interior-TTPI	-	-	136,192	-	136,192	36,044
Revenue sharing (FSM)	1,519,412	-	-	-	1,519,412	1,563,782
CFSM grants	-	1,275,404	534,239	-	1,809,643	1,536,020
Taxes and licenses	1,457,507	-	-	-	1,457,507	1,067,385
Interest income	448,486	-	-	5,139	453,625	149,475
Other	665,265	116,325	-	-	781,590	2,032,070
Total revenues	9,855,470	6,135,258	5,266,319	5,139	21,262,186	22,905,645
Expenditures:						
General government	1,418,951	-	-	-	1,418,951	1,713,778
Health services	1,567,280	960,883	-	-	2,528,163	2,020,878
Education	1,611,019	2,391,844	4,739	-	4,007,602	4,316,847
Economic development	560,377	272,031	1,063,370	-	1,895,778	2,648,546
Public safety	569,231	176,482	-	-	745,713	828,322
Public works and utilities	482,914	110	517,422	-	1,000,446	6,345,782
Transportation	930,834	-	-	-	930,834	1,705,983
Community affairs	196,089	1,338,433	689,396	-	2,223,918	829,234
Boards and commissions	309,594	-	-	-	309,594	319,216
Other	727,437	689,810	4,061	-	1,421,308	638,457
Total expenditures	8,373,726	5,829,593	2,278,988	-	16,482,307	21,367,043
Excess of revenues over expenditures	1,481,744	305,665	2,987,331	5,139	4,779,879	1,538,602
Other financing sources (uses):						
Investment income (Note 4)	9,594,013	-	-	-	9,594,013	6,990,554
Bad debt expense (Note 5)	(7,547,183)	-	(2,000,000)	-	(9,547,183)	-
Inventory write-off (Note 6)	(200,368)	-	-	-	(200,368)	-
Operating transfers in (Note 10)	-	1,147,427	3,145,184	5,329	4,297,940	4,968,942
Operating transfers out (Note 10)	(4,422,490)	-	-	-	(4,422,490)	(6,466,666)
Payments of notes payable and interest (Note 8)	(5,111,456)	(1,003,571)	(3,145,184)	-	(9,260,211)	(11,486,048)
Total other financing sources (uses), net	(7,687,484)	143,856	(2,000,000)	5,329	(9,538,299)	(5,993,218)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principle	(6,205,740)	449,521	987,331	10,468	(4,758,420)	(4,454,616)
Add: cumulative effect of a change in accounting principle (note 4)	2,166,535	-	-	-	2,166,535	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(4,039,205)	449,521	987,331	10,468	(2,591,885)	(4,454,616)
Fund balances at beginning of year	55,725,540	3,422,913	13,871,810	226,634	73,246,897	77,701,513
Fund balances at end of year	51,686,335	3,872,434	14,859,141	237,102	70,655,012	73,246,897

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, 1997
(With comparative totals for the year ended September 30, 1996)

	1997 General Fund			1996 General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Current account compact funds	\$ 5,796,000	\$ 5,764,800	\$ (31,200)	\$ 7,301,119	\$ 7,252,118	\$ (49,001)
FSM revenue sharing	1,353,724	1,519,412	165,688	1,325,850	1,563,782	237,932
Taxes and licenses	2,056,116	1,457,507	(598,609)	1,821,810	1,952,106	130,296
Interest income	200,000	448,486	248,486	150,000	149,475	(525)
Other	437,860	665,265	227,405	1,501,000	891,425	(609,575)
Total revenues	9,843,700	9,855,470	11,770	12,099,779	11,808,906	(290,873)
Expenditures-budgetary basis:						
General government	1,999,543	1,411,598	587,945	1,971,050	1,711,498	259,552
Health services	1,631,910	1,578,521	53,389	1,746,420	1,554,839	191,581
Education	1,666,800	1,623,553	43,247	1,992,790	1,859,273	133,517
Economic development	605,910	569,136	36,774	654,790	602,641	52,149
Public safety	584,710	559,554	25,156	578,570	559,307	19,263
Public works and utilities	526,220	500,990	25,230	1,099,776	1,027,101	72,675
Transportation	1,015,031	976,460	38,571	1,440,906	1,400,791	40,115
Community affairs	210,190	202,304	7,886	249,730	223,743	25,987
Boards and commissions	290,670	308,488	(17,818)	364,900	323,959	40,941
Other	1,086,400	740,559	345,841	485,270	463,617	21,653
Total expenditures	9,617,384	8,471,163	1,146,221	10,584,202	9,726,769	857,433
Excess of revenues over expenditures	226,316	1,384,307	1,157,991	1,515,577	2,082,137	566,560
Other financing sources (uses):						
Investment income	-	9,594,013	9,594,013	-	6,990,554	6,990,554
Bad debt expense	-	(7,547,183)	(7,547,183)	-	-	-
Inventory write-off	-	(200,368)	(200,368)	-	-	-
Operating transfers out	(4,422,490)	(4,422,490)	-	(6,176,316)	(6,176,316)	-
Payments of notes payable	(5,111,456)	(5,111,456)	-	-	(6,517,106)	(6,517,106)
Total other financing sources (uses), net	(9,533,946)	(7,687,484)	1,846,462	(6,176,316)	(5,702,868)	473,448
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principle	(9,307,630)	(6,303,177)	3,004,453	(4,660,739)	(3,620,731)	1,040,008
Add: cumulative effect of a change in accounting principle	-	2,166,535	2,166,535	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(9,307,630)	(4,136,642)	5,170,988	(4,660,739)	(3,620,731)	1,040,008
Fund balance, unreserved, at beginning of year	9,266,555	9,266,555	-	5,399,604	5,399,604	-
Other changes in unreserved fund balance:						
Related assets	-	5,665,435	5,665,435	-	(89,953)	(89,953)
Loans	-	7,547,183	7,547,183	-	7,616,902	7,616,902
Continuing appropriations	-	(1,642,459)	(1,642,459)	-	(39,267)	(39,267)
Fund balance, unreserved, at end of year	\$ (41,075)	\$ 16,700,072	\$ 16,741,147	\$ 738,865	\$ 9,266,555	\$ 8,527,690

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 Units
Year Ended September 30, 1997
(With Comparative Totals for the Year Ended September 30, 1996)

	Proprietary Fund Types		Totals	Component		Totals	
	Enterprise	Internal Service	Primary Government (Memorandum Only)	Units		Reporting Entity (Memorandum Only)	
				Yap Fishing Authority	Yap State Public Service Corporation	1997	1996
Operating revenues:							
Rental income	\$ -	\$ 14,531	\$ 14,531	\$ 94,854	\$ -	\$ 109,385	\$ 174,631
Charges for goods and services	-	26,000	26,000	174,744	2,220,186	2,420,930	1,636,639
Stock issues	-	10,119	10,119	-	-	10,119	17,455
Other	-	1,983	1,983	-	-	1,983	157,035
Total operating revenues	-	52,633	52,633	269,598	2,220,186	2,542,417	1,985,760
Operating expenses:							
Personnel services	14,506	-	14,506	151,840	569,809	736,155	590,268
Production fuel	-	-	-	-	1,063,413	1,063,413	-
Supplies and materials	-	1,332	1,332	66,758	-	68,090	1,235,755
Printing and reproduction	-	1,525	1,525	-	-	1,525	9,486
Contractual services/commissions	-	-	-	-	-	-	9,332
Capital acquisitions	-	18,221	18,221	-	-	18,221	12,451
Depreciation	-	-	-	72,691	519,579	592,270	371,978
Bad debts expense	-	-	-	71,284	-	71,284	-
Other	2,000,000	962	2,000,962	134,030	586,128	2,721,120	428,602
Total operating expenses	2,014,506	22,040	2,036,546	496,603	2,738,929	5,272,078	2,657,872
Operating (loss) income	(2,014,506)	30,593	(1,983,913)	(227,005)	(518,743)	(2,729,661)	(672,112)
Nonoperating revenues (expenses):							
Loss on equity investment (note 16)	-	-	-	(221,128)	-	(221,128)	(438,290)
Operating transfers from Yap State	-	-	-	-	79,124	79,124	810,415
Other income (expense)	-	(16,968)	(16,968)	-	358,888	341,920	166,572
Intergovernmental contributions:							
General Fund	-	-	-	-	-	-	108,870
Total nonoperating revenues (expenses)	-	(16,968)	(16,968)	(221,128)	438,012	199,916	647,567
Net (loss) income	(2,014,506)	13,625	(2,000,881)	(448,133)	(80,731)	(2,529,745)	(24,545)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	-	-	-	219,869
Increase (decrease) in retained earnings	(2,014,506)	13,625	(2,000,881)	(448,133)	(80,731)	(2,529,745)	195,324
Retained earnings (deficit) at beginning of year	(4,664,670)	294,901	(4,369,769)	(876,222)	800,775	(4,445,216)	(4,836,375)
Retained earnings (deficit) at end of year	(6,679,176)	308,526	(6,370,650)	(1,324,355)	720,044	(6,974,961)	(4,641,051)
Contributed capital at beginning of year	6,575,715	-	6,575,715	6,880,963	7,845,320	21,301,998	13,783,068
Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	(336,486)	422,873	86,387	8,213,613
Contributed capital at end of year	6,575,715	-	6,575,715	6,544,477	8,268,193	21,388,385	21,996,681
Fund equity (deficit) at end of year	\$ (103,461)	\$ 308,526	\$ 205,065	\$ 5,220,122	\$ 8,988,237	\$ 14,413,424	\$ 17,355,630

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows -
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 1997
(With Comparative Totals for the Year Ended September 30, 1996)

	Proprietary Fund Types		Totals	Component		Totals	
	Enterprise	Internal Service	Primary Government (Memorandum Only)	Units		Reporting Entity (Memorandum Only)	
				Yap Fishing Authority	Yap State Public Service Corporation	1997	1996
Cash flows from operating activities:							
Operating (loss) income	\$ (2,014,506)	\$ 13,625	\$ (2,000,881)	\$ (227,005)	\$ (518,743)	\$ (2,746,629)	\$ (672,112)
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities:							
Depreciation	-	-	-	72,691	519,579	592,270	371,978
Bad debt expense	2,000,000	-	2,000,000	71,284	-	2,071,284	-
Other	-	-	-	46,687	-	46,687	36,057
	<u>(14,506)</u>	<u>13,625</u>	<u>(881)</u>	<u>(36,343)</u>	<u>836</u>	<u>(36,388)</u>	<u>(264,077)</u>
Change in assets and liabilities:							
General receivables	-	1,743	1,743	48,184	88,392	138,319	(3,254)
Due from other funds	14,506	(32,338)	(17,832)	-	-	(17,832)	59,660
Inventory of supplies, at cost	-	16,970	16,970	79,128	(169,600)	(73,502)	(188,573)
Advances	-	-	-	(7,194)	-	(7,194)	(121,515)
Accounts payable	-	-	-	(626)	(43,528)	(44,154)	219,256
Accrued payroll and others	-	-	-	-	18,989	18,989	68,876
Due to other governments	-	-	-	-	-	-	(331)
	<u>14,506</u>	<u>(13,625)</u>	<u>881</u>	<u>119,492</u>	<u>(105,747)</u>	<u>14,626</u>	<u>34,119</u>
Net cash (used for) provided by operating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,149</u>	<u>(104,911)</u>	<u>(21,762)</u>	<u>(229,958)</u>
Cash flows from noncapital financing activities:							
Operating transfers in and contributed capital	-	-	-	-	602,378	602,378	1,535,306
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>602,378</u>	<u>602,378</u>	<u>1,535,306</u>
Cash flows from capital and related financing activities:							
Contributed capital	-	-	-	-	-	-	(4,600)
Disposals of fixed assets and other	-	-	-	(78,625)	(563,913)	(642,538)	(244,314)
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(78,625)</u>	<u>(563,913)</u>	<u>(642,538)</u>	<u>(248,914)</u>
Cash flows from investing activities:							
Interest income	-	-	-	-	48,893	48,893	25,043
Acquisition of investment	-	-	-	-	(100,000)	(100,000)	332,819
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51,107)</u>	<u>(51,107)</u>	<u>357,862</u>
Net increase (decrease) in cash and equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,524</u>	<u>(117,553)</u>	<u>(113,029)</u>	<u>1,414,296</u>
Cash and equivalents at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,645</u>	<u>1,308,261</u>	<u>1,461,746</u>	<u>47,450</u>
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,169</u>	<u>\$ 1,190,708</u>	<u>\$ 1,348,717</u>	<u>\$ 1,461,746</u>

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

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

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

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

3. Omitted Component Units

- a) 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 would be reported as a component unit-governmental fund.
- b) 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.
- c) 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.
- d) Information with respect to the Yap Sports Council is not available.
- e) 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 was included in the 1996 presentation but could not furnish financial statements for inclusion in the 1997 financial statements. PTS would be reported as an enterprise fund.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(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, 1997

(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. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

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

Budgetary expenditures, which are on a basis other than 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

Effective October 1, 1996, the State elected to implement the standards of GASB 31. GASB 31 provides that governmental activities shall, with certain exceptions, report investments at fair value in the balance sheet. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent, and on a consolidated basis if greater than fifty percent. (See Note 4).

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(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, 1997

(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, 1997 is \$556,607. No expenditure is reported for these amounts. Vested accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. The accumulated amount of unused sick leave at September 30, 1997, for all governmental funds, is estimated to be \$1,404,772.

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, 1997

(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)	\$ 30,700,000
Advances	311,868
Inventory of supplies	198,607
Interfund receivables which may require in excess of one year to affect collection	<u>1,676,473</u>
	\$ <u>32,886,948</u>

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.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(1) Summary of Significant Accounting Policies, Continued

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 expenditures/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, 1997, the State had deposits as follows:

	<u>Cost</u>
General Fund:	
Cash in checking and savings accounts with FDIC insured banks	\$ (242,243)
Hawaiian Trust and Bankers Trust cash management fund	<u>931,804</u>
	\$ <u>689,561</u>
Expendable Trust Fund:	
Cash in savings accounts with a FDIC insured bank	\$ <u>208,324</u>
Discretely Presented Component Units:	
Cash in checking and savings accounts with a FDIC insured bank	\$ <u>1,199,877</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(3) Cash and Equivalents, Continued

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.

Of Yap State Public Service Corporation's cash balances, \$100,000 is subject to FDIC coverage with the remaining balances being noninsured and 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.
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
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The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:

- a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moody's Investor Services.
- b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury Securities at 102%.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(4) Investments, Continued

- 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.

At September 30, 1997, the market value of the State's investment was \$60,086,359. These investments have been reported at fair value in accordance with GASB 31 and are classified in the financial statements as follows:

Cash and equivalents	\$ 931,804
Investments	<u>59,154,555</u>
	\$ <u>60,086,359</u>

Yap State has opted to implement Government Accounting Standards (GAS) 31 as of October 1, 1996. GAS 31 requires that governmental entities who have external investment pools report such investments at fair value in the balance sheet. Following is an analysis of the effect of this change in accounting principle in the current and prior year:

Current effect on 1997 investment income	\$ 3,721,557
Cumulative effect on prior years	<u>2,166,535</u>
Total increase in investment income as a result of using market value in place of the lower of cost or market	5,888,092
Investment income for the year ended September 30, 1997 without this change	<u>5,872,456</u>
Total investment income reported for the year ended September 30, 1997 and the cumulative effect of a change in accounting principles	\$ <u>11,760,548</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(4) Investments, Continued

The State's investment income for the year ended September 30, 1997, is summarized below:

	<u>1997</u>
Interest	\$ 2,399,286
Dividends	1,041,616
Realized gains	2,827,473
Management fees	(385,215)
Other expenses	<u>(10,704)</u>
	5,872,456
Unrealized gains/losses	<u>3,721,557</u>
	\$ <u>9,594,013</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, 1997, 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 (\$750,000 of these investments held by the Yap Economic Development Authority (YEDA) with the remaining \$250,000 held by the Yap Investment Trust (YIT) - Enterprise Funds) and 29% of the shares of the Pacific Islands Development Bank, also carried at cost, in the amount of \$1,000,000 (\$357,043 of these investments are held by the YEDA with the remaining \$642,957 held by the YIT). The market value of these shares is difficult to assess as they are not publicly traded so a market versus cost analysis could not be performed. This investment in stock has therefore been recorded at cost.

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 Diving Seagull, Inc.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(4) Investments, Continued

Also, the Yap Fishing Authority (YFA), a Discretely Presented Component Unit, has an investment carrying value of \$1,642,833 as of September 30, 1997, 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, 1997, 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. (See note 16.)

(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, 1997 (with comparative totals as of September 30, 1996), is presented below:

<u>SourceAmount</u>	<u>Gross</u>	Allowance for Doubtful Accounts	<u>Net Balance</u>	
			<u>1997</u>	<u>1996</u>
FSM Government and other reimbursable	\$ <u>231,247</u>	\$ <u>-</u>	\$ <u>231,247</u>	\$ <u>265,363</u>
General:				
Taxes	\$ 79,307	\$ (74,307)	\$ 5,000	\$ 5,000
General	18,066	(17,784)	282	-
Leases	51,608	(48,293)	3,315	16,214
Airport operation	178,685	(31,145)	147,540	2,500
WAAB Forklift	55,000	(55,000)	-	-
Other	<u>30,038</u>	<u>(30,038)</u>	<u>-</u>	<u>-</u>
	\$ <u>412,704</u>	\$ <u>(256,567)</u>	\$ <u>156,137</u>	\$ <u>23,714</u>
Advances:				
Travel/payroll	\$ 107,638	\$ (35,313)	\$ 72,325	\$ 69,830
Purchases	<u>191,792</u>	<u>-</u>	<u>191,792</u>	<u>5,986</u>
	\$ <u>299,430</u>	\$ <u>(35,313)</u>	\$ <u>264,117</u>	\$ <u>75,816</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(5) Receivables, Advances and Loans, Continued

A. General Fund, Continued

	<u>1997</u>	<u>1996</u>
Loans:		
Yap Fishing Corporation	\$ 7,400,000	\$ 7,400,000
Accrued interest-YFC	147,183	147,183
Satawal Community	<u>41,360</u>	<u>41,360</u>
	7,588,543	7,588,543
Allowance for doubtful accounts	<u>(7,547,183)</u>	<u>(-)</u>
	<u>\$ 41,360</u>	<u>\$ 7,588,543</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 14).

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, 1997, \$1,000,000 has been utilized by YFC. All amounts receivable from YFC has been reserved as uncollectible as of September 30, 1997.

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, 1997 follows (with comparative totals as of September 30, 1996):

		Allowance for Doubtful Accounts	<u>Net Balance</u>	
<u>SourceAmount</u>	<u>Gross</u>		<u>1997</u>	<u>1996</u>
Other governments	\$ <u>398,160</u>	\$ (<u>15,222</u>)	\$ <u>382,938</u>	\$ <u>299,733</u>
Federal agencies and CFSM	\$ <u>946,967</u>	\$ (<u>55,000</u>)	\$ <u>891,967</u>	\$ <u>1,433,678</u>
Advances - travel/ payroll	\$ <u>64,989</u>	\$ (<u>10,740</u>)	\$ <u>54,249</u>	\$ <u>34,812</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(5) Receivables, Advances and Loans, Continued

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 1997 (with comparative totals as of September 30, 1996):

<u>Source</u>	<u>Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
				<u>1997</u>	<u>1996</u>
Federal agencies	\$	<u>509,868</u>	\$ <u>-</u>	\$ <u>509,868</u>	\$ <u>-</u>
U.S. Department of the Interior - TTPI	\$	<u>386,441</u>	\$ <u>(20,000)</u>	\$ <u>366,441</u>	\$ <u>453,697</u>
CFSM Grants	\$	<u>196,339</u>	\$ <u>(13,199)</u>	\$ <u>183,140</u>	\$ <u>470,458</u>
Advances - travel	\$	<u>7,211</u>	\$ <u>-</u>	\$ <u>7,211</u>	\$ <u>4,175</u>
Loan - YEDA	\$	<u>2,000,000</u>	\$ <u>(2,000,000)</u>	\$ <u>-</u>	\$ <u>2,000,000</u>
Loan - YIT	\$	<u>6,500,000</u>	\$ <u>-</u>	\$ <u>6,500,000</u>	\$ <u>6,500,000</u>

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 14).

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(5) Receivables, Advances and Loans, Continued

D. 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, 1997 (with comparative totals as of September 30, 1996):

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1997</u>	<u>1996</u>
General:				
Trade	\$ 471,587	\$ (440,614)	\$ 30,973	\$ 35,784
Employees	32,132	(30,970)	1,162	38,291
Others	<u>4,274</u>	<u>(4,274)</u>	<u>-</u>	<u>6,244</u>
	<u>\$ 507,993</u>	<u>\$ (475,858)</u>	<u>\$ 32,135</u>	<u>\$ 80,319</u>

Receivables of the Yap State Public Service Corporation are net of an allowance for doubtful accounts of \$210,954.

(6) Inventory of Supplies

General Fund inventory consisted 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. Upon reassessment, Yap State determined in 1997 that it had no further use for the sulphonate oil and therefore wrote off the remaining value of \$200,368 during the year ended September 30, 1997.

General Fund inventory consists of medical and pharmaceutical supplies of \$198,607 at September 30, 1997. The Internal Service Fund's inventory consists of general stores supplies of \$45,279.

(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, 1997 (with comparative totals as of September 30, 1996), follows:

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(7) Investment in Fixed Assets, Continued

A. General Fixed Asset Account Group, Continued

	<u>Estimated Useful Life</u>	<u>1997</u>	<u>1996</u>
Land	-	\$ 1,822,614	\$ 1,822,614
Infrastructure	20-50 years	41,645,543	41,645,543
Outer-island capital assets	5-10 years	1,804,550	1,804,550
All others - equipment, vehicles and machinery	5-10 years	<u>19,348,051</u>	<u>19,348,051</u>
		<u>\$ 64,620,758</u>	<u>\$ 64,620,758</u>

B. Discretely Presented Component Units

A summary of fixed assets accounted for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1997 (with comparative totals as of September 30, 1996), follows:

	<u>Estimated Useful Life</u>	<u>1997</u>	<u>1996</u>
Buildings	3-20 years	\$ 1,651,117	\$ 1,651,117
Dock	40 years	2,629,777	2,629,677
Fleet	3-10 years	1,064,102	1,064,102
Refrigeration and cold storage equipment	2-10 years	631,697	631,697
Motor vehicles	2-20 years	334,831	411,634
Other equipment	2-25 years	232,866	232,287
Other capital assets	2-25 years	<u>55,411</u>	<u>57,912</u>
Total fixed assets, at cost		6,599,801	6,678,426
Less: accumulated depreciation		<u>(3,169,500)</u>	<u>(2,799,602)</u>
Fixed assets, net		<u>\$ 3,430,301</u>	<u>\$ 3,878,824</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(7) Investment in Fixed Assets, Continued

B. Discretely Presented Component Units, Continued

Details of fixed assets of the Yap State Public Service Corporation, a discretely presented component unit as of September 30, 1997 (with comparative totals as of September 30, 1996) are as follows:

	<u>Estimated Useful Life</u>	<u>1997</u>	<u>1996</u>
Production plant	40 years	\$ 7,829,489	\$ 7,692,440
Distribution plant	3 - 20 years	2,914,875	2,436,420
General Plant	3 - 25 years	<u>498,904</u>	<u>450,499</u>
Total fixed assets, at cost		11,243,268	10,579,359
Less: accumulated depreciation		<u>(4,029,975)</u>	<u>(3,620,014)</u>
Fixed asset, net		\$ <u>7,213,293</u>	\$ <u>6,959,345</u>

Approximately 24% of the net book value of utility plant is carried at estimated cost.

(8) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 1997 (with comparative totals for the year ended September 30, 1996), follow:

	<u>1997</u>	<u>1996</u>
Balance, beginning of year	\$ 37,369,816	\$ 45,016,897
Payments made on medium-term notes	(6,100,000)	(7,700,000)
(Decrease) increase in accrued annual leave	(13,209)	52,919
Increase in land acquisition accrual	<u>454,359</u>	<u>-</u>
Balance, end of year	\$ <u>31,710,966</u>	\$ <u>37,369,816</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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(8) Long-Term Debt, Continued

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1991. Management is of the opinion that it has complied with such covenants through September 30, 1997. Interest paid on the bonds was \$3,160,211 in the fiscal year ended September 30, 1997 (\$4,413,600 in the fiscal year ended September 30, 1996).

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, 1997, there is no shortfall as the reserve of fund balance equals the outstanding principal of \$30,700,000. This amount (\$30,700,000) is included in the reserve for related assets of the General Fund.

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>
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
2001	<u>8,800,000</u>	<u>542,030</u>	<u>9,342,030</u>
Total	\$ <u>30,700,000</u>	\$ <u>6,396,529</u>	\$ <u>37,096,529</u>

As of September 30, 1997, \$454,359 in long-term payments due under land purchase agreements were identified by the State. Payments due on the agreements for the ensuing fiscal years are shown below:

<u>Fiscal Year</u>	<u>Amount</u>
1998	\$ 267,700
1999	<u>186,659</u>
	\$ <u>454,359</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(9) Interfund Receivables and Payables

As of September 30, 1997, 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	\$ 8,397,798	\$ -
Special Revenue Funds:		
Compact Programs	-	1,561,607
Federal Grants	212,360	-
Other U.S. Grants	29,896	-
Non U.S. Grants	-	97,768
CFSM Grants	580,989	-
Traditional Award	1,380	-
Feed Sales	-	17,416
Slaughter House	42,739	-
Sports Development Fund	-	66,483
Capital Projects Funds:		
Compact Capital Projects	-	8,306,700
TTPI Capital Projects	366,441	-
CFSM Capital Project	141,431	-
Public Projects	-	6,737
Other U.S. Capital Projects	469,429	-
Enterprise Funds	103,276	-
Expendable Trust Fund	-	28,778
Internal Service Fund	-	260,250
	<u>\$ 10,345,739</u>	<u>\$ 10,345,739</u>

(10) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 1997, are as follows:

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(10) Transfers In/Out, Continued

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer to Enterprise Funds:		
Public Transportation System	\$ 124,550	-
Transfer to Special Revenue Funds:		
Typhoon Fern Matching	143,856	-
For bond payments	1,003,571	-
Transfer to Capital Projects Funds:		
For bond payments	3,145,184	-
Transfer to other funds	<u>5,329</u>	<u>-</u>
	<u>\$ 4,422,490</u>	<u>\$ -</u>

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 1997, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
For bond payments	\$ -	\$ 1,003,571
Typhoon Fern matching	<u> </u>	<u>143,856</u>
	<u>\$ </u>	<u>\$ 1,147,427</u>

C. Capital Projects Funds

Material Capital Projects Funds transfers in/out for the year ended September 30, 1997, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers to Yap State Public Service Corporation	\$ <u>-</u>	\$ <u>3,145,184</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(10) Transfers In/Out, Continued

D. Enterprise Funds

Material Enterprise Funds transfers in/out for the year ended September 30, 1997, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Subsidy for operations of Public Transportation System	\$ <u>-</u>	\$ <u>124,550</u>

(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, 1997, and for the year then ended.

	<u>Yap Economic Development Authority</u>	<u>Yap Investment Trust</u>
Operating loss	\$ <u>(2,014,506)</u>	\$ <u>-</u>
Net loss	\$ <u>(2,014,506)</u>	\$ <u>-</u>
Contributed capital	\$ <u>5,682,758</u>	\$ <u>892,957</u>
Total assets	\$ <u>1,107,327</u>	\$ <u>7,392,957</u>
Total equity (deficit)	\$ <u>(996,418)</u>	\$ <u>892,957</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(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, \$259,146 in cumulative questioned costs exist for the operation of fiscal year 1984-97 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, 1997, 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, 1997

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

(13) Continuing Appropriations

Continuing appropriations as of September 30, 1997, are as follows:

General Fund:

Disaster Relief Program	\$ 127,664
Search and Rescue Operation	11,616
FEMA Matching Funds	531,390
Tourism Promotional Program	16,937
Copra Subsidy	20,140
Diving Seagull Line of Credit	<u>1,000,000</u>
	\$ <u>1,707,747</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(13) Continuing Appropriations, Continued

Compact Capital Projects Funds:

Extension & Research Project	\$ 16,091
Livestock Extension & Development Project	21,989
Slaughterhouse Project	95,458
Outer Islands Airfields Project	64,557
Dalipebinaw Elementary School Building	9,390
Public Library Building	50,000
Radio & Waab TV Building	47,998
Manpower Development Program	7,046
Project Feasibility Study	22,894
Trochus Management & Harvest Management	5,081
Roads Development Phase VII (Clearing)	17,261
Central Yap Road Improvements Phase VII	494,240
Roads Development Phase V and VI	122,369
Roads Development Phase VII	74,415
Malay/Tebeth Causeway	144,580
Tourism Promotion Project	7,057
Leebinaw/Riken/Gachpar Waterline	189,750
OMIP Matching Funds	54,500
Yap International Airport Reconstruction	7,396,120
Ruumu Water Pump Project	<u>5,190</u>
	\$ <u>8,845,986</u>

Compact Special Development:

Yap International Airport Reconstruction	\$ <u>1,400,000</u>
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**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(14) 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.

As in the prior year, an audit of the YFC financial statements has not been finalized. YFC is in liquidation and is not in compliance with certain debt covenants regarding their debt to OPIC and discussions and negotiations regarding this condition are on-going. 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.

(15) Fund Deficit

The following funds have material fund deficits as of September 30, 1997:

Enterprise Funds:	
Yap Economic Development Authority Fund	\$ <u>(996,418)</u>
Special Revenue Funds:	
Slaughter House Fund	\$ (42,739)
Traditional Award Fund	<u>(1,380)</u>
Total Special Revenue Funds	\$ <u>(44,119)</u>

Deficits of the Yap Economic Development Authority Fund are offset within fund equity to a certain extent by contributions of \$5,682,758.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1997

(16) Loss on Equity Investment

The Yap Fishing Authority, a proprietary fund - component unit, holds a 50% investment in Yap Fresh Tuna, Inc. (YFTI). Its financial statements show that YFTI has incurred substantial operating losses for the third consecutive year. An audit of YFTI's financial statements for the year ended September 30, 1997 has not been finalized. Condensed unaudited financial information for YFTI is as follows:

	<u>1997</u>	<u>1996</u>
Balance sheet:		
Current assets	\$ 124,169	\$ 187,672
Property, plant and equipment	<u>6,145,546</u>	<u>6,351,604</u>
	<u>\$ 6,269,715</u>	<u>\$ 6,539,276</u>
Current liabilities	\$ 1,651,307	\$ 1,421,310
Long-term debt	2,809,301	3,298,171
Stockholders' equity	<u>1,809,107</u>	<u>1,819,795</u>
	<u>\$ 6,269,715</u>	<u>\$ 6,539,276</u>
Statement of revenues and expenses:		
Sales	\$ 551,285	\$ 2,379,155
Cost of sales	(280,896)	(1,395,451)
Operating expenses	(712,841)	(1,340,647)
Interest income (expense), net	<u>194</u>	<u>(200,551)</u>
Net loss	<u>\$ (442,258)</u>	<u>\$ (557,494)</u>

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -
All Governmental Fund Types
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	Governmental Fund Types			Totals	
	General	Special Revenue	Capital Projects	1997	1996
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Expenditures:					
Salaries and wages	\$ 5,694,454	\$ 1,033,950	\$ 46,493	\$ 6,774,897	\$ 7,178,283
Travel	343,013	560,549	39,547	943,109	472,043
Freight	35,023	95,880	1,230	132,133	108,471
Communications	113,030	71,765	150	184,945	190,469
Printing and reproduction	41,405	49,385	4,109	94,899	135,602
Professional services	27,531	61,656	296,291	385,478	3,874,068
Food stuffs	128,763	116,995	560	246,318	296,890
Medical supplies	133,554	144,870	-	278,424	610,514
Supplies and materials	330,109	1,019,319	397,967	1,747,395	1,329,761
Medical referral	5,581	264,336	-	269,917	550,333
POL	244,123	42,738	926	287,787	811,349
Capital outlay	211,404	613,734	1,387,053	2,212,191	1,910,015
Contractual services	211,383	134,476	1,500	347,359	1,031,464
Rentals	10,591	167,537	11,355	189,483	65,729
Repairs and maintenance	85,506	49,818	1,500	136,824	115,845
Allowances	107,000	3,300	-	110,300	227,500
Utilities	121	690,602	-	690,723	-
Grants and subsidies	135,408	240,702	83,591	459,701	532,279
Scholarships and training	78,010	271,366	-	349,376	309,353
Other	437,717	196,615	6,716	641,048	1,035,453
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	\$ 8,373,726	\$ 5,829,593	\$ 2,278,988	\$ 16,482,307	\$ 20,785,421

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

General Fund
September 30, 1997

General Fund

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

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	1997	1996
Revenues:		
Compact funds:		
Current 211A base grant	\$ 3,843,200	\$ 4,900,080
Inflation adjustment 217	1,921,600	2,352,038
	5,764,800	7,252,118
Revenue sharing:		
Import tax	436,732	457,068
Fuel tax	102,925	139,431
Income tax	428,556	407,161
Business gross revenue tax	551,199	560,122
	1,519,412	1,563,782
Excise taxes:		
Alcoholic beverages	489,316	509,883
Gasoline and diesel	113,247	158,454
Tobacco	101,925	99,992
Other excise taxes	298,816	299,056
	1,003,304	1,067,385
Licenses and permits	45,175	117,889
Fines/sale of confiscated property	200,638	585,833
Leases and other rentals	208,390	180,999
	454,203	884,721
Departmental charges:		
Sea transportation	260,019	172,901
Hospital services	120,998	144,827
Utilities	8,180	428,393
Other	258,839	86,509
	648,036	832,630
Interest income	448,486	149,475
Other income	17,229	58,795
Total revenues	9,855,470	11,808,906

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	1997	1996
Expenditures:		
General Government:		
Office of the Governor	\$ 225,167	\$ 252,670
State Legislature	435,761	455,960
Office of Administrative Services	449,293	436,411
Office of Planning, Budget and Statistics	194,094	274,111
Division of Revenue and Taxation	33,711	34,247
Utilities Subsidy Program	-	260,379
Legislative Projects	80,925	-
	1,418,951	1,713,778
Health Services:		
Department of Health Services	1,567,280	1,585,875
Education:		
Department of Education	1,611,019	1,885,324
Economic Development:		
Department of Resources and Development	560,377	609,894
Public Safety:		
Department of Public Safety/Attorney General	569,231	555,735
Public Works and Utilities:		
PUC	482,914	1,205,459
Transportation	930,834	1,705,983
Community Affairs:		
Department of Public Affairs	196,089	225,381
Legislative projects	-	3,399
	196,089	228,780

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	1997	1996
Boards and Commissions:		
Council of Pilung	92,582	86,409
Council of Tamol	138,595	108,524
EPA administration board	78,417	124,283
	309,594	319,216
Other:		
Yap Visitors Bureau	10,543	-
Judiciary	164,087	191,964
Public Auditor	27,652	42,961
Legislative projects	525,155	251,662
Other	-	6,351
	727,437	492,938
Total expenditures	8,373,726	10,302,982
Excess of revenues over expenditures	1,481,744	1,505,924
Other financing sources (uses):		
Investment income	9,594,013	6,990,554
Bad debt expense	(7,547,183)	-
Inventory write-off	(200,368)	-
Operating transfers out	(4,422,490)	(6,176,316)
Payments of notes payable and interest	(5,111,456)	(6,517,106)
Total other financing sources (uses), net	(7,687,484)	(5,702,868)
Deficiency of revenues and other financing sources under expenditures and other financing uses before the cumulative effect of a change in accounting principle	(6,205,740)	(4,196,944)
Add: cumulative effect of a change in accounting principle	2,166,535	-
Deficiency of revenues and other financing sources under expenditures and other financing uses	(4,039,205)	(4,196,944)
Fund balance at beginning of year	55,725,540	59,922,484
Fund balance at end of year	\$ 51,686,335	\$ 55,725,540

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
Year Ended September 30, 1997

(With comparative totals for the year ended September 30, 1996)

	1997			1996		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Current account Compact funds	\$ 5,796,000	5,764,800	\$ (31,200)	\$ 7,301,119	\$ 7,252,118	\$ (49,001)
FSM revenue sharing	1,353,724	1,519,412	165,688	1,325,850	1,563,782	237,932
Taxes and licenses	2,056,116	1,457,507	(598,609)	1,821,810	1,952,106	130,296
Interest income	200,000	448,486	248,486	150,000	149,475	(525)
Other	437,860	665,265	227,405	1,501,000	891,425	(609,575)
Total revenues	9,843,700	9,855,470	11,770	12,099,779	11,808,906	(290,873)
Expenditures budgetary basis:						
General Government:						
Office of the Governor	220,890	225,961	(5,071)	243,700	241,458	2,242
State Legislature	501,460	437,854	63,606	534,630	459,079	75,551
Office of Administrative Services	482,070	449,576	32,494	474,200	430,378	43,822
Office of Planning, Budget and Statistics	192,940	182,041	10,899	317,300	282,114	35,186
Division of Revenue and Taxation	36,880	29,856	7,024	41,220	38,090	3,130
Utilities subsidies program	-	-	-	360,000	260,379	99,621
Disaster relief programs	565,303	86,310	478,993	-	-	-
	1,999,543	1,411,598	587,945	1,971,050	1,711,498	259,552
Health Services:						
Department of Health Services	1,631,910	1,578,521	53,389	1,746,420	1,554,839	191,581
Education:						
Department of Education	1,666,800	1,623,553	43,247	1,992,790	1,859,273	133,517
Economic development:						
Department of Resources and Development	605,910	569,136	36,774	654,790	602,641	52,149
Public safety:						
Department of Public Safety and Attorney General	584,710	559,554	25,156	578,570	559,307	19,263
Public Works and Utilities:						
PUC	526,220	500,990	25,230	1,099,776	1,027,101	72,675
Transportation	1,015,031	976,460	38,571	1,440,906	1,400,791	40,115

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL FUND
Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis, Continued
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	1997			1996		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Community affairs:						
Department of Public Affairs	\$ 210,190	\$ 202,304	\$ 7,886	\$ 249,730	\$ 223,743	\$ 25,987
Boards and commissions:						
Council of Pilung	94,040	91,417	2,623	94,100	87,553	6,547
Council of Tamol	105,210	135,303	(30,093)	119,220	112,341	6,879
EPA administration board	91,420	81,768	9,652	151,580	124,065	27,515
	290,670	308,488	(17,818)	364,900	323,959	40,941
Other:						
Judiciary	173,390	160,609	12,781	192,050	191,338	712
Public Auditor	43,570	27,562	16,008	65,670	44,740	20,930
Yap Visitors Bureau	230,470	(2,932)	233,402	-	-	-
Legislative projects	638,970	553,984	84,986	227,550	221,188	6,362
Other	-	1,336	(1,336)	-	6,351	(6,351)
	1,086,400	740,559	345,841	485,270	463,617	21,653
Total expenditures	9,617,384	8,471,163	1,146,221	10,584,202	9,726,769	857,433
Excess of revenues over expenditures	226,316	1,384,307	1,157,991	1,515,577	2,082,137	566,560
Other financing sources (uses):						
Investment income	-	9,594,013	9,594,013	-	6,990,554	6,990,554
Bad debt expense	-	(7,547,183)	(7,547,183)	-	-	-
Inventory write-off	-	(200,368)	(200,368)	-	-	-
Operating transfers out	(4,422,490)	(4,422,490)	-	(6,176,316)	(6,176,316)	-
Payment of notes payable	(5,111,456)	(5,111,456)	-	-	(6,517,106)	(6,517,106)
Total other financing sources (uses), net	(9,533,946)	(7,687,484)	1,846,462	(6,176,316)	(5,702,868)	473,448
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principle	(9,307,630)	(6,303,177)	3,004,453	(4,660,739)	(3,620,731)	1,040,008
Add: cumulative effect of a change in accounting principle	-	2,166,535	2,166,535	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(9,307,630)	(4,136,642)	5,170,988	(4,660,739)	(3,620,731)	1,040,008
Fund balance, unreserved at beginning of year	9,266,555	9,266,555	-	5,399,604	5,399,604	-
Other changes in unreserved fund balance:						
Related assets	-	5,665,435	5,665,435	-	(89,953)	(89,953)
Loans	-	7,547,183	7,547,183	-	7,616,902	7,616,902
Continuing appropriations	-	(1,642,459)	(1,642,459)	-	(39,267)	(39,267)
Fund balance, unreserved at end of year	\$ (41,075)	\$ 16,700,072	\$ 16,741,147	\$ 738,865	\$ 9,266,555	\$ 8,527,690

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 1997

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, 1997, 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.

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds, Continued
September 30, 1997

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.

Sports Development Fund

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

See accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SPECIAL REVENUE FUNDS
 Combining Balance Sheet
 September 30, 1997
 (With comparative totals as of September 30, 1996)

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Traditional	Feed	Slaughter	Sports	Totals	
	Programs	Grants	Grants	Grants	Grants	Award	Sales	House	Development	1997	1996
Assets											
Investments	\$ 2,341,882	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,341,882	\$ 2,190,027
Receivables, net:											
Others	-	-	382,938	-	-	-	-	-	-	382,938	299,733
FSM National											
Government	-	266,541	-	-	625,426	-	-	-	-	891,967	1,433,678
Due from other funds	1,561,607	-	-	97,768	-	-	17,416	-	66,483	1,743,274	1,178,451
Advances	2,515	34,662	4,488	-	12,584	-	-	-	-	54,249	34,812
Total assets	\$ 3,906,004	\$ 301,203	\$ 387,426	\$ 97,768	\$ 638,010	\$ -	\$ 17,416	\$ -	\$ 66,483	\$ 5,414,310	\$ 5,136,701
Liabilities and Fund Balances (Deficit)											
Liabilities:											
Accounts payable	\$ 67,943	\$ 46,352	\$ 6,670	\$ -	\$ 39,288	\$ -	\$ -	\$ -	\$ -	\$ 160,253	\$ 117,916
Accrued payroll	5,342	1,447	109	-	325	-	-	-	-	7,223	-
Due to other funds	-	212,360	29,896	-	580,989	1,380	-	42,739	-	867,364	1,461,267
Deferred revenue	-	41,044	350,751	97,833	17,408	-	-	-	-	507,036	134,605
Total liabilities	73,285	301,203	387,426	97,833	638,010	1,380	-	42,739	-	1,541,876	1,713,788
Fund balances (deficit):											
Reserved for:											
Encumbrances	102,697	254,989	39,014	5,305	521,732	-	-	-	-	923,737	665,274
Continuing appropriations	1,400,000	-	-	-	-	-	-	-	-	1,400,000	-
Unreserved	2,330,022	(254,989)	(39,014)	(5,370)	(521,732)	(1,380)	17,416	(42,739)	66,483	1,548,697	2,757,639
Total fund balances (deficit)	3,832,719	-	-	(65)	-	(1,380)	17,416	(42,739)	66,483	3,872,434	3,422,913
Total liabilities and fund balances (deficit)	\$ 3,906,004	\$ 301,203	\$ 387,426	\$ 97,768	\$ 638,010	\$ -	\$ 17,416	\$ -	\$ 66,483	\$ 5,414,310	\$ 5,136,701

See accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SPECIAL REVENUE FUNDS
 Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
 Year Ended September 30, 1997
 (With comparative totals for the year ended September 30, 1996)

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Traditional	Feed	Slaughter	Sports	Totals	
	Programs	Grants	Grants	Grants	Grants	Award	Sales	House	Development	1997	1996
Revenues:											
Compact	\$ 2,904,298	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,904,298	\$ 2,886,296
Federal contributions	-	1,246,199	593,032	-	-	-	-	-	-	1,839,231	1,433,053
CFSM grants	-	-	-	-	1,275,404	-	-	-	-	1,275,404	997,502
Other	-	-	-	19,587	-	-	1,950	1,448	93,340	116,325	255,924
Total revenues	2,904,298	1,246,199	593,032	19,587	1,275,404	-	1,950	1,448	93,340	6,135,258	5,572,775
Expenditures:											
Health services	485,162	190,652	-	-	285,069	-	-	-	-	960,883	435,003
Education	1,086,732	811,733	-	375	493,004	-	-	-	-	2,391,844	2,431,523
Economic development	-	122,218	-	5,145	142,219	-	-	2,449	-	272,031	401,951
Public safety	-	-	-	-	176,482	-	-	-	-	176,482	272,587
Public works and utilities	-	-	-	-	110	-	-	-	-	110	559,035
Community affairs	141,500	121,596	736,888	14,067	178,520	19,113	-	-	126,749	1,338,433	229,805
Other	689,810	-	-	-	-	-	-	-	-	689,810	108,817
Total expenditures	2,403,204	1,246,199	736,888	19,587	1,275,404	19,113	-	2,449	126,749	5,829,593	4,438,721
Excess (deficiency) of revenues over (under) expenditures	501,094	-	(143,856)	-	-	(19,113)	1,950	(1,001)	(33,409)	305,665	1,134,054
Other financing sources (uses):											
Transfers/general fund	1,003,571	-	143,856	-	-	-	-	-	-	1,147,427	958,832
Transfers out	-	-	-	-	-	-	-	-	-	-	(224,718)
Payments of notes payable	(1,003,571)	-	-	-	-	-	-	-	-	(1,003,571)	(958,832)
Total other financing sources (uses), net	-	-	143,856	-	-	-	-	-	-	143,856	(224,718)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	501,094	-	-	-	-	(19,113)	1,950	(1,001)	(33,409)	449,521	909,336
Fund balances (deficit) at beginning of year	3,331,625	-	-	(65)	-	17,733	15,466	(41,738)	99,892	3,422,913	2,513,577
Fund balances (deficit) at end of year	\$ 3,832,719	\$ -	\$ -	\$ (65)	\$ -	\$ (1,380)	\$ 17,416	\$ (42,739)	\$ 66,483	\$ 3,872,434	\$ 3,422,913

See accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 SPECIAL REVENUE FUNDS
 Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
 Year Ended September 30, 1997
 (With comparative totals for the year ended September 30, 1996)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Traditional Award	Feed Sales	Slaughter House	Sports Development	Totals	
										1997	1996
Revenues:											
Compact	\$ 2,904,298	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,904,298	\$ 2,886,296
Federal contributions	-	1,246,199	593,032	-	-	-	-	-	-	1,839,231	1,433,053
CFSM grants	-	-	-	-	1,275,404	-	-	-	-	1,275,404	997,502
Other	-	-	-	19,587	-	-	1,950	1,448	93,340	116,325	255,924
Total revenues	2,904,298	1,246,199	593,032	19,587	1,275,404	-	1,950	1,448	93,340	6,135,258	5,572,775
Expenditures:											
Salaries and wages	570,537	287,921	28,422	-	145,779	-	-	1,291	-	1,033,950	831,854
Travel	85,483	334,770	11,594	2,291	30,449	-	-	-	95,962	560,549	571,713
Freight	23,253	21,106	9,054	-	42,467	-	-	-	-	95,880	68,869
Communications	25,368	35,255	1,132	25	9,985	-	-	-	-	71,765	41,705
Printing and reproduction	22,140	11,688	263	30	14,991	-	-	-	273	49,385	55,652
Professional services	38,601	2,058	5,997	-	15,000	-	-	-	-	61,656	51,979
Food stuffs	65,645	10,217	-	14,068	25,542	-	-	1,158	365	116,995	95,478
Medical supplies	86,409	10,250	-	-	48,211	-	-	-	-	144,870	97,899
Supplies and materials	124,705	140,673	431,889	753	305,426	-	-	-	15,873	1,019,319	419,139
Medical referral	264,336	-	-	-	-	-	-	-	-	264,336	101,308
POL	7,796	4,643	133	-	29,239	-	-	-	927	42,738	530,935
Capital outlay	65,862	153,405	58,941	520	335,006	-	-	-	-	613,734	382,516
Contractual services	8,500	61,655	-	1,900	62,421	-	-	-	-	134,476	435,603
Rentals	10,175	458	140,828	-	6,914	-	-	-	9,162	167,537	97,769
Repairs and maintenance	19,641	1,678	695	-	27,804	-	-	-	-	49,818	38,723
Allowances	-	3,300	-	-	-	-	-	-	-	3,300	2,795
Utilities	690,402	116	-	-	84	-	-	-	-	690,602	-
Grants and subsidies	141,500	-	47,940	-	32,149	19,113	-	-	-	240,702	142,500
Scholarship and training	151,990	41,676	-	-	77,700	-	-	-	-	271,366	254,459
Other	861	125,330	-	-	66,237	-	-	-	4,187	196,615	217,825
Total expenditures	2,403,204	1,246,199	736,888	19,587	1,275,404	19,113	-	2,449	126,749	5,829,593	4,438,721
Excess (deficiency) of revenues over (under) expenditures	501,094	-	(143,856)	-	-	(19,113)	1,950	(1,001)	(33,409)	305,665	1,134,054
Other financing sources (uses):											
Transfers/general fund	1,003,571	-	143,856	-	-	-	-	-	-	1,147,427	958,832
Transfers out	-	-	-	-	-	-	-	-	-	-	(224,718)
Payments of notes payable	(1,003,571)	-	-	-	-	-	-	-	-	(1,003,571)	(958,832)
Total other financing sources (uses), net	-	-	143,856	-	-	-	-	-	-	143,856	(224,718)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	501,094	-	-	-	-	(19,113)	1,950	(1,001)	(33,409)	449,521	909,336
Fund balances (deficit) at beginning of year											
	3,331,625	-	-	(65)	-	17,733	15,466	(41,738)	99,892	3,422,913	2,513,577
Fund balances (deficit) at end of year											
	\$ 3,832,719	\$ -	\$ -	\$ (65)	\$ -	\$ (1,380)	\$ 17,416	\$ (42,739)	\$ 66,483	\$ 3,872,434	\$ 3,422,913

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	1997			1996		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Other Compact funds	\$ 2,529,148	\$ 2,904,298	\$ 375,150	\$ 2,522,797	\$ 2,886,296	\$ 363,499
Total revenues	<u>2,529,148</u>	<u>2,904,298</u>	<u>375,150</u>	<u>2,522,797</u>	<u>2,886,296</u>	<u>363,499</u>
Expenditures budgetary basis:						
Health services	402,828	495,625	(92,797)	386,808	307,989	78,819
Education	1,158,270	1,050,213	108,057	971,220	873,641	97,579
Special Development Programs	1,541,500	141,564	1,399,936	-	-	-
Public works and utilities	600,000	689,745	(89,745)	1,057,977	480,742	577,235
Total expenditures	<u>3,702,598</u>	<u>2,377,147</u>	<u>1,325,451</u>	<u>2,416,005</u>	<u>1,662,372</u>	<u>753,633</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,173,450)</u>	<u>527,151</u>	<u>1,700,601</u>	<u>106,792</u>	<u>1,223,924</u>	<u>1,117,132</u>
Other financing sources (uses):						
Transfers/general fund	-	1,003,571	(1,003,571)	957,837	957,837	-
Payments of notes payable	-	(1,003,571)	1,003,571	(957,837)	(957,837)	-
Transfers out	-	-	-	(224,718)	(224,718)	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(224,718)</u>	<u>(224,718)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(1,173,450)</u>	<u>527,151</u>	<u>1,700,601</u>	<u>(117,926)</u>	<u>999,206</u>	<u>1,117,132</u>
Fund balance, unreserved at beginning of year	1,788,619	3,202,871	1,414,252	1,906,545	1,906,545	-
Changes in reserve for related assets	-	-	-	-	297,120	297,120
Continuing appropriations	<u>-</u>	<u>(1,400,000)</u>	<u>(1,400,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, unreserved at end of year	<u>\$ 615,169</u>	<u>\$ 2,330,022</u>	<u>\$ 1,714,853</u>	<u>\$ 1,788,619</u>	<u>\$ 3,202,871</u>	<u>\$ 1,414,252</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 1997

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, 1997, 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.

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Balance Sheet
September 30, 1997
(With comparative totals as of September 30, 1996)

<u>Assets</u>	Compact	TTPI	CFSM	Public	Other U.S.	Totals	
						1997	1996
Investments	\$ 47,266	\$ -	\$ -	\$ -	\$ -	\$ 47,266	\$ 60,302
Receivables, net:							
Federal agencies	-	-	-	-	509,868	509,868	-
U.S. Dept. of Interior - TTPI	-	366,441	-	-	-	366,441	453,697
CFSM	-	-	183,140	-	-	183,140	470,458
Loans	6,500,000	-	-	-	-	6,500,000	8,500,000
Due from other funds	8,306,700	-	-	6,737	-	8,313,437	5,415,213
Advances	4,293	-	2,918	-	-	7,211	4,175
Total assets	\$ 14,858,259	\$ 366,441	\$ 186,058	\$ 6,737	\$ 509,868	\$ 15,927,363	\$ 14,903,845
 <u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 5,855	\$ -	\$ 40,539	\$ -	\$ 40,439	\$ 86,833	\$ 172,048
Due to other funds	-	366,441	141,431	-	469,429	977,301	859,987
Deferred revenue	-	-	4,088	-	-	4,088	-
Total liabilities	5,855	366,441	186,058	-	509,868	1,068,222	1,032,035
Fund balances:							
Reserved for:							
Loans	6,500,000	-	-	-	-	6,500,000	8,500,000
Encumbrances	112,994	383,180	136,230	-	3,054	635,458	1,445,372
Continuing appropriations	8,840,796	-	-	5,190	-	8,845,986	2,098,829
Unreserved	(601,386)	(383,180)	(136,230)	1,547	(3,054)	(1,122,303)	1,827,609
Total fund balances	14,852,404	-	-	6,737	-	14,859,141	13,871,810
Total liabilities and fund balances	\$ 14,858,259	\$ 366,441	\$ 186,058	\$ 6,737	\$ 509,868	\$ 15,927,363	\$ 14,903,845

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	Compact	TTPI	CFSM	Public	Other U.S.	Totals	
						1997	1996
Revenues:							
Compact	\$ 3,547,200	\$ -	\$ -	\$ -	\$ -	\$ 3,547,200	\$ 4,462,377
Federal contributions	-	-	-	-	1,048,688	1,048,688	487,025
U.S. Dept. of the Interior-TTPI	-	136,192	-	-	-	136,192	36,044
CFSM grants	-	-	534,239	-	-	534,239	538,518
Total revenues	3,547,200	136,192	534,239	-	1,048,688	5,266,319	5,523,964
Expenditures:							
Education	4,739	-	-	-	-	4,739	-
Economic development	35,463	-	253,285	-	774,622	1,063,370	1,636,701
Public works and utilities	231,720	-	11,636	-	274,066	517,422	4,581,288
Community affairs	283,886	136,192	269,318	-	-	689,396	366,422
Other	4,061	-	-	-	-	4,061	36,702
Total expenditures	559,869	136,192	534,239	-	1,048,688	2,278,988	6,621,113
Excess (deficiency) of revenues over (under) expenditures	2,987,331	-	-	-	-	2,987,331	(1,097,149)
Other financing sources (uses):							
Bad debt expense	-	-	-	(2,000,000)	-	(2,000,000)	-
Transfers/general fund	3,145,184	-	-	-	-	3,145,184	4,010,110
Transfers out	-	-	-	-	-	-	(65,632)
Payments of notes payable	(3,145,184)	-	-	-	-	(3,145,184)	(4,010,110)
Total other financing sources (uses), net	-	-	-	(2,000,000)	-	(2,000,000)	(65,632)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,987,331	-	-	(2,000,000)	-	987,331	(1,162,781)
Fund balances at beginning of year	11,865,073	-	-	2,006,737	-	13,871,810	15,034,591
Fund balances at end of year	\$ 14,852,404	\$ -	\$ -	\$ 6,737	\$ -	\$ 14,859,141	\$ 13,871,810

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	Compact	TTPI	CFSM	Public	Other U.S.	Totals	
						1997	1996
Revenues:							
Compact	\$ 3,547,200	\$ -	\$ -	\$ -	\$ -	\$ 3,547,200	\$ 4,462,377
Federal contributions	-	-	-	-	1,048,688	1,048,688	487,025
U.S. Dept. of the Interior-TTPI	-	136,192	-	-	-	136,192	36,044
CFSM grants	-	-	534,239	-	-	534,239	538,518
Total revenues	3,547,200	136,192	534,239	-	1,048,688	5,266,319	5,523,964
Expenditures:							
Salaries and wages	25,519	-	20,974	-	-	46,493	185,841
Travel	26,183	1,728	11,636	-	-	39,547	44,074
Freight	1,149	-	81	-	-	1,230	6,474
Communications	150	-	-	-	-	150	3,379
Printing and reproduction	5,813	-	(1,704)	-	-	4,109	7,777
Professional services	22,225	-	-	-	274,066	296,291	3,757,401
Food stuffs	560	-	-	-	-	560	89,700
Medical supplies	-	-	-	-	-	-	810
Supplies and materials	197,317	-	200,650	-	-	397,967	587,536
POL	926	-	-	-	-	926	13,979
Capital outlay	212,292	134,464	265,675	-	774,622	1,387,053	1,108,000
Contractual services	1,500	-	-	-	-	1,500	713,521
Rentals	-	-	11,355	-	-	11,355	5,161
Repairs and maintenance	1,050	-	450	-	-	1,500	22,957
Subsidies & grants	64,875	-	18,716	-	-	83,591	-
Other	310	-	6,406	-	-	6,716	74,503
Total expenditures	559,869	136,192	534,239	-	1,048,688	2,278,988	6,621,113
Excess (deficiency) of revenues over (under) expenditures	2,987,331	-	-	-	-	2,987,331	(1,097,149)
Other financing sources (uses):							
Bad debt expense	-	-	-	(2,000,000)	-	(2,000,000)	-
Transfers/general fund	3,145,184	-	-	-	-	3,145,184	4,010,110
Transfers out	-	-	-	-	-	-	(65,632)
Payments of notes payable	(3,145,184)	-	-	-	-	(3,145,184)	(4,010,110)
Total other financing sources (uses), net	-	-	-	(2,000,000)	-	(2,000,000)	(65,632)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,987,331	-	-	(2,000,000)	-	987,331	(1,162,781)
Fund balances at beginning of year	11,865,073	-	-	2,006,737	-	13,871,810	15,034,591
Fund balances at end of year	\$ 14,852,404	\$ -	\$ -	\$ 6,737	\$ -	\$ 14,859,141	\$ 13,871,810

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Enterprise Funds
September 30, 1997

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. PTS was not able to produce financial statements in 1997.

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, 1997, 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, 1997, 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.

See accompanying Independent Auditors' Report.

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

Combining Balance Sheet

September 30, 1997

(With comparative totals as of September 30, 1996)

<u>Assets</u>	Yap Economic Development Authority	Yap Investment Trust	Totals	
			1997	1996
Cash and equivalents	\$ -	\$ -	\$ -	\$ 148,810
Investments	1,107,043	7,392,957	8,500,000	8,500,000
General receivables	-	-	-	27,942
Loans receivable	284	-	284	2,000,000
Inventory of supplies, at cost and other assets	-	-	-	38,673
Investment in fixed assets, net of accumulated depreciation	-	-	-	289,809
Total assets	\$ 1,107,327	\$ 7,392,957	\$ 8,500,284	\$ 11,005,234
<u>Liabilities and Fund Equity (Deficit)</u>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 2,730
Accrued payroll and others	469	-	469	6,102
Notes payable:				
Intergovernmental	2,000,000	-	2,000,000	2,000,000
Yap State	-	6,500,000	6,500,000	6,500,000
Due to other funds	103,276	-	103,276	86,509
Total liabilities	2,103,745	6,500,000	8,603,745	8,595,341
Fund equity (deficit):				
Contributed capital	5,682,758	892,957	6,575,715	7,270,398
Deficit	(6,679,176)	-	(6,679,176)	(4,860,505)
Total fund equity (deficit)	(996,418)	892,957	(103,461)	2,409,893
Total liabilities and fund equity (deficit)	\$ 1,107,327	\$ 7,392,957	\$ 8,500,284	\$ 11,005,234

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenses and Changes in Fund Equity
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	Yap	Yap	Totals	
	Economic Development Authority	Investment Trust	1997	1996
Operating revenues:				
Charges for goods and services	\$ -	\$ -	\$ -	\$ 77,988
Other	-	-	-	152,491
Total operating revenues	-	-	-	230,479
Operating expenses:				
Personnel services	14,506	-	14,506	78,033
Supplies and materials	-	-	-	64,800
Contractual services/commissions	-	-	-	7,742
Depreciation	-	-	-	41,381
Other	2,000,000	-	2,000,000	157,937
Total operating expenses	2,014,506	-	2,014,506	349,893
Operating loss	(2,014,506)	-	(2,014,506)	(119,414)
Nonoperating revenues:				
Intergovernmental contributions:				
General Fund	-	-	-	108,870
Total nonoperating revenues	-	-	-	108,870
Net loss	(2,014,506)	-	(2,014,506)	(10,544)
Deficit at beginning of year	(4,664,670)	-	(4,664,670)	(4,849,961)
Deficit at end of year	(6,679,176)	-	(6,679,176)	(4,860,505)
Contributed capital	5,682,758	892,957	6,575,715	7,270,398
Fund equity (deficit) at end of year	\$ (996,418)	\$ 892,957	\$ (103,461)	\$ 2,409,893

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
Combining Statement of Cash Flows
Year Ended September 30, 1997
(With comparative totals for the year ended September 30, 1996)

	Yap	Yap	Totals	
	Economic Development Authority	Investment Trust	1997	1996
Cash flows from operating activities:				
Operating loss	\$ (2,014,506)	\$ -	\$ (2,014,506)	\$ (119,414)
Adjustments to reconcile operating loss to net cash used for operating activities:				
Depreciation	-	-	-	41,381
Bad debt expense	2,000,000	-	2,000,000	-
	<u>(14,506)</u>	<u>-</u>	<u>(14,506)</u>	<u>(78,033)</u>
Change in assets and liabilities:				
General receivables	-	-	-	(28,245)
Due from other funds	14,506	-	14,506	93,596
Inventory of supplies, at cost	-	-	-	3,035
Accounts payable	-	-	-	(19,700)
Accrued payroll and others	-	-	-	3,674
	<u>14,506</u>	<u>-</u>	<u>14,506</u>	<u>52,360</u>
Net cash used for operating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,673)</u>
Cash flows from noncapital financing activities:				
Operating transfers in	-	-	-	108,870
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,870</u>
Cash flows from capital and related financing activities:				
Acquisition of fixed assets	-	-	-	(20,539)
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,539)</u>
Net increase in cash and equivalents	-	-	-	62,658
Cash and equivalents at beginning of year	-	-	-	86,152
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,810</u>

See accompanying Independent Auditors' Report.



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

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

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1997, and have issued our report thereon dated May 13, 1998, which report 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, and for a 100% investee of the Yap Investment Trust, 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; 3) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 4) the omission from the Component Unit - Enterprise Fund of the Public Transportation System; 5) our inability to determine the effects of not updating the General Fixed Assets Account group; and 6) our inability to determine the proprietary of supplies inventory. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

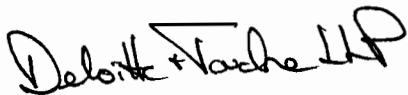
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Yap's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

financial reporting that, in our judgment, could adversely affect the State of Yap's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 97-7 through 97-19.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider none of the reportable conditions described above to be a material weakness.

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

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

May 13, 1998



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE
TO EACH MAJOR FEDERAL AWARD PROGRAM**

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

Compliance

We have audited the compliance of the State of Yap with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 1997. The State of Yap's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 76 through 98). Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the State of Yap's management. Our responsibility is to express an opinion on the State of Yap's compliance based on our audit.

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

In our opinion, the State of Yap complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs identified on page 75 for the year ended September 30, 1997. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 97-1 through 97-6.

Internal Control Over Compliance

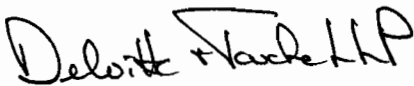
The management of the State of Yap is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Yap's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1997, and have issued our report thereon dated May 13, 1998, which report was modified 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, and for a 100% investee of the Yap Investment Trust, 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; 3) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 4) the omission from the Component Unit - Enterprise Fund of the Public Transportation System; 5) our inability to determine the effects of not updating the General Fixed Assets Account group; and 6) our inability to determine the proprietary of pharmaceutical and medical supplies inventory. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 62 through 73) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Yap. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion is fairly stated, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

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



May 13, 1998

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 1997

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1997</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of Education:</u>			
Year 5 Prel Vocational Education	84.994S	3001	\$ 68,310
PREL-Visions & Dreams	84.994S	3002	5,805
Year 4 Prel Vocational Education	84.994S	3975	375
Total CFDA #84.994S			<u>74,490</u>
FY95 Special Education	84.027A	3008	<u>28,044</u>
Total CFDA #84.027A			<u>28,044</u>
FY96 Yap Star	84.256A	3009	411,667
FY97 Yap Star	84.256A	3010	239,217
Total CFDA #84.256A			<u>650,884</u>
FY96 Goal 2000 Program	84.276A	3112	<u>58,689</u>
Total CFDA #84.276A			<u>58,689</u>
Total U.S. Department of Education			<u>812,107</u>
<u>U.S. Department of Labor:</u>			
FY93 JTPA Adult Program	17.250	3210	1,100
FY94 JTPA Administration	17.250	3215	246
FY94 JTPA Adult Program	17.250	3215	4,752
FY94 JTPA Youth Program	17.250	3216	10,060
FY94 JTPA Participant Support	17.250	3217	1,503
FY96 JTPA Admin	17.250	3225	17,839
FY96 JTPA Adult Program	17.250	3226	27,691
FY96 JTPA Youth Program	17.250	3227	22,384
FY96 JTPA Participant Support	17.250	3228	8,487
FY95 JTPA Admin	17.250	3230	1,645
FY95 JTPA Adult Program	17.250	3231	3,634
FY95 JTPA Youth Program	17.250	3232	12,012
FY95 JTPA Participant Support	17.250	3233	4,068
FY97 JTPA Admin	17.250	3239	4,988
FY97 JTPA Adult Program	17.250	3240	1,007
FY97 JTPA Youth Program	17.250	3241	180
Total U.S. Department of Labor (CFDA #17.250)			<u>121,596</u>
Balance Forward			<u>933,703</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
Balance Forwarded			\$ <u>933,703</u>
<u>U.S. Department of Agriculture:</u>			
FY89 Food Services	10.555	3346	<u>20,137</u>
Total CFDA #10.555			<u>20,137</u>
FY97 Fire Prevention	10.664	3350	1,844
FY95 Forestry Projects	10.664	3455	7,080
FY94 Forestry Projects	10.664	3459	11,919
FY95 Fire Prevention	10.664	3462	<u>7,119</u>
Total CFDA #10.664			<u>27,962</u>
Total U.S. Department of Agriculture			<u>48,099</u>
<u>U.S. Department of the Interior:</u>			
FY95 Historic Preservation	15.904	3451	17,474
FY93 Historic Preservation	15.904	3454	2,543
FY96 Historic Preservation	15.904	3456	42,293
FY94 Historic Preservation	15.904	3460	<u>4,567</u>
Total U.S. Department of the Interior (CFDA #15.904)			<u>66,877</u>
<u>U.S. Department of Commerce</u>			
Outer Islands Trochus Reseeding	11.427	3405	<u>7,243</u>
<u>U.S. Department of Health and Human Services:</u>			
FY95 Mental Health	93.119	3691	<u>2,486</u>
Total CFDA #93.119			<u>2,486</u>
FY97 Family Planning	93.217	3662	17,333
FY98 Family Planning	93.217	3786	<u>4,346</u>
Total CFDA #93.217			<u>21,679</u>
FY97 Immunization Program	93.268	3653	16,330
FY96 Immunization Program	93.268	3696	<u>6,143</u>
Total CFDA #93.268			<u>22,473</u>
Balance Forward			<u>1,055,922</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
Balance Forwarded			\$ <u>1,055,922</u>
FY95 Substance Abuse-Health	93.959	3692	5,127
FY95 Substance Abuse-Youth	93.959	3693	72
FY96 SAPT/Health Services	93.959	3700	40,260
FY96 SAPT/Youth Services	93.959	3701	27,487
FY97 SAPT/Youth Services	93.959	3775	<u>81</u>
Total CFDA #93.959			<u>73,027</u>
FY94 Diabetes Program	93.988	3685	<u>2,998</u>
Total CFDA #93.988			<u>2,998</u>
FY95 Preventive Health	93.991	3695	2,945
FY96 PH & PH	93.991	3660	<u>7,965</u>
Total CFDA #93.991			<u>10,910</u>
FY95 MCH Program	93.994	3690	1,723
FY97 MCH Program	93.994	3705	1,239
FY96 MCH Program	93.994	3730	<u>47,494</u>
Total CFDA #93.994			<u>50,456</u>
FY96 Tuberculosis & AIDS Program	96.116	3697	1,789
FY97 Tuberculosis & AIDS Program	96.116	3698	<u>4,834</u>
Total CFDA #96.116			<u>6,623</u>
Total U.S. Department of Health and Human Services			<u>190,652</u>
Total Federal Grants Fund			\$ <u><u>1,246,574</u></u>
Reconciliation to financial statements:			
Balance per above			\$ 1,246,574
Less: Year 4 Prel Vocational Education erroneously recorded in Non U.S. Grants Fund			<u>(375)</u>
Balance per financial statements			<u><u>1,246,199</u></u>

Note: With the exception of certain Department of Education grants (84.994S and 84.256A) and the Outer Islands Trochus Reseeding, Yap Org. 3405 (CFDA #11.427), which is received directly from the U.S. Department of Commerce, the above grants are received in a subrecipient capacity through the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Other U.S. Grants Fund
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
<u>COM Cooperative Extension Services</u>			
Sustain Agriculture/CES-COM	N/A	3870	\$ <u>726</u>
<u>Federal Emergency Management Agency</u>			
<u>(FEMA) grants:</u>			
Hazard Mitigation/Admin.	83.516	3855	4,624
Hazard Mitigation/Food Crop	83.516	3856	113,046
Hazard Mitigation/Communication Equip.	83.516	3857	2,973
Hazard Mitigation Management	83.516	3858	18,980
HMG/Anchor Mooring Buoy	83.516	3859	8,796
Typhoon Fern/Admin.	83.516	3881	12,324
Typhoon Fern/Public Assistance	83.516	3885	<u>575,419</u>
Total Federal Emergency Management Agency (CFDA #83.516)			<u>736,162</u>
Total Other U.S. Grants Fund			<u>\$ 736,888</u>

Note: With the exception of the COM-CES grant, the above grants are received in a subrecipient capacity through the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Non U.S. Grants Fund
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
UNICEF:		
Family Education Production/Nutrition	3961	\$ 4,924
Other Grants:		
Forum Secretariat/Typhoon Fern	3972	14,068
SPREP Coastal Management Plan	3978	<u>220</u>
Total Non U.S. Grants Fund		\$ <u>19,212</u>
Reconciliation to financial statements:		
Balance per above		\$ 19,212
Add: Year 4 Prel Vocational Education Grant reported in U.S. Federal Grants Fund		<u>375</u>
Balance per financial statements		\$ <u>19,587</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
CFSM Grants Fund
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Primary & Secondary School Needs	5819	\$ 42,325
Satawal L. Fees	5825	20,308
Tuition, Room & Board/COM-FSM	5826	28,700
FY95 State Court	5827	69,721
Education	5829	8,164
FY96 Joint Law Enforcement	5830	106,761
Primary & Secondary School Needs	5831	94,569
Okaw Women Project	5838	1,740
Nef Woman Center	5839	7,500
Rull Suppl.	5842	3,755
Outer Islands School Project	5865	124,342
Vocational Education	5868	2,447
Yap Disaster Relief Fund	5882	69,783
Xavier High School	5886	20,034
Education OPNS	5890	2,589
Yap Youth Program	5891	23,280
Madrich Development	5892	8,011
Outer Islands Culture/Agriculture	5894	66,375
Typhoon Owen Relief	5895	6,276
Yap Rural Development	5898	29,057
Teacher Training	5899	6,961
Special Education Personnel	5906	29,273
Yap State Education	5908	8,218
FY94 Health	5909	157,635
State Tourism Development	5911	46,787
Continuing Education	5912	11,899
Rang/Gilfith BB CT EQ	5913	871
Hospital Equipment & Supply	5914	71,514
YSS Paluwlap Repair	5918	111
Yap Scholarship Fund	5919	43,000
Yap Education Needs	5922	65,083
Falalop Ulithi Dispensary	5924	26,223
Youth Projects	5926	81
Yap State Youth Projects	5927	36,914
Medical Supplies & Equipment	5930	29,697
Yap SDA School	5937	5,400
		<hr/>
Total CFSM Grants Fund		\$ <u>1,275,404</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
TTPI Capital Projects Fund
Year Ended September 30, 1997

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1997</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>		
Rural Sanitation - Yap Cap	6382	\$ 136,192
<u>U.S. Department of Interior</u>		
Yap Airport Runway (A&E)	6858	<u>274,066</u>
Total TTPI Capital Projects Fund		<u>\$ 410,258</u>
Reconciliation to financial statements:		
Balance per above		\$ 410,258
Less: Yap Airport Runway recorded in U.S. CIP Grants Fund		<u>(274,066)</u>
Balance per financial statements		<u>\$ 136,192</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. The Rural Sanitation Program Grant (T316) is passed through to Yap Community Action Program. Expenditures of \$136,192 represent cost-reimbursement to Yap CAP for fiscal year 1997.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
CFSM Capital Projects Fund
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Lebnaw Wn	6603	\$ 4,687
Outer Islands Comm.	6612	544
Rumung Water	6613	9,000
Meerur Center	6619	4,500
TTPI CIP Administration	6621	11,636
Ganelay School	6628	16
Seabee Renovation	6632	1,083
Mathow Bridge	6633	9,274
Runway Repair	6636	192,299
Dabach Retaining Wall	6638	18,862
Hospital-Fais Dispensary	6639	11,250
Wanyan Youth R.F. Project	6642	17,803
Yap Small Business Center	6644	253,285
		<hr/>
Total CFSM Capital Projects Fund		\$ 534,239
		<hr/> <hr/>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Expenditures of Federal Awards, Continued
Other U.S. Capital Projects Fund
Year Ended September 30, 1997

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1997</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of Commerce</u> EDA-Yap Business Incubator	11.300	6857	\$ <u>774,622</u>
Reconciliations to financial statements:			
Balance per above			\$ 774,622
Add: Yap Airport Runway (A&E) reported in TTPI CIP Fund			<u>274,066</u>
Balance per financial statements			<u>\$ 1,048,688</u>

Note: The U.S. Department of Commerce EDA grant is received in a direct capacity.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Programs Fund
Section 221(B) Special Block Grant (CFDA No. 15.875)
Section 212(A) Special Development Grant (CFDA No. 15.875)
Section 216(A)(2) Health and Medical Programs (CFDA No. 15.875)
Section 216(A)(3) Post Secondary Education (CFDA No. 15.875)
Section 214(B) Energy Programs (CFDA No. 15.875)
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
<u>Special Block Grant Programs</u>		
Department of Education Budget Supply/Maintenance	2113	\$ 32,091
Education Administration	2114	5,517
Instruction and Curriculum	2115	193,180
Yap Elementary Schools	2116	114,005
Outer Island Elementary Schools	2117	322,902
Yap High School	2118	100,839
Outer Island High School	2119	71,483
Post Secondary Student Services	2122	247
Department of Education Staff Development	2123	22,430
Outer Island Middle School	2126	72,047
Primary Health Care	2132	2,779
Preventive Health Care	2133	4,241
Alcohol/Drug Abuse and Mental Health	2136	13,359
Medical Supply and Equipment	2138	103,013
Ancillary Services	2140	38,601
Total Compact of Free Association Compact Programs Fund-Section 221(B)		1,096,734
<u>Special Development Program</u>		
Yap Cap-96	2209	141,500
Small Business Center	2210	65
Total Compact of Free Association Compact Programs Fund-Section 212(A)		141,565
<u>Medical Referral Program</u>		
	2448	323,170
Total Compact of Free Association Compact Programs Fund-Section 216(A)(2)		323,170
<u>Post Secondary Education</u>		
Scholarships and grants	2641	151,990
Total Compact of Free Association Compact Programs Fund-Section 216(A)(3)		151,990
<u>Energy Programs</u>		
Utility Subsidies Program	2853	689,745
Total Compact of Free Association Compact Programs Fund-Section 214(B)		689,745
Total Compact of Free Association Compact Program Fund		\$ 2,403,204
Reconciliation to financial statements:		
Balance per above		\$ 2,403,204
Debt Service Payments:		
Special Development Funds		800,743
Medical Referral Funds		202,828
Balance per financial statements		\$ 3,406,775

Note: These funds are made by available by Title Two, Article I, Sections 221(B), 216(A)(2), 216(A)(3) and 214(B) of the Compact of Free Association and 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. During fiscal year 1997, \$141,500 of Special Development Programs Funds was passed through to Yap Community Action Program for various community projects development.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211(A) Capital Account (CFDA No. 15.875)
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
FY93 Manpower Development	6127	\$ 21,031
Daboch Water Extension	6138	60,708
Water Wells Development	6139	55,865
Tagareng and Bileeyuw Water System	6143	9,010
Agriculture Extension and Research	6144	14,939
Outer Island High School Library	6161	4,528
Dalipebinaw Elementary School	6164	211
R&D Extension and Research	6177	3,155
Livestock Extension	6178	24
Roads & Culverts 2nd PU&C	6187	43,585
Lipmur Water Extension	6193	16,565
Land Lease & Acquisition	6195	4,062
Slaughter House	6196	415
Waab Building	6228	199,229
Roads Development	6242	63,848
Roads Development Phase VII	6243	25,592
Feasibility Studies	6263	131
Manpower Survey	6266	1,846
Outer Islands P.C. Sponge Farming	6296	3,360
Outer Islands Airfields	6298	26,265
Tourism Development	6299	5,500
		<u>559,869</u>
Debt Service Payment		<u>3,145,184</u>
Total Compact of Free Association Capital Projects Fund - Section 211(A)		<u>\$ 3,705,053</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association General Fund
Section 211(A) Current Account (CFDA NO. 15.875)
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1997 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
General Fund:		
Current Account	Various	\$ <u>5,764,800</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 1997

(1) Scope of Review

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

A. Programs Subject to Single Audit

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

(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 separately satisfies audit requirements of OMB Circular A-133. Yap State is considered to have responsibility for any questioned costs that could result from Single Audits of this entity.

No audit of Yap Community Action Program has yet been performed for fiscal year 1997.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for
Audit In Accordance With OMB Circular A-133
Year Ended September 30, 1997

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>1997 Fiscal Year Expenditures</u>
<u>U.S. Dept. of the Interior</u>		
Compact of Free Association:	15.875	
211(A) Capital Account		\$ 3,705,053
221(B) Special Block Grant		1,096,734
Health and Medical		525,998
Post Secondary Education		151,990
Energy Programs		689,745
Special Development		<u>942,308</u>
Total CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>7,111,828</u>
<u>U.S. Federal Emergency Agency</u>		
Typhoon Owen	83.516	148,419
Typhoon Fern	83.516	<u>587,743</u>
Total U.S. Federal Emergency Agency (CFDA #83.516)		<u>736,162</u>
<u>U.S. Dept. of Commerce</u>		
EDA Small Business Incubator	11.300	<u>774,622</u>
<u>U.S. Department of Education</u>		
Yap Star	84.256A	<u>650,884</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>9,273,496</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>10,279,444</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>90%</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 1997

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, none of which are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association	15.875
Typhoon Owen/Fern	83.516
EDA Small Business Incubator	11.300
Yap Star	84.256A

8. A threshold of \$308,382 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
97-7	Inventory	\$0
97-8	FEMA Receivables	\$0
97-9	Cash	\$0
97-10	Travel Advances	\$0
97-11	Interfund Balances	\$0
97-12	Receivables	\$0
97-13	Fixed Assets	\$0
97-14	Yap Fishing Authority-Accounts Receivable	\$0
97-15	Public Transportation System - Accounts Receivable	\$0
97-16	Public Transportation System - Inventory	\$0
97-17	Public Transportation System - Fixed Assets	\$0
97-18	Public Transportation System - Disbursements	\$0
97-19	Public Transportation System - External Financial Reporting	\$0

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
97-1	Procurement standards	\$0
97-2	Equipment Management	\$0
97-3	Equipment Management	\$0
97-4	Procurement	\$0
97-5	Cost Principles	\$0
97-6	FEMA	\$0
97-8	FEMA receivables	\$0

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Federal Findings

Yap State-Procurement Standards

Item No. CFDA No. Criteria:

Questioned
Costs

97-1 83.516 Federal procurement standards require evidence of price comparison from a number of sources for small purchase contracts below the bidding threshold of \$100,000.

Condition: Our tests of FEMA Typhoon Fern assistance indicates that federal procurement standards for small purchases were not followed, unless the amount of the purchase was equal to or in excess of \$5,000, the local threshold for bidding. Of 26 transactions tested, 16 items with amounts below \$5,000 did not contain evidence that the federal small purchases requirements were followed. Nothing, however, came to our attention to indicate that prices paid appeared unusual and it is acknowledged that such acquisitions occurred in the typhoon's aftermath.

Cause: The FEMA project coordinator was not aware of the federal procurement standards and was not certain of their applicability in this case.

Effect: The above condition could result in noncompliance with federal procurement requirements.

Recommendation: We recommend that the State ensure that all federal program coordinators are aware of the federal requirements applicable to the grants administered.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Federal Findings, Continued

Administrative Requirements - Equipment Management

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
97-2	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 over federal grants was reported in the Single Audit of Yap State Government for fiscal year 1996.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Federal Findings, Continued

Administrative Requirements - Equipment Management, Continued

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
97-3	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 over federal grants was reported in the Single Audit of Yap State Government for fiscal year 1996.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Federal Findings, continued

Administrative Requirements - Procurement

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
97-4	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> A procurement manual has been drafted, but has not been finalized.</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 over federal grants was reported in the Single Audit of Yap State Government for fiscal year 1996.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Federal Findings, continued

Allowable Costs/Cost Principles

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
97-5	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> A procurement manual has been drafted but has not been formally adopted.</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 absent, 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> Potential noncompliance with the administrative requirements over federal grants was reported in the Single Audit of Yap State Government for fiscal year 1996.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Federal Findings, continued

Cash Management - FEMA

Item No. CFDA No. Criteria:

Questioned
Costs

97-6 83.516 Compliance Supplement cash management requirements require recipients to minimize the time between receiving grant funds and the related disbursement.

Condition: 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 was reclassified from Deferred Revenue to Due to Grantor.

Cause: This appears to be due to lack of coordination between the program administrators and the Division of Finance in closing out the program.

Effect: The effect is noncompliance with cash management requirements and possible future questioned costs if the funds are improperly disbursed.

Recommendation: 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.

Prior Year Status: Noncompliance with the cash management - FEMA was reported as a finding in the Single Audit of the Yap State Government for fiscal years 1994, 1995 and 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Local Findings

Yap State-Budgets

Item No. CFDA No. Criteria:

L-1 Expenditures should not be incurred in the absence of or in excess of statutory budget authority.

Condition: Our review of the financial management system as of September 30, 1997, determined approximately \$1 million in program expenditures over authorized budgets. The \$1 million is comprised of various program deficits from the following funds:

	<u>No. of Programs</u>	<u>Total Deficit</u>
General Fund	3	\$ 41,713
Compact Special Programs	5	213,437
Traditional Award Funds	4	19,113
Sports Development Fund	1	126,749
Slaughter Operations	1	2,449
US Federal Grants	6	28,154
CFSM Special Revenue	14	320,561
Compact Capital	5	98,601
CFSM CIP Grants	5	189,444
USA CIP Grants	1	<u>54,473</u>
		<u>\$ 1,094,694</u>

Cause: A reconciliation of the budget authority in Dilog was not performed regularly. In addition, the funds certification process does not appear to be working as intended.

Effect: The effect of the above condition is that costs incurred in excess of authorized amounts may not be reimbursed by the grantor agencies, and may have to be absorbed by the general fund.

Recommendation: We recommend that Budget amounts in the financial management system be reconciled with appropriation laws and continuing appropriations on a monthly basis.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Local Findings, Continued

Yap State-Compact Energy Funds

Item No. CFDA No. Criteria:

L-2 15.875 The use of Compact Energy Funds should be consistent with the intent of the Compact Treaty.

Condition: During fiscal year 1997, \$600,000 was appropriated from Compact Energy Funds to fund the State's electricity bills for the fiscal year ended September 30, 1997. A total of \$689,745 was expended for electricity bills for State Government offices for the year.

Cause: The cause of the above condition is unknown.

Effect: The above condition results in potential noncompliance with the intent of the Compact treaty.

Recommendation: Yap State should obtain an opinion from the Attorney General as to whether the above expenditures represent allowable expenditures under Compact Funds. This opinion should then be agreed to by the FSM National Government which is the grantor agency.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Yap State - Inventory

Finding No. 97-7

Criteria: A proper system of internal control has procedures in place to ensure that inventory is accurately recorded and valued.

Condition: A comparison of our test counts of medical supply inventory as of September 30, 1997 with the final inventory listing showed that of fifteen items tested, physical counts for nine of the items were inaccurately reflected on the final inventory listing. Discussions with the Medical Supply staff showed that the inventory listing was based on a count which was performed weeks after year-end and which was not adjusted for purchases and usage. In addition, donated items which represented a large part of medical supply inventory on hand at year-end were not segregated from items purchased with Yap State funds.

Cause: Records of inventory issuance and purchases appeared to be inadequate to enable medical supply staff to rollback counts performed after year-end to physical quantities on hand as of September 30, 1997.

Effect: As a result of this condition, we could not determine if medical supply inventory at September 30, 1997 is fairly stated.

Recommendation: We recommend that procedures be adopted whereby medical supplies inventory be released only upon proper completion and submission of a stock issue ticket to the medical supply staff. The description and physical counts of stock should be independently verified.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Yap State-FEMA Receivables

Item No. CFDA No. Criteria:

97-8 83.516 Records of grant revenues and expenditures should be maintained in a manner which facilitate reconciliation of receivables and deferred revenue.

Condition: During fiscal year 1997, \$567,565 was advanced by FEMA for Typhoon Fern Public Assistance Grants small projects. As defined by FEMA, small projects are approved projects with total estimated costs of less than \$45,000. The Chief of Finance who prepares the request of reimbursement from the FSM National Government has not been provided a list identifying small and large public assistance projects. In addition, we noted that the advances received during fiscal year 1997 did not specify which specific FEMA grants should be credited.

Cause: The current assignment of organization numbers under the FEMA grant does not segregate large projects from small projects under Public Assistance funding. Finance uses its financial management system to apply for reimbursement of FEMA expenditures from the FSM National Government.

Effect: The current condition increases the risk of errors in the recording of FEMA revenues, receivables and deferred revenues.

Recommendation: We recommend that the Disaster Control Office identify those grants to Finance for which cash has been advanced. Finance should then rearrange the organization numbers for the FEMA grants to segregate such grants from those which are administered on a cost reimbursement basis in order to facilitate reimbursement requests.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Yap State - Cash

Finding No. 97-9

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, 1997. However, these differences were adjusted in the reconciliation process.

Cause: Bank reconciliations were not performed and agreed to the general ledger 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.

Prior Year Status: This condition was reported as a finding in the Single Audit of Yap State Government for fiscal years 1995 and 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Yap State - Travel Advances

Finding No. 97-10

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.

Prior Year Status: This condition was reported as a finding in the Yap State Government Single Audits for fiscal years 1995 and 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Yap State - Interfund Balances

Finding No. 97-11

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

Condition: As of September 30, 1997, approximately \$260,250 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.

Prior Year Status: This condition was reported as a finding in the Yap State Government Single Audits for fiscal years 1995 and 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Yap State - Receivables

Finding No. 97-12

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	\$ 382,938
USA CIP receivable	500,558
CFSM projects	279,974
TTPI projects	386,441
CFSM CIP projects	40,768
U.S. Federal grants	<u>85,794</u>
	\$ <u>1,676,473</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.

Prior Year Status: This condition was reported as a finding in the Yap State Government Single Audits for fiscal years 1995 and 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Yap State - Fixed Assets

Finding No. 97-13

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, 1994, 1995 and 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Yap Fishing Authority - Accounts Receivable

Finding No. 97-14

Criteria: Accounts receivable should be collected on a timely basis.

Condition: At September 30, 1997, \$450,938 of trade receivables had been outstanding for over one year. We also noted that some of these amounts date back to the 1980's. In addition to the trade receivables, \$31,070 were due from employees, approximately 50% of whom are no longer working for the Authority.

Cause: Management has only recently begun to actively pursue collection of outstanding receivables.

Effect: An opportunity cost to the Authority exists as the uncollected cash are not available for operations.

Recommendation: The Authority should review its credit policies and implement procedures to ensure that receivables are collected in a timely manner.

Prior Year Status: Insufficient control over the collection of accounts receivable was reported as a finding in the Yap State Government Single Audit for fiscal year 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Public Transportation System - Accounts Receivable

Finding No. 97-15

Criteria: Controls should be in place to ensure that receivables are promptly collected.

Condition: Schedules provided by Public Transportation System (PTS) indicate that \$24,914 in receivables existed at September 30, 1997. None of these amounts were collected as of May 1998.

Cause: Detailed recommendations offered by a Commerce and Industries (C&I) Division business advisor who had assisted the agency in reconciling its books for fiscal year 1995 were not followed. In addition, the person trained by C&I left PTS soon after the training was completed.

Effect: The total amount of \$24,914 should be reserved as uncollectible.

Recommendation: We recommend that PTS establish and follow procedures to ensure that all amounts due are recorded and promptly collected.

Prior Year Status: Insufficient control over the collection of accounts receivable was reported as a finding in the Yap State Government Single Audit for fiscal year 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Public Transportation System - Inventory

Finding No. 97-16

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.
3. Purchase of inventory is immediately expensed and adjustments were not made at end of the year to reflect inventory on hand.

Cause: The cause of this condition is unknown.

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

Recommendation: Inventory should be properly costed and should be reflected in the financial statements at the lower of cost or market.

Prior Year Status: Insufficient control over inventory was reported as a finding in Yap State Government Single Audit for fiscal years 1995 and 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Public Transportation System - Fixed Assets

Finding No. 97-17

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

Condition: A schedule was not available to support recorded depreciation expense of \$55,044.

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 assets register should be updated each month and depreciation expense should be reconciled from the fixed asset register to the general ledger.

Prior Year Status: Findings concerning fixed assets were present in the 1995 and 1996 Schedule of Internal Control Findings.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Public Transportation System - Disbursements

Finding No. 97-18

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 can exist in the financial statements.

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

Prior Year Status: Misclassification of fixed assets and inventory purchases was reported as a finding in the Single Audit of Yap State for fiscal years 1995 and 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1997

Public Transportation System - External Financial Reporting

Finding No. 97-19

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

Condition:

1. A general ledger was not available to support the amounts of the trial balance. The computer on which the automated general ledger system was maintained broke down and a manual ledger was not maintained.
2. The trial balance did not balance - debits were greater than credits by \$110,000. In addition, the State operating transfer in of \$124,550 were recorded both in the income statement and as an asset account. The error could not be reversed without further distorting the trial balance.
3. A double entry system of accounting was not maintained, entries reconciling the balance sheet accounts were posted as one sided entries with no corresponding credits or debits to the income statement.

Cause: The Public Transportation System did not have a qualified accountant to maintain its books and records.

Effect: The effect of this condition is that the financial statements contain unsubstantiated balances.

Recommendation: PTS should hire a qualified person to maintain its books and records.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 1997

QUESTIONED COSTS

For the year ended September 30, 1997, the following questioned costs were noted and prior year questioned costs resolved:

	Questioned Costs Set Forth in Prior Audit Report <u>1996</u>	Questioned Costs Resolved in Fiscal Year <u>1997</u>	Questioned Costs at <u>September 30, 1997</u>
Unresolved Questioned Costs FY 84	\$ 28,904	\$ (28,904) (1)	\$ -
Unresolved Questioned Costs FY 85	16,364	(16,364) (1)	-
Unresolved Questioned Costs FY 86	168,555	(168,555) (1)	-
Unresolved Questioned Costs FY 92	216	(216) (1)	-
Unresolved Questioned Costs FY 93	2,241	(2,241) (1)	-
Unresolved Questioned Costs FY 95	100,593	(100,593) (2)	-
Unresolved Questioned Costs FY 96	263,347	(4,201) (3)	259,146
Unresolved Questioned Costs FY 97	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>580,220</u>	\$ <u>(321,074)</u>	\$ <u>259,146</u>

- (1) Findings have been reported to federal agencies for in excess of the two year threshold, costs were forgiven under the laws of the Compact of Free Association and its subsidiary agreements, or the amount of the original questioned cost was less than the \$10,000 threshold established by OMB Circular A-133.
- (2) \$100,000 has been audited by the Office of the Yap State Public Auditor and found to represent eligible costs. \$593 is below the threshold set by OMB Circular A-133.
- (3) Findings 96-10 (\$3,001) and 96-13 (\$1,200) are below the \$10,000 threshold set by OMB Circular A-133.



OFFICE OF ADMINISTRATIVE SERVICES
YAP STATE GOVERNMENT
P.O. Box 610
Colonia, Yap
Federated States of Micronesia
96943

CABLE ADDRESS: GOV YAP
FAX: (691) 350-4113

Office Telephones
FINANCE/TREASURY 350-2142/2107
PROPERTY 350-2271/2370
PERSONNEL 350-2145
REVENUE 350-2472

OFFICE OF THE DIRECTOR
Telephone: (691) 350-2307

FEDERAL FINDINGS

YAP STATE - Procurement Standard

<u>Item No.</u>	<u>CFDA No.</u>
97-1	83.516

The FEMA project coordinator is now aware of this requirement.

1. Who is to take corrective action? The Director of OAS will make sure that all Federal Program coordinators are aware of U.S. Federal Program requirements.
2. Corrective Action Plan - All U.S. Federal Program coordinators have attended training conducted by Deloitte & Touche on the U.S. Federal Program Common Rules and OMB Circular A-133.
3. Target Date - The Director of OAS and the FEMA Project Coordinator will make sure that the audit for FY-99 will not contain this condition.

FEDERAL FINDING, Continued

Administrative Requirements - Equip. Management

<u>Item No.</u>	<u>CFDA No.</u>
97-2	ALL

1. Who is to take action? The Director of OAS will see to it that the Chief of Property and Supply takes care of this concern.
2. Corrective Action Plan - The Chief of Property and Supply has started the inventory of all U.S. Federal Program and State properties last September.
3. Target date for completion - We originally thought that we would finish by November. At this point, we do not think we could meet the original target therefore the new target is set for the middle of FY-2000.

FEDERAL FINDINGS, Continued

Administrative Requirements - Equip. Management Continued

<u>Item No.</u>	<u>CFDA No.</u>
97-3	ALL

1. Who is to take action? The Director of OAS will make sure that the Chief of Procurement and Supply and the Chief of Finance and Treasury maintain property ledgers on a timely basis by finding source in the General Fixed Assets Account Group.
2. Corrective Action Plan - This condition could only be dealt with after the general inventory. The new computer system will also help
3. Target Date - The Director of OAS will make sure that by the middle of FY-2000 this target is met.

FEDERAL FINDINGS, Continued

Administrative Requirements - Procurement

<u>Item No.</u>	<u>CFDA No.</u>
97-4	ALL

1. Who is to take action? The Director of OAS will make sure that the Financial Advisor and the State Auditor accomplish this task.
2. Corrective Action Plan - The State Auditor and the Financial Advisor will work with the State Attorney General to incorporate these requirements into our Financial Management Regulations.
3. Target Date - The Director of OAS will make sure that by the end of FY-99 this concern is take care of.

FEDERAL FINDINGS, Continued

Allowable Costs/Cost Principles

<u>Item No.</u>	<u>CFDA No.</u>
97-5	ALL

1. Who is to take action? The Director of OAS will be responsible to see that the Financial Advisor works with the State Auditor and the State Attorney to take care of this concern.
2. Action plan to be taken - We will go over the OMB Circular A-87 and incorporate what is pertinent in our Financial Management Regulations.
3. Target Date - The Director of OAS will make sure that this concern is taken care of by the end of FY-99.

FEDERAL FINDINGS, Continued

CASH MANAGEMENT - FEMA

<u>Item No.</u>	<u>CFDA No.</u>
97-6	83-516

1. Who is to take action? The Director of OAS will make sure that the FEMA Project Coordinator and the Chief of Finance take care of this concern.
2. Action to be taken - Funds will be applied to the program therefore the FEMA Project Coordinator will work with Finance to review documentation and make sure copies are maintained on file.
3. Target Date - The Director of OAS will make sure that this action is taken by the middle of FY-99.

LOCAL FINDINGS

YAP STATE - Budgets

<u>Item No.</u>	<u>CFDA No.</u>
L-1	

1. Who is to take action? The Director of OAS will see to it that the Chief of Budget and the Chief of Finance make sure that budget amounts in the financial management system be reconciled with appropriation laws and continuing appropriations on a monthly basis.
2. Corrective Action Plan - The Budget Chief will ensure that whenever he issues "override" he goes back and reprogram funds to cover the amounts "over ridden".
3. Target Date - The Director of OAS will see to it that this does not happen again.

LOCAL FINDINGS, Continued

YAP STATE, Compact Energy Funds

<u>Item No.</u>	<u>CFDA No.</u>
L-2	15,875

As discussed with Deloitte & Touche, the State Attorney General has issued an opinion allowing the use of the money (copy attached).

YAP STATE - INVENTORY

FINDING No. 97-7

1. Who is to take action? The Director of the Department of Health Services has primary responsibility for this concern. Since this is included in the financial statement of the state, the Director of OAS also has to make sure that those actions are taken so that the integrity of the financial statement is maintained.
2. Action to be taken -The Director of Health Services will make sure that procedures are adopted whereby medical supplies inventory be released only upon proper completion and submission of a stock issue ticket to the medical supply staff.
3. Target date for completion - Those procedures will be in place by the end of FY-99.

YAP STATE - FEMA RECEIVABLE

<u>Item No.</u>	<u>CFDA No.</u>
97-8	83-516

1. Who is to take action? The FEMA Project Coordinator is responsible for this concern.
2. Corrective Action Plan - The FEMA Project Coordinator has already identified those grants to Finance and Finance has already finished all the corrective action.
3. Target date - This concern has been corrected.

YAP STATE - CASH

FINDING No. 97-9

1. Who is to take action? The Director of OAS will see to it that the Chief of Finance and his people reconcile the cash accounts on a monthly basis.
2. Corrective Action Plan - The person who is doing the cash reconciliation is new to the job. She is being trained. The new computer will also have features that will assist in this endeavor.
3. Target date for corrective action - The Director of OAS and the Chief of Finance will ensure that by the end of FY-2000 this concern will no longer be present.

YAP STATE - TRAVEL ADVANCES

FINDING No. 97-10

1. Who is to take action - The Director of OAS and the Chief of Finance will be responsible to see that this concern is take care of.

2. Corrective Action Plan - We are as of now withholding money from travelers after they file their vouchers after each trip. We will do payroll deductions as an additional option.
3. Target date for clearing the travel advance account - Since this is a very difficult task to accomplish, we target the end of FY-2001.

YAP STATE - INTERFUND Balances

FINDING No. 97-11

1. Who is to take action? The Director of OAS and the Chief of Finance are responsible for this concern.
2. Action Plan - The Governor has already approved that \$220,250 of this amount be transferred to the General Fund. An amount of \$40,000 will remain in the fund for the purchase of stocks.
3. Target date for this action - Since this has been approved by the Governor it is only a matter of working on a journal voucher.

YAP STATE - Receivables

FINDING No. 97-12

1. Who is to take action? The Director of OAS and the Chief of Finance will see to it that this is taken care of.
2. Action Plan - This amount of money is changed because we have made some drawdowns.
3. Target date - The Director of OAS and the Chief of Finance will make sure that when the receivables appear in the audit report, they will make sure that this be drawdown in the next fiscal year.

YAP STATE - FIXED ASSETS

FINDING No. 97-13

1. Who is to take action? The Director of OAS and the Chief of Property and Supply is responsible for this concern.
2. Action Plan to correct situation - We have started the inventory of all properties and by the middle of FY-2000 we will finish.

3. Target date - We will have a fixed assets capitalization policy in place by the middle of FY-99.

FISHING AUTHORITY - Account Receivable

FINDING No. 97-14

1. Who is to take action? The Board of Directors, especially the Chairman of the Board, Jesse Raglmar Sobolmar has been active in collecting some of the receivable.
2. Corrective Action Plan - The authority does not allow credit to employees and local customers.
3. Target Date - This concern will be taken care of by FY-99. Those receivables that are impossible to collect will be written off.

YAP Transportation System - Accounts Receivable

FINDING No. 97-15

1. Who is to take action? The Board of Directors and the Manager of PTS will be responsible for this concern.
2. Corrective Action Plan - The Board and the Manager will make sure that the accountant and administrative officer review all pending accounts receivable documents before PTS sends out 30-day notices to those who owe PTS money.
3. Target date - The Board and the Manager will see to it that this is accomplished by the end of FY-99.

PTS - Inventory

FINDING No. 16

1. Who is to take action - The Board of Director and the Manager of PTS will see to it that this concern is taken care of.
2. Corrective Action Plan - The state public auditor is helping PTS to comply with this recommendation.
3. Target date for accomplishments - We think it will take a while to correct the situation as the state auditor is training personnel who are not familiar with accounting. If the people she is training do not leave PTS, we would say by the end of FY-2000 PTS would be able to do things on its own.

PTS – FIXED ASSETS

FINDING No. 97-17

1. Who is to take action? The Board of Directors and the Manager of PTS will take care of this concern.
2. Action Plan to follow - The management of PTS and the Director of OAS have asked the state auditor to help and train employees of PTS to follow this recommendation. Now, she is training the employees.
3. Target Date - We think that if there will not be a big turn over of employees at PTS, those who are trained will be able to do this task on their own by the end of FY-2000.

PTS, Disbursements

FINDING No. 97-18

1. Who is to take action? - The Board of Directors and Manager of PTS will make sure that their employees follow this recommendation.
2. Corrective Action Plan - The Management of PTS will make sure that there are employees to be trained by state public auditor to follow this recommendation.
3. Target Date - We think that by the end of FY-2000 this would be taken care of.

PTS – EXTERNAL FINANCIAL REPORTING

FINDING No. 97-19

1. Who is to take action? The Board of Directors and Manager of PTS will take action to comply with this recommendation.
2. Corrective Action Plan - The Board and Management of PTS will work with the state public auditor to hire and train a person to do accounting.
3. Target date - This will be accomplished by the end of FY-99.



Hilary Tachelior
Director of Administrative Services



OFFICE OF ADMINISTRATIVE SERVICES

YAP STATE GOVERNMENT

P.O. Box 610

Colonia, Yap

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96943

CABLE ADDRESS: GOV YAP
PAX: (691) 350-4113

Office Telephones
FINANCE/TREASURY 350-2142/2107
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FEDERAL FINDINGS

YAP STATE - Procurement Standard

<u>Item No.</u>	<u>CFDA No.</u>
97-1	83.516

The FEMA project coordinator is now aware of this requirement.

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2. Corrective Action Plan - All U.S. Federal Program coordinators have attended training conducted by Deloitte & Touche on the U.S. Federal Program Common Rules and OMB Circular A-133.
3. Target Date - The Director of OAS and the FEMA Project Coordinator will make sure that the audit for FY-99 will not contain this condition.

FEDERAL FINDING, Continued

Administrative Requirements - Equip. Management

<u>Item No.</u>	<u>CFDA No.</u>
97-2	ALL

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FEDERAL FINDINGS, Continued

Administrative Requirements - Equip. Management Continued

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FEDERAL FINDINGS, Continued

Administrative Requirements - Procurement

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FEDERAL FINDINGS, Continued

Allowable Costs/Cost Principles

<u>Item No.</u>	<u>CFDA No.</u>
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FEDERAL FINDINGS, Continued

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LOCAL FINDINGS

YAP STATE - Budgets

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LOCAL FINDINGS, Continued

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YAP Transportation System - Accounts Receivable

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PTS - EXTERNAL FINANCIAL REPORTING

FINDING No. 97-19

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Henry Tachelior
Director of Administrative Services