

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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

**SEPTEMBER 30, 1994**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
YEAR ENDED SEPTEMBER 30, 1994**

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**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
GENERAL-PURPOSE FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 1994**

**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, 1994, and for the year then ended. These general-purpose financial statements are the responsibility of the management of Yap State. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the Yap Community Action Program, a Component Unit - Governmental Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Yap Community Action Program, is based solely on the report of the other auditors.

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

The Yap Fishing Authority, a Component Unit-Proprietary Fund, has not been able to provide original cost data to support the carrying value of contributed fixed assets. Additionally, the Yap Fishing Authority holds an investment in a corporation which is recorded at \$2,211,214. The investment should be recorded on the equity basis but audited financial statements have not been obtained from the investee. The impact of this matter on the accompanying general-purpose financial statements is indeterminable.



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

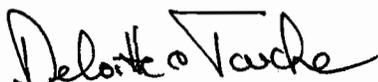
The general-purpose financial statements referred to above do not include the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council, Discretely Presented Component Units-Proprietary Funds, which, in our opinion, should be included to conform with generally accepted accounting principles. The entities comprising these omitted fund types were not able to produce financial statements; however, in fiscal year 1993, the combined water authorities represented 3.5%, 1.1%, 1.3%, and 1.0% of the Component Units-Proprietary Funds assets, liabilities, revenues, and expenses, respectively.

Yap State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1994, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general-purpose financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general-purpose financial statements.

In our opinion, based on our audit and the report of other auditors, except for the effects on the general-purpose financial statements of such adjustments, if any, as might have been determined to be necessary had; 1) original cost data been available to support the carrying value of contributed fixed assets and data been available to account for an investee on the equity method 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 Component Unit - Enterprise Fund as well as financial statements for the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council, Component Units - Proprietary Funds; and 3) the General Fixed Assets Account Group been updated, the accompanying general-purpose financial statements, as set forth in Section II of the table of contents, with the exception of the 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, 1994, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 9, 1995 on our consideration of the State of Yap's (Primary Government and Yap Fishing Authority) internal control structure and a report dated March 9, 1995 on its compliance with laws and regulations.

As further explained in Note 17, an investee of the Yap Economic Development Authority has been placed in receivership as of February 25, 1995, and is not in compliance with various debt covenants. The impact of this matter on the accompanying general-purpose financial statements is currently not determinable. Accordingly, no provision for any liability that may result upon resolution of this matter has been recorded in the accompanying general-purpose financial statements.

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

March 9, 1995

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units**  
**September 30, 1994**  
**(With comparative totals as of September 30, 1993)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	Component Units		Totals	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Fund Type	Fixed Assets	General Long-Term Debt	Primary Government (Memorandum Only)	Yap Fishing Authority	Yap Community Action Program	Reporting Entity (Memorandum Only)	
						Expendable Trust						1994	1993
<b>Assets</b>													
Cash and equivalents (Notes 1E & 3)	\$ 2,479,784	\$ -	\$ -	\$ 19,045	\$ -	\$ 191,081	\$ -	\$ -	\$ 2,689,910	\$ 225,982	\$ 144,755	\$ 3,060,647	\$ 5,192,676
Investments (Notes 1F & 4)	62,976,142	1,246,793	30	8,500,000	-	-	-	-	72,722,965	2,211,214	-	74,934,179	72,670,492
Receivables, net (Notes 1G & 5):													
Other governments	-	20,074	-	-	-	-	-	-	20,074	-	48,576	68,650	14,471
Federal agencies	-	-	45,966	-	-	-	-	-	45,966	-	110,794	156,760	79,550
Dept. of the Interior – TTPI	-	-	722,721	-	-	-	-	-	722,721	-	-	722,721	1,350,335
Federal & other – FSM government	439,951	1,278,952	152,664	-	-	-	-	-	1,871,567	-	-	1,871,567	2,898,211
General	220,644	-	-	25	8,730	-	-	-	229,399	316,298	-	545,697	495,500
Loans	7,374,747	-	8,500,000	2,000,000	-	-	-	-	17,874,747	-	-	17,874,747	9,400,000
Accrued interest on investments	319,250	-	-	-	-	-	-	-	319,250	-	-	319,250	319,250
Due from other funds (Note 1H & 9)	-	1,451,307	6,633,990	50,000	178,830	14,083	-	-	8,328,210	-	-	8,328,210	4,511,008
Advances and prepayments (Notes 1I & 5)	215,165	35,473	2,294	-	-	-	-	-	252,932	8,427	8,723	270,082	284,479
Restricted assets	-	-	-	-	-	-	-	-	-	-	1,308,023	1,308,023	3,797
Inventory of supplies, at cost (Notes 1J & 6)	274,700	-	-	11,948	65,751	-	-	-	352,399	70,862	-	423,261	508,261
Fixed assets, net (Notes 1K & 7)	-	-	-	361,235	-	-	64,620,758	-	64,981,993	4,219,705	428,986	69,630,684	68,730,577
Amount to be provided for retirement of long-term debt (Note 8)	-	-	-	-	-	-	-	52,189,520	52,189,520	-	-	52,189,520	58,730,580
<b>Total assets</b>	<b>\$ 74,300,383</b>	<b>\$ 4,032,599</b>	<b>\$ 16,057,665</b>	<b>\$ 10,942,253</b>	<b>\$ 253,311</b>	<b>\$ 205,164</b>	<b>\$ 64,620,758</b>	<b>\$ 52,189,520</b>	<b>\$ 222,601,653</b>	<b>\$ 7,052,488</b>	<b>\$ 2,049,857</b>	<b>\$ 231,703,998</b>	<b>\$ 225,189,187</b>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**  
**Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units**  
**September 30, 1994**  
(With comparative totals as of September 30, 1993)

	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 Community Action Program	Reporting Entity (Memorandum Only)	
							Fixed Assets	Long-Term Debt				1994	1993
<b>Liabilities and Fund Equity</b>													
<b>Liabilities:</b>													
Accounts payable	\$ 400,115	\$ 470,622	\$ 182,278	\$ 963	\$ 11,083	\$ 95	\$ -	\$ -	\$ 1,065,156	\$ 36,607	\$ 52,539	\$ 1,154,302	\$ 716,784
Accrued payroll and others	417,258	-	-	1,410	-	-	-	489,520	908,188	24,817	19,576	952,581	709,376
Intergovernmental loan payable	-	-	-	2,000,000	-	-	-	-	2,000,000	-	-	2,000,000	1,300,000
Due to other funds (Notes 1H & 9)	6,453,515	945,395	921,365	-	-	-	-	-	8,320,275	-	-	8,320,275	4,993,191
Due to grantor	-	18,388	-	-	-	-	-	-	18,388	-	97,552	115,940	-
Deferred revenues	-	103,724	-	-	-	-	-	-	103,724	4,600	127,743	236,067	54,415
Notes payable (Notes 5C, 8 and 13)	-	-	-	6,500,000	-	-	-	51,700,000	58,200,000	-	-	58,200,000	58,300,000
Land acquisition claims payable	7,894	-	-	-	-	-	-	-	7,894	-	-	7,894	21,457
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	33,329
<b>Total liabilities</b>	<b>7,278,782</b>	<b>1,538,129</b>	<b>1,103,643</b>	<b>8,502,373</b>	<b>11,083</b>	<b>95</b>	<b>-</b>	<b>52,189,520</b>	<b>70,623,625</b>	<b>66,024</b>	<b>297,410</b>	<b>70,987,059</b>	<b>66,128,552</b>
Contingent liabilities and commitments (Notes 12 and 13)													
Fund equity (Note 1N):													
Contributed capital	-	-	-	7,270,398	-	-	-	-	7,270,398	6,737,619	-	14,008,017	5,860,006
Investment in general fixed assets	-	-	-	-	-	-	64,620,758	-	64,620,758	-	-	64,620,758	64,620,758
Retained earnings (deficit):													
Unreserved	-	-	-	(4,830,518)	174,120	-	-	-	(4,656,398)	248,845	-	(4,407,553)	187,797
Fund balances:													
Reserved for:													
Related assets	53,665,151	-	-	-	65,751	-	-	-	53,730,902	-	-	53,730,902	59,487,988
Loans	7,374,747	-	8,500,000	-	-	-	-	-	15,874,747	-	1,457,331	17,332,078	9,400,000
Encumbrances	624,243	1,152,768	1,055,714	-	2,357	4,489	-	-	2,839,571	-	-	2,839,571	1,544,170
Continuing appropriations (Note 14)	872,209	-	4,214,249	-	-	-	-	-	5,086,458	-	-	5,086,458	4,564,305
Unreserved	4,485,251	1,341,702	1,184,059	-	-	200,580	-	-	7,211,592	-	295,116	7,506,708	13,395,611
<b>Total fund equity</b>	<b>67,021,601</b>	<b>2,494,470</b>	<b>14,954,022</b>	<b>2,439,880</b>	<b>242,228</b>	<b>205,069</b>	<b>64,620,758</b>	<b>-</b>	<b>151,978,028</b>	<b>6,986,464</b>	<b>1,752,447</b>	<b>160,716,939</b>	<b>159,060,635</b>
<b>Total liabilities and fund equity</b>	<b>\$ 74,300,383</b>	<b>\$ 4,032,599</b>	<b>\$ 16,057,665</b>	<b>\$ 10,942,253</b>	<b>\$ 253,311</b>	<b>\$ 205,164</b>	<b>\$ 64,620,758</b>	<b>\$ 52,189,520</b>	<b>\$ 222,601,653</b>	<b>\$ 7,052,488</b>	<b>\$ 2,049,857</b>	<b>\$ 231,703,998</b>	<b>\$ 225,189,187</b>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Fund Types, Expendable Trust Fund and Discretely Presented Component Unit**  
**Year Ended September 30, 1994**  
**(With comparative totals for the year ended September 30, 1993)**

	Governmental Fund Types			Fiduciary	Totals	Component	Totals	
	General	Special Revenue	Capital Projects	Fund Type	Primary	Unit	Reporting	
				Expendable Trust	(Memorandum Only)	Yap Community Action Program	Entity (Memorandum Only)	
							1994	1993
<b>Revenues:</b>								
Compact of Free Association	\$ 7,056,115	\$ 2,850,293	\$ 4,341,773	\$ -	\$ 14,248,181	\$ -	\$ 14,248,181	\$ 14,145,041
Taxes and licenses	1,776,743	-	-	20,000	1,796,743	-	1,796,743	1,429,834
Federal contributions	-	795,825	4,907	-	800,732	998,757	1,799,489	538,797
Dept. of the Interior-TIPI	-	-	85,611	-	85,611	-	85,611	478,431
CFSM grants	-	913,043	146,271	-	1,059,314	61,978	1,121,292	1,729,770
Revenue sharing (FSM)	1,724,687	-	-	-	1,724,687	-	1,724,687	1,494,080
Interest income	110,373	-	-	5,944	116,317	58,664	174,981	481,982
Other	1,403,649	158,193	904	1,545	1,564,291	87,322	1,651,613	1,811,536
<b>Total revenues</b>	<b>12,071,567</b>	<b>4,717,354</b>	<b>4,579,466</b>	<b>27,489</b>	<b>21,395,876</b>	<b>1,206,721</b>	<b>22,602,597</b>	<b>22,109,471</b>
<b>Expenditures:</b>								
General government	1,524,121	-	-	-	1,524,121	-	1,524,121	1,446,320
Health services	1,500,878	486,567	-	-	1,987,445	-	1,987,445	1,815,773
Education	1,664,231	1,871,482	-	13,129	3,548,842	-	3,548,842	2,794,112
Economic development	687,207	105,556	626,849	-	1,419,612	-	1,419,612	2,075,989
Public safety	583,069	143,934	-	-	727,003	-	727,003	614,286
Public works and utilities	1,701,217	908,496	2,566,892	-	5,176,605	-	5,176,605	5,138,551
Community affairs	491,834	213,520	139,838	3,524	848,716	1,082,948	1,931,664	734,418
Boards and commissions	291,646	-	-	-	291,646	-	291,646	281,808
Transportation	1,666,760	-	-	-	1,666,760	-	1,666,760	995,538
Other	418,949	94,424	72,574	-	585,947	-	585,947	488,919
<b>Total expenditures</b>	<b>10,529,912</b>	<b>3,823,979</b>	<b>3,406,153</b>	<b>16,653</b>	<b>17,776,697</b>	<b>1,082,948</b>	<b>18,859,645</b>	<b>16,385,714</b>
<b>Excess of revenues over expenditures</b>	<b>1,541,655</b>	<b>893,375</b>	<b>1,173,313</b>	<b>10,836</b>	<b>3,619,179</b>	<b>123,773</b>	<b>3,742,952</b>	<b>5,723,757</b>
<b>Other financing sources (uses):</b>								
Investment income (Note 4)	4,531,819	-	-	-	4,531,819	-	4,531,819	3,134,545
Operating transfers in (Note 10)	-	1,067,461	8,073,248	-	9,140,709	150,002	9,290,711	6,849,499
Payments of notes payable and interest (Note 8)	(6,488,724)	(1,067,461)	(4,010,110)	-	(11,566,295)	-	(11,566,295)	(11,330,295)
Operating transfers out (Note 10)	(9,218,499)	-	-	-	(9,218,499)	-	(9,218,499)	(11,395,174)
Residual equity transfers	17,945	(2,071)	(15,874)	-	-	-	-	-
<b>Total other financing sources (uses), net</b>	<b>(11,157,459)</b>	<b>(2,071)</b>	<b>4,047,264</b>	<b>-</b>	<b>(7,112,266)</b>	<b>150,002</b>	<b>(6,962,264)</b>	<b>(12,741,425)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses</b>	<b>(9,615,804)</b>	<b>891,304</b>	<b>5,220,577</b>	<b>10,836</b>	<b>(3,493,087)</b>	<b>273,775</b>	<b>(3,219,312)</b>	<b>(7,017,668)</b>
<b>Fund balances, beginning of year</b>	<b>76,637,405</b>	<b>1,603,166</b>	<b>9,733,445</b>	<b>194,233</b>	<b>88,168,249</b>	<b>1,478,672</b>	<b>89,646,921</b>	<b>95,185,917</b>
<b>Fund balances, end of year</b>	<b>\$ 67,021,601</b>	<b>\$ 2,494,470</b>	<b>\$ 14,954,022</b>	<b>\$ 205,069</b>	<b>\$ 84,675,162</b>	<b>\$ 1,752,447</b>	<b>\$ 86,427,609</b>	<b>\$ 88,168,249</b>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**Statement of Revenues, Expenditures and Changes in Fund Balance –**  
**Budget and Actual – General Fund**  
**Year Ended September 30, 1994**  
(With comparative totals for the year ended September 30, 1993)

	1994 General Fund			1993 General Fund		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Current account compact funds	\$ 7,056,115	\$ 7,056,115	\$ –	\$ 6,762,110	\$ 6,909,113	\$ 147,003
FSM revenue sharing	1,263,250	1,724,687	461,437	865,300	1,494,080	628,780
Taxes and licenses	1,586,310	1,776,743	190,433	1,180,010	1,429,834	249,824
Interest income	550,000	110,373	(439,627)	768,300	476,219	(292,081)
Other	1,578,100	1,403,649	(174,451)	1,436,500	1,726,671	290,171
<b>Total revenues</b>	<b>12,033,775</b>	<b>12,071,567</b>	<b>37,792</b>	<b>11,012,220</b>	<b>12,035,917</b>	<b>1,023,697</b>
<b>Expenditures budgetary basis:</b>						
General government	1,582,780	1,504,078	78,702	1,716,850	1,447,448	269,402
Health services	1,549,625	1,498,444	51,181	1,481,312	1,293,980	187,332
Education	1,791,205	1,680,775	110,430	1,686,520	1,635,221	51,299
Economic development	771,650	696,160	75,490	733,140	663,469	69,671
Public safety	640,000	598,292	41,708	512,390	496,211	16,179
Public works and utilities	1,724,330	1,684,495	39,835	1,643,784	1,641,512	2,272
Transportation	1,807,690	1,824,087	(16,397)	1,163,310	992,106	171,204
Community affairs	945,374	496,888	448,486	556,690	507,423	49,267
Boards and commissions	327,170	303,664	23,506	286,110	265,801	20,309
Other	251,440	418,328	(166,888)	230,480	312,064	(81,584)
<b>Total expenditures</b>	<b>11,391,264</b>	<b>10,705,211</b>	<b>686,053</b>	<b>10,010,586</b>	<b>9,255,235</b>	<b>755,351</b>
<b>Excess of revenues over expenditures</b>	<b>642,511</b>	<b>1,366,356</b>	<b>723,845</b>	<b>1,001,634</b>	<b>2,780,682</b>	<b>1,779,048</b>
<b>Other financing sources (uses):</b>						
Investment income	–	4,531,819	4,531,819	–	3,134,545	3,134,545
Payments of notes payable	(1,522,429)	(6,488,724)	(4,966,295)	(1,110,090)	(6,540,385)	(5,430,295)
Operating transfers out	(9,218,499)	(9,218,499)	–	(6,895,697)	(6,895,697)	–
Residual equity transfers	17,945	17,945	–	–	–	–
<b>Total other financing sources (uses), net</b>	<b>(10,722,983)</b>	<b>(11,157,459)</b>	<b>(434,476)</b>	<b>(8,005,787)</b>	<b>(10,301,537)</b>	<b>(2,295,750)</b>
<b>Deficiency of revenues and other financing sources under expenditures and other financing uses</b>	<b>(10,080,472)</b>	<b>(9,791,103)</b>	<b>289,369</b>	<b>(7,004,153)</b>	<b>(7,520,855)</b>	<b>(516,702)</b>
<b>Fund balance, unreserved, beginning of year</b>	<b>9,659,575</b>	<b>9,659,575</b>	<b>–</b>	<b>6,296,509</b>	<b>6,296,509</b>	<b>–</b>
<b>Other changes in unreserved fund balance:</b>						
Related assets	–	5,190,798	5,190,798	–	5,811,087	5,811,087
Loans	–	25,253	25,253	–	5,057,384	5,057,384
Investment diminution	–	–	–	–	271	271
Continuing appropriations	–	(599,272)	(599,272)	–	15,179	15,179
<b>Fund balance, unreserved, end of year</b>	<b>\$ (420,897)</b>	<b>\$ 4,485,251</b>	<b>\$ 4,906,148</b>	<b>\$ (707,644)</b>	<b>\$ 9,659,575</b>	<b>\$ 10,367,219</b>

See accompanying notes to financial statements

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**Combined Statement of Revenues, Expenses and Changes in Fund Equity –**  
**All Proprietary Fund Types and Discretely Presented Component Unit**  
**Year Ended September 30, 1994**  
(With Comparative Totals for the Year Ended September 30, 1993)

	Proprietary Fund Types		Totals	Component	Totals	
	Enterprise	Internal Service	Primary	Unit	Reporting	
			Government (Memorandum Only)	Yap Fishing Authority	Entity (Memorandum Only)	
					1994	1993
<b>Operating revenues:</b>						
Rental income	\$ –	\$ 20,300	\$ 20,300	\$ 530,509	\$ 550,809	\$ 820,879
Charges for goods and services	62,971	18,565	81,536	260,596	342,132	1,287,732
Stock issues	–	21,976	21,976	–	21,976	31,509
Other	50,000	–	50,000	66,673	116,673	13,738
<b>Total revenues</b>	<b>112,971</b>	<b>60,841</b>	<b>173,812</b>	<b>857,778</b>	<b>1,031,590</b>	<b>2,153,858</b>
<b>Operating expenses:</b>						
Personnel services	54,743	2,069	56,812	288,276	345,088	368,314
Supplies and materials	38,652	71,166	109,818	151,334	261,152	1,004,455
Printing and reproduction	–	390	390	–	390	–
Contractual services/commissions	4,896	420	5,316	131,848	137,164	263,220
Capital acquisitions	–	13,454	13,454	–	13,454	25,147
Depreciation	34,871	–	34,871	371,952	406,823	466,454
Other	4,653,185	6,187	4,659,372	205,222	4,864,594	430,362
<b>Total operating expenses</b>	<b>4,786,347</b>	<b>93,686</b>	<b>4,880,033</b>	<b>1,148,632</b>	<b>6,028,665</b>	<b>2,557,952</b>
<b>Operating loss</b>	<b>(4,673,376)</b>	<b>(32,845)</b>	<b>(4,706,221)</b>	<b>(290,854)</b>	<b>(4,997,075)</b>	<b>(404,094)</b>
<b>Nonoperating revenues:</b>						
Intergovernmental contributions:						
General Fund (Note 10)	77,790	–	77,790	–	77,790	69,960
<b>Total nonoperating revenues</b>	<b>77,790</b>	<b>–</b>	<b>77,790</b>	<b>–</b>	<b>77,790</b>	<b>69,960</b>
<b>Net loss</b>	<b>(4,595,586)</b>	<b>(32,845)</b>	<b>(4,628,431)</b>	<b>(290,854)</b>	<b>(4,919,285)</b>	<b>(334,134)</b>
<b>Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>235,083</b>	<b>235,083</b>	<b>236,350</b>
<b>Decrease in retained earnings</b>	<b>(4,595,586)</b>	<b>(32,845)</b>	<b>(4,628,431)</b>	<b>(55,771)</b>	<b>(4,684,202)</b>	<b>(97,784)</b>
<b>Retained earnings (deficit), beginning of year</b>	<b>(234,932)</b>	<b>275,073</b>	<b>40,141</b>	<b>304,616</b>	<b>344,757</b>	<b>509,406</b>
<b>Retained earnings (deficit), end of year</b>	<b>(4,830,518)</b>	<b>242,228</b>	<b>(4,588,290)</b>	<b>248,845</b>	<b>(4,339,445)</b>	<b>411,622</b>
<b>Contributed capital, beginning of year</b>	<b>7,115,116</b>	<b>–</b>	<b>7,115,116</b>	<b>5,172,702</b>	<b>12,287,818</b>	<b>5,275,975</b>
<b>Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>	<b>155,282</b>	<b>–</b>	<b>155,282</b>	<b>1,564,917</b>	<b>1,720,199</b>	<b>584,031</b>
<b>Contributed capital, end of year</b>	<b>7,270,398</b>	<b>–</b>	<b>7,270,398</b>	<b>6,737,619</b>	<b>14,008,017</b>	<b>5,860,006</b>
<b>Fund equity, end of year</b>	<b>\$ 2,439,880</b>	<b>\$ 242,228</b>	<b>\$ 2,682,108</b>	<b>\$ 6,986,464</b>	<b>\$ 9,668,572</b>	<b>\$ 6,271,628</b>

See accompanying notes to financial statements.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
 Combined Statement of Cash Flows  
 All Proprietary Fund Types and Discretely Presented Component Unit  
 Year Ended September 30, 1994  
 (With Comparative Totals for the Year Ended September 30, 1993)

	Proprietary Fund Types		Totals	Component	Totals	
	Enterprise	Internal Service	Primary	Unit	Reporting	
			Government	Yap	Entity	
			(Memorandum	Fishing	(Memorandum Only)	
			Only)	Authority	1994	1993
<b>Cash flows from operating activities:</b>						
Operating loss	\$ (4,673,376)	\$ (32,845)	\$ (4,706,221)	\$ (290,854)	\$ (4,997,075)	\$ (97,784)
Adjustments to reconcile operating loss to net cash provided by operating activities:						
Transfers in	-	-	-	-	-	(69,960)
Bad debts	4,588,387	-	4,588,387	86,137	4,674,524	261,345
Depreciation	34,871	-	34,871	371,952	406,823	230,104
	<u>(50,118)</u>	<u>(32,845)</u>	<u>(82,963)</u>	<u>167,235</u>	<u>84,272</u>	<u>323,705</u>
<b>Change in assets and liabilities:</b>						
General receivables	(25)	(843)	(868)	(153,384)	(154,252)	275,801
Due from other funds	(50,000)	34,711	(15,289)	-	(15,289)	(170,751)
Inventory of supplies, at cost	36,703	(5,493)	31,210	(20,016)	11,194	159,734
Prepayments	1,398	-	1,398	(6,028)	(4,630)	9,908
Advances	155,381	-	155,381	-	155,381	(155,381)
Accounts payable	942	4,688	5,630	(16,974)	(11,344)	29,309
Accrued payroll and others	(80)	(218)	(298)	(6,833)	(7,131)	(25,877)
Deferred revenue	-	-	-	4,600	4,600	65
	<u>144,319</u>	<u>32,845</u>	<u>177,164</u>	<u>(198,635)</u>	<u>(21,471)</u>	<u>122,808</u>
<b>Net cash provided by (used for) operating activities</b>	<u>94,201</u>	<u>-</u>	<u>94,201</u>	<u>(31,400)</u>	<u>62,801</u>	<u>446,513</u>
<b>Cash flows from noncapital financing activities:</b>						
Operating transfers in	77,790	-	77,790	-	77,790	890,341
<b>Net cash provided by noncapital financing activities</b>	<u>77,790</u>	<u>-</u>	<u>77,790</u>	<u>-</u>	<u>77,790</u>	<u>890,341</u>
<b>Cash flows from capital and related financing activities:</b>						
Contributed capital	155,282	-	155,282	-	155,282	-
Acquisition of fixed assets	(312,496)	-	(312,496)	(63,936)	(376,432)	(159,283)
<b>Net cash used for capital and related financing activities</b>	<u>(157,214)</u>	<u>-</u>	<u>(157,214)</u>	<u>(63,936)</u>	<u>(221,150)</u>	<u>(159,283)</u>
<b>Cash flows from investing activities:</b>						
Contributed capital	-	-	-	1,800,000	1,800,000	-
Acquisition of investment	-	-	-	(2,426,740)	(2,426,740)	(411,511)
<b>Net cash used for investing activities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(626,740)</u>	<u>(626,740)</u>	<u>(411,511)</u>
<b>Net increase (decrease) in cash and equivalents</b>	<u>14,777</u>	<u>-</u>	<u>14,777</u>	<u>(722,076)</u>	<u>(707,299)</u>	<u>766,060</u>
Cash and equivalents, beginning of year	4,268	-	4,268	948,058	952,326	257,528
Cash and equivalents, end of year	<u>\$ 19,045</u>	<u>\$ -</u>	<u>\$ 19,045</u>	<u>\$ 225,982</u>	<u>\$ 245,027</u>	<u>\$ 1,023,588</u>

**Supplemental Schedule of noncash transactions:**

Yap Economic Development Authority (YEDA) transferred to the Yap Investment Trust (YIT) sole membership in Yap Purse Seiner Owner, Inc. with a related non-interest bearing note payable to the State of Yap

\$ 6,500,000

YEDA transferred to YIT shares of stock in the Pacific Islands Development Bank and Bank of the FSM

\$ 892,957

See accompanying notes to financial statements.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements  
September 30, 1994

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

1. Blended Component Units

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

b) The Yap Economic Development Authority (YEDA) is responsible to promote and support economic development in the State of Yap. YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 and is governed by a eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YEDA is reported as an enterprise fund as it is designed to hold various Yap State investments in for-profit making activities.

1. Blended Component Units, Continued

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

2. Discretely Presented Component Units

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

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Omitted Component Units

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

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.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting, Continued

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 group types. 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, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation

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

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

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

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

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

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

D. Budgets

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

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

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

D. Budgets, Continued

a non-GAAP budgetary basis) are reconciled to unreserved fund balance of the Combined Balance Sheet within the other charges in unreserved fund balance section of that statement.

E. Cash and Equivalents

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

F. Investments

Investments are generally recorded at the lower of cost or market. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent, and on a consolidated basis if greater than fifty percent. (See Note 4)

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.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

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.

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).



STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Significant Accounting Policies, Continued

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 1N). 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, 1994 is \$489,520. No expenditure is reported for these amounts. Vested accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of FASB Statement No. 43 - Accounting for Compensated Absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated amount of unused sick leave at September 30, 1994, for all governmental funds, is estimated to be \$1,346,691.

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, Continued  
September 30, 1994

(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)	\$51,700,000
Advances	125,306
Inventory of supplies	274,700
Prepayments	89,859
Restricted cash, held by Trustee, in support of MTN outstanding debt (See Note 8)	603,893
Market value of investment securities less than carrying value	<u>871,393</u>
	<u>\$53,665,151</u>

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

O. Interfund Transactions

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

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

STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
Notes to Financial Statements, Continued  
September 30, 1994

(1) Summary of Significant Accounting Policies, Continued

P. Memorandum Only - Total Columns

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

Q. Comparative Data/Reclassification

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

(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.

STATE OF YAP  
 FEDERATED STATES OF MICRONESIA  
Notes to Financial Statements, Continued  
September 30, 1994

(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, 1994, the State had deposits as follows:

	Cost
<b>General Fund:</b>	
Cash in checking and savings accounts with FDIC insured banks	\$2,478,936
Cash on hand	848
	<u>\$2,479,784</u>
 <b>Expendable Trust Fund:</b>	
Cash in savings accounts with a FDIC insured bank	\$ 191,081
 <b>Enterprise Funds:</b>	
Cash in a checking account with a FDIC insured bank	\$ 19,045
 <b>Discretely Presented Component Unit:</b>	
Cash on hand	\$ 305
Time certificate of deposit with bank which is a FDIC member	105,534
Cash in checking and savings accounts with a FDIC insured bank	120,143
	<u>\$ 225,982</u>

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

Included within restricted assets of the Yap Community Action Program (YapCap) are \$656,766 of certificates of deposit. This entity does not require collateralization of its accounts. As of September 30, 1994, \$200,000 is subject to FDIC insurance and \$843,432 is uncollateralized. Details of YapCap's individual cash accounts is not available.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(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.

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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 forgoing as collateral. The following restrictions apply:

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

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(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.

The State's investment at September 30, 1994, in this pooled investment fund was \$62,922,995. At September 30, 1994, the market value of the State's investment approximated \$62,051,602. These investments have been reported at cost (original acquisition price plus earnings registered from interest, dividends and realized trading gains, net of realized losses). The State also had \$1,300,00 in time certificates of deposit as of September 30, 1994 which had initial maturities of in excess of ninety days and which are accordingly classified as investments.

The State's investment income as of September 30, 1994, (with comparative totals as of September 30, 1993), is summarized below:

	<u>1994</u>	<u>1993</u>
Interest	\$2,141,889	\$2,617,443
Dividends	284,384	358,551
Realized gains	3,228,540	1,400,665
Realized losses	(588,208)	(576,007)
Management fees	(511,319)	(524,505)
Other expenses	<u>(23,467)</u>	<u>(141,602)</u>
	<u>\$4,531,819</u>	<u>\$3,134,545</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.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(4) Investments, Continued

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, 1994, the State holds 10.74% of the shares of the Bank of the Federated States of Micronesia, carried at cost, in the amount of \$1,000,000 and 41.3% of the shares of the Pacific Islands Development Bank, also carried at cost, in the amount of \$1,000,000. \$1,107,043 of these investments are held by the Yap Economic Development Authority (YEDA) with the remaining \$892,957 held by the Yap Investment Trust (YIT) - Enterprise Funds. The market value of these shares is difficult to assess as they are not publicly traded so a market versus cost analysis could not be performed. This investment in stock has therefore been recorded at cost.

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

Also, the Yap Fishing Authority (YFA), a Discretely Presented Component Unit, has invested a total of \$2,211,214 as of September 30, 1994, 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, 1994, 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. Audited financial statements for YFTI, have not been prepared and therefore YFA's financial statements do not reflect their percentage share in YFTI's net income or loss.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(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, 1994 (with comparative totals as of September 30, 1993), is presented below:

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1994</u>	<u>1993</u>
<b>FSM Government:</b>				
FSM Revenue Sharing	\$ 439,951	\$ -	\$ 439,951	\$ 230,296
<b>General:</b>				
Utilities	\$ 664,992	\$ 593,052	\$ 71,940	\$ 69,266
Taxes	107,086	100,870	6,216	15,347
General	22,900	15,000	7,900	63,869
Leases	8,725	-	8,725	-
Reimbursable Airport operation	51,970	-	51,970	40,182
Deferred interest-YFC	50,894	-	50,894	-
WAAB Forklift	176,918	176,918	-	-
Other	220,000	220,000	-	-
	22,999	-	22,999	17,901
	<u>\$1,326,484</u>	<u>\$1,105,840</u>	<u>\$ 220,644</u>	<u>\$ 206,565</u>
<b>Advances:</b>				
Travel/ payroll	\$ 140,306	\$ 15,000	\$ 125,306	\$ 2,578
Purchases	89,859	-	89,859	-
	<u>\$ 230,165</u>	<u>\$ 15,000</u>	<u>\$ 215,165</u>	<u>\$ 2,578</u>
<b>Loans:</b>				
Yap Fishing Corporation	\$7,350,000	\$ -	\$7,350,000	\$7,400,000
Accrued interest-YFC	24,747	-	24,747	-
	<u>\$7,374,747</u>	<u>\$ -</u>	<u>\$7,374,747</u>	<u>\$7,400,000</u>

Additionally, see Note 5C relative to a \$2,000,000 loan recorded by the enterprise funds.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(5) Receivables, Advances and Loans, Continued

A. General Fund, Continued

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

Yap State Government also appropriated \$1,000,000 as a revolving line of credit under Yap State Law No. 3-8 for the use of YFC. In a subsequent agreement dated August 21, 1992, the terms of the original line of credit agreement were changed to an interest rate of 6% and a termination date of September 30, 2004. As of September 30, 1994, \$950,000 (\$1,000,000 at September 30, 1993) had been utilized by YFC.

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, 1994 follows (with comparative totals as of September 30, 1993).

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1994</u>	<u>1993</u>
Other governments	<u>\$ 24,074</u>	<u>\$ 4,000</u>	<u>\$ 20,074</u>	<u>\$ 14,471</u>
Federal agencies and CFM	<u>\$1,350,535</u>	<u>\$ 71,583</u>	<u>\$1,278,952</u>	<u>\$1,328,848</u>
Advances - travel/payroll	<u>\$ 56,473</u>	<u>\$ 21,000</u>	<u>\$ 35,473</u>	<u>\$ 113,925</u>

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 1994 (with comparative totals as of September 30, 1993).

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(5) Receivables, Advances and Loans, Continued

C. Capital Project Funds, Continued

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1994</u>	<u>1993</u>
Federal agencies	\$ 45,966	\$ -	\$ 45,966	\$ 79,550
Department of the Interior - TTPI	\$ 722,721	\$ -	\$ 722,721	\$1,350,335
CFSM Grants	\$ 162,664	\$ 10,000	\$ 152,664	\$1,339,067
Advances - travel	\$ 2,294	\$ -	\$ 2,294	\$ 12,595
Loan - YEDA	\$2,000,000	\$ -	\$2,000,000	\$2,000,000
Loan - YIT	\$6,500,000	\$ -	\$6,500,000	\$ -

The \$2,000,000 loan to the Yap Economic Development Authority (YEDA) was originally appropriated by the FSM Congress, FSM Public Law No. 7-39 and amended by FSM Public Law No. 7-83, to create the Yap State Public Projects Fund. As appropriated, the funds were loaned to YEDA which subsequently loaned the funds to YFC. The loan to YEDA is due on March 20, 2004 with no interest to be paid on the loan. The subsequent loan from YEDA to YFC is subordinated to OPIC (a U.S. Corporation) debt held by YFC. (Refer Note 13).

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

D. Enterprise Funds

A summary follows of receivables and the corresponding allowance for doubtful accounts for the Enterprise Funds as of September 30, 1994 (with comparative totals as of September 30, 1993):

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1994</u>	<u>1993</u>
General:				
Trade	\$ 12,697	\$ 12,672	\$ 25	\$ 31,997

STATE OF YAP  
 FEDERATED STATES OF MICRONESIA  
Notes to Financial Statements, Continued  
September 30, 1994

(5) Receivables, Advances and Loans, Continued

E. Discretely Presented Component Unit

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, 1994 (with comparative totals as of September 30, 1993)::

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1994</u>	<u>1993</u>
General:				
Trade	\$680,777	\$ 395,739	\$ 285,038	\$ 232,849
Employees	33,852	2,592	31,260	16,202
Other	<u>6,243</u>	<u>6,243</u>	<u>-</u>	<u>-</u>
	<u>\$720,872</u>	<u>\$ 404,574</u>	<u>\$ 316,298</u>	<u>\$ 249,051</u>

Included within restricted assets of the Yap Community Action Program are gross loans receivable of \$504,509 net of an allowance account of \$100,723 (\$403,786 net).

(6) Inventory of Supplies

The General Fund inventory consists of Condor S.S. Sulphonate oil received in 1987 and partially used in the construction of Yap State roads. In fiscal year 1992, the carry value was reduced by 50% to \$200,368 based on estimated market price. This balance remains as of September 30, 1994, and is expected to be used on the continuing road construction project. General Fund inventory also includes medical and pharmaceutical supplies of \$74,332 at September 30, 1994. The Internal Service Fund's inventory consists of general stores supplies of \$65,751.

STATE OF YAP  
 FEDERATED STATES OF MICRONESIA  
Notes to Financial Statements, Continued  
September 30, 1994

(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, 1994 (with comparative totals as of September 30, 1993), follows:

	Estimated Useful Life	<u>1994</u>	<u>1993</u>
Land	-	\$ 1,822,614	\$ 1,822,614
Infrastructure	20-50 years	41,645,543	41,645,543
Outer-island capital assets	5-10 years	1,804,550	1,804,550
All others - equipment, vehicles and machinery	5-10 years	<u>19,348,051</u>	<u>19,348,051</u>
		<u>\$64,620,758</u>	<u>\$64,620,758</u>

B. Enterprise Funds

A summary of fixed assets accounted for in the Enterprise Funds as of September 30, 1994 (with comparative totals as of September 30, 1993), follows:

	Estimated Useful Life	<u>1994</u>	<u>1993</u>
Buildings	25 years	\$ 56,690	\$ 56,690
Motor vehicles	4-7 years	721,162	410,501
Other equipment	2-12 years	<u>56,933</u>	<u>53,308</u>
		834,785	520,499
Less accumulated depreciation		<u>(473,550)</u>	<u>(436,889)</u>
		<u>\$ 361,235</u>	<u>\$ 83,610</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(7) Investment in Fixed Assets, Continued

C. Discretely Presented Component Unit

A summary of fixed assets accounted for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1994 (with comparative totals as of September 30, 1993), follows:

	Estimated <u>Useful Life</u>	<u>1994</u>	<u>1993</u>
Buildings	3-20 years	\$1,651,117	\$1,627,164
Dock	40 years	2,629,677	2,003,000
Fleet	3-10 years	1,135,827	1,135,827
Refrigeration and cold storage equipment	2-10 years	582,431	570,985
Motor vehicles	2-20 years	180,759	191,694
Other equipment	2-25 years	<u>121,734</u>	<u>161,595</u>
		6,301,545	5,690,265
Less accumulated depreciation		<u>(2,081,840)</u>	<u>(1,789,221)</u>
		<u>\$4,219,705</u>	<u>\$3,901,044</u>

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

	Estimated <u>Useful Life</u>	<u>1994</u>
Vehicles	2 - 8 years	\$ 152,788
Office furniture & equipment	2 - 10 years	96,528
Recreational equipment	2 - 5 years	8,763
Other	3 - 25 years	29,741
Building	25 years	<u>261,263</u>
Total fixed assets, at cost		549,083
Less: accumulated depreciation		<u>(120,097)</u>
Fixed asset, net		<u>\$ 428,986</u>

(8) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 1994 (with comparative totals for the year ended September 30, 1993), follow:

	<u>1994</u>	<u>1993</u>
Balance, beginning of year	\$58,730,580	\$64,676,236
Payments made on medium-term notes	(6,600,000)	(5,900,000)
Increase (decrease) in accrued annual leave	<u>58,940</u>	<u>(45,656)</u>
Balance, end of year	<u>\$52,189,520</u>	<u>\$58,730,580</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(8) Long-Term Debt, Continued

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

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

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1991. Management is of the opinion that it has complied with such covenants thru September 30, 1994. Interest paid on the bonds was \$4,966,295 in the fiscal year ended September 30, 1994 (\$5,430,295 in the fiscal year ended September 30, 1993).

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, 1994, there is no shortfall as the reserve of fund balance equals the outstanding principal of \$51,700,000. This amount (\$51,700,000) is included in the reserve for related assets of the General Fund.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(8) Long-Term Debt, Continued

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1995	\$ 7,200,000	\$ 4,413,600	\$11,613,600
1996	7,700,000	3,786,048	11,486,048
1997	6,100,000	3,160,211	9,260,211
1998	6,700,000	2,595,578	9,295,578
1999	7,300,000	1,969,153	9,269,153
Thereafter	<u>16,700,000</u>	<u>1,831,798</u>	<u>18,531,798</u>
Total	<u>\$51,700,000</u>	<u>\$17,756,388</u>	<u>\$69,456,388</u>

(9) Interfund Receivables and Payables

As of September 30, 1994, 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	\$6,453,515	\$ -
Special Revenue Funds:		
Compact Programs	-	1,300,177
Federal Grants	261,316	-
Other U.S. Grants	181,191	-
Non U.S. Grants	-	65,643
CFMSM Grants	494,960	-
Traditional Award	-	39,333
Feed Sales	-	46,154
Slaughter House	7,928	-
Capital Projects Funds:		
Compact Capital Projects	-	6,591,852
TTPI Capital Projects	722,853	-
CFMSM Capital Projects	152,657	-
Public Projects	-	42,138
Other U.S. Capital Projects	45,855	-
Enterprise Funds	-	50,000
Expendable Trust Fund	-	14,083
Internal Service Fund	-	<u>178,830</u>
	<u>\$8,320,275</u>	<u>\$8,328,210</u>

The reported interfund balances do not agree by \$7,935 due to the Slaughter House activity not being reflected in the Enterprise Fund due from other funds account.

STATE OF YAP  
 FEDERATED STATES OF MICRONESIA  
Notes to Financial Statements, Continued  
September 30, 1994

(10) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 1994, are as follows:

	Transfer Out	Transfer In
Transfer to Enterprise Funds:		
Public Transportation System	\$ 77,790	\$ -
Transfer to Special Revenue Funds:		
For bond payments	1,067,461	-
Transfer to Capital Projects Funds:		
For bond payments	4,010,110	-
For investment in fishing vessel	4,000,000	-
For appropriated capital projects	63,138	-
	<u>\$9,218,499</u>	<u>\$ -</u>

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 1994, are as follows:

	Transfer Out	Transfer In
Transfers from General Fund:		
For bond payments	\$ -	\$1,067,461

C. Capital Projects Funds

Material Capital Projects Funds transfers in/out for the year ended September 30, 1994, are as follows:

	Transfer Out	Transfer In
Transfers from General Fund:		
For bond payments	\$ -	\$4,010,110
For investment in fishing vessel	-	4,000,000
For appropriation of capital projects	-	63,138
	<u>\$ -</u>	<u>\$8,073,248</u>



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(10) Transfers In/Out, Continued

D. Enterprise Funds

Material Enterprise Funds transfers in/out for the year ended September 30, 1994, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Subsidy for operations	<u>\$ -</u>	<u>\$ 77,790</u>

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

(11) Segment Information - Enterprise Funds

The following presents key data extracted from the financial statements of the Enterprise Funds of the State of Yap as of September 30, 1994, and for the year then ended.

	<u>Public Trans- portation System</u>	<u>Yap Economic Development Authority</u>	<u>Yap Investment Trust</u>
Operating revenues	<u>\$ 62,971</u>	<u>\$ 50,000</u>	<u>\$ -</u>
Depreciation expense	<u>\$ 34,871</u>	<u>\$ -</u>	<u>\$ -</u>
Operating loss	<u>\$ (147,661)</u>	<u>\$(4,525,715)</u>	<u>\$ -</u>
Operating transfer-in	<u>\$ 77,790</u>	<u>\$ -</u>	<u>\$ -</u>
Net loss	<u>\$ (69,871)</u>	<u>\$(4,525,715)</u>	<u>\$ -</u>
Capital contributions	<u>\$ 155,282</u>	<u>\$ (892,957)</u>	<u>\$ 892,957</u>
Fixed assets additions	<u>\$ 312,496</u>	<u>\$ -</u>	<u>\$ -</u>
Total assets	<u>\$ 392,253</u>	<u>\$ 3,157,043</u>	<u>\$ 7,392,957</u>
Total equity	<u>\$ 389,880</u>	<u>\$ 1,157,043</u>	<u>\$ 892,957</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(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, \$216,280 in cumulative questioned costs exist for the operation of fiscal year 1984-94 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, 1994, 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.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
Notes to Financial Statements, Continued  
September 30, 1994

(12) Contingent Liabilities, Continued

Indefinite Land Use Sites

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

Medical Referrals

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

Yap Economic Development Authority

As further explained in Note 15, the State of Yap may be required to fund advances required of the Yap Economic Development Authority.

Yap Community Action Program (YapCap)

AS of September 30, 1994, questioned costs in the amount of \$99,274 exist (US federal related of \$68,925 and local and other of \$30,349). The entity separately satisfies its OMB Circular A-133 requirements. However, the State of Yap may be ultimately liable for a portion of these costs if resolution with YapCap does not occur.

(13) Commitments

The State of Yap appropriated \$1,000,000 as a revolving line of credit to be used by the Yap Fishing Corp. (YFC). As of September 30, 1994, \$950,000 was outstanding against this line and the remainder is reserved for as a continuing appropriation (See Note 14). The line bears interest at 6% and expires on September 30, 2004 (See Note 5A).

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(14) Continuing Appropriations

Continuing appropriations as of September 30, 1994, are as follows:

General Fund

Line of Credit for Yap Fishing Corporation	\$ 50,000
Corporate and Foundation Matching Funds	100,000
"Welcome to Yap" Booklet	38,000
Typhoon Robin Rehabilitation	32,548
State General Election	3,630
Yap-CAP Housing Loan Program	250,000
Copra Subsidy	44,739
Population and Housing Census	64,000
COM-FSM, Yap Campus	12,045
HPO Multi-Year Master Plan	11,527
Yap Sports Council	100,000
Chool/Waloy Power Extension	16,480
Yap Fishing Authority	<u>149,240</u>
	<u>\$ 872,209</u>

Capital Projects Funds:

Malay A, B, & C Wells Project	\$ 106,680
Lebinaw, Riken, Gachpar Water Line Ext. Proj.	189,750
Power Plant Generators	1,500,000
Colonia Water Treatment Plant Upgrade	50,000
Daboch Community Center	100,827
St. Mary's Classroom Building	50,000
Small Business Centers	145,310
Manpower Development Program	67,235
Daboch Water Extension Project	194,881
New Water Wells Development	68,763
Hospital Roof Repair	19,853
Muyub Bridge - Construction	1,778
Bileeyuw/Tagareng Water System	30,969
Outer Islands Agriculture Development	149
Power System Improvement	28,535
Outer Island High School Library Building	44,806
Maap School Centralization Project	78,313
North Fanif Elementary School Building	9,444
Dalipebinaw Elementary School Building	29,047
Yap State Public Library Building	50,000
Ganelay Middle School Building	23,194
Piig Dispensary	15,000
Magachgil Land Conservation Project	33,480
Power System Development: Madlay, Doomchuy, Okaw	126,230
Radio and WAAB TV Building Project	280,337

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(14) Continuing Appropriations, Continued

Capital Projects Funds, Continued:

IADP, Woleai Sanitation Project	1,081
Roads Development - Phase V & VI	193,201
Roads Development - Phase VII	330,359
Project Feasibility Study Program	35,375
Manpower Training and Development Survey	20,000
Sewer Treatment/Sludge Dry Beds	105,823
Vegetable and Nutrition Program	37,613
Community Center Renovation	106,116
Outer Islands Airfields Project	<u>140,000</u>

\$4,214,249

(15) Yap Economic Development Authority

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

As in the prior year, an audit of the YFC financial statements has not been finalized. YFC is not in compliance with certain debt covenants regarding their debt to OPIC and discussions and negotiations regarding this condition are on-going (See also Note 17). Therefore, YEDA's financial statements included within the State of Yap general-purpose financial statements do not include the consolidated financial statements of YFC.

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

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Notes to Financial Statements, Continued  
September 30, 1994

(16) Fund Deficit

The following funds have material fund deficits as of September 30, 1994:

Enterprise Funds:

Public Transportation System Fund \$ (304,803)

Yap Economic Development Authority Fund \$(4,525,715)

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

(17) Subsequent Events

On March 10, 1995, the Yap State Department of Public Utilities and Contracts entered into a contract with Deutz MWM Asia-Pacific (PTE) Ltd. to design, manufacture, transport to Yap, install, test, train personnel, and commission two generators and all associated equipment. The price of the contract is DM 7,835,800 (\$5,597,000 at March 10, 1995), with payments to be made in U.S. Dollars at the exchange rate on the day the payments are made.

Also, on February 25, 1995, the State Court of Yap ordered the Yap Fishing Corporation (YFC) into receivership. The effects of this matter on the Yap Economic Development Authority's (YEDA) investment in YFC and YEDA and the State of Yap's loans to YFC is unknown.



**INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION**

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

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in Section III of the foregoing table of contents, which are also the responsibility of the management of the State of Yap, are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the State of Yap. Such additional information has been subjected to the auditing procedures applied in our audit of the general-purpose financial statements and, except for the matters specified in our report dated March 9, 1995, in our opinion, is fairly stated in all material respects when considered in relation to the general-purpose financial statements taken as a whole.

*Deloitte + Touche*

March 9, 1995

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Combining Schedules of Expenditures by Account –  
All Governmental Fund Types  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	<u>Governmental Fund Types</u>			<u>Totals</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>1994</u>	<u>1993</u>
<b>Expenditures:</b>					
Salaries and wages	\$ 6,169,753	\$ 576,831	\$ 224,409	\$ 6,970,993	\$ 6,485,256
Travel	357,864	316,236	37,237	711,337	648,143
Freight	51,321	86,090	24,499	161,910	155,223
Communications	129,593	29,169	1,666	160,428	124,755
Printing and reproduction	59,367	10,597	13,253	83,217	51,691
Professional services	68,396	32,216	102,777	203,389	254,654
Food stuffs	205,796	76,348	12,664	294,808	208,203
Medical supplies	182,463	70,184	–	252,647	214,564
Supplies and materials	715,831	562,455	799,885	2,078,171	2,037,584
Medical referral	–	156,956	–	156,956	54,777
POL	621,801	790,407	11,428	1,423,636	1,349,099
Capital outlay	276,917	373,728	1,989,218	2,639,863	3,011,890
Contractual services	202,908	48,241	80,160	331,309	380,775
Rentals	9,298	37,561	13,101	59,960	184,070
Repairs and maintenance	837,526	41,411	16,888	895,825	189,428
Allowances	102,714	4,270	–	106,984	118,481
Grants and subsidies	65,988	20,000	–	85,988	132,653
Scholarships and training	86,130	339,943	2,766	428,839	311,410
Other	386,246	251,336	76,202	713,784	467,243
<b>Total expenditures</b>	<b><u>\$ 10,529,912</u></b>	<b><u>\$ 3,823,979</u></b>	<b><u>\$ 3,406,153</u></b>	<b><u>\$ 17,760,044</u></b>	<b><u>\$ 16,379,899</u></b>



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**GENERAL FUND**  
**September 30, 1994**

**General Fund**

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**GENERAL FUND**  
Statement of Revenues, Expenditures by Function and Changes in Fund Balance  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	<u>1994</u>	<u>1993</u>
<b>Revenues:</b>		
<b>Compact funds:</b>		
Current 211A base grant	\$ 4,900,080	\$ 4,900,080
Inflation adjustment 217	<u>2,156,035</u>	<u>2,009,033</u>
	<u>7,056,115</u>	<u>6,909,113</u>
<b>Revenue sharing:</b>		
Import tax	463,432	421,558
Fuel tax	119,019	167,570
Income tax	579,063	276,117
Business gross revenue tax	<u>563,173</u>	<u>628,835</u>
	<u>1,724,687</u>	<u>1,494,080</u>
<b>Excise taxes:</b>		
Alcoholic beverages	429,532	507,254
Gasoline and diesel	311,951	104,956
Tobacco	129,054	122,643
Other excise taxes	<u>400,575</u>	<u>317,162</u>
	<u>1,271,112</u>	<u>1,052,015</u>
<b>Licenses and permits</b>	135,600	118,331
<b>Fines/sale of confiscated property</b>	174,179	85,269
<b>Leases and other rentals</b>	<u>195,852</u>	<u>174,219</u>
	<u>505,631</u>	<u>377,819</u>
<b>Departmental charges:</b>		
Sea transportation	226,020	268,690
Hospital services	88,556	110,117
Utilities	947,235	1,182,244
Other	<u>85,282</u>	<u>112,593</u>
	<u>1,347,093</u>	<u>1,673,644</u>
<b>Interest income</b>	<u>110,373</u>	<u>476,219</u>
<b>Other income</b>	<u>56,556</u>	<u>53,027</u>
<b>Total revenues</b>	<u>12,071,567</u>	<u>12,035,917</u>

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

**Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued  
Year Ended September 30, 1994**

(With comparative totals for the year ended September 30, 1993)

	1994	1993
<b>Expenditures:</b>		
<b>General Government:</b>		
Office of the Governor	\$ 240,566	\$ 227,796
State Legislature	484,223	437,940
Office of Administrative Services	471,622	439,759
Office of Planing, Budget and Statistics	276,526	252,844
Division of Revenue and Taxation	34,740	73,687
Legislative projects	16,444	13,324
	1,524,121	1,445,350
<b>Health Services:</b>		
Department of Health Services	1,500,878	1,337,133
<b>Education:</b>		
Department of Education	1,638,688	1,612,591
Legislative projects	25,543	30,790
	1,664,231	1,643,381
<b>Economic Development:</b>		
Department of Resources and Development	672,255	769,283
Legislative projects	14,952	15,663
	687,207	784,946
<b>Public safety:</b>		
Department of Public Safety/Attorney General	583,069	497,046
<b>Public Works and Utilities:</b>		
PUC	1,701,217	1,532,556
<b>Transportation</b>	1,666,760	995,538
<b>Community Affairs:</b>		
Department of Public Affairs	230,821	224,451
Legislative projects	261,013	288,826
	491,834	513,277

**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, 1994  
(With comparative totals for the year ended September 30, 1993)**

	1994	1993
<b>Boards and Commissions:</b>		
Council of Pilung	102,615	77,870
Council of Tamol	88,129	109,205
Outer island planning	—	(4,000)
EPA administration board	100,902	98,733
	291,646	281,808
<b>Other:</b>		
Judiciary	168,953	170,473
Public Auditor	30,002	42,536
Legislative projects	4,464	—
Other	215,530	97,852
	418,949	310,861
<b>Total expenditures</b>	10,529,912	9,341,896
<b>Excess of revenues over expenditures</b>	1,541,655	2,694,021
<b>Other financing sources (uses):</b>		
Payments of notes payable	(6,488,724)	(6,540,385)
Operating transfers out	(9,218,499)	(6,895,697)
Investment income	4,531,819	3,134,545
Residual equity transfers	17,945	—
	(11,157,459)	(10,301,537)
<b>Deficiency of revenues and other financing sources     under expenditures and other financing uses</b>	(9,615,804)	(7,607,516)
<b>Fund balance, beginning of year</b>	76,637,405	84,244,921
<b>Fund balance, end of year</b>	\$ 67,021,601	\$ 76,637,405

**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, 1994  
(With comparative totals for the year ended September 30, 1993)**

	1994			1993		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Current account compact funds	\$ 7,056,115	\$ 7,056,115	\$ –	\$ 6,762,110	\$ 6,909,113	\$ 147,003
FSM revenue sharing	1,263,250	1,724,687	461,437	865,300	1,494,080	628,780
Taxes and licenses	1,586,310	1,776,743	190,433	1,180,010	1,429,834	249,824
Interest	550,000	110,373	(439,627)	768,300	476,219	(292,081)
Other	1,578,100	1,403,649	(174,451)	1,436,500	1,726,671	290,171
<b>Total revenues</b>	<b>12,033,775</b>	<b>12,071,567</b>	<b>37,792</b>	<b>11,012,220</b>	<b>12,035,917</b>	<b>1,023,697</b>
<b>Expenditures budgetary basis:</b>						
<b>General Government:</b>						
Office of the Governor	255,370	243,691	11,679	245,000	221,143	23,857
State legislature	494,100	474,841	19,259	532,500	441,648	90,852
Office of administrative services	509,970	457,833	52,137	463,420	440,343	23,077
Office of planning, budget and statistics	259,730	272,449	(12,719)	377,920	257,510	120,410
Division of revenue and taxation	40,510	38,700	1,810	90,570	73,480	17,090
Legislative projects	23,100	16,564	6,536	7,440	13,324	(5,884)
	1,582,780	1,504,078	78,702	1,716,850	1,447,448	269,402
<b>Health Services:</b>						
Department of health services	1,549,625	1,498,444	51,181	1,481,312	1,293,980	187,332
<b>Education:</b>						
Department of education	1,730,320	1,639,965	90,355	1,650,720	1,601,931	48,789
Legislative projects	60,885	40,810	20,075	35,800	33,290	2,510
	1,791,205	1,680,775	110,430	1,686,520	1,635,221	51,299
<b>Economic development:</b>						
Department of resources and development	710,670	681,208	29,462	723,140	651,952	71,188
Legislative projects	60,980	14,952	46,028	10,000	11,517	(1,517)
	771,650	696,160	75,490	733,140	663,469	69,671
<b>Public safety:</b>						
Department of public safety and attorney general	640,000	598,292	41,708	512,390	496,211	16,179
<b>Public works and utilities:</b>						
PUC	1,724,330	1,684,495	39,835	1,643,784	1,641,512	2,272
<b>Transportation</b>	<b>1,807,690</b>	<b>1,824,087</b>	<b>(16,397)</b>	<b>1,163,310</b>	<b>992,106</b>	<b>171,204</b>

**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, 1994  
(With comparative totals for the year ended September 30, 1993)**

	1994			1993		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Community affairs:</b>						
Department of public affairs	\$ 253,634	\$ 235,956	\$ 17,678	\$ 242,000	\$ 221,527	\$ 20,473
Legislative projects	691,740	260,932	430,808	314,690	285,896	28,794
	<u>945,374</u>	<u>496,888</u>	<u>448,486</u>	<u>556,690</u>	<u>507,423</u>	<u>49,267</u>
<b>Boards and commissions:</b>						
Council of Pilung	108,290	102,757	5,533	87,790	78,014	9,776
Council of Tamol	111,120	100,400	10,720	96,960	96,926	34
Outer island planning	–	–	–	–	(4,250)	4,250
EPA administration board	107,760	100,507	7,253	101,360	95,111	6,249
	<u>327,170</u>	<u>303,664</u>	<u>23,506</u>	<u>286,110</u>	<u>265,801</u>	<u>20,309</u>
<b>Other:</b>						
Judiciary	177,980	168,460	9,520	176,530	171,582	4,948
Public Auditor	57,460	29,874	27,586	53,950	42,630	11,320
Legislative projects	16,000	4,464	11,536	–	–	–
Other	–	215,530	(215,530)	–	97,852	(97,852)
	<u>251,440</u>	<u>418,328</u>	<u>(166,888)</u>	<u>230,480</u>	<u>312,064</u>	<u>(81,584)</u>
<b>Total expenditures</b>	<u>11,391,264</u>	<u>10,705,211</u>	<u>686,053</u>	<u>10,010,586</u>	<u>9,255,235</u>	<u>755,351</u>
<b>Excess of revenues over expenditures</b>	<u>642,511</u>	<u>1,366,356</u>	<u>723,845</u>	<u>1,001,634</u>	<u>2,780,682</u>	<u>1,779,048</u>
<b>Other financing sources (uses):</b>						
Investment income	–	4,531,819	4,531,819	–	3,134,545	3,134,545
Payment of notes payable	(1,522,429)	(6,488,724)	(4,966,295)	(1,110,090)	(6,540,385)	(5,430,295)
Operating transfers out	(9,218,499)	(9,218,499)	–	(6,895,697)	(6,895,697)	–
Residual equity transfers	17,945	17,945	–	–	–	–
<b>Total other financing sources (uses), net</b>	<u>(10,722,983)</u>	<u>(11,157,459)</u>	<u>(434,476)</u>	<u>(8,005,787)</u>	<u>(10,301,537)</u>	<u>(2,295,750)</u>
<b>Deficiency of revenues and other financing sources under expenditures and other financing uses</b>	<u>(10,080,472)</u>	<u>(9,791,103)</u>	<u>289,369</u>	<u>(7,004,153)</u>	<u>(7,520,855)</u>	<u>(516,702)</u>
<b>Fund balance, unreserved, beginning of year</b>	9,659,575	9,659,575	–	6,296,509	6,296,509	–
<b>Other changes in unreserved fund balances:</b>						
Related assets	–	5,190,798	5,190,798	–	5,811,087	5,811,087
Loans	–	25,253	25,253	–	5,057,384	5,057,384
Investment diminution	–	–	–	–	271	271
Continuing appropriations	–	(599,272)	(599,272)	–	15,179	15,179
<b>Fund balance, unreserved, end of year</b>	<u>\$ (420,897)</u>	<u>\$ 4,485,251</u>	<u>\$ 4,906,148</u>	<u>\$ (707,644)</u>	<u>\$ 9,659,575</u>	<u>\$ 10,367,219</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Special Revenue Funds  
September 30, 1994

Specific revenues that are legally restricted to expenditures for purposes are accounted for in Special Revenue Funds. A brief discussion of Yap State's Special Revenue Funds as of September 30, 1994, follows:

Compact Programs Fund

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

Federal Grants Fund

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

Other U.S. Grants Fund

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

Non U.S. Grants Fund

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

CFSM Grants Fund

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

Traditional Award Fund

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Special Revenue Funds, Continued  
September 30, 1994

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.

Project Fund

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



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet**

**September 30, 1994**

(With comparative totals as of September 30, 1993)

<u>Assets</u>	<u>Compact</u>	<u>Federal</u>	<u>Other U.S.</u>	<u>Non U.S.</u>	<u>CFSM</u>	<u>Traditional</u>	<u>Feed</u>	<u>Slaughter</u>	<u>Project</u>	<u>Totals</u>	
	<u>Programs</u>	<u>Grants</u>	<u>Grants</u>	<u>Grants</u>	<u>Grants</u>	<u>Award</u>	<u>Sales</u>	<u>House</u>	<u>Fund</u>	<u>1994</u>	<u>1993</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>		
Cash and equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0	\$ 883,341
Investments	1,246,793	-	-	-	-	-	-	-	-	1,246,793	-
Receivables, net:											
Others	-	-	-	20,074	-	-	-	-	-	20,074	14,471
FSM National											
Government	-	417,565	199,844	-	661,543	-	-	-	-	1,278,952	1,328,848
Due from other funds	1,300,177	-	-	65,643	-	39,333	46,154	-	-	1,451,307	602,953
Advances	7,660	13,729	-	2,178	11,906	-	-	-	-	35,473	113,925
<b>Total assets</b>	<b>\$ 2,554,630</b>	<b>\$ 431,294</b>	<b>\$ 199,844</b>	<b>\$ 87,895</b>	<b>\$ 673,449</b>	<b>\$ 39,333</b>	<b>\$ 46,154</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,032,599</b>	<b>\$ 2,943,538</b>
<b>Liabilities and</b>											
<b>Fund Balances (Deficit)</b>											
<b>Liabilities:</b>											
Accounts payable	\$ 137,719	\$ 169,978	\$ 265	\$ 2,822	\$ 159,838	\$ -	\$ -	\$ -	\$ -	\$ 470,622	\$ 72,221
Accrued payroll	-	-	-	-	-	-	-	-	-	-	22,271
Due to other funds	-	261,316	181,191	-	494,960	-	-	7,928	-	945,395	1,191,465
Due to grantor	-	-	18,388	-	-	-	-	-	-	18,388	-
Deferred revenue	-	-	-	85,073	18,651	-	-	-	-	103,724	54,415
<b>Total liabilities</b>	<b>137,719</b>	<b>431,294</b>	<b>199,844</b>	<b>87,895</b>	<b>673,449</b>	<b>-</b>	<b>-</b>	<b>7,928</b>	<b>-</b>	<b>1,538,129</b>	<b>1,340,372</b>
<b>Fund balances (deficit):</b>											
<b>Reserved for:</b>											
Related assets	-	-	-	-	-	-	-	-	-	-	571,781
Encumbrances	318,585	426,480	65,318	45,904	295,419	-	-	1,062	-	1,152,768	330,677
Unreserved	2,098,326	(426,480)	(65,318)	(45,904)	(295,419)	39,333	46,154	(8,990)	-	1,341,702	700,708
<b>Total fund balances</b>											
(deficit)	2,416,911	-	-	-	-	39,333	46,154	(7,928)	-	2,494,470	1,603,166
<b>Total liabilities and</b>											
fund balances (deficit)	<b>\$ 2,554,630</b>	<b>\$ 431,294</b>	<b>\$ 199,844</b>	<b>\$ 87,895</b>	<b>\$ 673,449</b>	<b>\$ 39,333</b>	<b>\$ 46,154</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,032,599</b>	<b>\$ 2,943,538</b>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
SPECIAL REVENUE FUNDS**  
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Traditional	Feed	Slaughter	Project	Totals	
	Programs Fund	Grants Fund	Grants Fund	Grants Fund	Grants Fund	Award Fund	Sales Fund	House Fund		Fund	1994
<b>Revenues:</b>											
Compact	\$ 2,850,293	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,850,293	\$ 2,984,609
Federal contributions	-	683,498	112,327	-	-	-	-	-	-	795,825	535,768
CFSM grants	-	-	-	-	913,043	-	-	-	-	913,043	260,085
Other	-	-	-	76,094	-	-	82,099	-	-	158,193	75,994
<b>Total revenues</b>	<b>2,850,293</b>	<b>683,498</b>	<b>112,327</b>	<b>76,094</b>	<b>913,043</b>	<b>-</b>	<b>82,099</b>	<b>-</b>	<b>-</b>	<b>4,717,354</b>	<b>3,856,456</b>
<b>Expenditures:</b>											
General government	-	-	-	-	-	-	-	-	-	-	970
Health services	341,590	131,331	-	-	13,646	-	-	-	-	486,567	478,640
Education	794,583	376,100	-	82,157	618,642	-	-	-	-	1,871,482	1,144,916
Economic development	-	105,556	-	-	-	-	-	-	-	105,556	221,988
Public safety	-	-	-	-	143,934	-	-	-	-	143,934	117,240
Public works and utilities	780,852	-	-	-	127,644	-	-	-	-	908,496	994,139
Community affairs	-	70,511	112,327	1,507	9,175	20,000	-	-	-	213,520	221,141
Other	-	-	-	-	-	-	82,682	11,742	-	94,424	35,769
<b>Total expenditures</b>	<b>1,917,025</b>	<b>683,498</b>	<b>112,327</b>	<b>83,664</b>	<b>913,041</b>	<b>20,000</b>	<b>82,682</b>	<b>11,742</b>	<b>-</b>	<b>3,823,979</b>	<b>3,214,803</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>											
	933,268	-	-	(7,570)	2	(20,000)	(583)	(11,742)	-	893,375	641,653
<b>Other financing sources (uses):</b>											
Transfers/general fund	1,067,461	-	-	-	-	-	-	-	-	1,067,461	789,912
Payments of notes payable	(1,067,461)	-	-	-	-	-	-	-	-	(1,067,461)	(779,800)
Residual equity transfers	(4,892)	(3,542)	(66)	7,563	(437)	-	-	-	(697)	(2,071)	-
<b>Total other financing sources (uses), net</b>	<b>(4,892)</b>	<b>(3,542)</b>	<b>(66)</b>	<b>7,563</b>	<b>(437)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(697)</b>	<b>(2,071)</b>	<b>10,112</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>											
	928,376	(3,542)	(66)	(7)	(435)	(20,000)	(583)	(11,742)	(697)	891,304	651,765
<b>Fund balances, beginning of year</b>											
	1,488,535	3,542	66	7	435	59,333	46,737	3,814	697	1,603,166	951,401
<b>Fund balances (deficit), end of year</b>											
	\$ 2,416,911	\$ -	\$ -	\$ -	\$ -	\$ 39,333	\$ 46,154	\$ (7,928)	\$ -	\$ 2,494,470	\$ 1,603,166

**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, 1994  
(With comparative totals for the year ended September 30, 1993)**

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Traditional	Feed	Slaughter	Project	Totals	
	Programs	Grants	Grants	Grants	Grants	Award	Sales	House		1994	1993
	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund		
<b>Revenues:</b>											
Compact	\$ 2,850,293	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,850,293	\$ 2,984,609
Federal contributions	-	683,498	112,327	-	-	-	-	-	-	795,825	535,768
CFSM grants	-	-	-	-	913,043	-	-	-	-	913,043	260,085
Other	-	-	-	76,094	-	-	82,099	-	-	158,193	75,994
<b>Total revenues</b>	<b>2,850,293</b>	<b>683,498</b>	<b>112,327</b>	<b>76,094</b>	<b>913,043</b>	<b>-</b>	<b>82,099</b>	<b>-</b>	<b>-</b>	<b>4,717,354</b>	<b>3,856,456</b>
<b>Expenditures:</b>											
Salaries and wages	295,746	209,406	15,342	17	49,683	-	-	6,637	-	576,831	458,802
Travel	113,812	102,880	14,143	36,637	48,764	-	-	-	-	316,236	266,355
Freight	23,810	7,721	61	2,890	51,608	-	-	-	-	86,090	53,877
Communications	21,494	7,011	659	5	-	-	-	-	-	29,169	13,467
Printing and reproduction	6,405	2,552	-	1,000	640	-	-	-	-	10,597	13,948
Professional services	8,500	6,500	-	-	17,216	-	-	-	-	32,216	86,946
Food stuffs	50,622	8,430	-	1,055	16,241	-	-	-	-	76,348	68,288
Medical supplies	65,650	4,534	-	-	-	-	-	-	-	70,184	157,322
Supplies and materials	131,032	20,339	5,253	21,601	327,586	-	53,742	2,902	-	562,455	422,184
Medical referral	156,956	-	-	-	-	-	-	-	-	156,956	62,387
POL	781,124	2,894	280	-	6,109	-	-	-	-	790,407	980,987
Capital outlay	25,374	84,621	58,531	12,425	192,777	-	-	-	-	373,728	139,731
Contractual services	15,200	5,193	15,754	-	11,225	-	-	869	-	48,241	39,494
Rentals	32,514	4,175	-	-	872	-	-	-	-	37,561	34,675
Repairs and maintenance	11,025	711	-	477	29,198	-	-	-	-	41,411	34,468
Allowances	-	3,570	700	-	-	-	-	-	-	4,270	1,200
Grants and subsidies	-	-	-	-	-	20,000	-	-	-	20,000	13,333
Scholarship and training	163,820	160,390	-	-	15,733	-	-	-	-	339,943	261,410
Other	13,941	52,571	1,604	7,557	145,389	-	28,940	1,334	-	251,336	105,929
<b>Total expenditures</b>	<b>1,917,025</b>	<b>683,498</b>	<b>112,327</b>	<b>83,664</b>	<b>913,041</b>	<b>20,000</b>	<b>82,682</b>	<b>11,742</b>	<b>-</b>	<b>3,823,979</b>	<b>3,214,803</b>
<b>Excess (deficiency) of</b>											
revenues over (under)											
expenditures	933,268	-	-	(7,570)	2	(20,000)	(583)	(11,742)	-	893,375	641,653
<b>Other financing sources (uses):</b>											
Transfers/general fund	1,067,461	-	-	-	-	-	-	-	-	1,067,461	789,912
Payments of notes payable	(1,067,461)	-	-	-	-	-	-	-	-	(1,067,461)	(779,800)
Residual equity transfers	(4,892)	(3,542)	(66)	7,563	(437)	-	-	-	(697)	(2,071)	-
<b>Total other financing sources (uses), net</b>	<b>(4,892)</b>	<b>(3,542)</b>	<b>(66)</b>	<b>7,563</b>	<b>(437)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(697)</b>	<b>(2,071)</b>	<b>10,112</b>
<b>Excess (deficiency) of</b>											
revenues and other											
financing sources over											
(under) expenditures											
and other financing uses	928,376	(3,542)	(66)	(7)	(435)	(20,000)	(583)	(11,742)	(697)	891,304	651,765
<b>Fund balances,</b>											
beginning of year	1,488,535	3,542	66	7	435	59,333	46,737	3,814	697	1,603,166	951,401
<b>Fund balances (deficit),</b>											
end of year	\$ 2,416,911	\$ -	\$ -	\$ -	\$ -	\$ 39,333	\$ 46,154	\$ (7,928)	\$ -	\$ 2,494,470	\$ 1,603,166

**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, 1994**  
**(With comparative totals for the year ended September 30, 1993)**

	1994			1993		
	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenues:</b>						
Other compact funds	\$ 2,850,293	\$ 2,850,293	\$ –	\$ 2,546,287	\$ 2,984,609	\$ 438,322
Other	–	–	–	–	(12)	(12)
<b>Total revenues</b>	<u>2,850,293</u>	<u>2,850,293</u>	<u>–</u>	<u>2,546,287</u>	<u>2,984,597</u>	<u>438,310</u>
<b>Expenditures budgetary basis:</b>						
Health services	506,748	353,352	153,396	500,228	362,390	137,838
Education	836,570	896,244	(59,674)	979,480	817,079	162,401
Public works and utilities	936,140	848,779	87,361	910,000	936,275	(26,275)
<b>Total expenditures</b>	<u>2,279,458</u>	<u>2,098,375</u>	<u>181,083</u>	<u>2,389,708</u>	<u>2,115,744</u>	<u>273,964</u>
<b>Excess of revenues over expenditures</b>	<u>570,835</u>	<u>751,918</u>	<u>181,083</u>	<u>156,579</u>	<u>868,853</u>	<u>712,274</u>
<b>Other financing sources (uses):</b>						
Transfers/general fund	1,067,461	1,067,461	–	779,800	779,800	–
Payments of notes payable	(1,067,461)	(1,067,461)	–	(779,800)	(779,800)	–
Residual equity transfer	(4,892)	(4,892)	–	–	–	–
<b>Total other financing sources (uses)</b>	<u>(4,892)</u>	<u>(4,892)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Excess of revenues and other financing sources over expenditures and other financing uses</b>	<u>565,943</u>	<u>747,026</u>	<u>181,083</u>	<u>156,579</u>	<u>868,853</u>	<u>712,274</u>
<b>Fund balance, unreserved, beginning of year</b>	<u>1,351,300</u>	<u>1,351,300</u>	<u>–</u>	<u>452,387</u>	<u>452,387</u>	<u>–</u>
<b>Changes in reserves for continuing appropriations</b>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>30,060</u>	<u>30,060</u>
<b>Fund balance, unreserved, end of year</b>	<u>\$ 1,917,243</u>	<u>\$ 2,098,326</u>	<u>\$ 181,083</u>	<u>\$ 608,966</u>	<u>\$ 1,351,300</u>	<u>\$ 742,334</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Capital Projects Funds  
September 30, 1994

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, 1994, 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.

Other Capital Projects Fund

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

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

Combining Balance Sheet

September 30, 1994

(With comparative totals as of September 30, 1993)

<u>Assets</u>	Compact	TTPI	CFSM	Public	Other U.S.	Other	<u>Totals</u>	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	Capital Projects Fund	1994	1993
Investments	\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30	\$ 4,229,438
Receivables, net:								
Loans	6,500,000	-	-	2,000,000	-	-	8,500,000	2,000,000
Federal agencies	-	-	-	-	45,966	-	45,966	79,550
CFSM	-	-	152,664	-	-	-	152,664	1,339,067
U.S. Dept. of Interior - TTPI	-	722,721	-	-	-	-	722,721	1,350,335
Due from other funds	6,591,852	-	-	42,138	-	-	6,633,990	3,685,331
Advances	2,162	132	-	-	-	-	2,294	12,595
<b>Total assets</b>	<b>\$ 13,094,044</b>	<b>\$ 722,853</b>	<b>\$ 152,664</b>	<b>\$ 2,042,138</b>	<b>\$ 45,966</b>	<b>\$ -</b>	<b>\$ 16,057,665</b>	<b>\$ 12,696,316</b>
<u>Liabilities and Fund Balances</u>								
<u>Liabilities:</u>								
Accounts payable	\$ 182,160	\$ -	\$ 7	\$ -	\$ 111	\$ -	\$ 182,278	\$ 169,123
Intergovernmental payable	-	-	-	-	-	-	-	1,300,000
Due to other funds	-	722,853	152,657	-	45,855	-	921,365	1,488,148
Accrued payroll	-	-	-	-	-	-	-	5,600
<b>Total liabilities</b>	<b>182,160</b>	<b>722,853</b>	<b>152,664</b>	<b>-</b>	<b>45,966</b>	<b>-</b>	<b>1,103,643</b>	<b>2,962,871</b>
<u>Fund balances:</u>								
<u>Reserved for:</u>								
Loans	6,500,000	-	-	2,000,000	-	-	8,500,000	2,000,000
Encumbrances	687,414	334,015	8,628	25,657	-	-	1,055,714	757,141
Continuing appropriations	4,214,249	-	-	-	-	-	4,214,249	4,291,368
Unreserved	1,510,221	(334,015)	(8,628)	16,481	-	-	1,184,059	2,684,936
<b>Total fund balances</b>	<b>12,911,884</b>	<b>-</b>	<b>-</b>	<b>2,042,138</b>	<b>-</b>	<b>-</b>	<b>14,954,022</b>	<b>9,733,445</b>
<b>Total liabilities and fund balances</b>	<b>\$ 13,094,044</b>	<b>\$ 722,853</b>	<b>\$ 152,664</b>	<b>\$ 2,042,138</b>	<b>\$ 45,966</b>	<b>\$ -</b>	<b>\$ 16,057,665</b>	<b>\$ 12,696,316</b>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**CAPITAL PROJECTS FUNDS**  
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	Compact	TTPI	CFSM	Public	Other U.S.	Other	Totals	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	Capital Projects Fund	1994	1993
<b>Revenues:</b>								
Compact capital	\$ 4,341,773	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,341,773	\$ 4,251,319
Federal contributions	-	-	-	-	4,907	-	4,907	3,029
U.S. Dept. of the Interior-TTPI	-	85,611	-	-	-	-	85,611	478,431
CFSM grants	-	-	146,271	-	-	-	146,271	1,469,685
Other	904	-	-	-	-	-	904	482
<b>Total revenues</b>	<b>4,342,677</b>	<b>85,611</b>	<b>146,271</b>	<b>-</b>	<b>4,907</b>	<b>-</b>	<b>4,579,466</b>	<b>6,202,946</b>
<b>Expenditures:</b>								
Economic development	557,001	-	69,848	-	-	-	626,849	1,069,055
Public works and utilities	2,436,116	52,329	76,423	-	2,024	-	2,566,892	2,611,856
Community affairs	118,838	-	-	21,000	-	-	139,838	-
Other	72,574	-	-	-	-	-	72,574	142,289
<b>Total expenditures</b>	<b>3,184,529</b>	<b>52,329</b>	<b>146,271</b>	<b>21,000</b>	<b>2,024</b>	<b>-</b>	<b>3,406,153</b>	<b>3,823,200</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,158,148</b>	<b>33,282</b>	<b>-</b>	<b>(21,000)</b>	<b>2,883</b>	<b>-</b>	<b>1,173,313</b>	<b>2,379,746</b>
<b>Other financing sources (uses):</b>								
Transfers/general fund	8,010,110	-	-	63,138	-	-	8,073,248	6,035,825
Transfers/enterprise funds	-	-	-	-	-	-	-	(4,475,715)
Payments of notes payable	(4,010,110)	-	-	-	-	-	(4,010,110)	(4,010,110)
Residual equity transfer	-	(33,015)	-	-	(2,883)	20,024	(15,874)	-
<b>Total other financing sources (uses), net</b>	<b>4,000,000</b>	<b>(33,015)</b>	<b>-</b>	<b>63,138</b>	<b>(2,883)</b>	<b>20,024</b>	<b>4,047,264</b>	<b>(2,450,000)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>5,158,148</b>	<b>267</b>	<b>-</b>	<b>42,138</b>	<b>-</b>	<b>20,024</b>	<b>5,220,577</b>	<b>(70,254)</b>
<b>Fund balances (deficit), beginning of year</b>	<b>7,753,736</b>	<b>(267)</b>	<b>-</b>	<b>2,000,000</b>	<b>-</b>	<b>(20,024)</b>	<b>9,733,445</b>	<b>9,803,699</b>
<b>Fund balances, end of year</b>	<b>\$ 12,911,884</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,042,138</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,954,022</b>	<b>\$ 9,733,445</b>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**CAPITAL PROJECTS FUNDS**  
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances  
Year Ended September 30, 1994  
(With comparative totals for the year ended September 30, 1993)

	Compact	TTPI	CFSM	Public	Other U.S.	Other	Totals	
	Capital Projects Fund	Capital Projects Fund	Capital Projects Fund	Projects Fund	Capital Projects Fund	Capital Projects Fund	1994	1993
<b>Revenues:</b>								
Compact	\$ 4,341,773	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,341,773	\$ 4,251,319
Federal contributions	-	-	-	-	4,907	-	4,907	3,029
U.S. Dept. of the Interior-TTPI	-	85,611	-	-	-	-	85,611	478,431
CFSM grants	-	-	146,271	-	-	-	146,271	1,469,685
Other	904	-	-	-	-	-	904	482
<b>Total revenues</b>	<b>4,342,677</b>	<b>85,611</b>	<b>146,271</b>	<b>-</b>	<b>4,907</b>	<b>-</b>	<b>4,579,466</b>	<b>6,202,946</b>
<b>Expenditures:</b>								
Salaries and wages	218,050	1,004	4,748	-	607	-	224,409	195,678
Travel	30,812	1,425	5,000	-	-	-	37,237	41,219
Freight	23,565	-	934	-	-	-	24,499	47,360
Communications	1,666	-	-	-	-	-	1,666	2,442
Printing and reproduction	13,253	-	-	-	-	-	13,253	1,466
Professional services	102,777	-	-	-	-	-	102,777	124,091
Food stuffs	12,664	-	-	-	-	-	12,664	2,396
Medical supplies	-	-	-	-	-	-	-	5,147
Supplies and materials	726,012	310	51,146	21,000	1,417	-	799,885	757,362
POL	11,280	-	148	-	-	-	11,428	10,892
Capital outlay	1,878,393	26,640	84,185	-	-	-	1,989,218	2,528,832
Contractual services	57,210	22,950	-	-	-	-	80,160	73,157
Rentals	12,991	-	110	-	-	-	13,101	10,714
Repairs and maintenance	16,888	-	-	-	-	-	16,888	3,150
Scholarship and training	2,766	-	-	-	-	-	2,766	-
Other	76,202	-	-	-	-	-	76,202	19,294
<b>Total expenditures</b>	<b>3,184,529</b>	<b>52,329</b>	<b>146,271</b>	<b>21,000</b>	<b>2,024</b>	<b>-</b>	<b>3,406,153</b>	<b>3,823,200</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,158,148</b>	<b>33,282</b>	<b>-</b>	<b>(21,000)</b>	<b>2,883</b>	<b>-</b>	<b>1,173,313</b>	<b>2,379,746</b>
<b>Other financing sources (uses):</b>								
Transfers/general fund	8,010,110	-	-	63,138	-	-	8,073,248	6,035,825
Transfers/enterprise funds	-	-	-	-	-	-	-	(4,475,715)
Payments of notes payable	(4,010,110)	-	-	-	-	-	(4,010,110)	(4,010,110)
Residual equity transfer	-	(33,015)	-	-	(2,883)	20,024	(15,874)	-
<b>Total other financing sources (uses), net</b>	<b>4,000,000</b>	<b>(33,015)</b>	<b>-</b>	<b>63,138</b>	<b>(2,883)</b>	<b>20,024</b>	<b>4,047,264</b>	<b>(2,450,000)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>5,158,148</b>	<b>267</b>	<b>-</b>	<b>42,138</b>	<b>-</b>	<b>20,024</b>	<b>5,220,577</b>	<b>(70,254)</b>
<b>Fund balances (deficit), beginning of year</b>	<b>7,753,736</b>	<b>(267)</b>	<b>-</b>	<b>2,000,000</b>	<b>-</b>	<b>(20,024)</b>	<b>9,733,445</b>	<b>9,803,699</b>
<b>Fund balances, end of year</b>	<b>\$ 12,911,884</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,042,138</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,954,022</b>	<b>\$ 9,733,445</b>



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Enterprise Funds  
September 30, 1994

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

Public Transportation System Fund

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

Yap Economic Development Authority Fund

This fund is used to account for the activities of the Yap Economic Development Authority (YEDA) (a blended component unit of the Yap State Government). YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 to promote and support economic development in the State of Yap. As of September 30, 1994, 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, 1994, the major project undertaken by YIT has been to accept the transfer from YEDA of sole membership in Yap Purse Seiner Owner, Inc. (YPSO) and a related Note Payable to the State of Yap. YPSO also leases a tuna purse seiner to YFC for tuna fishing in the Western Tropical Pacific.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**ENTERPRISE FUNDS**  
Combining Balance Sheet  
September 30, 1994

<u>Assets</u>	<u>Public Transportation System Fund</u>	<u>Yap Economic Development Authority Fund</u>	<u>Yap Investment Trust Fund</u>	<u>Totals 1994</u>
Cash and equivalents	\$ 19,045	\$ —	\$ —	\$ 19,045
Investments	—	1,107,043	7,392,957	8,500,000
General receivables	25	—	—	25
Loans receivable	—	2,000,000	—	2,000,000
Due from other funds	—	50,000	—	50,000
Inventory of supplies, at cost	11,948	—	—	11,948
Investment in fixed assets, net of accumulated depreciation	<u>361,235</u>	<u>—</u>	<u>—</u>	<u>361,235</u>
<b>Total assets</b>	<b><u>\$ 392,253</u></b>	<b><u>\$ 3,157,043</u></b>	<b><u>\$ 7,392,957</u></b>	<b><u>\$ 10,942,253</u></b>
<u>Liabilities and Fund Equity</u>				
<b>Liabilities:</b>				
Accounts payable	\$ 963	\$ —	\$ —	\$ 963
Accrued payroll and others	1,410	—	—	1,410
Notes payable:				
Yap State	—	—	6,500,000	6,500,000
Intergovernmental	<u>—</u>	<u>2,000,000</u>	<u>—</u>	<u>2,000,000</u>
<b>Total liabilities</b>	<b><u>2,373</u></b>	<b><u>2,000,000</u></b>	<b><u>6,500,000</u></b>	<b><u>8,502,373</u></b>
<b>Fund equity:</b>				
Contributed capital	694,683	5,682,758	892,957	7,270,398
Deficit	<u>(304,803)</u>	<u>(4,525,715)</u>	<u>—</u>	<u>(4,830,518)</u>
<b>Total fund equity</b>	<b><u>389,880</u></b>	<b><u>1,157,043</u></b>	<b><u>892,957</u></b>	<b><u>2,439,880</u></b>
<b>Total liabilities and fund equity</b>	<b><u>\$ 392,253</u></b>	<b><u>\$ 3,157,043</u></b>	<b><u>\$ 7,392,957</u></b>	<b><u>\$ 10,942,253</u></b>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**ENTERPRISE FUNDS**  
Combining Statement of Revenues, Expenses and Changes in Fund Equity  
Year Ended September 30, 1994

	Public Transportation System Fund	Yap Economic Development Authority Fund	Yap Investment Trust Fund	Totals 1994
<b>Operating revenues:</b>				
Charges for goods and services	\$ 62,971	\$ -	\$ -	\$ 62,971
Other	-	50,000	-	50,000
<b>Total revenues</b>	<u>62,971</u>	<u>50,000</u>	<u>-</u>	<u>112,971</u>
<b>Operating expenses:</b>				
Personnel services	54,743	-	-	54,743
Supplies and materials	38,652	-	-	38,652
Contractual services/commissions	4,896	-	-	4,896
Depreciation	34,871	-	-	34,871
Other	77,470	4,575,715	-	4,653,185
<b>Total operating expenses</b>	<u>210,632</u>	<u>4,575,715</u>	<u>-</u>	<u>4,786,347</u>
<b>Operating loss</b>	<u>(147,661)</u>	<u>(4,525,715)</u>	<u>-</u>	<u>(4,673,376)</u>
<b>Nonoperating revenues:</b>				
<b>Intergovernmental contributions:</b>				
General Fund	77,790	-	-	77,790
<b>Total nonoperating revenues</b>	<u>77,790</u>	<u>-</u>	<u>-</u>	<u>77,790</u>
<b>Net loss</b>	<u>(69,871)</u>	<u>(4,525,715)</u>	<u>-</u>	<u>(4,595,586)</u>
<b>Deficit, beginning of year</b>	<u>(234,932)</u>	<u>-</u>	<u>-</u>	<u>(234,932)</u>
<b>Deficit, end of year</b>	<u>(304,803)</u>	<u>(4,525,715)</u>	<u>-</u>	<u>(4,830,518)</u>
<b>Contributed capital, beginning of year</b>	539,401	6,575,715	-	7,115,116
<b>Current year changes, net</b>	<u>155,282</u>	<u>(892,957)</u>	<u>892,957</u>	<u>155,282</u>
<b>Contributed capital, end of year</b>	<u>694,683</u>	<u>5,682,758</u>	<u>892,957</u>	<u>7,270,398</u>
<b>Fund equity, end of year</b>	<u>\$ 389,880</u>	<u>\$ 1,157,043</u>	<u>\$ 892,957</u>	<u>\$ 2,439,880</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE  
WITH LAWS AND REGULATIONS  
YEAR ENDED SEPTEMBER 30, 1994**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
ENTERPRISE FUNDS**  
Combining Statement of Cash Flows  
Year Ended September 30, 1994

	<u>Public Transportation System Fund</u>	<u>Yap Economic Development Authority Fund</u>	<u>Yap Investment Trust Fund</u>	<u>Totals 1994</u>
<b>Cash flows from operating activities:</b>				
Operating loss	\$ (147,661)	\$ (4,525,715)	\$ -	\$ (4,673,376)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Bad debts	12,672	4,575,715	-	4,588,387
Depreciation	34,871	-	-	34,871
	<u>(100,118)</u>	<u>50,000</u>	<u>-</u>	<u>(50,118)</u>
<b>Change in assets and liabilities:</b>				
General receivables	(25)	-	-	(25)
Due from other funds	-	(50,000)	-	(50,000)
Inventory of supplies, at cost	36,703	-	-	36,703
Prepayments	1,398	-	-	1,398
Advances	155,381	-	-	155,381
Accounts payable	942	-	-	942
Accrued payroll and others	(80)	-	-	(80)
	<u>194,319</u>	<u>(50,000)</u>	<u>-</u>	<u>144,319</u>
Net cash provided by operating activities	<u>94,201</u>	<u>-</u>	<u>-</u>	<u>94,201</u>
<b>Cash flows from noncapital financing activities:</b>				
Operating transfers in	<u>77,790</u>	<u>-</u>	<u>-</u>	<u>77,790</u>
Net cash provided by noncapital financing activities	<u>77,790</u>	<u>-</u>	<u>-</u>	<u>77,790</u>
<b>Cash flows from capital and related financing activities:</b>				
Contributed capital	155,282	-	-	155,282
Acquisition of fixed assets	<u>(312,496)</u>	<u>-</u>	<u>-</u>	<u>(312,496)</u>
Cash used for capital and related financing activities	<u>(157,214)</u>	<u>-</u>	<u>-</u>	<u>(157,214)</u>
Net increase in cash and equivalents	14,777	-	-	14,777
Cash and equivalents, beginning of year	<u>4,268</u>	<u>-</u>	<u>-</u>	<u>4,268</u>
Cash and equivalents, end of year	<u>\$ 19,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,045</u>

**Supplemental Schedule of noncash transactions:**

Yap Economic Development Authority (YEDA) transferred to the Yap Investment Trust (YIT) sole membership in Yap Purse Seiner Owner, Inc. with a related non-interest bearing note payable to the State of Yap \$ 6,500,000

YEDA transferred to YIT shares of stock in the Pacific Islands Development Bank and Bank of the FSM \$ 892,957



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE**  
**BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**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, 1994, and have issued our report thereon dated March 9, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of data necessary to account for an investee on the equity method 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 component Unit - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating the General Fixed Assets Account Group.

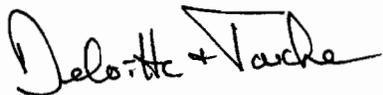
We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

However, we noted certain immaterial instances of noncompliance that we have reported to the management of the State of Yap, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 through 107) in Federal Findings No. 1 through 8 and in Local Findings No. 1 through 5.

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

A handwritten signature in cursive script that reads "Deloitte + Touche". The signature is written in dark ink and is positioned above the date.

March 9, 1995



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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1994, and have issued our report thereon dated March 9, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of data necessary to account for an investee on the equity method 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 component Unit - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating the General Fixed Assets Account Group.

We have also audited the State of Yap's compliance with the requirements governing the Compact of Free Association that are applicable to its one major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance (pages 76 through 91), for the year ended September 30, 1994. The management of the State of Yap is responsible for the State of Yap's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

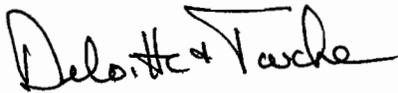
We conducted our audit of compliance with these requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments".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



The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 through 107) in Local Findings No. 2 and 3. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Yap complied, in all material respects, with the requirements governing the Compact of Free Association that are applicable to its one major federal financial assistance program for the year ended September 30, 1994.

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

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

March 9, 1995



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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1994, and have issued our report thereon dated March 9, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of data necessary to account for an investee on the equity method 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 component Unit - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating the General Fixed Assets Account Group. We have also audited the State of Yap's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated March 9, 1995.

We have applied procedures to test the State of Yap's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance (pages 76 through 91), for the year ended September 30, 1994: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act and administrative requirements.

The requirements of political activity, Davis-Bacon Act, civil rights and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the State of Yap, which are identified in the Schedule of Federal Financial Assistance

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

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Yap had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 through 107) in Federal Findings 1, 3, 4, 5, 6, 7 and 8.

We also noted matters involving compliance with laws and regulations related to our audit of the general-purpose financial statements and with requirements related to major and nonmajor federal financial assistance programs which we reported to the management of the State of Yap in our reports dated March 9, 1995.

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



March 9, 1995



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

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

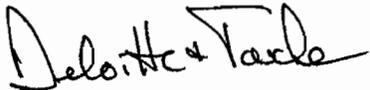
We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1994, and have issued our report thereon dated March 9, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of data necessary to account for an investee on the equity method 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 component Unit - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating the General Fixed Assets Account Group. We have also audited the State of Yap's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated March 9, 1995.

In connection with our audit of the 1994 general-purpose financial statements of the State of Yap and with our consideration of the State of Yap's control structure used to administer federal financial assistance programs, and assessment of control risk as required by Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments", we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1994.

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

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Yap had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 93 through 107) in Federal Findings No. 2 and No. 8 and Local Finding No. 5.

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

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

March 9, 1995



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

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

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1994, and have issued our report thereon dated March 9, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of data necessary to account for an investee on the equity method 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 component Unit - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating the General Fixed Assets Account Group. We have also audited the State of Yap's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated March 9, 1995.

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

In planning and performing our audits for the year ended September 30, 1994, we considered the State of Yap's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Yap's general-purpose financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general-purpose financial statements in a separate report dated March 9, 1995.

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

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

Controls Used in Administering Federal Programs

General Requirements

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

Specific Requirements

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

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

Accounting Controls

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

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

During the year ended September 30, 1994, the State of Yap expended 90.6% of its total federal financial assistance under the one major federal financial assistance program listed on page 92.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements and general requirements that are applicable to the State of Yap's one major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance (pages 76 through 91). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect Yap State's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The following items, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 94 - 108), represent reportable conditions:

Federal Finding No. 1 - Drug Free Workplace Act

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

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



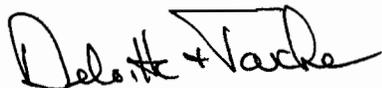
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may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

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

We also noted matters involving the internal control structure and its operation based on our audit of the general-purpose financial statements which we reported to the management of the State of Yap in a report dated March 9, 1995.

We also noted other matters involving the internal control structure and its operation, which are described in the accompanying Schedule of Findings and Questioned Costs in Federal Findings No. 5 through 8, and Local Findings No. 1 through 6, which we have reported to the management of the State of Yap.

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



March 9, 1995



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

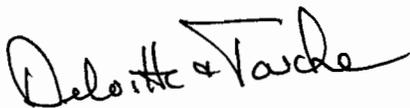
Honorable Vincent Figir  
Governor, State of Yap  
Federated States of Micronesia:

We have audited the general-purpose financial statements of the State of Yap as of and for the year ended September 30, 1994, and have issued our report thereon dated March 9, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of data necessary to account for an investee on the equity method 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 component Unit - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; and 4) our inability to determine the effects of not updating the General Fixed Assets Account Group. These general-purpose financial statements are the responsibility of the State of Yap's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements of the State of Yap taken as a whole. The accompanying Schedule of Federal Financial Assistance (pages 76 through 91) for the year ended September 30, 1994, which is also the responsibility of the management of the State of Yap, is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole.

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

A handwritten signature in cursive script that reads "Deloitte & Touche".

March 9, 1995

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**  
**FEDERAL GRANTS FUND**  
**YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<b><u>U.S. Department of Education:</u></b>			
FY93 Special Education	84.027A	3003	\$ 183,341
FY93 Teacher Training	84.124A	3004	54,072
FY93 Yap STAR	84.256A	3149	<u>121,655</u>
			<u>359,068</u>
 <b><u>U.S. Department of Labor:</u></b>			
FY92 JTPA Adult Program	17.250	3203	5,704
FY92 JTPA Youth Program	17.250	3204	3,933
FY91 Elderly	17.250	3206	23,911
FY92 JTPA Education Coordination	17.250	3208	1,215
FY93 JTPA Administration	17.250	3209	22,275
FY93 JTPA Adult Program	17.250	3210	14,047
FY93 JTPA Youth Program	17.250	3211	12,982
FY93 JTPA Participant Support	17.250	3212	11,930
FY91 JTPA Administration	17.250	3261	1,067
FY91 JTPA Adult Program	17.250	3262	935
FY91 JTPA Youth Program	17.250	3263	<u>7,557</u>
			<u>105,556</u>
 <b><u>U.S. Department of Agriculture:</u></b>			
Forestry Research	10.664	3302	7,171
FY89 Food Services	10.560	3346	17,032
FY92 Forestry Project	10.664	3349	<u>2,200</u>
			<u>26,403</u>
 <b><u>U.S. Department of the Interior:</u></b>			
FY92 Historic Preservation	15.904	3453	14,854
FY93 Historic Preservation	15.904	3454	35,656
Historic Preservation Plan	15.904	3507	<u>10,630</u>
			<u>61,140</u>
 <b>Balance Forward</b>			 <u>552,167</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED**  
**FEDERAL GRANTS FUND**  
**YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded			\$ <u>552,167</u>
<b><u>U.S. Department of Health and Human Services:</u></b>			
FY94 State System Development	93.110	3681	400
FY94 Tuberculosis	93.116	3664	1,230
FY95 Family Planning	93.217	3665	2,729
FY94 Family Planning	93.217	3732	14,300
FY93 Substance Abuse Youth	93.959	3676	28,204
FY93 Substance Abuse Other	93.959	3677	14,531
FY92 ADAMHS– Youth	93.991	3673	673
FY92 PH & PH	93.991	3663	411
FY92 ADAMHS– Health	93.991	3672	1,559
FY93 Preventive Health	93.991	3680	12,516
FY93 MCH/Dental	93.994	3679	117
FY93 MCH	93.994	3678	48,738
FY93 Immunization	93.994	3674	1,921
FY94 Immunization	93.994	3682	3,927
FY92 MCH	93.994	3671	<u>75</u>
			<u>131,331</u>
Total Federal Grants Fund			<u>\$ 683,498</u>

Note: With the exception of the FY93 Yap STAR, Yap Org. No. 3149 (CFDA #84.256A), which is received directly from the U.S. Government, the above grants are received in a subrecipient capacity through the FSM National Government.

**STATE OF YAP  
 FEDERATED STATES OF MICRONESIA  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
 OTHER U.S. GRANTS FUND  
 YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1994 Fiscal Year Expenditures</u>
<u>Federal Emergency Management Agency (FEMA) grants:</u>			
Hazard Mitigation/Administration	83.516	3855	\$ 6,221
Hazard Mitigation/Food Crop/PR&RE	83.516	3856	31,862
Hazard Mitigation/Communication Equip.	83.516	3857	64,620
Hazard Mitigation Management	83.516	3858	<u>9,624</u>
Total Other U.S. Grants Fund			<u>\$ 112,327</u>

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

**STATE OF YAP  
 FEDERATED STATES OF MICRONESIA  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
 NON U.S. GRANTS FUND  
 YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1994 Fiscal Year Expenditures</u>
<b>UNICEF:</b>		
Family Education Production/Nutrition	3961	\$ 1,376
<b>Other Non-U.S. Grants:</b>		
SPREP Coastal Management Plan	3978	5
SPC Youth Follow up	3983	131
PREL Science Program	3984	15,189
SPREP Turtle/PIV	3986	377
PREL Vocational Education	3988	29,458
YR2 PREL Vocational Education	3989	<u>37,128</u>
<b>Total Non U.S. Grants Fund</b>		<b><u>\$ 83,664</u></b>

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
CFSM GRANTS FUND  
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>FSM Congress</u>		
FY93 State Court	5826	\$ 2,694
Elato Elementary School	5847	109
Plaw Water	5859	89
FY93 Joint Law Enforcement	5867	1,878
Education Operations	5890	18,158
Madrich Development	5892	9,175
Teacher Training	5899	10,198
School Toilet	5901	2,205
Elementary and Secondary Education	5903	315,662
FY94 Yap State Court	5905	61,238
FY94 Joint Law Enforcement	5906	78,124
ALCO Repair	5907	127,554
FY94 Education	5908	272,310
FY94 Health	5909	<u>13,647</u>
Total CFSM Grants Fund		<u>\$ 913,041</u>

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



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED**  
**TTPI CAPITAL PROJECTS FUND**  
**YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>		
Rural Sanitation – Yap Cap	6382	\$ 38,328
Well Development	6385	1,425
Additional Water Sources	6386	310
Village Water System	6387	67
Southern Yap Water	6394	937
Colonia Sewage Improvement	6395	<u>11,262</u>
Total TTPI Capital Projects Fund		<u>\$ 52,329</u>

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
CFSM CAPITAL PROJECTS FUND  
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>FSM Congress</u>		
Yyinn Power Line	6611	\$ 705
Outer Island Community Equipment	6612	280
Elato School	6616	2,354
Falalop School	6617	69
Malay BB Center	6618	2,471
Pilung Office	6624	34,048
Gaanelay MS	6628	4,744
Tegailap DPN	6631	9,745
Seabee Renovation	6632	22,007
Broiler Project	6634	<u>69,848</u>
Total CFSM Capital Projects Fund		<u>\$ 146,271</u>

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
OTHER U.S. CAPITAL PROJECTS FUND  
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1994 Fiscal Year Expenditures</u>
<u>Environmental Protection Agency</u>			
Waste Water Treatment Plant	66.418	6855	\$ <u>2,024</u>
Total Other U.S. Capital Projects			\$ <u><u>2,024</u></u>

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

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED**  
**COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND**  
**SECTION 221(B) SPECIAL BLOCK GRANT (CFDA NO. 15.875)**  
**YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1994 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Department of Education Budget Supply/Maintenance	2113	\$ 34,641
Education Administration	2114	15,084
Instruction and Curriculum	2115	147,917
Yap Elementary Schools	2116	43,242
Outer Island Elementary Schools	2117	51,871
Yap High School	2118	94,493
Outer Island High School	2119	99,514
Post Secondary Student Services	2122	18,894
Department of Education Staff Development	2123	57,673
Outer Island Middle School	2126	63,622
Special Education Program	2127	3,811
Primary Health Care	2132	8,504
Preventive Health Care	2133	4,094
Alcohol/Drug Abuse and Mental Health	2136	11,475
Medical Referral	2137	30,836
Medical Supply and Equipment	2138	80,630
Ancillary Services	2140	<u>13,000</u>
Total Compact of Free Association Compact Programs Fund—Section 221(B)		<u>\$ 779,301</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND  
SECTION 212(A) SPECIAL DEVELOPMENT PROGRAMS (CFDA NO. 15.875)  
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Microfilm Renovation	2206	\$ 1,102
Computer Storeroom	2207	<u>2,200</u>
<b>Total Compact of Free Association Compact Programs Fund—Section 212(A)</b>		<b><u>\$ 3,302</u></b>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND  
SECTION 216(A)(2) HEALTH AND MEDICAL PROGRAMS (CFDA NO. 15.875)  
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u> Medical Referral Program	2448	\$ <u>193,051</u>
<b>Total Compact of Free Association Compact Programs Fund—Section 216(A)(2)</b>		<b>\$ <u>193,051</u></b>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED**  
**COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND**  
**SECTION 216(A)(3) POST SECONDARY EDUCATION (CFDA NO. 15.875)**  
**YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u> Scholarships and grants	2641	\$ <u>163,820</u>
Total Compact of Free Association Compact Programs Fund—Section 216(A)(3)		\$ <u>163,820</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
COMPACT OF FREE ASSOCIATION COMPACT PROGRAMS FUND  
SECTION 214(B) ENERGY PROGRAMS (CFDA NO. 15.875)  
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
POL/Power Generation	2853	\$ <u>777,551</u>
Total Compact of Free Association Compact Programs Fund—Section 214(B)		\$ <u>777,551</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.



STATE OF YAP  
 FEDERATED STATES OF MICRONESIA  
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
 COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND  
 SECTION 211(A) CAPITAL ACCOUNT (CFDA NO. 15.875)  
 YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1994 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Daboch Community Center	6101	\$ 53,376
Outer Island Turtle Project	6102	3,947
PTS Bus Purchase	6107	155,642
FY93 Coastal Management	6108	1,371
FY93 Tourism Promotion	6109	23,090
FY93 Outer Island Agriculture Support	6111	7
FY93 Outer Island Trochus	6114	245
Ifalik Elementary	6115	4,076
High School Computer Lab	6118	19,875
Power System Development	6119	42,016
PU&C Power Upgrade	6120	13,398
Fire Truck Project	6121	8,680
FY93 Equipment Purchase	6122	5,933
Airport Extension	6123	102,777
Water and Sewer Building	6124	49
Council of Pilung Building	6125	37,508
FY93 Vegetable and Root Crop	6126	440
FY93 Manpower Development	6127	2,766
FY93 Land Lease and Acquisition	6128	18,251
Bael Elementary School	6131	12,135
Outer Island Dental Building	6132	28,523
Power and Water Plant Upgrade	6133	108,335
Agriculture Equipment Purchase	6134	57
Multiple Crop Production	6135	2,650
Agro Forestry Project	6136	105
Daboch Water Extension	6138	19
Water Wells Development	6139	6,237
SDA School Building	6140	6,029
Hospital Roof	6141	68,147
Muyub Culvert	6142	222
Tagareng and Bileeyuw Water System	6143	41
Agriculture Extension and Research	6144	142,417
Forestry Development	6145	40,770
Livestock Extension	6146	74,647
FY94 Tourism Promotion	6147	4,447
FY94 Outer Island Agriculture Development	6148	33,291
FY94 Vegetable and Root Crop	6149	32,531
FY94 Cadastral Program	6150	17,594
Falalop Water System	6151	17,776
YPSO Purse Seiner	6152	2,500,000
FY94 Power System Development	6153	48,950
FY94 Power System Improvement	6154	124,936
Sponge Farming	6155	8,037
Cultural Research	6156	12,574
FY94 Trochus Monitor	6157	2,329
FY94 Turtle Research	6158	9,912
Balance Forward		3,796,158

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED  
COMPACT OF FREE ASSOCIATION CAPITAL PROJECTS FUND  
SECTION 211(A) CAPITAL ACCOUNT (CFDA NO. 15.875)  
YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1994 Fiscal Year Expenditures</u>
Balance Forwarded		\$ 3,796,158
<u>Office of Territorial and International Affairs, continued</u>		
FY94 Land Lease and Acquisition	6159	100,000
Water Plant Upgrade	6160	3,800
Outer Island High School Library	6161	31,448
Maap Central School Building	6162	46,997
North Fanif School	6163	37,056
Dalipebinaw Elementary School	6164	58,653
Wottegai Typhoon Shelter	6165	22,500
Lamotrk Typhoon Shelter	6166	22,500
Seliap Typhoon Shelter	6167	15,000
Ganelay Middle School	6169	42,356
Airport Repairs	6171	91,222
PU&C Equipment Purchase	6227	1,519
Hospital Equipment Purchase	6236	17
IADP – Water/Sanitation Project	6238	33,868
Roads Development	6242	103,407
Road Development Phase VII	6243	1,168,924
Livestock Project	6253	706
Feasibility Studies	6263	570
Sludge Dryage Beds	6267	90,024
Colonia Community Center Basketball Court Extension	6290	<u>17,804</u>
Total Compact of Free Association Capital Projects Fund – Section 211(A)		<u>\$ 5,684,529</u>

Note 1: A transfer to the Yap Investment Trust (YIT) fund has been classified as loans receivable in the General–Purpose Financial Statements. A reconciliation of the above expenditures to the General–Purpose Financial Statements is shown below:

Compact Capital Expenditures	\$ 5,684,529
Less: Transfer to YIT classified as loan receivable	<u>2,500,000</u>
	<u>\$ 3,184,529</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallocates such to the component States.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE, CONTINUED**  
**COMPACT OF FREE ASSOCIATION GENERAL FUND**  
**SECTION 211(A) CURRENT ACCOUNT (CFDA NO. 15.875)**  
**YEAR ENDED SEPTEMBER 30, 1994**

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1994</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
General Fund:		
Current Account	Various	<u>\$ 7,056,115</u>
Total Compact of Free Association expenditures		<u>\$ 14,657,669</u>

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

These funds are disbursed through the Office of Territorial and International Affairs (OTIA), Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallocates such to the component States.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
SCHEDULE OF PROGRAMS SELECTED FOR  
AUDIT IN ACCORDANCE WITH OMB CIRCULAR A-128  
YEAR ENDED SEPTEMBER 30, 1994

<u>Grantor</u>	<u>CFDA No.</u>	<u>1994</u>
<u>Program Title</u>		<u>Fiscal Year</u>
		<u>Expenditures</u>
<u>U.S. Dept. of the Interior</u>		
Compact of Free Association:	15.875	
211(A) Capital Account		\$ 5,684,529
221(B) Special Block Grant		779,301
Special Development Assistance		3,302
Health and Medical		193,051
Post Secondary Education		163,820
Energy Programs		777,551
TTPI Capital Projects		<u>52,329</u>
Total CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>7,653,883</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		<u>\$ 7,653,883</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		<u>\$ 8,451,732</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>90.6%</u>

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs  
Year Ended September 30, 1994

**Federal Findings**

**Drug-Free Workplace Act**

1. **Criteria:** Per the Office of Management and Budget Compliance Supplement, grantees are required to provide employees a drug-free workplace. In order to satisfy the above requirement, the following procedures must be performed:
  - a) Publishing a policy statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violation of such prohibition;
  - b) Establishing an ongoing drug-free awareness program to inform employees about:
    - . The dangers of drug abuse in the workplace;
    - . The grantee's policy of maintaining a drug-free workplace;
    - . Any available drug counseling, rehabilitation, and employee assistance programs, and,
    - . The penalties that may be imposed upon employees for drug abuse violations occurring in the workplace;
  - c) Making it a requirement that each employee to be engaged in the performance of the grant be given a copy of the statement required by paragraph (a);
  - d) Notifying the employee in the statement required by paragraph (a) that, as a condition of employment under the grant, the employee will:
    - . Abide by the terms of the statement; and
    - . Notify the employer in writing of any criminal drug statute conviction for a violation occurring in the workplace no later than five calendar days after such conviction;
  - e) Notifying the agency in writing within ten calendar days after receiving notice under subparagraph (d) (2) from an employee or otherwise receiving actual notice of such conviction;

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, continued**

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

**Criteria, continued:**

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

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

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

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

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

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

**Auditee Response and Corrective Action Plan:** The Personnel Division has been assigned the responsibility to establish policy and procedures to accomplish the required compliance by June 30, 1996.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, continued**

**Allowable Costs/Cost Principles - JTPA (CFDA #17.250)**

2. **Criteria:** Supporting documentation for expenditures under federal programs should be complete and accurate.

**Condition:** We noted situations where a project had been extended, but the paperwork for the extension had not been filed; a timesheet filed for support was not signed as being properly authorized; and the files we reviewed had no documentation of progress reports and follow-up reports being performed.

**Cause:** The cause appears to be a lack of complete and accurate filing and adequacy of supporting documentation.

**Effect:** The effect is possible future questioned costs related to the lack of documentation.

**Recommendation:** We recommend that files supporting expenditures under federal programs be complete and accurate.

**Prior Year Status:** Incomplete and inaccurate supporting documents for JTPA program expenditures was reported as a finding in the Single Audits of the Yap State Government for fiscal years 1992 and 1993.

**Auditee Response and Corrective Action Plan:** The JTPA Section of the Manpower and Training Division has been instructed to properly complete their operating files.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, continued**

**Administrative Requirements - Equipment Management**

3. **Criteria:** 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.

**Condition:** A physical inventory of property has not been performed in over two years.

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

**Effect:** The effect is noncompliance with the Administrative Requirements over federal grants.

**Recommendation:** We recommend that a physical inventory of property be taken and the results reconciled to the property records at least once every two years.

**Auditee Response and Corrective Action Plan:** The Real and Personal Property Management Division has been instructed to accomplish a physical inventory of property by December 31, 1995.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, continued**

**Administrative Requirements - Equipment Management, Continued**

4. **Criteria:** An updated property ledger by funding source should be maintained for all of Yap State Government.

**Condition:** The Division of Real and Personal Property Management (RPPM) maintains property cards. However, these records have not been updated in the accounting system.

**Cause:** The off-site terminal used by RPPM no longer works and no manual ledgers appear to have been prepared.

**Effect:** 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.

**Recommendation:** We recommend that property ledgers be maintained on a timely basis by funding source in the General Fixed Assets Account Group.

**Auditee Response and Corrective Action Plan:** The RPPM Division has been instructed to bring the records up to date by June 30, 1996.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, continued**

**Administrative Requirements - Procurement**

5. **Criteria:** The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 36 (b) (12) requires grantees and subgrantees have written protest procedures to handle and resolve disputes relating to their procurements.

**Condition:** We noted no written procedures regarding protests over procurement procedures.

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

**Effect:** The effect is noncompliance with the Administrative Requirements over federal grants.

**Recommendation:** We recommend that a written policy be adopted and added to the regulations regarding procedures to handle and resolve disputes relating to procurement procedures.

**Auditee Response and Corrective Action Plan:** The Central Supply and Procurement Division has been instructed to prepare a proposed revision to the appropriate regulations by December 31, 1995.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, continued**

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

6. **Criteria:** The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 35 requires that grantees and subgrantees not award or permit any award to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal Assistance programs.

**Condition:** We noted that Yap State did not have a copy of the Lists of Parties Excluded from Federal Procurement or Nonprocurement Programs, issued by the General Services Administration (GSA). Additionally, Yap State does not require that recipients of contracts, subcontracts, or subgrants certify that the organization and its principals are not suspended or debarred.

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

**Effect:** The effect is noncompliance with the Administrative Requirements over federal grants.

**Recommendation:** We recommend that Yap State obtain copies of the GSA lists and require certification for their contracts and subgrants greater than \$25,000 that the organization and its principals are not suspended or debarred.

**Auditee Response and Corrective Action Plan:** The Central Supply and Procurement Division has been instructed to obtain the GSA lists and the Office of Planning and Budget has been instructed to include the required certification in future MOU's on contracts under Federal Grants.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, continued**

**Allowable Costs/Cost Principles**

7. Criteria: 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's policies and procedures over procurements.

Condition: 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.

Cause: The cause of this condition is unknown.

Effect: We noted no material effect due to the review by the responsible individual in Finance. However, if that employee is gone, noncompliance may occur.

Recommendation: We recommend that OMB Circular A-87 requirements be incorporated into Yap's policies and procedures for more complete control and documentation over these requirements.

Auditee Response and Corrective Action Plan: The Central Supply and Procurement Division has been instructed to prepare proposed revisions to the appropriate regulations by December 31, 1995.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Federal Findings, continued**

**Cash Management - FEMA (CFDA # 83.516)**

8. **Criteria:** 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 has been reclassified from Deferred Revenue to Due to Grantor as of September 30, 1994.

**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.

**Auditee Response and Corrective Action Plan:** The Program Coordinator for FEMA is currently in the process of accomplishing this recommendation which should be completed by September 30, 1995.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Local Findings**

**CFSM Receivables**

1. **Criteria:** Receivable balances should be reconciled and analyzed for collectibility.

**Condition:** A receivable from the FSM National Government for CFSM grants (Fund 500000) recorded in the amount of approximately \$814,207 at fiscal year end compared to the FSM National Government recorded liability to Yap State for CFSM grants of approximately \$85,908.

**Cause:** This condition appears to be related to a carry forward of prior year unreconciled variances.

**Effect:** The effect is that the receivable difference is now reserved as a related asset against fund balance.

**Recommendation:** We recommend that Yap State reconcile its receivable balance with the FSM National Government and determine the collectibility of the balance. Any uncollectible amounts will need to be written off against the General Fund.

**Prior Year Status:** The unreconciled CFSM receivable balance with the FSM National Government was reported as a finding in the Single Audits of the Yap State Government for fiscal years 1992 and 1993.

**Auditee Response and Corrective Action Plan:** The Chief of Finance is responsible to reconcile and collect the balance of this receivable by September 30, 1995.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Local Findings, continued

Purchases and Disbursement Cycle

2. Criteria: When a purchase is deemed necessary, the purchase requisition should flow through the accounting system controls before any obligation is undertaken and proof of receipt should be obtained prior to payment.

Condition: We noted an invoice for \$32,432 (APV #163495) was paid without a supporting requisition form, purchase order, or any preliminary approvals. Additionally, no bidding proposals were submitted by vendors, the proper recording documents were omitted and there was no authorized receiving documentation to support actual receipt of supplies.

Cause: It appears that items were ordered from a vendor without prior approval.

Effect: Unapproved purchases may create unauthorized purchases and excessively high prices may be paid. Lack of proper receiving documentation may prevent unfulfilled shipments from being detected, and noncompliance with the Financial Management Regulations occurs.

Recommendation: We recommend that the Financial Management Regulations be followed.

Auditee Response and Corrective Action Plan: Memo attached to the APV indicated 1. that the materials had in fact been received and 2. that there was only one available source for the ready mixed contracted required for the airport repairs. While that mitigates some of the finding it does not change the fact that the materials were ordered and used without purchase orders having been issued, thus in violation of the Financial Management Act (FMA).

The department responsible for the violation of the FMA has been warned and instructed to follow the correct procedures when obtaining airport repair materials in the future.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Local Findings, continued

Purchases and Disbursement Cycle, Continued

3. Criteria: Obligations of funds should not be made without fund certification.

Condition: Eight Orgs. exist (2118, 2127, 2138, 2448, 6119, 6120, 6144, 6145) for which budgetary expenditures exceeded the budget.

Cause: The cause of this condition is unknown.

Effect: The effect is noncompliance with the Financial Management Act.

Recommendation: We recommend that obligations in excess of budgets not be allowed.

Auditee Response and Corrective Action Plan: According to our records, Org. 2138 was not exceeded.

The Budget Office has been reminded that they should not authorize overrides which are not subsequently covered by reprogramming or additional funding.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Local Finding, continued

Budgetary

4. Criteria: Budget documents should be properly prepared and reprogrammings should be properly authorized.

Condition: Three allotment advices (Orgs. 1121, 1122, & 1541) appeared to contain typing errors. However, the budget authorization posted to the system appeared correct. We also noted two Orgs. (1061 & 1211) for which reprogramming totaling \$100 did not appear to be authorized and documented.

Cause: The cause of this condition is unknown.

Effect: The unauthorized reprogramming represents noncompliance with the State Budget Act and the error in the allotment advices appears to have no effect as the proper amount was posted to the system.

Recommendation: We recommend that reprogramming only be performed in compliance with the Budget Act and that allotment advices be carefully reviewed for accuracy.

Auditee Response and Corrective Action Plan: From our records, no reprogramming was made in FY94 for Org. 1061. However, the \$100 excess is an error on the allotment advice, the data reflected in the computer being correct.

The Budget Office has been instructed to be more careful in the preparation in the preparation of allotment forms.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

**Local Findings, continued**

**Deferred Revenue-CFSM**

5. **Criteria:** Advanced funds should be properly applied in a timely manner and any restrictions or requirements should be documented.

**Condition:** \$18,651 of funds advanced by the FSM National Government, as matching funds for the Federal Emergency Management Agency Public Assistance Program-Typhoon Owen, remain in deferred revenue as of September 30, 1994, while the Program was completed in December, 1993. The program Coordinator was not aware of these funds and uncertain whether they were to be returned to the FSM National Government or whether other restrictions were placed on them.

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

**Effect:** The effect is possible noncompliance in not returning the funds or in future uses of the funds.

**Recommendation:** We recommend that the remaining advanced funds be investigated to determine whether they are to be properly applied to the program and that the FSM National Government be contacted to determine the proper disposition of these funds.

**Auditee Response and Corrective Action Plan:** The Program Coordinator for FEMA is currently in the process of accomplishing this recommendation which should be completed by September 30, 1995.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1994

Local Findings, continued

Prisoner's Feeding Fund

6. Criteria: Monies paid for services performed should be subject to FSM taxes unless the services were performed by an instrumentality of the Government or by a duly authorized not-for-profit corporation. If services are paid to a department of the Government, the Department of Administrative Services should maintain control over the use of such funds.

Condition: Yap State prisoners perform various services. Compensation for those services are paid by the State into a bank account for the prisoners. Disbursements are executed by Department of Public Safety personnel. No tax is paid on the services and the prisoners do not appear to be established as a non-taxable entity. Therefore, either the funds should be under the control of the Department of Administrative Services and the services subject to gross receipts tax, or the prisoners should incorporate as a valid not-for-profit entity.

Cause: The State does not appropriate funds to feed inmates and this system has been devised to accomplish that task.

Effect: Either a violation of the Yap State Constitution or a violation of FSM tax laws has occurred.

Recommendation: Corrective action should transpire.

Auditee Response and Corrective Action Plan: These funds will be brought under the direct control of the Department of Administrative Services.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
UNRESOLVED PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 1994

QUESTIONED COSTS

For the year ended September 30, 1994, the following questioned costs were noted and prior year questioned costs resolved:

Unresolved federal questioned costs at September 30, 1993	\$216,280
FY94 questioned costs	-
Resolved questioned costs	<u>-</u>
 Total unresolved federal questioned costs at September 30, 1994	 <u>\$216,280</u>

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

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

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

FINDINGS

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 94 to 108).

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL STRUCTURE  
YEAR ENDED SEPTEMBER 30, 1994**



**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL STRUCTURE  
BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS  
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, 1994, and have issued our report thereon dated March 9, 1995. Our report on the audit of the general-purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and the lack of data necessary to account for an investee on the equity method 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 Component Unit - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council - Proprietary Fund Type Component Units; and 4) our inability to determine the effects of not updating the General Fixed Assets Account Group.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

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

nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the general-purpose financial statements of the State of Yap for the year ended September 30, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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

The following items, which are further described in the accompanying Schedule of Internal Control Findings (pages 114 to 138), represent reportable conditions:

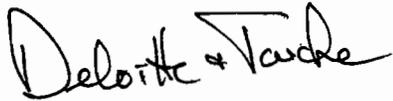
- Finding No. 1 - Yap Fishing Authority - Receivables.
- Finding No. 2 - Yap Fishing Authority - Fixed Assets.
- Finding No. 3 - Fixed Asset.

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

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

We also noted other matters involving the internal control structure and its operation, which are described in the accompanying Schedule of Internal Control Findings in Findings No. 4 through 25, which we have reported to the management of the State of Yap.

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

A handwritten signature in cursive script that reads "Deloitte & Touche".

March 9, 1995



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings  
Year Ended September 30, 1994

**Yap Fishing Authority - Receivables**

**Finding No. 1**

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

**Condition:** The Yap Fishing Authority (the Authority) does not aggressively pursue receivable collection as numerous accounts of significant amounts are long-outstanding. Accounts greater than \$5,000 which have been outstanding for more than one year as of September 30, 1994, are as follows:

<u>Customer</u>	<u>Amount</u>
Okinawa Fishers Int.	\$118,343
Micronesia Fresh Tuna	69,746
Union Mart	23,720
Hawaiian Food Dist.	20,761
Pacific Island Seafood	12,242
Banana Patch	6,774
Rik Trading Co.	<u>6,437</u>
	<u>\$258,023</u>

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

**Effect:** The effect of this condition is poor cash management and collection problems resulting from the lack of timely and consistent collection efforts.

**Recommendation:** We recommend that the Board of Directors aggressively pursue these long-outstanding receivables and write-off those that are determined to be uncollectible. Additionally, we recommend the Board implement and enforce a policy which limits credit and imposes restrictions on delinquent customers.

**Prior Year Status:** The Authority's lack of implementation of procedures for collection of receivables was reported as a finding in the Yap State Government Single Audits for fiscal years 1987 through 1993.

**Auditee Response and Corrective Action Plan:** This finding has been referred to the Authority's Board of Directors for action.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Yap Fishing Authority - Fixed Assets**

**Finding No. 2**

**Criteria:** Fixed assets are to be valued at historical cost.

**Condition:** Documentation substantiating the historical cost of several asset additions card not be located.

**Cause:** The cause of the condition is the lack of documentation retained in previous years to substantiate values recorded as fixed assets.

**Effect:** A possible misstatement of Yap Fishing Authority's fixed asset accounts could occur.

**Recommendation:** It is recommended that the value of all existing assets be substantiated by reference to original cost or reasonable approximation, and such value be reflected in the records.

**Prior Year Status:** The lack of documentation supporting the Authority's fixed assets was reported as a finding in Yap State Government Single Audits for fiscal years 1991 through 1993.

**Auditee Response and Corrective Action Plan:** This finding has been referred to the Authority's Board of Directors for action.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Fixed Assets**

**Finding No. 3**

**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 and 1993.

**Auditee Response and Corrective Action Plan:** It is our understanding that this report and supporting documentation has now been found in the FSM Office of Planning and Budget.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Payroll**

**Finding No. 4**

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

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

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

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

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

**Prior Year Status:** Not properly calculating and supporting stand-by differential pay was reported as a finding in the Yap State Government Single Audit for fiscal year 1993.

**Auditee Response and Corrective Action Plan:** The Chief of Finance is responsible to properly train the payroll staff by September 30, 1995.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Payroll, continued**

**Finding No. 5**

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

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

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

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

**Recommendation:** We recommend that the Yap State Public Auditor, on a surprise basis, observe check disbursement of each office, department, section, etc. at least annually.

**Prior Year Status:** The lack of requiring employees to sign for the receipt of paychecks was reported as a finding in the Yap State Government Single Audit for fiscal year 1993.

**Auditee Response and Corrective Action Plan:** When a Public Auditor is hired he will be requested to observe the payroll of each office, department, agency, or branch at least once a year.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Payroll, continued**

**Finding No. 6**

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

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

**Cause:** The payroll department has numerous reports to file and some have been misplaced.

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

**Recommendation:** We recommend that a checklist of the necessary payroll reports be prepared and signed-off after each pay period to ensure that a clear audit trail is maintained. The reports that are to be printed, reviewed, and filed each pay period are: Timesheets, Payroll Register, Distribution Transaction Report, Distribution Transaction Edit, Hours Entry, Allotment Report, A/P Update, Accrued Leave Balance, and the Social Security Report.

**Prior Year Status:** Missing payroll reports was reported as a finding in the Yap State Government Single Audit for fiscal year 1993.

**Auditee Response and Corrective Action Plan:** The Chief of Finance is responsible to insure that all payroll reports are prepared and properly filed.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Cash and Equivalents**

**Finding No. 7**

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

**Condition:** Approximately \$12,641 of stale dated checks were noted in fiscal year 1993 in the payroll account and have not been cleared in fiscal year 1994. Stale dated checks are those greater than one year old.

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

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

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

**Prior Year Status:** The improper classification of stale dated payroll checks was reported in the Yap State Government Single Audit for fiscal year 1993.

**Auditee Response and Corrective Action Plan:** Because of limited check cashing facilities in the islands, it is government policy to leave uncashed checks outstanding for a considerable time past the date on which they become stale. It is then possible to just change the issue date on the checks when they are finally going to be presented for payment. The outstanding list at September 30, 1995 will be reviewed to determine if any of the stale dated checks can be removed.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Payroll**

**Finding No. 8**

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

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

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

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

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

**Prior Year Status:** The finding was reported in the Yap State Government Single Audit for fiscal year 1993.

**Auditee Response and Corrective Action Plan:** This is not considered to be a "revenue source" but simply a reimbursement of unbudgeted costs.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases and Disbursement Cycle**

**Finding No. 9**

**Criteria:** If the certifying officer changes an account to be charged due to funds availability, adequate follow-up should ensure proper posting.

**Condition:** We noted one instance where a certifying officer changed an account to be charged. However the change was not recorded when the transaction was posted.

**Cause:** This situation appears to be due to the certifying officer not ensuring that account changes were properly posted.

**Effect:** Not following up on changes made by the certifying officer may create a deficit in some funds.

**Recommendation:** We recommend that any changes made by the certifying officer be adequately followed up to ensure proper posting.

**Auditee Response and Corrective Action Plan:** All certifying officers have been instructed to ensure proper posting of account numbers.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases and Disbursement Cycle, Continued**

**Finding No. 10**

**Criteria:** When funds become committed, an encumbrance should be established to reflect the obligation.

**Condition:** Post-secondary scholarships have not been encumbered.

**Cause:** It appears that the current policy is to expend the amounts as checks are requested. The encumbrance process has not been used.

**Effect:** Not recording encumbrances is a failure to utilize the budget system. Also not encumbering obligations can create budget deficits.

**Recommendation:** We recommend that all approved scholarships be encumbered on an annual basis.

**Auditee Response and Corrective Action Plan:** The nature of scholarships and their payment produce only tentative encumbrances with no certainty of payment. Scholarships are divided into school periods and only paid if a student meets certain scholastic criteria in order to receive payment. In fact, many do not meet these criteria and no subsequent payment is made. Because the obligation is tentative and many are never paid, recording encumbrances would be a cumbersome procedure resulting in no real control as intended by the budget system. In addition, we do not believe deficits will occur because of the nearly \$200,000 reserve for scholarship established as an expendable trust fund by the Yap State Legislature.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases and Disbursement Cycle, Continued**

**Finding No. 11**

**Criteria:** All purchases and expenditures should be fully approved before any services are rendered or obligations undertaken. Also any repairs contracted out should be documented as to the cause of damage, and invoices should be in sufficient detail to assess charges made.

**Condition:** It appears that the intent of control procedures were circumvented in a case of vehicle repairs. In the case noted, a vehicle repair purchase order was produced for "complete body repair, painting, undercoat, washing and cleaning". A check was made and an invoice produced two days later for \$1,900. No details of the repairs were available and the reason for the repairs were not documented.

**Cause:** Purchase orders are approved based on pro-forma invoices when it appears work has already been completed. The same invoice is then submitted for payment without detailed documentation of requested repairs.

**Effect:** This condition may result in the overpayment of repairs or payment of fictitious repairs.

**Recommendation:** We recommend that before any repairs are undertaken, documentation be produced detailing the cause of the repairs and invoices should be sufficiently detailed to assess the reasonableness of the charges.

**Auditee Response and Corrective Action Plan:** It is difficult to control this area of purchasing because of collusion between government employees and the repair shops. The Chief Accountant will continue to monitor these purchases for compliance as part of the normal purchasing procedures.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases and Disbursement Cycle, Continued**

**Finding No. 12**

**Criteria:** Yap State contracts in excess of \$10,000 require bids to be requested for the project. Bid responses should be maintained with the bid acceptance to verify compliance with the Financial Management Regulations.

**Condition:** Bidding documents for the purchase of heavy equipment were kept in a number of boxes in addition to manufacture's brochures and other non-audit related documents. For the transactions selected, documentation supporting the bids was eventually located;; however, it was a time consuming and uncertain process.

**Cause:** Files supporting bid proposals and selections were not well maintained.

**Effect:** Failure to store only necessary documents in an orderly fashion may result in a lack of audit trail and possible noncompliance with the Financial Management Regulations.

**Recommendation:** We recommend that only pertinent information regarding bids be maintained in contract files in an orderly and logical fashion.

**Auditee Response and Corrective Action Plan:** The departments which do this type of purchasing have been instructed to maintain better files of their bidding transactions.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases and Disbursement Cycle, Continued**

**Finding No. 13**

**Criteria:** Medical referrals should be used as the basis to record encumbrances and only related expenditures should be charged against them.

**Condition:** An encumbrance for \$12,620 (APV #152406) was recorded for a medical bill which was previously paid. Subsequently, unauthorized expenditures were improperly offset against the encumbrance.

**Cause:** It appears that an encumbrance was established for an item previously paid. Expenditures related to the same patient were later charged improperly against the encumbrance.

**Effect:** Incorrect encumbrances may be established without a basis for liquidation thereby creating reconciliation problems.

**Recommendation:** We recommend that referrals be used to establish encumbrances and only expenditures relating to that encumbrance be charged against it.

**Auditee Response and Corrective Action Plan:** The Department of Health Services has been instructed to submit encumbrance documents at the time a medical referral is made.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases and Disbursement Cycle, Continued**

**Finding No. 14**

**Criteria:** Payments for medical bills should be preceded by authorization for the medical referral.

**Condition:** A medical bill for \$3,163 (APV # 158400) was paid without proper authorization.

**Cause:** It appears that the hospital uses a document to summarize hospital invoices and it is then sent to Finance for payment; however the form does not contain a routing requirement to obtain necessary approvals.

**Effect:** Failure to require proper authorization prior to payment of medical bills may result in payment of unauthorized expenditures.

**Recommendation:** We recommend that the hospital's document include authorized signatures and that these signatures be present before any obligations of funds are made.

**Auditee Response and Corrective Action Plan:** The Department of Health Services has been instructed to sign their requests for payment.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Purchases and Disbursement Cycle, Continued**

**Finding No. 15**

**Criteria:** All transactions should be posted to the correct account.

**Condition:** The account charged in the general ledger and the supporting documents did not agree, for one disbursement, (check #51571, APV #159232 - posted to 8318 rather than 8314).

**Cause:** It appears the transaction was posted to the wrong account.

**Effect:** Balances may exist which do not reflect the actual underlying transactions.

**Recommendation:** We recommend that policies and procedures be implemented to ensure that all transactions are properly posted to the general ledger.

**Auditee Response and Corrective Action Plan:** The Finance Office staff that inputs data to the computer have been reminded to be careful in their work so that expenditures are charged to the correct object class accounts.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**External Financial Reporting**

**Finding No. 16**

**Criteria:** A schedule to tie Appropriation Laws to the Budget Office's Allotment Advices should be prepared on a timely basis.

**Condition:** No allotment schedule was prepared by the Budget Office for the fiscal year 1994 Appropriation Laws.

**Cause:** This appears to be due to the Budget Office losing the employee who had prepared this schedule in the past.

**Effect:** There was no material effect on the financial statements due to the absence of the allotment schedule.

**Recommendation:** We recommend that the Budget Office prepare the allotment schedule on a timely basis to clearly document that the Budgetary process has been properly recognized and updated in the financial statements.

**Auditee Response and Corrective Action Plan:** The Budget Office staff has been instructed to prepare the appropriate schedule.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Payroll**

**Finding No. 17**

**Criteria:** Whenever a change is made to a personnel action form, the change should be effective to the date intended.

**Condition:** A personnel action form documented a change in the account to be charged for an employee. However, the change did not take effect until one pay period after the "effective date".

**Cause:** It appears that the change per the personnel action form became effective only after entry to the computerized payroll system. We noted no entry to made the change retroactive to the proper date.

**Effect:** This condition may cause the wrong accounts to be charged.

**Recommendation:** We recommend that procedures be put in place to ensure that all changes in the personnel action form become effective to the date intended.

**Auditee Response and Corrective Action Plan:** The Payroll Section has been instructed to be certain effective dates of personnel changes are correctly entered in the computer.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

Payroll, Continued

Finding No. 18

Criteria: Overtime calculations should be based on current personnel policies.

Condition: It appears that employees are being paid overtime when not working a full forty hour work week.

Cause: The cause of this condition is unknown.

Effect: The effect is noncompliance with personnel policies.

Recommendation: We recommend that payroll staff be made aware of and comply with current overtime policies.

Auditee Response and Corrective Action Plan: The timesheet currently in use needs to be revised to show the data necessary so that the Payroll Staff can monitor the calculation for compliance with the regulations.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**External Financial Reporting**

**Finding No. 19**

**Criteria:** The Financial Management Regulations should be updated to reflect changes in the financial accounting process.

**Condition:** Section 503 of the Financial Management Regulations indicate that the Division of Procurement and Management certifies funds availability and issues purchase orders. However, these tasks are currently performed by the Finance Division.

**Cause:** This appears to be due to not updating the Financial Management Regulations on a timely basis.

**Effect:** This condition leads to apparent noncompliance with Financial Management Regulations, when instead it appears the Financial Management Regulations are actually outdated.

**Recommendation:** We recommend that the Financial Management Regulations be updated to reflect the actual financial accounting process.

**Auditee Response and Corrective Action Plan:** The Chief Accountant is responsible to prepare proposed changes to the FMA by September 30, 1995.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Receivables**

**Finding No. 20**

**Criteria:** Receivables should be accrued and followed up on a timely manner.

**Condition:** We noted no one had been tracking leases and repair and maintenance fees receivables since the previous Chief Accountant left in May, 1994.

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

**Effect:** The effect is a possible understatement of receivables and poor cash management.

**Recommendation:** We recommend that the leases and repair and maintenance fee receivables be tracked and followed up on a monthly basis.

**Auditee Response and Corrective Action Plan:** The administration of these receivables is the responsibility of the Land Management Division and the Housing Section.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Revenue and Receipt Cycle**

**Finding No. 21**

**Criteria:** Revenues should be separately recognized for appropriation purposes.

**Condition:** Allotments for a percentage charge for referral patients was credited to the medical referral expenditure account. (Org. 2448, Account 8460).

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

**Effect:** The effect is to improperly offset expenditures and understate revenues related to the medical referral program.

**Recommendation:** We recommend that charges related to medical referrals be separately recognized in compliance with the Financial Management Act.

**Auditee Response and Corrective Action Plan:** This error in recording this revenue has been corrected.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Public Transportation System - Inventory**

**Finding No. 22**

**Criteria:** Documentation of inventory receipts and issuances should be maintained. Employees assigned to new jobs should be adequately trained and informed of the job requirements.

**Condition:** Details of inventory flows were not maintained for a number of months. Also the accounting related records for inventory were not maintained. An accounting person assuming a new job was inadequately trained regarding computer applications and report maintenance.

**Cause:** It appears a key inventory employee was absent for a number of months and inventory issuance and receipt reports were no longer produced for accounting. Also a vacant accounting position was filled by someone lacking knowledge of computer applications and reports to be maintained.

**Effect:** Inadequate documentation of inventory flow affects recorded inventory, purchases and expenses. Not providing the necessary training to accounting personnel including job descriptions/requirements may result in unreliable accounting data.

**Recommendation:** We recommend that sufficient training be provided to personnel acquiring new positions. Upon extended employee absences, all necessary control procedures continue to be performed.

**Auditee Response and Corrective Action Plan:** This finding has been referred to the PTS Board of Directors for action.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Public Transportation System - Inventory, Continued**

**Finding No. 23**

**Criteria:** Inventory should not include obsolete items.

**Condition:** Inventory consisted of items for buses no longer in use.

**Cause:** It appears that a regular assessment of inventory, used as a basis for purging obsolete or unusable items, is not performed.

**Effect:** Carrying unnecessary items in inventory makes inventory management difficult.

**Recommendation:** We recommend that all inventory items be assessed and unusable items be documented and sold/disposed of.

**Auditee Response and Corrective Action Plan:** This finding has been referred to the PTS Board of Directors for action.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Public Transportation System - Fixed Assets**

**Finding No. 24**

**Criteria:** Fixed assets are to be depreciated over their estimated useful lives.

**Condition:** The depreciation charge for fiscal year 1994 fell 49.7% from the previous year despite the purchase of an additional six buses.

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

**Effect:** Fixed assets may be overstated and depreciation charge understated.

**Recommendation:** We recommend that a fixed asset register be maintained listing each asset, date of purchase, useful life and accumulated depreciation.

**Auditee Response and Corrective Action Plan:** This finding has been referred to the PTS Board of Directors for action.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Schedule of Internal Control Findings, Continued  
Year Ended September 30, 1994

**Yap Fishing Authority - Cash and Equivalents**

**Finding No. 25**

**Criteria:** A petty cash count should be performed at year-end and vouchers should be maintained for issued petty cash funds.

**Condition:** The petty cash was entirely issued without petty cash vouchers prepared to support the issuances.

**Cause:** This situation appears to be due to petty cash vouchers not being issued until a cash receipt is returned for issued funds.

**Effect:** The effect is a lack of documented control over petty cash which could lead to abuses of the petty cash fund.

**Recommendation:** We recommend that a petty cash voucher be issued and signed by the person receiving the funds immediately upon issuance. We also recommend that a petty cash count and reconciliation be performed and documented at fiscal year-end and as replenishments are necessary.

**Auditee Response and Corrective Action Plan:** This finding has been referred to the YFA Board of Directors for action.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
Unresolved Prior Year Internal Control Findings  
Year Ended September 30, 1994

Unresolved Prior Year Findings

The status of unresolved prior year internal control findings is disclosed within the Schedule of Internal Control Findings (pages 114 to 138).