

STATE OF YAP
FEDERATED STATES OF MICRONESIA

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

YEAR ENDED SEPTEMBER 30, 1996

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
YEAR ENDED SEPTEMBER 30, 1996**

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STATE OF YAP
FEDERATED STATES OF MICRONESIA
GENERAL PURPOSE FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 1996

**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, 1996, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Yap. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

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

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

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

Records substantiating transactions of Public Transportation System, a Proprietary Fund Type - Enterprise Fund were not sufficient to allow us to express an opinion on those statements, which comprise 5% and 89% of the assets and operating revenues, respectively, of the Proprietary Fund Type - Enterprise Fund.

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

Yap State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1996, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general purpose financial statements.

In our opinion, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had; 1) original cost data been available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit-Proprietary Fund; 2) audited financial statements been available for the Yap Fishing Corporation, a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund, and for the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council, Component Units - Proprietary Funds; 3) financial statements of Yap Community Action Program, a Component Unit - Governmental Fund, been available; 4) the propriety of financial statements of the Public Transportation System, a Proprietary Fund Type - Enterprise Fund been determinable; and 5) the General Fixed Assets Account Group been updated, the accompanying general purpose financial statements, as set forth in Section II of the table of contents, with the exception of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group, upon which we are unable to express an opinion because of the matters specified in the foregoing paragraphs, present fairly, in all material respects, the financial position of the State of Yap, as of September 30, 1996, and the results of its operations and the cash flows of its Proprietary Fund Type - Internal Service Fund and Component Units - Proprietary Funds for the year then ended, in conformity with generally accepted accounting principles.

As further explained in note 15, an investee of the Yap Economic Development Authority has been placed in receivership as of February 25, 1995, is involved in significant litigation, and is not in compliance with various debt covenants. The impact of these matters on the accompanying general purpose financial statements is currently not determinable. Accordingly, no provision for any liability that may result upon resolution of this matter has been recorded in the accompanying general purpose financial statements.

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

In accordance with Government Auditing Standards, we have also issued a report dated April 17, 1997 on our consideration of the State of Yap's (Primary Government and Yap Fishing Authority) internal control structure and a report dated April 17, 1997 on its compliance with laws and regulations.

Deloitte Touche LLP

April 17, 1997

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 1996
(With comparative totals as of September 30, 1995)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Units		Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt		Yap Fishing Authority	Yap State Public Service Corporation	1996	1995
Assets													
Cash and equivalents (note 3)	\$ -	\$ -	\$ -	\$ 148,810	\$ -	\$ 203,184	\$ -	\$ -	\$ 351,994	\$ 4,645	\$ 1,308,261	\$ 1,664,900	\$ 961,921
Investments (note 4)	52,822,573	2,190,027	60,302	8,500,000	-	-	-	-	63,572,902	1,863,961	-	65,436,863	69,094,918
Receivables, net (note 5):													
Other governments	-	299,733	-	-	-	-	-	-	299,733	-	-	299,733	440,572
Federal agencies	-	-	-	-	-	-	-	-	-	-	-	-	174,927
U.S. Department of the Interior-TTPI	-	-	453,697	-	-	-	-	-	453,697	-	-	453,697	886,516
Federal and other-FSM government	265,363	1,433,678	470,458	-	-	-	-	-	2,169,499	-	-	2,169,499	1,805,855
General	23,714	-	-	27,942	4,740	-	-	-	56,396	80,319	374,913	511,628	356,465
Loans	7,588,543	-	8,500,000	2,000,000	-	-	-	-	18,088,543	-	-	18,088,543	18,528,618
Accrued interest on investments	-	-	-	-	-	-	-	-	-	-	-	-	3,677
Due from other funds (note 9)	-	1,178,451	5,415,213	-	227,913	23,450	-	-	6,845,027	-	-	6,845,027	7,996,798
Advances and prepayments (note 5)	75,816	34,812	4,175	-	-	-	-	-	114,803	152,022	8,470	275,295	196,825
Restricted assets	-	-	-	-	-	-	-	-	-	-	-	-	1,100,955
Inventory of supplies, at cost (note 6)	398,975	-	-	38,673	62,248	-	-	-	499,896	145,380	226,782	872,058	557,284
Fixed assets, net (note 7)	-	-	-	289,809	-	-	64,620,758	-	64,910,567	3,878,824	6,959,345	75,748,736	69,257,708
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	37,369,816	37,369,816	-	-	37,369,816	45,016,897
Total assets	\$ 61,174,984	\$ 5,136,701	\$ 14,903,845	\$ 11,005,234	\$ 294,901	\$ 226,634	\$ 64,620,758	\$ 37,369,816	\$ 194,732,875	\$ 6,125,151	\$ 8,877,771	\$ 209,735,795	\$ 216,379,936

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, 1996
(With comparative totals as of September 30, 1995)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Units		Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt		Yap Fishing Authority	Yap State Public Service Corporation	1996	1995
Liabilities and Fund Equity													
Liabilities:													
Bank overdraft	\$ 319,056	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 319,056	\$ -	\$ -	\$ 319,056	\$ -
Accounts payable	347,912	117,916	172,048	2,730	-	-	-	-	640,606	101,896	153,867	896,369	743,774
Accrued payroll and others	345,212	-	-	6,102	-	-	-	569,816	921,130	18,514	77,809	1,017,453	975,381
Intergovernmental note payable	-	-	-	2,000,000	-	-	-	-	2,000,000	-	-	2,000,000	2,000,000
Loans payable - Yap State	-	-	-	6,500,000	-	-	-	-	6,500,000	-	-	6,500,000	6,500,000
Due to other funds (notes 9)	4,437,264	134,605	859,987	86,509	-	-	-	-	5,518,365	-	-	5,518,365	7,996,798
Due to grantor	-	-	-	-	-	-	-	-	-	-	-	-	109,750
Deferred revenue	-	1,461,267	-	-	-	-	-	-	1,461,267	-	-	1,461,267	165,600
Notes payable (notes 8 and 13)	-	-	-	-	-	-	-	36,800,000	36,800,000	-	-	36,800,000	44,500,000
Land acquisition claims payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	5,449,444	1,713,788	1,032,035	8,595,341	-	-	-	37,369,816	54,160,424	120,410	231,676	54,512,510	62,991,303
Fund equity:													
Contributed capital	-	-	-	7,270,398	-	-	-	-	7,270,398	6,880,963	7,845,320	21,996,681	13,783,068
Investment in general fixed assets	-	-	-	-	-	-	64,620,758	-	64,620,758	-	-	64,620,758	64,620,758
Retained earnings (deficit):													
Reserved	-	-	-	(4,860,505)	64,363	-	-	-	(4,796,142)	-	-	(4,796,142)	(4,785,598)
Unreserved	-	-	-	-	230,538	-	-	-	230,538	(876,222)	800,775	155,091	(50,777)
Fund balances:													
Reserved for:													
Related assets	38,552,383	-	-	-	-	-	-	-	38,552,383	-	-	38,552,383	46,466,405
Loans	7,588,543	-	8,500,000	-	-	-	-	-	16,088,543	-	-	16,088,543	17,629,573
Encumbrances	252,771	665,274	1,445,372	-	-	-	-	-	2,363,417	-	-	2,363,417	3,285,050
Continuing appropriations (note 14)	65,288	-	2,098,829	-	-	-	-	-	2,164,117	-	-	2,164,117	2,899,909
Unreserved	9,266,555	2,757,639	1,827,609	-	-	226,634	-	-	14,078,437	-	-	14,078,437	9,540,245
Total fund equity	<u>55,725,540</u>	<u>3,422,913</u>	<u>13,871,810</u>	<u>2,409,893</u>	<u>294,901</u>	<u>226,634</u>	<u>64,620,758</u>	<u>-</u>	<u>140,572,449</u>	<u>6,004,741</u>	<u>8,646,095</u>	<u>155,223,285</u>	<u>153,388,633</u>
Contingent liabilities and commitments (notes 12 and 13)													
Total liabilities and fund equity	\$ 61,174,984	\$ 5,136,701	\$ 14,903,845	\$ 11,005,234	\$ 294,901	\$ 226,634	\$ 64,620,758	\$ 37,369,816	\$ 194,732,873	\$ 6,125,151	\$ 8,877,771	\$ 209,735,795	\$ 216,379,936

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)**

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1996	1995
Revenues:						
Compact of Free Association	\$ 7,252,118	\$ 2,886,296	\$ 4,462,377	\$ -	\$ 14,600,791	\$ 14,424,486
Taxes and licenses	1,067,385	-	-	-	1,067,385	995,276
Federal contributions	-	1,433,053	487,025	-	1,920,078	2,335,306
U.S. Dept. of the Interior-TTPI	-	-	36,044	-	36,044	163,795
CFSM grants	-	997,502	538,518	-	1,536,020	1,214,507
Revenue sharing (FSM)	1,563,782	-	-	-	1,563,782	1,260,862
Interest income	149,475	-	-	-	149,475	290,558
Other	1,776,146	255,924	-	-	2,032,070	2,820,796
Total revenues	<u>11,808,906</u>	<u>5,572,775</u>	<u>5,523,964</u>	<u>-</u>	<u>22,905,645</u>	<u>23,505,586</u>
Expenditures:						
General government	1,713,778	-	-	-	1,713,778	1,594,819
Health services	1,585,875	435,003	-	-	2,020,878	2,568,493
Education	1,885,324	2,431,523	-	-	4,316,847	4,608,826
Economic development	609,894	401,951	1,636,701	-	2,648,546	1,936,380
Public safety	555,735	272,587	-	-	828,322	803,777
Public works and utilities	1,205,459	559,035	4,581,288	-	6,345,782	6,531,823
Transportation	1,705,983	-	-	-	1,705,983	1,251,092
Community affairs	228,780	229,805	366,422	4,227	829,234	2,228,080
Boards and commissions	319,216	-	-	-	319,216	347,258
Other	492,938	108,817	36,702	-	638,457	209,497
Total expenditures	<u>10,302,982</u>	<u>4,438,721</u>	<u>6,621,113</u>	<u>4,227</u>	<u>21,367,043</u>	<u>22,080,045</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,505,924</u>	<u>1,134,054</u>	<u>(1,097,149)</u>	<u>(4,227)</u>	<u>1,538,602</u>	<u>1,425,541</u>
Other financing sources (uses):						
Investment income (Note 4)	6,990,554	-	-	-	6,990,554	3,464,496
Operating transfers in (Note 10)	-	958,832	4,010,110	-	4,968,942	5,146,494
Operating transfers out (Note 10)	(6,176,316)	(224,718)	(65,632)	-	(6,466,666)	(5,303,204)
Payments of notes payable and interest (Note 8)	(6,517,106)	(958,832)	(4,010,110)	-	(11,486,048)	(11,613,600)
Total other financing sources (uses), net	<u>(5,702,868)</u>	<u>(224,718)</u>	<u>(65,632)</u>	<u>-</u>	<u>(5,993,218)</u>	<u>(8,305,814)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(4,196,944)</u>	<u>909,336</u>	<u>(1,162,781)</u>	<u>(4,227)</u>	<u>(4,454,616)</u>	<u>(6,880,273)</u>
Fund balances at beginning of year	<u>59,922,484</u>	<u>2,513,577</u>	<u>15,034,591</u>	<u>230,861</u>	<u>77,701,513</u>	<u>86,701,455</u>
Fund balances at end of year	<u>\$ 55,725,540</u>	<u>\$ 3,422,913</u>	<u>\$ 13,871,810</u>	<u>\$ 226,634</u>	<u>\$ 73,246,897</u>	<u>\$ 79,821,182</u>

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, 1996
(With comparative totals for the year ended September 30, 1995)

	1996 General Fund			1995 General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Current account compact funds	\$ 7,301,119	\$ 7,252,118	\$ (49,001)	\$ 7,203,118	\$ 7,154,117	\$ (49,001)
FSM revenue sharing	1,325,850	1,563,782	237,932	1,314,060	1,260,862	(53,198)
Taxes and licenses	1,821,810	1,952,106	130,296	1,431,750	1,444,907	13,157
Interest income	150,000	149,475	(525)	550,000	211,646	(338,354)
Other	1,501,000	891,425	(609,575)	1,847,000	1,824,227	(22,773)
Total revenues	<u>12,099,779</u>	<u>11,808,906</u>	<u>(290,873)</u>	<u>12,345,928</u>	<u>11,895,759</u>	<u>(450,169)</u>
Expenditures-budgetary basis:						
General government	1,971,050	1,711,498	259,552	1,664,953	1,593,365	71,588
Health services	1,746,420	1,554,839	191,581	1,668,840	1,353,136	315,704
Education	1,992,790	1,859,273	133,517	2,063,040	1,853,165	209,875
Economic development	654,790	602,641	52,149	1,050,769	913,792	136,977
Public safety	578,570	559,307	19,263	626,500	635,275	(8,775)
Public works and utilities	1,099,776	1,027,101	72,675	1,969,680	1,883,746	85,934
Transportation	1,440,906	1,400,791	40,115	1,456,780	1,359,758	97,022
Community affairs	-	-	-	828,316	732,842	95,474
Boards and commissions	151,580	124,065	27,515	360,215	335,778	24,437
Other	-	6,351	(6,351)	254,980	182,947	72,033
Total expenditures	<u>9,635,882</u>	<u>8,845,866</u>	<u>790,016</u>	<u>11,944,073</u>	<u>10,843,804</u>	<u>1,100,269</u>
Excess of revenues over expenditures	<u>2,463,897</u>	<u>2,963,040</u>	<u>499,143</u>	<u>401,855</u>	<u>1,051,955</u>	<u>650,100</u>
Other financing sources (uses):						
Investment income	-	-	-	-	3,464,496	3,464,496
Payments of notes payable	-	-	-	-	(6,517,106)	(6,517,106)
Operating transfers out	-	6,990,554	6,990,554	(5,303,204)	(5,303,204)	-
Total other financing sources (uses), net	<u>-</u>	<u>6,990,554</u>	<u>6,990,554</u>	<u>(5,303,204)</u>	<u>(8,355,814)</u>	<u>(3,052,610)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>2,463,897</u>	<u>9,953,594</u>	<u>7,489,697</u>	<u>(4,901,349)</u>	<u>(7,303,859)</u>	<u>(2,402,510)</u>
Fund balance, unreserved, at beginning of year	<u>(3,620,731)</u>	<u>(3,620,731)</u>	<u>-</u>	<u>4,485,251</u>	<u>4,485,251</u>	<u>-</u>
Other changes in unreserved fund balance:						
Related assets	-	(89,953)	(89,953)	-	7,495,866	7,495,866
Loans	-	7,616,902	7,616,902	-	(123,842)	(123,842)
Continuing appropriations	-	(39,267)	(39,267)	-	846,188	846,188
Fund balance, unreserved, at end of year	<u>\$ (1,156,834)</u>	<u>\$ 13,820,545</u>	<u>\$ 14,977,379</u>	<u>\$ (416,098)</u>	<u>\$ 5,399,604</u>	<u>\$ 5,815,702</u>

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
 Combined Statement of Revenues, Expenses and Changes in Fund Equity -
 All Proprietary Fund Types and Discretely Presented Component Units
 Year Ended September 30, 1996
 (With Comparative Totals for the Year Ended September 30, 1995)

	Proprietary Fund Types		Totals	Component		Totals	
	Enterprise	Internal Service	Primary Government (Memorandum Only)	Units		Reporting Entity (Memorandum Only)	
				Yap Fishing Authority	Yap State Public Service Corporation	1996	1995
Operating revenues:							
Rental income	\$ -	\$ -	\$ -	\$ 174,631	\$ -	\$ 174,631	\$ 193,532
Charges for goods and services	77,988	46,823	124,811	196,771	1,315,057	1,636,639	335,484
Stock issues	-	17,455	17,455	-	-	17,455	28,860
Other	152,491	-	152,491	-	4,544	157,035	50,000
Total operating revenues	230,479	64,278	294,757	371,402	1,319,601	1,985,760	607,876
Operating expenses:							
Personnel services	78,033	-	78,033	220,022	292,213	590,268	340,409
Supplies and materials	64,800	4,960	69,760	392,285	773,710	1,235,755	155,591
Printing and reproduction	-	9,486	9,486	-	-	9,486	5,887
Contractual services/commissions	7,742	1,590	9,332	-	-	9,332	9,439
Capital acquisitions	-	12,451	12,451	-	-	12,451	9,364
Depreciation	41,381	-	41,381	113,835	216,762	371,978	418,743
Other	157,937	1,833	159,770	55,704	213,128	428,602	333,406
Total operating expenses	349,893	30,320	380,213	781,846	1,495,813	2,657,872	1,272,839
Operating (loss) income	(119,414)	33,958	(85,456)	(410,444)	(176,212)	(672,112)	(664,963)
Nonoperating revenues (expenses):							
Loss on equity investment (note 17)	-	-	-	(438,290)	-	(438,290)	(119,470)
Operating transfers from Yap State	-	-	-	-	810,415	810,415	-
Other income	-	-	-	-	166,572	166,572	-
Intergovernmental contributions:							
General Fund (note 10)	108,870	-	108,870	-	-	108,870	156,710
Total nonoperating revenues (expenses), net	108,870	-	108,870	(438,290)	976,987	647,567	37,240
Net (loss) income	(10,544)	33,958	23,414	(848,734)	800,775	(24,545)	(627,723)
Add depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	219,869	-	219,869	224,949
Increase (decrease) in retained earnings	(10,544)	33,958	23,414	(628,865)	800,775	195,324	(402,774)
Retained earnings (deficit) at beginning of year	(4,849,961)	260,943	(4,589,018)	(247,357)	-	(4,836,375)	(4,433,601)
Retained earnings (deficit) at end of year	(4,860,505)	294,901	(4,565,604)	(876,222)	800,775	(4,641,051)	(4,836,375)
Contributed capital at beginning of year	7,270,398	-	7,270,398	6,512,670	-	13,783,068	14,008,017
Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	368,293	7,845,320	8,213,613	(224,949)
Contributed capital at end of year	7,270,398	-	7,270,398	6,880,963	7,845,320	21,996,681	13,783,068
Fund equity at end of year	\$ 2,409,893	\$ 294,901	\$ 2,704,794	\$ 6,004,741	\$ 8,646,095	\$ 17,355,630	\$ 8,946,693

See accompanying notes to financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
 Combined Statement of Cash Flows
 All Proprietary Fund Types and Discretely Presented Component Units
 Year Ended September 30, 1996
 (With Comparative Totals for the Year Ended September 30, 1995)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Units		Totals Reporting Entity (Memorandum Only)	
	Enterprise	Internal Service		Yap Fishing Authority	Yap State Public Service Corporation	1996	1995
Cash flows from operating activities:							
Operating (loss) income	\$ (119,414)	\$ 33,958	\$ (85,456)	\$ (410,444)	\$ (176,212)	\$ (672,112)	\$ (664,963)
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities:							
Depreciation	41,381	-	41,381	113,835	216,762	371,978	-
Other	-	-	-	36,057	216,762	252,819	418,743
	<u>(78,033)</u>	<u>33,958</u>	<u>(44,075)</u>	<u>(260,552)</u>	<u>257,512</u>	<u>(47,515)</u>	<u>(246,220)</u>
Change in assets and liabilities:							
General receivables	(28,245)	309	(27,936)	101,287	(76,605)	(3,254)	134,721
Due from other funds	93,596	(33,936)	59,660	-	-	59,660	30,211
Inventory of supplies, at cost	3,035	-	3,035	(90,742)	(100,866)	(188,573)	(9,748)
Prepayments	-	-	-	-	-	-	(30,570)
Advances	-	-	-	(113,045)	(8,470)	(121,515)	-
Accounts payable	(19,700)	-	(19,700)	76,422	162,534	219,256	(3,148)
Accrued payroll and others	3,674	-	3,674	(3,940)	69,142	68,876	(1,345)
Deferred revenue	-	-	-	-	-	-	-
Due to other governments	-	(331)	(331)	-	-	(331)	-
	<u>52,360</u>	<u>(33,938)</u>	<u>18,402</u>	<u>(30,018)</u>	<u>45,735</u>	<u>34,119</u>	<u>120,121</u>
Net cash (used for) provided by operating activities	<u>(25,673)</u>	<u>-</u>	<u>(25,673)</u>	<u>(290,570)</u>	<u>303,047</u>	<u>(13,196)</u>	<u>(126,099)</u>
Cash flows from noncapital financing activities:							
Operating transfers in and contributed capital	108,870	-	108,870	-	1,426,436	1,535,306	156,710
Net cash provided by noncapital financing activities	<u>108,870</u>	<u>-</u>	<u>108,870</u>	<u>-</u>	<u>1,426,436</u>	<u>1,535,306</u>	<u>156,710</u>
Cash flows from capital and related financing activities:							
Contributed capital	-	-	-	(4,600)	-	(4,600)	-
Acquisition of fixed assets and other	(20,539)	-	(20,539)	2,021	(225,796)	(244,314)	(28,996)
Net cash provided by (used for) capital and related financing activities	<u>(20,539)</u>	<u>-</u>	<u>(20,539)</u>	<u>(2,579)</u>	<u>(225,796)</u>	<u>(248,914)</u>	<u>(28,996)</u>
Cash flows from investing activities:							
Interest income	-	-	-	3,677	21,366	25,043	-
Acquisition of investment	-	-	-	332,819	-	332,819	(199,192)
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>336,496</u>	<u>21,366</u>	<u>357,862</u>	<u>(199,192)</u>
Net increase (decrease) in cash and equivalents	<u>62,658</u>	<u>-</u>	<u>62,658</u>	<u>43,347</u>	<u>1,525,053</u>	<u>1,631,058</u>	<u>(197,577)</u>
Cash and equivalents at beginning of year	<u>86,152</u>	<u>-</u>	<u>86,152</u>	<u>(38,702)</u>	<u>-</u>	<u>47,450</u>	<u>245,027</u>
Cash and equivalents at end of year	<u>\$ 148,810</u>	<u>\$ -</u>	<u>\$ 148,810</u>	<u>\$ 4,645</u>	<u>\$ 1,525,053</u>	<u>\$ 1,678,508</u>	<u>\$ 47,450</u>

Supplemental Schedule of Noncash Transactions:

In 1996, Yap Fishing Authority incurred losses on its equity investment in Yap Fresh Tuna, Inc. of \$438,290.
 In 1996, the State of Yap contributed to the Yap State Public Service Corporation utility plant with a book value of \$6,805,075, net accounts receivable of \$274,047 and inventory of \$150,177

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

1. Blended Component Units

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units

- a) The Yap Fishing Authority (YFA) is responsible to promote, develop, and support commercial utilization of living marine resources within the State of Yap. YFA was created in fiscal year 1979 by Yap District Law No. 6-13, provides services to private enterprises and the government, and is governed by a five member Board of Directors, three of which are appointed by the Governor, with the remaining two coming from specific Legislative Committees. YFA is reported as a component unit - propriety fund.
- b) The Yap State Public Service Corporation (YSPSC) is a public corporation which administers electric and water utilities for Yap State. YSPSC commenced operations on April 1, 1996 with assets and liabilities transferred from the Yap State Department of Public Utilities and Contracts. YSPSC is governed by a seven member Board of Directors who are nominated by the Governor with the advise and consent of the Legislature of the State of Yap.

3. Omitted Component Units

- a) The Yap Community Action Program (Yap CAP) is a non-profit corporation. Yap CAP was created in fiscal year 1968 by the Trust Territory Government, is governed by an eight member Board of Directors, two of which are appointed by the Governor and one each appointed by the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. Yap CAP would be reported as a component unit - governmental fund.
- b) The Gagil-Tomil Water Authority (GTWA) is responsible to provide services in the operation and maintenance of the Gagil-Tomil Water System. GTWA was created in fiscal year 1985 by Yap State Law No. 1-183, serves all citizens of the Gagil-Tomil Water System, and is governed by a nine member Board of Directors, four of which are appointed by the Gagil member of the Council of Pilung, four appointed by the Tomil member of the Council of Pilung, and one appointed by the Governor. GTWA would be reported as a component unit-proprietary fund.
- c) The Southern Yap Water Authority (SYWA) is responsible to operate and maintain the Southern Yap Water System. SYWA was created in fiscal year 1987 by Yap State Law No. 1-221, serves all citizens of the Southern Yap Water System, and is governed by a five member Board of Directors, one of which is appointed by the Governor with the remaining four appointed by the municipal chiefs of the four related municipalities represented in the Council of Pilung. SYWA would be reported as a discretely presented component unit-proprietary fund.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Omitted Component Units, Continued

d) 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.

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

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

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

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

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation

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

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

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

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

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

D. Budgets

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

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

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

E. Cash and Equivalents

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

F. Investments

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

G. Receivables

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

H. Due From/To Other Funds

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

I. Advances and Prepayments

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

J. Inventories

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

K. Fixed Assets

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

K. Fixed Assets, Continued

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

L. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. (See also Note 1M). Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. The liability as of September 30, 1996 is \$569,816. No expenditure is reported for these amounts. Vested accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. The accumulated amount of unused sick leave at September 30, 1996, for all governmental funds, is estimated to be \$1,448,090.

M. Long-Term Obligations

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

N. Fund Equity

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(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)	\$ 36,800,000
Advances	44,901
Inventory of supplies	398,975
Interfund receivables which may require in excess of one year to affect collection	<u>1,308,507</u>
	\$ <u>38,552,383</u>

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

O. Interfund Transactions

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

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

P. Memorandum Only - Total Columns

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(1) Summary of Significant Accounting Policies, Continued

Q. Comparative Data/Reclassification

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

R. Management Estimates

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

(2) Budgetary Information

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

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

(3) Cash and Equivalents

State law requires that cash held in foreign banks must be with banks which have total assets in excess of one billion dollars. There is no such requirement for local banks. At September 30, 1996, the State had deposits as follows:

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(3) Cash and Equivalents, Continued

	<u>Cost</u>
General Fund:	
Cash in checking and savings accounts with FDIC insured banks	\$ (319,904)
Cash on hand	<u>848</u>
	\$ <u>(319,056)</u>
Expendable Trust Fund:	
Cash in savings accounts with a FDIC insured bank	\$ <u>203,184</u>
Enterprise Funds:	
Cash in a checking account with a FDIC insured bank	\$ <u>148,810</u>
Discretely Presented Component Unit:	
Cash in checking and savings accounts with a FDIC insured bank	\$ <u>4,645</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.

Of Yap State Public Service Corporation's cash balances, \$100,000 is subject to FDIC coverage with the remaining balances being noninsured and uncollateralized.

(4) Investments

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

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(4) Investments, Continued

2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.

3. Cash and equivalents-
The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:
 - a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moody's Investor Services.
 - b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury Securities at 102%.

- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the Secretary of Finance.

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

The State's investment at September 30, 1996, in this pooled investment fund was \$54,472,902. At September 30, 1996, the market value of the State's investment approximated \$56,641,614. These investments have been reported at cost (original acquisition price plus earnings registered from interest, dividends and realized trading gains, net of realized losses). The State also has \$600,000 in time certificates of deposit as of September 30, 1996 which have initial maturities of in excess of ninety days and are accordingly classified as investments.

The State's investment income for the year ended September 30, 1996, (with comparative totals for the year ended September 30, 1995), is summarized below:

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(4) Investments, Continued

	<u>1996</u>	<u>1995</u>
Interest	\$ 2,919,836	\$ 2,577,323
Dividends	664,103	561,246
Realized gains	3,950,462	1,965,270
Realized losses	-	(972,393)
Management fees	(513,813)	(639,578)
Other expenses	<u>(30,034)</u>	<u>(27,372)</u>
	<u>\$ 6,990,554</u>	<u>\$ 3,464,496</u>

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

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

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

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

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

Additionally, as of September 30, 1996, the State holds 10.726% of the shares of the Bank of the Federated States of Micronesia, carried at cost, in the amount of \$1,000,000 (\$750,000 of these investments held by the Yap Economic Development Authority (YEDA) with the remaining \$250,000 held by the Yap Investment Trust (YIT) - Enterprise Funds) and 29% of the shares of the Pacific Islands Development Bank, also carried at cost, in the amount of \$1,000,000 (\$357,043 of these investments are held by the YEDA with the remaining \$642,957 held by the YIT). The market value of these shares is difficult to assess as they are not publicly traded so a market versus cost analysis could not be performed. This investment in stock has therefore been recorded at cost.

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(4) Investments, Continued

Also, the Yap Fishing Authority (YFA), a Discretely Presented Component Unit, has invested a total of \$2,196,780 as of September 30, 1996, 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, 1996, YFA's investment represents approximately 81.54% of YFTI's equity; however only 50% of the voting shares. As NFC appears to be the controlling partner, YFTI is consolidated with NFC's financial statements and is carried on the equity method in YFA's financial statements. (See note 17.)

(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, 1996 (with comparative totals as of September 30, 1995), is presented below:

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1996</u>	<u>1995</u>
FSM Government and other reimbursable	\$ <u>265,363</u>	\$ <u>-</u>	\$ <u>265,363</u>	\$ <u>161,430</u>
General:				
Taxes	\$ 79,307	\$ (74,307)	\$ 5,000	\$ 5,000
General	18,196	(18,196)	-	21,022
Leases	61,251	(45,037)	16,214	-
Airport operation	94,229	(91,729)	2,500	18,067
Deferred interest-YFC	176,918	(176,918)	-	-
WAAB Forklift	137,500	(137,500)	-	-
Other	<u>30,088</u>	<u>(30,088)</u>	<u>-</u>	<u>5,362</u>
	\$ <u>597,489</u>	\$ <u>(573,775)</u>	\$ <u>23,714</u>	\$ <u>49,451</u>
Advances:				
Travel/payroll	\$ 83,872	\$ (14,042)	\$ 69,830	\$ 93,035
Purchases	<u>5,986</u>	<u>-</u>	<u>5,986</u>	<u>17,782</u>
	\$ <u>89,858</u>	\$ <u>(14,042)</u>	\$ <u>75,816</u>	\$ <u>110,817</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(5) Receivables, Advances and Loans, Continued

A. General Fund, Continued

Loans:

Yap Fishing Corporation	\$ 7,400,000	\$ -	\$ 7,400,000	\$ 7,416,341
Accrued interest-YFC	147,183	-	147,183	82,248
Satawal Community	<u>41,360</u>	<u>-</u>	<u>41,360</u>	<u>-</u>
	<u>\$ 7,588,543</u>	<u>\$ -</u>	<u>\$ 7,588,543</u>	<u>\$ 7,498,589</u>

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

Yap State Government also appropriated \$1,000,000 as a revolving line of credit under Yap State Law No. 3-8 for the use of YFC. In a subsequent agreement dated August 21, 1992, the terms of the original line of credit agreement were changed to an interest rate of 6% and a termination date of September 30, 2004. As of September 30, 1996, \$1,000,000 has 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, 1996 follows (with comparative totals as of September 30, 1995).

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1996</u>	<u>1995</u>
Other governments	\$ <u>299,733</u>	\$ <u>-</u>	\$ <u>299,733</u>	\$ <u>440,572</u>
Federal agencies and CFSM	\$ <u>1,433,678</u>	\$ <u>-</u>	\$ <u>1,433,678</u>	\$ <u>1,572,279</u>
Advances - travel/ payroll	\$ <u>34,812</u>	\$ <u>-</u>	\$ <u>34,812</u>	\$ <u>43,879</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(5) Receivables, Advances and Loans, Continued

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 1996 (with comparative totals as of September 30, 1995).

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1996</u>	<u>1995</u>
Federal agencies	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 38,333</u>
U.S. Department of the				
Interior - TTPI	\$ <u> 453,697</u>	\$ <u> -</u>	\$ <u> 453,697</u>	\$ <u> 886,516</u>
CFSM Grants	\$ <u> 470,458</u>	\$ <u> -</u>	\$ <u> 470,458</u>	\$ <u> 72,146</u>
Advances - travel	\$ <u> 4,175</u>	\$ <u> -</u>	\$ <u> 4,175</u>	\$ <u> 3,132</u>
Loan - YEDA	\$ <u>2,000,000</u>	\$ <u> -</u>	\$ <u>2,000,000</u>	\$ <u>2,000,000</u>
Loan - YIT	\$ <u>6,500,000</u>	\$ <u> -</u>	\$ <u>6,500,000</u>	\$ <u>6,500,000</u>

The \$2,000,000 loan to the Yap Economic Development Authority (YEDA) was originally appropriated by the FSM Congress, FSM Public Law No. 7-39 and amended by FSM Public Law No. 7-83, to create the Yap State Public Projects Fund. As appropriated, the funds were loaned to YEDA which subsequently loaned the funds to YFC. The loan to YEDA is due on March 20, 2004 with no interest to be paid on the loan. The subsequent loan from YEDA to YFC is subordinated to OPIC (a U.S. Corporation) debt held by YFC. (Refer Note 15).

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(5) Receivables, Advances and Loans, Continued

D. Enterprise Funds

A summary follows of receivables and the corresponding allowance for doubtful accounts for the Enterprise Funds as of September 30, 1996 (with comparative totals as of September 30, 1995):

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1996</u>	<u>1995</u>
General:				
Trade	\$ <u>27,942</u>	\$ <u>-</u>	\$ <u>27,942</u>	\$ <u>-</u>

E. Discretely Presented Component Units

A summary follows of receivables and the corresponding allowance for doubtful accounts for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1996 (with comparative totals as of September 30, 1995):

<u>Source</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1996</u>	<u>1995</u>
General:				
Trade	\$ 496,062	\$ (460,278)	\$ 35,784	\$ 181,606
Employees	38,291	-	38,291	38,997
Others	<u>6,244</u>	<u>-</u>	<u>6,244</u>	<u>-</u>
	\$ <u>540,597</u>	\$ <u>(460,278)</u>	\$ <u>80,319</u>	\$ <u>220,603</u>

Receivables of the Yap State Public Service Corporation are net of an allowance for doubtful accounts of \$211,506.

(6) Inventory of Supplies

The General Fund inventory consists of Condor S.S. sulphonate oil received in 1987 and partially used in the construction of Yap State roads. In fiscal year 1992, the carrying value was reduced by 50% to \$200,368 based on estimated market price. This balance remains as of September 30, 1996, and is expected to be used on the continuing road construction project. General Fund inventory also includes medical and pharmaceutical supplies of \$198,607 at September 30, 1996. The Internal Service Fund's inventory consists of general stores supplies of \$62,248.

**STATE OF YAP
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Notes to Financial Statements
September 30, 1996

(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, 1996 (with comparative totals as of September 30, 1995), follows:

	<u>Estimated Useful Life</u>	<u>1996</u>	<u>1995</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, 1996 (with comparative totals as of September 30, 1995), follows:

	<u>Estimated Useful Life</u>	<u>1996</u>	<u>1995</u>
Buildings	25 years	\$ 66,404	\$ 66,404
Motor vehicles	4-7 years	724,557	721,162
Other equipment	2-12 years	<u>72,958</u>	<u>59,243</u>
		863,919	846,809
Less accumulated depreciation		<u>(574,110)</u>	<u>(536,461)</u>
		<u>\$ 289,809</u>	<u>\$ 310,348</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(7) Investment in Fixed Assets, Continued

C. Discretely Presented Component Units

A summary of fixed assets accounted for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1996 (with comparative totals as of September 30, 1995), follows:

	<u>Estimated Useful Life</u>	<u>1996</u>	<u>1995</u>
Buildings	3-20 years	\$ 1,651,117	\$ 1,651,117
Dock	40 years	2,629,677	2,629,677
Fleet	3-10 years	1,064,102	1,135,827
Refrigeration and cold storage equipment	2-10 years	631,697	582,731
Motor vehicles	2-20 years	408,034	179,159
Other equipment	2-25 years	232,287	138,410
Other capital assets	2-25 years	<u>57,912</u>	<u>-</u>
		6,678,426	6,316,921
Less accumulated depreciation		<u>(2,799,602)</u>	<u>(2,436,076)</u>
		<u>\$ 3,878,824</u>	<u>\$ 3,880,845</u>

Details of fixed assets of the Yap State Public Service Corporation are as follows:

	<u>Estimated Useful Life</u>	<u>1996</u>
Production plant	40 years	\$ 7,692,440
Office furniture and equipment	5 - 30 years	2,436,420
Distribution plant	3 - 20 years	450,499
General Plant	3 - 25 years	<u>-</u>
Total fixed assets, at cost		10,579,359
Less: accumulated depreciation		<u>(3,620,014)</u>
Fixed asset, net		<u>\$ 6,959,345</u>

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(8) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 1996 (with comparative totals for the year ended September 30, 1995), follow:

	<u>1996</u>	<u>1995</u>
Balance, beginning of year	\$ 45,016,897	\$ 52,189,520
Payments made on medium-term notes	(7,700,000)	(7,200,000)
Increase in accrued annual leave	<u>52,919</u>	<u>27,377</u>
Balance, end of year	\$ <u>37,369,816</u>	\$ <u>45,016,897</u>

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

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

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1991. Management is of the opinion that it has complied with such covenants through September 30, 1996. Interest paid on the bonds was \$3,786,048 in the fiscal year ended September 30, 1996 (\$4,413,600 in the fiscal year ended September 30, 1995).

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, 1996, there is no shortfall as the reserve of fund balance equals the outstanding principal of \$36,800,000. This amount (\$36,800,000) is included in the reserve for related assets of the General Fund.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(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>
1997	\$ 6,100,000	\$ 3,160,211	\$ 9,260,211
1998	6,700,000	2,595,578	9,295,578
1999	7,300,000	1,969,153	9,269,153
2000	7,900,000	1,289,768	9,189,768
2001	<u>8,800,000</u>	<u>542,030</u>	<u>9,342,030</u>
Total	\$ <u>36,800,000</u>	\$ <u>9,556,740</u>	\$ <u>46,356,740</u>

(9) Interfund Receivables and Payables

As of September 30, 1996, 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	\$ 4,437,264	\$ -
Special Revenue Funds:		
Compact Programs	-	1,003,588
Federal Grants	420,794	-
Other U.S. Grants	285,124	-
Non U.S. Grants	-	41,772
CFSM Grants	713,611	-
Traditional Award	-	17,733
Feed Sales	-	15,466
Slaughter House	41,738	-
Sports Development Fund	-	99,892
Capital Projects Funds:		
Compact Capital Projects	-	5,408,476
TTPI Capital Projects	303,229	-
CFSM Capital Project	140,773	-
Public Projects	-	6,737
Other U.S. Capital Projects	415,985	-
Enterprise Funds	86,509	-
Expendable Trust Fund	-	23,450
Internal Service Fund	<u>-</u>	<u>227,913</u>
	\$ <u>6,845,027</u>	\$ <u>6,845,027</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(10) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 1996, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers to Yap State Public Service Corporation	\$ 765,751	\$ -
Transfer to Enterprise Funds: Public Transportation System	156,710	-
Transfer to Special Revenue Funds: For bond payments	958,832	-
Transfer to Capital Projects Funds: For bond payments	4,010,110	-
Transfer to Yap CAP	<u>284,913</u>	<u>-</u>
	<u>\$ 6,176,316</u>	<u>\$ -</u>

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 1996, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers out to Yap State Public Service Corporation	\$ 224,718	\$ -
Transfers from General Fund: For bond payments	<u>-</u>	<u>958,832</u>
	<u>\$ 224,718</u>	<u>\$ 958,832</u>

C. Capital Projects Funds

Material Capital Projects Funds transfers in/out for the year ended September 30, 1996, are as follows:

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FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(10) Transfers In/Out, Continued

C. Capital Projects Funds, Continued

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
For bond payments	\$ -	\$ 4,010,110
Transfers to Yap State Public Service Corporation	<u>65,632</u>	<u>-</u>
	<u>\$ 65,632</u>	<u>\$ 4,010,110</u>

D. Enterprise Funds

Material Enterprise Funds transfers in/out for the year ended September 30, 1996, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Subsidy for operations of Public Transportation System	\$ <u>-</u>	\$ <u>108,870</u>

The difference between the transfer out per the General Fund and the transfer in per above relates to a timing difference.

(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, 1996, 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>204,685</u>	\$ <u>25,794</u>	\$ <u>-</u>
Depreciation expense	\$ <u>41,381</u>	\$ <u>-</u>	\$ <u>-</u>
Operating loss	\$ <u>(25,818)</u>	\$ <u>(93,596)</u>	\$ <u>-</u>
Operating transfer-in	\$ <u>108,870</u>	\$ <u>-</u>	\$ <u>-</u>
Net income (loss)	\$ <u>83,052</u>	\$ <u>(93,596)</u>	\$ <u>-</u>
Contributed capital	\$ <u>694,693</u>	\$ <u>5,682,758</u>	\$ <u>892,957</u>
Fixed assets additions	\$ <u>20,539</u>	\$ <u>-</u>	\$ <u>-</u>
Total assets	\$ <u>504,950</u>	\$ <u>3,107,327</u>	\$ <u>7,392,957</u>
Total equity	\$ <u>498,848</u>	\$ <u>1,018,088</u>	\$ <u>892,957</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(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, \$580,222 in cumulative questioned costs exist for the operation of fiscal year 1984-96 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, 1996, there existed several unapproved claims. The Attorney General of the State of Yap is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths. Current claims against the State exist but do not appear to be material. Management has not provided for such claims in the accompanying general purpose financial statements as it is not currently possible to estimate the State's potential liability, if any, arising from these claims.

Indefinite Land Use Sites

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(12) Contingent Liabilities, Continued

Medical Referrals

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

Yap Economic Development Authority

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

(13) Commitments

The State of Yap appropriated \$1,000,000 as a revolving line of credit to be used by the Yap Fishing Corp. (YFC). As of September 30, 1995, \$1,000,000 was outstanding against this line. The line bears interest at 6% and expires on September 30, 2004 (See Note 5A).

(14) Continuing Appropriations

Continuing appropriations as of September 30, 1996, are as follows:

General Fund

Tourism Promotion	\$ 17,497
Copra Subsidy	10,472
Aluminum Can Recycling Program	<u>37,319</u>
	\$ <u>65,288</u>

Public Projects Fund

Tourism Promotion	\$ <u>5,190</u>
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**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(14) Continuing Appropriations, Continued

Compact Capital Projects Funds:

Feasibility Study Program	\$ 23,025
Yap State Public Library Building	50,000
Bileeyuw Tagareng Water System	9,010
Colonia Water Treatment Plant Upgrade	15,122
Dalipebinaw Elementary School Building	9,601
O.I. Airfields Project	132,097
Radio & Waab TV Building	280,470
Road Development Phase V and VI	124,848
Road Development Phase VII	17,261
Road Development Phase VII	75,502
Water Wells Development	55,865
Manpower Development Program	11,147
Vegetable Production Project	12,887
Central Yap Road Improvement Phase VII	494,240
Extension and Research	15,904
Livestock Extension Development Program	22,014
Slaughterhouse Project	95,873
Tourism Promotion	7,058
Land Lease and Promotion	4,062
Daboch/Lepmur Waterline Project	42,894
Malay/Tebeth Causeway	144,580
OMIP Matching Funds	54,500
Loan to Satawal	18,640
Lebnaw, Riken, Gachpar Waterline Extension	189,750
Power Plant Generation	<u>187,289</u>
	\$ <u><u>2,093,639</u></u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(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 in receivership and is not in compliance with certain debt covenants regarding their debt to OPIC and discussions and negotiations regarding this condition are ongoing. Therefore, YEDA's financial statements included within the State of Yap general purpose financial statements do not include the consolidated financial statements of YFC.

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

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

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

(16) Fund Deficit

The following funds have material fund deficits as of September 30, 1996:

Enterprise Funds:

Public Transportation System Fund \$ 195,835

Yap Economic Development Authority Fund \$ 4,664,670

Special Revenue Funds:

Slaughter House Fund \$ 41,738

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1996

(16) Fund Deficit, Continued

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) Loss on Equity Investment

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

	<u>1996</u>	<u>1995</u>
Balance sheet:		
Current assets	\$ 187,672	\$ 633,708
Property, plant and equipment	<u>6,351,604</u>	<u>6,705,110</u>
	<u>\$ 6,539,276</u>	<u>\$ 7,338,818</u>
Current liabilities	\$ 1,421,310	\$ 1,444,319
Long-term debt	3,298,171	3,517,210
Stockholders' equity	<u>1,819,795</u>	<u>2,377,289</u>
	<u>\$ 6,539,276</u>	<u>\$ 7,338,818</u>
Sales	\$ 2,379,155	\$ 1,931,549
Cost of sales	(1,395,451)	(1,083,050)
Operating expenses	(1,340,647)	(1,014,374)
Interest expense, net	<u>(200,551)</u>	<u>(73,064)</u>
Net loss	<u>\$ (557,494)</u>	<u>\$ (238,939)</u>

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -
All Governmental Fund Types
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	Governmental Fund Types			Totals	
	General	Special Revenue	Capital Projects	1996	1995
Expenditures:					
Salaries and wages	\$ 6,420,729	\$ 571,713	\$ 185,841	\$ 7,178,283	\$ 7,247,747
Travel	359,100	68,869	44,074	472,043	1,032,800
Freight	60,292	41,705	6,474	108,471	138,084
Communications	131,438	55,652	3,379	190,469	175,718
Printing and reproduction	75,846	51,979	7,777	135,602	189,547
Professional services	21,189	95,478	3,757,401	3,874,068	74,975
Food stuffs	109,291	97,899	89,700	296,890	252,414
Medical supplies	190,565	419,139	810	610,514	167,366
Supplies and materials	640,917	101,308	587,536	1,329,761	2,081,654
Medical referral	19,398	530,935	-	550,333	326,643
POL	414,854	382,516	13,979	811,349	1,495,332
Capital outlay	366,412	435,603	1,108,000	1,910,015	4,438,241
Contractual services	220,174	97,769	713,521	1,031,464	688,822
Rentals	21,845	38,723	5,161	65,729	99,761
Repairs and maintenance	90,093	2,795	22,957	115,845	410,355
Allowances	85,000	142,500	-	227,500	187,154
Grants and subsidies	277,820	254,459	-	532,279	464,680
Scholarships and training	54,894	254,459	-	309,353	637,062
Other	743,125	217,825	74,503	1,035,453	856,646
Total expenditures	\$ 10,302,982	\$ 3,861,326	\$ 6,621,113	\$ 20,785,421	\$ 20,965,001

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

General Fund
September 30, 1996

General Fund

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

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	<u>1996</u>	<u>1995</u>
Revenues:		
Compact funds:		
Current 211A base grant	\$ 4,900,080	\$ 4,900,080
Inflation adjustment 217	2,352,038	2,254,037
	<u>7,252,118</u>	<u>7,154,117</u>
Revenue sharing:		
Import tax	457,068	301,999
Fuel tax	139,431	79,350
Income tax	407,161	376,595
Business gross revenue tax	560,122	502,918
	<u>1,563,782</u>	<u>1,260,862</u>
Excise taxes:		
Alcoholic beverages	509,883	453,824
Gasoline and diesel	158,454	71,649
Tobacco	99,992	132,112
Other excise taxes	299,056	312,691
	<u>1,067,385</u>	<u>970,276</u>
Licenses and permits	117,889	146,044
Fines/sale of confiscated property	585,833	137,808
Leases and other rentals	180,999	190,779
	<u>884,721</u>	<u>474,631</u>
Departmental charges:		
Sea transportation	172,901	217,529
Hospital services	144,827	120,331
Utilities	428,393	1,372,689
Other	86,509	87,589
	<u>832,630</u>	<u>1,798,138</u>
Interest income	149,475	211,646
Other income	58,795	26,089
Total revenues	<u>11,808,906</u>	<u>11,895,759</u>

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	1996	1995
Expenditures:		
General Government:		
Office of the Governor	\$ 252,670	\$ 277,209
State Legislature	455,960	478,407
Office of Administrative Services	436,411	521,943
Office of Planning, Budget and Statistics	274,111	279,761
Division of Revenue and Taxation	34,247	37,499
Utilities Subsidy Program	260,379	-
	1,713,778	1,594,819
Health Services:		
Department of Health Services	1,585,875	1,344,014
Education:		
Department of Education	1,885,324	1,801,666
Legislative projects	-	45,206
	1,885,324	1,846,872
Economic Development:		
Department of Resources and Development	609,894	637,290
Legislative projects	-	269,088
	609,894	906,378
Public safety:		
Department of Public Safety/Attorney General	555,735	647,417
Public Works and Utilities:		
PUC	1,205,459	1,823,770
Transportation	1,705,983	1,251,092
Community Affairs:		
Department of Public Affairs	225,381	246,124
Legislative projects	3,399	448,497
	228,780	694,621

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	1996	1995
Boards and Commissions:		
Council of Pilung	86,409	86,051
Council of Tamol	108,524	150,202
EPA administration board	124,283	111,005
	319,216	347,258
Other:		
Judiciary	191,964	177,200
Public Auditor	42,961	7,967
Legislative projects	251,662	-
Other	6,351	(2,346)
	492,938	182,821
Total expenditures	10,302,982	10,639,062
Excess of revenues over expenditures	1,505,924	1,256,697
Other financing sources (uses):		
Investment income	6,990,554	3,464,496
Operating transfers out	(6,176,316)	(5,303,204)
Payments of notes payable and interest	(6,517,106)	(6,517,106)
	(5,702,868)	(8,355,814)
Deficiency of revenues and other financing sources under expenditures and other financing uses	(4,196,944)	(7,099,117)
Fund balance at beginning of year	59,922,484	67,021,601
Fund balance at end of year	\$ 55,725,540	\$ 59,922,484

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	1996			1995		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Current account Compact funds	\$ 7,301,119	7,252,118	\$ (49,001)	\$ 7,203,118	\$ 7,154,117	\$ (49,001)
FSM revenue sharing	1,325,850	1,563,782	237,932	1,314,060	1,260,862	(53,198)
Taxes and licenses	1,821,810	1,952,106	130,296	1,431,750	1,444,907	13,157
Interest income	150,000	149,475	(525)	550,000	211,646	(338,354)
Other	1,501,000	891,425	(609,575)	1,847,000	1,824,227	(22,773)
Total revenues	12,099,779	11,808,906	(290,873)	12,345,928	11,895,759	(450,169)
Expenditures budgetary basis:						
General Government:						
Office of the Governor	243,700	241,458	2,242	296,050	284,627	11,423
State Legislature	534,630	459,079	75,551	536,623	471,609	65,014
Office of Administrative Services	474,200	430,378	43,822	514,520	524,624	(10,104)
Office of Planning, Budget and Statistics	317,300	282,114	35,186	279,510	278,914	596
Division of Revenue and Taxation	41,220	38,090	3,130	38,250	33,591	4,659
Utilities subsidies program	360,000	260,379	99,621	-	-	-
	1,971,050	1,711,498	259,552	1,664,953	1,593,365	71,588
Health Services:						
Department of Health Services	1,746,420	1,554,839	191,581	1,668,840	1,353,136	315,704
Education:						
Department of Education	1,992,790	1,859,273	133,517	2,034,040	1,824,512	209,528
Legislative projects	-	-	-	29,000	28,653	347
	1,992,790	1,859,273	133,517	2,063,040	1,853,165	209,875
Economic development:						
Department of Resources and Development	654,790	602,641	52,149	756,030	644,704	111,326
Legislative projects	-	-	-	294,739	269,088	25,651
	654,790	602,641	52,149	1,050,769	913,792	136,977
Public safety:						
Department of Public Safety and Attorney General	578,570	559,307	19,263	626,500	635,275	(8,775)
Public Works and Utilities:						
PUC	1,099,776	1,027,101	72,675	1,969,680	1,883,746	85,934
Transportation	1,440,906	1,400,791	40,115	1,456,780	1,359,758	97,022

See Accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis, Continued
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	1996			1995		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Community affairs:						
Department of Public Affairs	\$ 249,730	\$ 223,743	\$ 25,987	\$ 262,270	\$ 242,277	\$ 19,993
Legislative projects	-	-	-	566,046	490,565	75,481
	<u>249,730</u>	<u>223,743</u>	<u>25,987</u>	<u>828,316</u>	<u>732,842</u>	<u>95,474</u>
Boards and commissions:						
Council of Piling	94,100	87,553	6,547	93,175	85,780	7,395
Council of Tamol	119,220	112,341	6,879	146,450	138,628	7,822
EPA administration board	151,580	124,065	27,515	120,590	111,370	9,220
	<u>364,900</u>	<u>323,959</u>	<u>40,941</u>	<u>360,215</u>	<u>335,778</u>	<u>24,437</u>
Other:						
Judiciary	192,050	191,338	712	188,420	177,535	10,885
Public Auditor	65,670	44,740	20,930	66,560	7,758	58,802
Legislative projects	227,550	221,188	6,362	-	-	-
Other	-	6,351	(6,351)	-	(2,346)	2,346
	<u>485,270</u>	<u>463,617</u>	<u>21,653</u>	<u>254,980</u>	<u>182,947</u>	<u>72,033</u>
Total expenditures	<u>10,584,202</u>	<u>9,726,769</u>	<u>857,433</u>	<u>11,944,073</u>	<u>10,843,804</u>	<u>1,100,269</u>
Excess of revenues over expenditures	<u>1,515,577</u>	<u>2,082,137</u>	<u>566,560</u>	<u>401,855</u>	<u>1,051,955</u>	<u>650,100</u>
Other financing sources (uses):						
Investment income	-	6,990,554	6,990,554	-	3,464,496	3,464,496
Payment of notes payable	-	(6,517,106)	(6,517,106)	-	(6,517,106)	(6,517,106)
Operating transfers out	(6,176,316)	(6,176,316)	-	(5,303,204)	(5,303,204)	-
Total other financing sources (uses), net	<u>(6,176,316)</u>	<u>(5,702,868)</u>	<u>473,448</u>	<u>(5,303,204)</u>	<u>(8,355,814)</u>	<u>(3,052,610)</u>
Deficiency of revenues and other financing sources under expenditures and other financing uses	<u>(4,660,739)</u>	<u>(3,620,731)</u>	<u>1,040,008</u>	<u>(4,901,349)</u>	<u>(7,303,859)</u>	<u>(2,402,510)</u>
Fund balance, unreserved at beginning of year	5,399,604	5,399,604	-	4,485,251	4,485,251	-
Other changes in unreserved fund balance:						
Related assets	-	(89,953)	(89,953)	-	7,495,866	7,495,866
Loans	-	7,616,902	7,616,902	-	(123,842)	(123,842)
Continuing appropriations	-	(39,267)	(39,267)	-	846,188	846,188
Fund balance, unreserved at end of year	<u>\$ 738,865</u>	<u>\$ 9,266,555</u>	<u>\$ 8,527,690</u>	<u>\$ (416,098)</u>	<u>\$ 5,399,604</u>	<u>\$ 5,815,702</u>

See Accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 1996

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in Special Revenue Funds. A brief discussion of Yap State's Special Revenue Funds as of September 30, 1996, follows:

Compact Programs Fund

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

Federal Grants Fund

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

Other U.S. Grants Fund

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

Non U.S. Grants Fund

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

CFSM Grants Fund

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

Traditional Award Fund

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

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds, Continued
September 30, 1996

Feed Sales Fund

This fund is used to account for the feed sales operation which is under the direction and management of the Agriculture Division. The intent was to create an operation which would supply animal feed to the farmers and the State.

Slaughterhouse Fund

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

Sports Development Fund

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

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Balance Sheet
September 30, 1996
(With comparative totals as of September 30, 1995)**

Assets	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Traditional Award	Feed Sales	Slaughter House	Sports Development	Totals	
										1996	1995
Investments	\$ 2,190,027	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,190,027	\$ 1,615,343
Receivables, net:											
Others	-	-	294,070	5,222	441	-	-	-	-	299,733	440,572
FSM National											
Government	161,320	524,446	-	-	747,912	-	-	-	-	1,433,678	1,572,279
Due from other funds	1,003,588	-	-	41,772	-	17,733	15,466	-	99,892	1,178,451	1,193,204
Advances	2,999	31,795	18	-	-	-	-	-	-	34,812	43,879
Total assets	\$ 3,357,934	\$ 556,241	\$ 294,088	\$ 46,994	\$ 748,353	\$ 17,733	\$ 15,466	\$ -	\$ 99,892	\$ 5,136,701	\$ 4,865,277
Liabilities and Fund Balances (Deficit)											
Liabilities:											
Accounts payable	\$ 26,309	\$ 57,507	\$ 3,913	\$ 11,174	\$ 19,013	\$ -	\$ -	\$ -	\$ -	\$ 117,916	\$ 316,575
Due to other funds	-	420,794	285,124	-	713,611	-	-	41,738	-	1,461,267	1,971,144
Deferred revenue	-	77,940	5,051	35,885	15,729	-	-	-	-	134,605	63,981
Total liabilities	26,309	556,241	294,088	47,059	748,353	-	-	41,738	-	1,713,788	2,351,700
Fund balances (deficit):											
Reserved for:											
Related assets	-	-	-	-	-	-	-	-	-	-	297,120
Encumbrances	128,754	148,601	88,596	4,490	294,833	-	-	-	-	665,274	784,979
Unreserved	3,202,871	(148,601)	(88,596)	(4,555)	(294,833)	17,733	15,466	(41,738)	99,892	2,757,639	1,431,478
Total fund balances (deficit)	3,331,625	-	-	(65)	-	17,733	15,466	(41,738)	99,892	3,422,913	2,513,577
Total liabilities and fund balances (deficit)	\$ 3,357,934	\$ 556,241	\$ 294,088	\$ 46,994	\$ 748,353	\$ 17,733	\$ 15,466	\$ -	\$ 99,892	\$ 5,136,701	\$ 4,865,277

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS**
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Traditional Award	Feed Sales	Slaughter House	Sports Development	Totals	
										1996	1995
Revenues:											
Compact	\$ 2,886,296	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,886,296	\$ 2,868,294
Federal contributions	-	1,338,098	94,955	-	-	-	-	-	-	1,433,053	1,485,530
CFSM grants	-	-	-	-	997,502	-	-	-	-	997,502	1,057,921
Other	-	-	-	93,285	-	-	40,419	22,328	99,892	255,924	228,245
Total revenues	2,886,296	1,338,098	94,955	93,285	997,502	-	40,419	22,328	99,892	5,572,775	5,639,990
Expenditures:											
Health services	150,311	195,642	-	-	89,050	-	-	-	-	435,003	1,224,479
Education	1,154,595	964,776	-	93,350	218,802	-	-	-	-	2,431,523	2,761,954
Economic development	-	127,363	-	-	233,948	14,000	14,631	12,009	-	401,951	438,990
Public safety	-	-	-	-	272,587	-	-	-	-	272,587	156,360
Public works and utilities	510,770	-	-	-	48,265	-	-	-	-	559,035	790,932
Community affairs	-	-	94,955	-	134,850	-	-	-	-	229,805	248,168
Other	58,500	50,317	-	-	-	-	-	-	-	108,817	-
Total expenditures	1,874,176	1,338,098	94,955	93,350	997,502	14,000	14,631	12,009	-	4,438,721	5,620,883
Excess (deficiency) of revenues over (under) expenditures	1,012,120	-	-	(65)	-	(14,000)	25,788	10,319	99,892	1,134,054	19,107
Other financing sources (uses):											
Transfers out	(224,718)	-	-	-	-	-	-	-	-	(224,718)	-
Transfers/general fund	958,832	-	-	-	-	-	-	-	-	958,832	1,086,384
Payments of notes payable	(958,832)	-	-	-	-	-	-	-	-	(958,832)	(1,086,384)
Total other financing sources (uses), net	(224,718)	-	-	-	-	-	-	-	-	(224,718)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	787,402	-	-	(65)	-	(14,000)	25,788	10,319	99,892	909,336	19,107
Fund balances (deficit) at beginning of year	2,544,223	-	-	-	-	31,733	(10,322)	(52,057)	-	2,513,577	2,494,470
Fund balances (deficit) at end of year	\$ 3,331,625	\$ -	\$ -	\$ (65)	\$ -	\$ 17,733	\$ 15,466	\$ (41,738)	\$ 99,892	\$ 3,422,913	\$ 2,513,577

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
SPECIAL REVENUE FUNDS
Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Traditional Award	Feed Sales	Slaughter House	Sports Development	Totals	
										1996	1995
Revenues:											
Compact	\$ 2,886,296	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,886,296	\$ 2,868,294
Federal contributions	-	1,338,098	94,955	-	-	-	-	-	-	1,433,053	1,485,530
CFSM grants	-	-	-	-	997,502	-	-	-	-	997,502	1,057,921
Other	-	-	-	93,285	-	-	40,419	22,328	99,892	255,924	228,245
Total revenues	2,886,296	1,338,098	94,955	93,285	997,502	-	40,419	22,328	99,892	5,572,775	5,639,990
Expenditures:											
Salaries and wages	327,877	413,111	48,692	2,536	35,923	-	-	3,715	-	831,854	706,333
Travel	94,377	383,534	8,464	44,630	40,708	-	-	-	-	571,713	448,622
Freight	29,472	21,098	2,285	1,219	14,795	-	-	-	-	68,869	64,467
Communications	11,034	7,418	1,879	514	20,860	-	-	-	-	41,705	21,564
Printing and reproduction	38,560	8,883	300	1,020	6,889	-	-	-	-	55,652	82,764
Professional services	37,988	-	13,991	-	-	-	-	-	-	51,979	45,544
Food stuffs	71,815	12,779	-	242	4,283	-	-	6,359	-	95,478	90,556
Medical supplies	82,355	13,278	-	-	2,266	-	-	-	-	97,899	116,683
Supplies and materials	138,929	43,916	8,526	31,404	179,798	-	14,631	1,935	-	419,139	764,217
Medical referral	101,308	-	-	-	-	-	-	-	-	101,308	326,643
POL	517,101	2,414	2,596	-	8,824	-	-	-	-	530,935	933,858
Capital outlay	73,060	104,263	2,443	2,700	200,050	-	-	-	-	382,516	681,717
Contractual services	8,500	97,442	-	8,000	321,661	-	-	-	-	435,603	119,059
Rentals	62,125	19,390	5,779	70	10,405	-	-	-	-	97,769	60,972
Repairs and maintenance	9,215	4,393	-	-	25,115	-	-	-	-	38,723	83,543
Allowances	-	2,795	-	-	-	-	-	-	-	2,795	27,146
Grants and subsidies	58,500	-	-	-	70,000	14,000	-	-	-	142,500	108,432
Scholarship and training	178,320	39,139	-	-	37,000	-	-	-	-	254,459	539,942
Other	33,640	164,245	-	1,015	18,925	-	-	-	-	217,825	399,021
Total expenditures	1,874,176	1,338,098	94,955	93,350	997,502	14,000	14,631	12,009	-	4,438,721	5,620,883
Excess (deficiency) of revenues over (under) expenditures	1,012,120	-	-	(65)	-	(14,000)	25,788	10,319	99,892	1,134,054	19,107
Other financing sources (uses):											
Transfers out	(224,718)	-	-	-	-	-	-	-	-	(224,718)	-
Transfers/general fund	(958,832)	-	-	-	-	-	-	-	-	(958,832)	1,086,384
Payments of notes payable	958,832	-	-	-	-	-	-	-	-	958,832	(1,086,384)
Total other financing sources (uses), net	(224,718)	-	-	-	-	-	-	-	-	(224,718)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	787,402	-	-	(65)	-	(14,000)	25,788	10,319	99,892	909,336	19,107
Fund balances (deficit) at beginning of year	2,544,223	-	-	-	-	31,733	(10,322)	(52,057)	-	2,513,577	2,494,470
Fund balances (deficit) at end of year	\$ 3,331,625	\$ -	\$ -	\$ (65)	\$ -	\$ 17,733	\$ 15,466	\$ (41,738)	\$ 99,892	\$ 3,422,913	\$ 2,513,577

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	1996			1995		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Other Compact funds	\$ 2,522,797	\$ 2,886,296	\$ (363,499)	\$ 2,868,294	\$ 2,868,294	\$ -
Total revenues	<u>2,522,797</u>	<u>2,886,296</u>	<u>(363,499)</u>	<u>2,868,294</u>	<u>2,868,294</u>	<u>-</u>
Expenditures budgetary basis:						
Health services	386,808	307,989	78,819	463,758	769,108	(305,350)
Education	971,220	873,641	97,579	1,227,140	1,245,145	(18,005)
Public works and utilities	1,057,977	480,742	577,235	955,640	748,702	206,938
Total expenditures	<u>2,416,005</u>	<u>1,662,372</u>	<u>753,633</u>	<u>2,646,538</u>	<u>2,762,955</u>	<u>(116,417)</u>
Excess of revenues over expenditures	<u>106,792</u>	<u>1,223,924</u>	<u>1,117,132</u>	<u>221,756</u>	<u>105,339</u>	<u>(116,417)</u>
Other financing sources (uses):						
Transfers/general fund	957,837	957,837	-	1,086,384	1,086,384	-
Payments of notes payable	(957,837)	(957,837)	-	(1,086,384)	(1,086,384)	-
Transfers out	(224,718)	(224,718)	-	-	-	-
Total other financing sources (uses), net	<u>(224,718)</u>	<u>(224,718)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(117,926)</u>	<u>999,206</u>	<u>1,117,132</u>	<u>221,756</u>	<u>105,339</u>	<u>(116,417)</u>
Fund balance at beginning of year	1,906,545	1,906,545	-	2,098,326	2,098,326	-
Changes in reserve for related assets	<u>-</u>	<u>297,120</u>	<u>297,120</u>	<u>-</u>	<u>(297,120)</u>	<u>(297,120)</u>
Fund balance at end of year	<u>\$ 1,788,619</u>	<u>\$ 3,202,871</u>	<u>\$ 1,414,252</u>	<u>\$ 2,320,082</u>	<u>\$ 1,906,545</u>	<u>\$ (413,537)</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 1996

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, 1996, follows:

Compact Capital Projects Fund

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

TTPI - Capital Projects Fund

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

CFSM Capital Projects Fund

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

Public Projects Fund

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

Other U.S. Capital Projects Fund

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

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Balance Sheet
September 30, 1996
(With comparative totals as of September 30, 1995)**

<u>Assets</u>	Compact	TTPI	CFSM	Public	Other U.S.	Totals	
						1996	1995
Investments	\$ 60,302	\$ -	\$ -	\$ -	\$ -	\$ 60,302	\$ 30
Receivables, net:							
Federal agencies	-	-	-	-	-	-	38,333
U.S. Dept. of Interior - TTPI	-	303,229	150,468	-	-	453,697	886,516
CFSM	-	-	-	-	470,458	470,458	72,146
Loans	6,500,000	-	-	2,000,000	-	8,500,000	8,500,000
Due from other funds	5,408,476	-	-	6,737	-	5,415,213	6,571,339
Advances	4,175	-	-	-	-	4,175	3,132
Total assets	\$ 11,972,953	\$ 303,229	\$ 150,468	\$ 2,006,737	\$ 470,458	\$ 14,903,845	\$ 16,071,496
<u>Liabilities and Fund Balances</u>							
Liabilities:							
Accounts payable	\$ 107,880	\$ -	\$ 9,695	\$ -	\$ 54,473	\$ 172,048	\$ 40,708
Due to other funds	-	303,229	140,773	-	415,985	859,987	996,197
Total liabilities	107,880	303,229	150,468	-	470,458	1,032,035	1,036,905
Fund balances:							
Reserved for:							
Loans	6,500,000	-	-	2,000,000	-	8,500,000	8,500,000
Encumbrances	280,891	154,414	35,781	-	974,286	1,445,372	1,671,057
Continuing appropriations	2,093,639	-	-	5,190	-	2,098,829	2,873,888
Unreserved	2,990,543	(154,414)	(35,781)	1,547	(974,286)	1,827,609	1,989,646
Total fund balances	11,865,073	-	-	2,006,737	-	13,871,810	15,034,591
Total liabilities and fund balances	\$ 11,972,953	\$ 303,229	\$ 150,468	\$ 2,006,737	\$ 470,458	\$ 14,903,845	\$ 16,071,496

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
CAPITAL PROJECTS FUNDS
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	Compact	TTPI	CFSM	Public	Other U.S.	Totals	
						1996	1995
Revenues:							
Compact	\$ 4,462,377	\$ -	\$ -	\$ -	\$ -	\$ 4,462,377	\$ 4,402,075
Federal contributions	-	-	-	-	487,025	487,025	36,308
U.S. Dept. of the Interior-TTPI	-	36,044	-	-	-	36,044	163,795
CFSM grants	-	-	538,518	-	-	538,518	129,251
Other	-	-	-	-	-	-	4,196
Total revenues	4,462,377	36,044	538,518	-	487,025	5,523,964	4,735,625
Expenditures:							
Economic development	883,908	-	367,415	-	385,378	1,636,701	591,012
Public works and utilities	4,535,349	-	-	45,939	-	4,581,288	3,917,121
Community affairs	57,628	36,044	171,103	-	101,647	366,422	170,247
Other	36,702	-	-	-	-	36,702	26,676
Total expenditures	5,513,587	36,044	538,518	45,939	487,025	6,621,113	4,705,056
Excess (deficiency) of revenues over (under) expenditures	(1,051,210)	-	-	(45,939)	-	(1,097,149)	30,569
Other financing sources (uses):							
Transfers out	(65,632)	-	-	-	-	(65,632)	-
Transfers/general fund	4,010,110	-	-	-	-	4,010,110	4,060,110
Payments of notes payable	(4,010,110)	-	-	-	-	(4,010,110)	(4,010,110)
Total other financing sources (uses), net	(65,632)	-	-	-	-	(65,632)	50,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,116,842)	-	-	(45,939)	-	(1,162,781)	80,569
Fund balances at beginning of year	12,981,915	-	-	2,052,676	-	15,034,591	14,954,022
Fund balances at end of year	\$ 11,865,073	\$ -	\$ -	\$ 2,006,737	\$ -	\$ 13,871,810	\$ 15,034,591

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances
Year Ended September 30, 1996

(With comparative totals for the year ended September 30, 1995)

	Compact	TTPI	CFSM	Public	Other U.S.	Totals	
						1996	1995
Revenues:							
Compact	\$ 4,462,377	\$ -	\$ -	\$ -	\$ -	\$ 4,462,377	\$ 4,402,075
Federal contributions	-	-	-	-	487,025	487,025	36,308
U.S. Dept. of the Interior-TTPI	-	36,044	-	-	-	36,044	163,795
CFSM grants	-	-	538,518	-	-	538,518	129,251
Other	-	-	-	-	-	-	4,196
Total revenues	4,462,377	36,044	538,518	-	487,025	5,523,964	4,735,625
Expenditures:							
Salaries and wages	132,900	1,037	44,858	-	7,046	185,841	238,342
Travel	33,132	7,837	2,413	-	692	44,074	55,728
Freight	5,877	589	-	-	8	6,474	8,404
Communications	3,250	129	-	-	-	3,379	1,698
Printing and reproduction	7,777	-	-	-	-	7,777	26,935
Professional services	3,757,401	-	-	-	-	3,757,401	14,835
Food stuffs	89,700	-	-	-	-	89,700	35,870
Medical supplies	810	-	-	-	-	810	626
Supplies and materials	202,564	2,925	334,589	45,939	1,519	587,536	405,113
POL	10,212	3,200	-	-	567	13,979	15,103
Capital outlay	1,052,127	-	1,400	-	54,473	1,108,000	3,438,316
Contractual services	171,500	20,091	99,210	-	422,720	713,521	361,403
Rentals	463	198	4,500	-	-	5,161	11,071
Repairs and maintenance	10,697	-	12,260	-	-	22,957	28,024
Other	35,177	38	39,288	-	-	74,503	63,588
Total expenditures	5,513,587	36,044	538,518	45,939	487,025	6,621,113	4,705,056
Excess (deficiency) of revenues over (under) expenditures	(1,051,210)	-	-	(45,939)	-	(1,097,149)	30,569
Other financing sources (uses):							
Transfers out	(65,632)	-	-	-	-	(65,632)	-
Transfers/general fund	4,010,110	-	-	-	-	4,010,110	4,060,110
Payments of notes payable	(4,010,110)	-	-	-	-	(4,010,110)	(4,010,110)
Total other financing sources (uses), net	(65,632)	-	-	-	-	(65,632)	50,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,116,842)	-	-	(45,939)	-	(1,162,781)	80,569
Fund balances at beginning of year	12,981,915	-	-	2,052,676	-	15,034,591	14,954,022
Fund balances at end of year	\$ 11,865,073	\$ -	\$ -	\$ 2,006,737	\$ -	\$ 13,871,810	\$ 15,034,591

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Enterprise Funds
September 30, 1996

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, 1996, 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, 1996, the major project undertaken by YIT has been to accept the transfer from YEDA of sole membership in Yap Purse Seiner Owner, Inc. (YPSO) and a related Note Payable to the State of Yap. YPSO also leases a tuna purse seiner to YFC for tuna fishing in the Western Tropical Pacific.

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
Combining Balance Sheet
September 30, 1996
(With comparative totals as of September 30, 1995)

<u>Assets</u>	Public Transportation System	Yap Economic Development Authority	Yap Investment Trust	Totals	
				1996	1995
Cash and equivalents	\$ 148,810	\$ -	\$ -	\$ 148,810	\$ 86,152
Investments	-	1,107,043	7,392,957	8,500,000	8,500,000
General receivables	27,942	-	-	27,942	-
Loans receivable	-	2,000,000	-	2,000,000	2,000,000
Due from other funds	-	-	-	-	4,641
Inventory of supplies, at cost and other assets	38,389	284	-	38,673	41,424
Investment in fixed assets, net of accumulated depreciation	289,809	-	-	289,809	310,348
Total assets	\$ 504,950	\$ 3,107,327	\$ 7,392,957	\$ 11,005,234	\$ 10,942,565
<u>Liabilities and Fund Equity</u>					
Liabilities:					
Accounts payable	\$ -	\$ 2,730	\$ -	\$ 2,730	\$ 19,700
Accrued payroll and others	6,102	-	-	6,102	2,428
Due to other funds	-	86,509	-	86,509	-
Notes payable:					
Intergovernmental	-	2,000,000	-	2,000,000	2,000,000
Yap State	-	-	6,500,000	6,500,000	6,500,000
Total liabilities	6,102	2,089,239	6,500,000	8,595,341	8,522,128
Fund equity:					
Contributed capital	694,683	5,682,758	892,957	7,270,398	7,270,398
Deficit	(195,835)	(4,664,670)	-	(4,860,505)	(4,849,961)
Total fund equity	498,848	1,018,088	892,957	2,409,893	2,420,437
Total liabilities and fund equity	\$ 504,950	\$ 3,107,327	\$ 7,392,957	\$ 11,005,234	\$ 10,942,565

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
Combining Statement of Revenues, Expenses and Changes in Fund Equity
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	Public Transportation System	Yap Economic Development Authority	Yap Investment Trust	Totals	
				1996	1995
Operating revenues:					
Charges for goods and services	\$ 77,988	\$ -	\$ -	\$ 77,988	\$ 72,961
Other	126,697	25,794	-	152,491	50,000
Total operating revenues	204,685	25,794	-	230,479	122,961
Operating expenses:					
Personnel services	78,033	-	-	78,033	60,013
Supplies and materials	64,800	-	-	64,800	45,274
Contractual services/commissions	7,742	-	-	7,742	8,279
Depreciation	41,381	-	-	41,381	62,909
Other	38,547	119,390	-	157,937	122,639
Total operating expenses	230,503	119,390	-	349,893	299,114
Operating loss	(25,818)	(93,596)	-	(119,414)	(176,153)
Nonoperating revenues:					
Intergovernmental contributions:					
General Fund	108,870	-	-	108,870	156,710
Total nonoperating revenues	108,870	-	-	108,870	156,710
Net income (loss)	83,052	(93,596)	-	(10,544)	(19,443)
Deficit at beginning of year	(278,887)	(4,571,074)	-	(4,849,961)	(4,830,518)
Deficit at end of year	(195,835)	(4,664,670)	-	(4,860,505)	(4,849,961)
Contributed capital at beginning of year	694,683	5,682,758	892,957	7,270,398	7,270,398
Current year changes, net	-	-	-	-	-
Contributed capital at end of year	694,683	5,682,758	892,957	7,270,398	7,270,398
Fund equity at end of year	\$ 498,848	\$ 1,018,088	\$ 892,957	\$ 2,409,893	\$ 2,420,437

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
ENTERPRISE FUNDS
Combining Statement of Cash Flows
Year Ended September 30, 1996
(With comparative totals for the year ended September 30, 1995)

	Public Transportation System	Yap Economic Development Authority	Yap Investment Trust	Totals	
				1996	1995
Cash flows from operating activities:					
Operating loss	\$ (25,818)	\$ (93,596)	\$ -	\$ (119,414)	\$ (176,153)
Adjustments to reconcile operating loss to net cash used for operating activities:					
Depreciation	41,381	-	-	41,381	62,909
	<u>15,563</u>	<u>(93,596)</u>	<u>-</u>	<u>(78,033)</u>	<u>(113,244)</u>
Change in assets and liabilities:					
General receivables	(28,245)	-	-	(28,245)	25
Due from other funds	-	93,596	-	93,596	45,359
Inventory of supplies, at cost	3,035	-	-	3,035	(29,476)
Accounts payable	(19,700)	-	-	(19,700)	18,737
Accrued payroll and others	3,674	-	-	3,674	1,018
	<u>(41,236)</u>	<u>93,596</u>	<u>-</u>	<u>52,360</u>	<u>35,663</u>
Net cash used for operating activities	<u>(25,673)</u>	<u>-</u>	<u>-</u>	<u>(25,673)</u>	<u>(77,581)</u>
Cash flows from noncapital financing activities:					
Operating transfers in	108,870	-	-	108,870	156,710
Net cash provided by noncapital financing activities	<u>108,870</u>	<u>-</u>	<u>-</u>	<u>108,870</u>	<u>156,710</u>
Cash flows from capital and related financing activities:					
Acquisition of fixed assets	(20,539)	-	-	(20,539)	(12,022)
Net cash used for capital and related financing activities	<u>(20,539)</u>	<u>-</u>	<u>-</u>	<u>(20,539)</u>	<u>(12,022)</u>
Net increase in cash and equivalents	62,658	-	-	62,658	67,107
Cash and equivalents at beginning of year	86,152	-	-	86,152	19,045
Cash and equivalents at end of year	<u>\$ 148,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,810</u>	<u>\$ 86,152</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE
WITH LAWS AND REGULATIONS
YEAR ENDED SEPTEMBER 30, 1996**



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

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

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1996, and have issued our report thereon dated April 17, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; 4) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 5) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 6) our inability to express an opinion on Public Transportation System, a Proprietary Fund Type - Enterprise Fund.

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

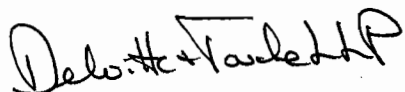
Compliance with laws, regulations, contracts, and grants applicable to the State of Yap is the responsibility of the State of Yap's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the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

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

However, we noted certain immaterial instances of noncompliance that we have reported to the management of the State of Yap, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 85 through 103) in Federal findings numbers 1 through 16 and in local finding numbers 1 and 2.

We also noted matters involving compliance with laws and regulations related to federal financial assistance, which we reported to the management of the State of Yap in our reports dated April 17, 1997 on compliance related to federal financial assistance programs.

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

A handwritten signature in black ink, appearing to read "Delo, H. + T. and others". The signature is written in a cursive, somewhat stylized font.

April 17, 1997



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, 1996, and have issued our report thereon dated April 17, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; 4) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 5) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 6) our inability to express an opinion on Public Transportation System, a Proprietary Fund Type - Enterprise Fund.

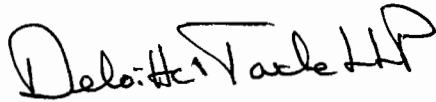
We have also audited the State of Yap's compliance with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; reporting; and claims for advances and reimbursements that are applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 71 through 82), for the year ended September 30, 1996. 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 85 through 103) in Federal Findings 8, 9, 10, 11, 12, 13, 14 and 16. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of Yap complied, in all material respects, with the requirements governing the Compact of Free Association; types of services allowed or unallowed; eligibility; reporting; and claims for advances and reimbursements that are applicable to each of its major federal financial assistance programs for the year ended September 30, 1996.

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

A handwritten signature in black ink, appearing to read "Delo: Hei Tacle HP". The signature is written in a cursive, somewhat stylized font.

April 17, 1997



**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, 1996, and have issued our report thereon dated April 17, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; 4) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 5) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 6) our inability to express an opinion on Public Transportation System, a Proprietary Fund Type - Enterprise Fund. We have also audited the State of Yap's compliance applicable to requirements of major federal financial assistance programs and have issued our report thereon dated April 17, 1997.

We have applied procedures to test the State of Yap's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance (pages 71 through 82), for the year ended September 30, 1996: cash management, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act and administrative requirements.

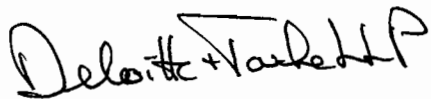
The requirements of political activity, Davis-Bacon Act, civil rights and relocation assistance and real property acquisition are not applicable to the federal financial assistance programs of the State of Yap, which are identified in the Schedule of Federal Financial Assistance.

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 85 through 103) in Federal findings 1 through 7 and 9.

We also noted matters involving compliance with laws and regulations related to our audit of the general purpose financial statements and with requirements related to major and nonmajor federal financial assistance programs which we reported to the management of the State of Yap in our reports dated April 17, 1997.

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

April 17, 1997



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:

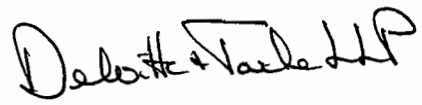
We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1996, and have issued our report thereon dated April 17, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; 4) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 5) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 6) our inability to express an opinion on Public Transportation System, a Proprietary Fund Type - Enterprise Fund. We have also audited the State of Yap's compliance applicable to requirements of major federal financial assistance programs and applied procedures to test compliance with general requirements applicable to federal financial assistance programs and have issued our reports thereon dated April 17, 1997.

In connection with our audit of the 1996 general purpose financial statements of the State of Yap and with our consideration of the State of Yap's control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments", we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended September 30, 1996.

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; and reporting 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 85 through 103) in Federal findings 7 and 15.

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

April 17, 1997



**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, 1996, and have issued our report thereon dated April 17, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; 4) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 5) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 6) our inability to express an opinion on Public Transportation System, a Proprietary Fund Type - Enterprise Fund. We have also audited the State of Yap's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated April 17, 1997.

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, 1996, we considered the State of Yap's internal control structure and assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Yap's general purpose financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the general purpose financial statements in a separate report dated April 17, 1997.

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
- Reporting

Claims for Advances and Reimbursements

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, 1996, the State of Yap expended 93% of its total federal financial assistance under the major federal financial assistance programs listed on page 84.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the State of Yap's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance (pages 71 through 82). 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 85 through 103), represent reportable conditions:

Federal Finding No. 8 - Compact CIP Funds

Federal Finding No. 11 - Special Education Compliance

Federal Finding No. 16 - Procurement Standards

Federal Finding No. 17 - Compact CIP Funds

Federal Finding No. 18 - Compact CIP Funds

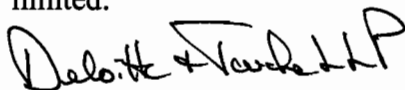
A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may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

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

We also noted matters involving the internal control structure and its operation based on our audit of the general purpose financial statements that we reported to the management of the State of Yap in a report dated April 17, 1997.

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 finding numbers 1-7, 9, 10, and 12-15 which we have reported to the management of the State of Yap.

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



April 17, 1997



**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, 1996, and have issued our report thereon dated April 17, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; 4) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 5) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 6) our inability to express an opinion on Public Transportation System, a Proprietary Fund Type - Enterprise Fund. These general purpose financial statements are the responsibility of the State of Yap's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of the State of Yap taken as a whole. The accompanying Schedule of Federal Financial Assistance (pages 71 through 82) for the year ended September 30, 1996, which is also the responsibility of the management of the State of Yap, is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

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

April 17, 1997
**Deloitte Touche
Tohmatsu
International**

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance
Federal Grants Fund
Year Ended September 30, 1996

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1996</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of Education:</u>			
Year 5 Prel Vocational Education	N/A	3001	\$ 32
FY94 Yap Star	84.256A	3005	228,106
FY94 Special Education	84.027A	3006	145,596
FY94 Teacher Training	84.124	3007	1,200
FY95 Special Education	84.027A	3008	348,361
FY96 Yap Star	84.256A	3009	230,793
FY93 Yap Star	84.256A	3149	10,688
			<u>964,776</u>
<u>U.S. Department of Labor:</u>			
FY93 JTPA Adult Program	17.250	3210	6,295
FY94 JTPA Adult Program	17.250	3215	4,620
FY94 JTPA Youth Program	17.250	3216	18,655
FY94 JTPA Participant Support	17.250	3217	4,093
FY94 JTPA Technical Assistance	17.250	3218	2,795
FY94 JTPA Education Coordination	17.250	3220	7,334
FY95 JTPA Admin	17.250	3230	18,295
FY95 JTPA Adult Program	17.250	3231	13,898
FY95 JTPA Youth Program	17.250	3232	20,659
FY95 JTPA Participant Support	17.250	3233	3,524
FY95 JTPA Technical Assistance	17.250	3237	4,466
			<u>104,634</u>
<u>U.S. Department of Agriculture:</u>			
FY89 Food Services	10.560	3346	22,729
FY95 Forestry Project	10.664	3455	908
FY94 Fire Prevention	10.664	3461	3,826
FY95 Fire Prevention	10.664	3462	2,211
			<u>29,674</u>
<u>U.S. Department of the Interior:</u>			
FY95 Historic Preservation	15.904	3451	28,037
FY93 Historic Preservation	15.904	3459	574
FY94 Historic Preservation	15.904	3460	6,895
PU&C Facility Maintenance	15.904	3528	7,865
			<u>43,371</u>
Balance Forward			<u>1,142,455</u>

See accompanying notes to Schedule of Federal Financial Assistance.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
Federal Grants Fund
Year Ended September 30, 1996

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1996 Fiscal Year Expenditures</u>
Balance Forwarded			\$ <u>1,142,455</u>
<u>U.S. Department of Health and Human Services:</u>			
FY97 Family Planning	93.217	3662	7,398
FY94 MCH Program	93.994	3666	258
FY94 Preventive Health	93.911	3667	2,319
FY95 State System Development	93.110	3668	(1)
FY95 Immunization Program	93.268	3669	4,512
FY94 Substance Abuse P&T - Other	93.959	3683	2,379
FY93 Substance Abuse P&T - Youth	93.959	3684	140
FY94 Diabetes Program	93.988	3685	33
FY95 Aids Prevention	93.940	3686	1,666
FY95 Tuberculosis and Aids	93.116	3687	7,876
FY96 Family Planning	93.217	3688	17,240
FY95 Diabetes Program	93.988	3689	6,226
FY95 MCH Program	93.994	3690	57,505
FY95 Mental Health	93.119	3691	2,565
FY95 Substance Abuse-Health	93.959	3692	17,818
FY95 Substance Abuse-Youth	93.959	3693	26,870
FY95 Preventive Health	93.991	3695	13,442
FY96 Immunization	93.268	3696	4,768
FY96 Tuberculosis & AIDS Program	96.116	3697	18,707
FY96 MCH Program	93.994	3730	<u>3,922</u>
			<u>195,643</u>
Total Federal Grants Fund			\$ <u><u>1,338,098</u></u>

Note: With the exception of the FY93 and FY94 Yap Star grants, Yap Org. No. 3149 and 3005 (CFDA #84.256A), which are received directly from the U.S. Department of Education, the above grants are received in a subrecipient capacity through the FSM National Government.

N/A * a CFDA # was not provided by the grantor.

See accompanying notes to Schedule of Federal Financial Assistance.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
Other U.S. Grants Fund
Year Ended September 30, 1996

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1996 Fiscal Year Expenditures</u>
<u>COM Cooperative Extension Services</u>			
Sustain Agriculture/CES-COM	N/A	3870	\$ 25,148
Sustain Agriculture/Yap	N/A	3871	<u>1,600</u>
Total			<u>26,748</u>
<u>Federal Emergency Management Agency</u>			
<u>(FEMA) grants:</u>			
Hazard Mitigation/Admin.	83.516	3855	3,047
Hazard Mitigation/Food Crop	83.516	3856	31,902
Hazard Mitigation/Communication	83.516	3857	243
Hazard Mitigation Management	83.516	3858	49
HMG/Anchor Mooring Buoy	83.516	3859	<u>32,966</u>
Total			<u>68,207</u>
Total Other U.S. Grants Fund			<u>\$ 94,955</u>

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

See accompanying notes to Schedule of Federal Financial Assistance.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
Non U.S. Grants Fund
Year Ended September 30, 1996

<u>Grantor Program Title</u>	<u>U.S. Grantor</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1996 Fiscal Year Expenditures</u>
UNICEF:				
Family Education Production/Nutrition	N/A	N/A	3961	\$ 2,777
Other Grants:				
Pacific Basin Dev. Council	N/A	N/A	3974	8,000
YR4 PREL Vocational Education	U.S. DOE	84.994S	3975	70,453
YR3 PREL Vocational Education	U.S. DOE	84.994S	3976	5,912
YR3 PREL Vocational Education	U.S. DOE	84.994S	3977	3,052
SPREP Coastal Management Plan	N/A	N/A	3978	<u>3,156</u>
Total Non U.S. Grants Fund				\$ <u><u>93,350</u></u>

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

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

See accompanying notes to Schedule of Federal Financial Assistance.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
CFSM Grants Fund
Year Ended September 30, 1996

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1996 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
FY95 State Court	5827	\$ 70,188
FY95 Joint Law Enforcement	5828	3,197
Education	5829	131,850
FY96 Joint Law Enforcement	5830	67,353
Melew Access Road	5835	3,264
Okaw Women Project	5838	1,260
Youth Services	5858	9,145
AESOP/Council of Tamol	5866	4,600
Vocational Education	5868	1,706
Xavier High School	5886	4,923
Road Development & Main	5889	3,999
Education OPNS	5890	5,861
Typhoon Owen Relief	5895	1,460
Teacher Training	5899	450
Elementary and Secondary Education	5903	2,386
FY94 Education	5908	31,858
FY94 Health	5909	78,679
Yap Cultural Education Project	5910	10,625
State Tourism Development	5911	10,827
Continuing Education	5912	7,115
Rang/Gilfith BB CT EQ	5913	13,970
Hospital Equipment & Supply	5914	2,380
Gachpar Civic Center	5917	7,500
YSS Paluwlap Repair	5918	26,938
Yap Scholarship Fund	5919	17,000
Touplay NeYefas	5921	10,000
Yap Education Needs	5922	132,503
Yap State LEAA	5923	15,000
Falalop Ulithi Dispensary	5924	7,990
Rural Economic & Community Development Services	5925	9,122
Youth Projects	5926	7,999
Yap State Youth Projects	5927	25,104
Faraulap Multipurpose Building	5928	26,250
Micro Spirit Drydock	5929	200,000
Ulithi Power Distribution/Generation	5933	35,000
F. Woleai Power Distribution/Generation	5934	10,000
		<hr/>
Total CFSM Grants Fund		\$ <u>997,502</u>

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

See accompanying notes to Schedule of Federal Financial Assistance.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
TTPI Capital Projects Fund
Year Ended September 30, 1996

<u>Grantor</u> <u>Program Title</u>	<u>Yap Org. No.</u>	<u>1996 Fiscal Year Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>		
Rural Sanitation - Yap Cap	6382	\$ 20,092
Well Development	6385	<u>15,952</u>
Total TTPI Capital Projects Fund		<u>\$ 36,044</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.

See accompanying notes to Schedule of Federal Financial Assistance.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Federal Financial Assistance, Continued
CFSM Capital Projects Fund
Year Ended September 30, 1996

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1996 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Rumung Water	6614	\$ 10,789
Malay Basketball Court	6618	1,998
Meerur Center	6619	38,460
TTPICIP Administration	6621	2,412
Ganelay School	6628	1,505
Tagreng and Bileeyuw Water System	6629	35,000
Waned/Wacholab	6630	12,700
Tegailap Dispensary	6631	3
Seabee Renovation	6632	183
Mathow Bridge	6633	15,446
Runway Repair	6636	367,415
Dabach Retaining Wall	6638	14,569
Hospital-Fais Dispensary	6639	33,750
Meerur Power-Water	6641	4,288
Total CFSM Capital Projects Fund		\$ <u>538,518</u>

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

See accompanying notes to Schedule of Federal Financial Assistance.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
Schedule of Federal Financial Assistance, Continued
Other U.S. Capital Projects Fund
Year Ended September 30, 1996

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1996</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Environmental Protection Agency</u>			
Ulithi Sewer FSM	66.418	6851	\$ 9,310
On-Site Sewer	66.418	6852	37,864
House Sewer Connection	66.418	6853	54,473
<u>U.S. Department of Commerce</u>			
EDA-Yap Business Incubator	11.300	6857	<u>385,378</u>
Total Other U.S. Capital Projects			<u>\$ 487,025</u>

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

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

See accompanying notes to Schedule of Federal Financial Assistance.

**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)
Section 212(A) Special Development Program (CFDA No. 15.875)
Section 216(A)(2) Health and Medical Programs (CFDA NO. 15.875)
Section 216(A)(3) Post Secondary Education (CFDA NO. 15.875)
Section 214(B) Energy Programs (CFDA NO. 15.875)
Year Ended September 30, 1996

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1996 Fiscal Year Expenditures</u>
<u>Special Block Grant Programs</u>		
Department of Education Budget Supply/Maintenance	2113	\$ 37,342
Education Administration	2114	9,612
Instruction and Curriculum	2115	219,028
Yap Elementary Schools	2116	154,495
Outer Island Elementary Schools	2117	58,041
Yap High School	2118	147,009
Outer Island High School	2119	75,270
Post Secondary Student Services	2122	14,889
Department of Education Staff Development	2123	40,071
Outer Island Middle School	2126	71,053
Primary Health Care	2132	8,793
Alcohol/Drug Abuse and Mental Health	2136	11,365
Medical Supply and Equipment	2138	91,319
Ancillary Services	2140	37,988
Total Compact of Free Association Compact Programs Fund-Section 221(B)		<u>976,275</u>
<u>Special Development Program - Section 212(A)</u>	2209	<u>58,500</u>
<u>Medical Referral Program</u>	2448	<u>150,314</u>
Total Compact of Free Association Compact Programs Fund-Section 216(A)(2)		<u>150,314</u>
<u>Post Secondary Education</u>		
Scholarships and grants	2641	<u>178,320</u>
Total Compact of Free Association Compact Programs Fund-Section 216(A)(3)		<u>178,320</u>
<u>Energy Programs</u>		
POL/Power Generation	2853	510,767
POL/Power Generation transfer to YSPSC	2853	224,718
Total Compact of Free Association Compact Programs Fund-Section 214(B)		<u>735,485</u>
		<u>\$ 2,098,894</u>

(Note: These funds are made available by Title Two, Article I, Sections 221(B), 216(A)(2), 216(A)(3) and 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.

See accompanying notes to Schedule of Federal Financial Assistance.

**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, 1996

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1996</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Daboch Community Center	6101	\$ 17,004
Small Business Center	6116	178,749
FY93 Manpower Development	6127	19,609
Daboch Water Extension	6138	90,409
Water Wells Development	6139	5,134
Tagareng and Bileeyuw Water System	6143	22,000
Agriculture Extension and Research	6144	29,364
Livestock Extension	6146	11,640
Falalop Water System	6151	681
FY94 Power System Development	6153	68,160
FY94 Power System Improvement	6154	2,534
Water Plant Upgrade	6160	9,174
Outer Island High School Library	6161	13,849
Maap Central School Building	6162	18,119
N. Fanif School	6163	9,656
Dalipebinaw Elementary School	6164	13,839
Gaanelay Middle School	6169	10,543
PIIG Dispensary	6170	3,750
Road Chearing	6173	9,029
R&D Extension and Research	6177	73,926
Livestock Extension	6178	142,976
Tourism Promotion	6179	13,892
Turtle Research	6182	500
Outer Island Sponge Farming	6183	588
Trochus Harvest	6184	501
MRMD Renovation	6185	25,487
		<hr/>
Balance Forward		791,113
		<hr/>

See accompanying notes to Schedule of Federal Financial Assistance.

**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, 1996

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1996</u> <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded		\$ 791,113
<u>Office of Territorial and International Affairs, continued</u>		
Agriculture Q. and Q. Control	6186	5,386
Roads & Culverts 2nd PU&C	6187	394,415
Cadastral Program	6188	153,000
Land Lease and Aquisition	6189	84,015
Power System Improvement	6190	54,435
95 Roads & Equipment PU&C	6191	765,760
Generator Project	6192	2,943,579
Lipmur Water Extension	6193	2,071
YSL Building Repair	6194	13,400
Land Lease & Acquisition	6195	98,938
Slaughter House	6196	7,865
Dabach/IO Settlement	6230	3,184
Roads Development	6242	10,848
Road Development Phase VII	6243	127,490
Trochus Fishery Management	6247	6,419
Feasibility Studies	6263	11,771
Manpower Survey	6266	19,277
OI P.C. Sponge Farming	6296	7,392
Outer Islands Airfields	6298	7,838
Tourism Development	6299	5,391
		<hr/>
Total Compact of Free Association Capital Projects Fund - Section 211(A) expenditures		5,513,587
		<hr/>
<u>Transfers out to Yap State Public Service Corporation</u>		
Generation Project	6192	41,549
Water plant upgrade	6160	15,122
Power plant improvement	6154	8,961
		<hr/>
Total transfers out		65,632
		<hr/>
		\$ 5,579,219
		<hr/> <hr/>

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

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

See accompanying notes to Schedule of Federal Financial Assistance.

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, 1996

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1996</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
General Fund:		
Current Account	Various	\$ <u><u>7,252,118</u></u>

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

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

See accompanying notes to Schedule of Federal Financial Assistance.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Federal Financial Assistance
Year Ended September 30, 1996

(1) Scope of Review

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

A. Programs Subject to Single Audit

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

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

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

(3) Component Units

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

The Yap Community Action Program has received approval to perform a bi-annual OMB Circular A-133 audit. Therefore, no audit of this entity has yet been performed for fiscal year 1996.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected For
Audit In Accordance With OMB Circular A-128
Year Ended September 30, 1996

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>1996 Fiscal Year Expenditures</u>
<u>U.S. Dept. of the Interior</u>		
Compact of Free Association:	15.875	
211(A) Capital Account		\$ 5,513,587
221(B) Special Block Grant		976,275
Health and Medical		150,314
Post Secondary Education		178,320
Energy Programs		735,455
Special Development		<u>58,500</u>
Total CFDA # 15.875 excluding Compact Section 211 (A) Current Account expenditures		<u>7,612,451</u>
 <u>U.S. Dept. of Commerce</u>		
EDA Small Business Incubator	11.300	<u>385,378</u>
 <u>U.S. Department of Education</u>		
Special Education	84.027A	493,957
Yap Star	84.256A	<u>469,587</u>
Total U.S. Department of Education		<u>963,544</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>8,961,373</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>9,686,904</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>93%</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 1996

Federal Findings

Drug-Free Workplace Act

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

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

Item No. CFDA No. Criteria, Continued:

Questioned
Costs

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

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

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

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

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

Prior Year Status: Noncompliance with the Drug-Free Workplace Act was reported as a finding in the Single Audits of the Yap State Government for fiscal years 1992 through 1995.

Auditee Response and Corrective Action Plan: We had obtained copies of policy statements for a drug-free workplace from other jurisdictions to begin drafting Yap State's policy statement when it became known to us that the federal requirements concerning the Drug Free Workplace Act had been revised. We will complete our draft of the policy statement once we understand the new revisions to ensure that the statement will comply with federal requirements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Administrative Requirements - Equipment Management

Item No. CFDA No. Criteria:

Questioned
Costs

2. All 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: We agree with the need to take a physical inventory of all government property. We will discuss with the Division of Real and Personal Property Management (RPPM) the need to engage the assistance of all departments and agencies in compiling a list of property and equipment in their custody in order to update property records. We will also arrange with the Supply Division for someone to come to Finance and enter new equipment purchases in the Dilog System.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Administrative Requirements - Equipment Management, Continued

Item No. CFDA No. Criteria:

Questioned
Costs

3. All 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: This finding will be resolved once property records have been updated as described in Finding No. 2.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Administrative Requirements - Procurement

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
4.	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 36 (b) (12) requires grantees and subgrantees to have written protest procedures to handle and resolve disputes relating to their procurements.</p> <p><u>Condition:</u> We noted no written procedures regarding protests over procurement procedures.</p> <p><u>Cause:</u> A procurement manual has been drafted, but has not been finalized.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that a written policy be adopted and added to the regulations regarding procedures to handle and resolve disputes relating to procurement procedures.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The new procurement manual is ready for implementation pending final review by Supply and Finance. Once distributed, the manual will sufficiently address federal procurement concerns.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Administrative Requirements - Subawards to Debarred and Suspended Parties

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Allowable Costs/Cost Principles

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
6.	All	<p>Office of Management and Budget (OMB) Circular A-87 covering cost principles for State and Local Governments over federal grants should be incorporated into Yap State's policies and procedures over procurements.</p> <p><u>Condition:</u> The individual in the Division of Finance responsible for screening procurements for compliance with OMB Circular A-87 has a copy and is familiar with the criteria; however, some program coordinators do not appear to be aware of the criteria.</p> <p><u>Cause:</u> A draft procurement manual has been drafted but has not been formally adopted.</p> <p><u>Effect:</u> We noted no material effect due to the review by the responsible individual in Finance. However, if that employee is gone, noncompliance may occur.</p> <p><u>Recommendation:</u> We recommend that OMB Circular A-87 requirements be incorporated into Yap State's policies and procedures for more complete control and documentation over these requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u> These concerns will be addressed once the Manual of Procurement procedures is adopted and distributed to all departments and agencies.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Cash Management - FEMA

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
7.	83.516	<p>Compliance Supplement cash management requirements require recipients to minimize the time between receiving grant funds and the related disbursement.</p> <p><u>Condition:</u> Per the Program Coordinator for the Federal Emergency Management Agency (FEMA) Public Assistance Program - Typhoon Owen, the program was completed in December 1993. The Coordinator was under the impression all of the funds had been expended. Therefore, the remaining advanced funds of \$18,388 was reclassified from Deferred Revenue to Due to Grantor.</p> <p><u>Cause:</u> This appears to be due to lack of coordination between the program administrators and the Division of Finance in closing out the program.</p> <p><u>Effect:</u> The effect is noncompliance with cash management requirements and possible future questioned costs if the funds are improperly disbursed.</p> <p><u>Recommendation:</u> We recommend that the remaining advanced funds be investigated to determine whether they are to be properly applied to the program or to be returned to the grantor. If the funds are to be applied to the program, proper supportive documentation should be thoroughly reviewed and copies maintained by the Division of Finance.</p> <p><u>Prior Year Status:</u> Noncompliance with the cash management - FEMA was reported as a finding in the Single Audit of the Yap State Government for fiscal years 1994 and 1995.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We will work with FEMA officials to establish the proper disposition of remaining funds.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Yap State - Administrative Requirements-Reporting

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
8.	11.300	<p>A subrecipient of federal financial awards should submit to federal grantors a performance report of each program at least annually.</p> <p><u>Condition:</u> During fiscal year 1996, Yap State commenced construction of the Small Business Center, a project funded in part by a direct grant from the U.S. Department of Commerce Economic Development Administration (EDA). Inquiries revealed that no performance report had been submitted to EDA for the project since its commencement.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The above condition has no effect on the financial statements. However, noncompliance with requirements governing federal funding may result in the funds being rescinded.</p> <p><u>Recommendation:</u> We recommend that Yap State Program managers ensure that a performance report is submitted to grantor agencies at least annually. This report should include the following:</p> <ol style="list-style-type: none">1. A comparison of actual accomplishments to objectives for the period (quantified if possible.)2. Reasons why any established objectives were not met.3. Other pertinent information such as analysis and explanations of cost overrun or high unit cost. <p><u>Auditee Response and Corrective Action Plan:</u> All required reports have been submitted to the federal grantor agency and are now up-to-date.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Special Education Compliance

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>								
9.	84.027A	<p>OMB Circular A-87 requires that expenditures charged to federal programs be “necessary and reasonable for program needs”.</p> <p><u>Condition:</u> During fiscal year 1996, the Special Education program incurred travel costs for approximately 70 participants from the Special Education program, regular education, other government departments and agencies and the private sector to attend the PREL conference held in Pohnpei, in particular to participate in the Inclusive Practice Workshop relating to special education. To fund the travel costs of the participants, the Yap Special Education program requested the FSM National Government to reprogram \$145,000 from other budget categories into the travel budget. The amount of Special Education Program funds expended for the workshop does not appear necessary and reasonable.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>Org.</u></td> <td style="text-align: center;"><u>Doc</u></td> <td style="text-align: center;"><u>APV</u></td> <td></td> </tr> <tr> <td style="text-align: center;">3008</td> <td style="text-align: center;">Various</td> <td style="text-align: center;">Various</td> <td style="text-align: right; vertical-align: bottom;">\$ <u>145,000</u></td> </tr> </table> <p><u>Cause:</u> There was no evidence to indicate that the Program explored a more cost-effective approach to ensuring Yap’s participation in the workshop.</p> <p><u>Effect:</u> The above condition results in questioned costs of \$145,000 which, if disallowed by the grantor, will be absorbed by the General Fund.</p> <p><u>Recommendation:</u> We recommend that Yap State ensures that federal grants be expended in a manner consistent with the requirements of Circular A-87.</p> <p><u>Auditee Response and Corrective Action Plan:</u> As noted in the finding, approval was obtained from the FSM National Government to charge Special Education Funds for travel costs to the PREL Conference. We will therefore work with the FSM National government and the Federal Grantor Agency to resolve the questioned costs.</p>	<u>Org.</u>	<u>Doc</u>	<u>APV</u>		3008	Various	Various	\$ <u>145,000</u>	
<u>Org.</u>	<u>Doc</u>	<u>APV</u>									
3008	Various	Various	\$ <u>145,000</u>								

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Special Education Compliance

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
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10.	84.027A	Costs charged to federal programs should be consistent with the cost principles of OMB Circular A-87.	
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Condition: During fiscal year 1996, materials for renovation of the Special Education office was charged to the Program funds. An invoice dated October 20, 1995 indicated that the materials had been received and the local vendor was paid accordingly. As of March 1997, the renovation work had not commenced. Inquiries revealed that the materials were still with the vendor pending identification of a contractor to perform the work. The related disbursement documents are noted below:

<u>Org.</u>	<u>Doc</u>	<u>APV</u>
3008	P53866	600984

\$ 3,001

Cause: The cause of this condition is unknown.

Effect: The above condition results in costs being charged to the Special Education program for which items purchased may be at risk of loss since such are not in the custody of the Program.

Recommendation: We recommend that payments to vendors not be authorized and processed until such time that goods and services are received.

Auditee Response and Corrective Action Plan: We will instruct all departments and agencies to ensure that invoices are not signed received until goods are actually received.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Special Education Compliance

Questioned
Costs

Item No. CFDA No. Criteria:

11. 84.027A Every client receiving services from Special Education should have a completed and current individual education program (IEP) on file.

Condition: As of March 1997, the Special Education Program was providing services to 18 homebound children and 101 students at various elementary schools. Forty-eight of those children did not have completed IEPs on file. Also, during the fiscal year 1996, the Special Education program funded desks and chairs for students at the high school who had been referred to the program. IEPs had not been developed for those high school students. The related transactions are listed below:

<u>Org.</u>	<u>PO#</u>	<u>APV</u>
3006	P53866	602157
3006	P54222	602158
3006	P54174	602152
3006	P54241	602580
3006	P54168	602388

Cause: Students in need of services are being referred to Special Education programs before staff have time to complete IEPs.

Effect: The above condition results in potential noncompliance with specific requirements relating to the Special Education Part B funds.

Recommendation: We recommend that the program managers ensure that IEP's be developed for each child referred before accepting the child to the program.

Auditee Response and Corrective Action Plan: Since the audit, we have completed Individualized Education Programs for all children being served by the program.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Yap State-Travel Advances

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
12.	84.027A	<p>The Financial Management Regulations require travelers to file expense vouchers and return funds advanced in excess of travel expenses within a certain number of days after completion of trips.</p> <p><u>Condition:</u> Funds owed by travelers to the Government for travel funded by the Special Education Program remain outstanding seven months after completion of travel (TA 60602 and TA 50458).</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The above condition has no material effect on the financial statements.</p> <p><u>Recommendation:</u> Yap State should make every effort to collect travel advances due to the government.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We have established a payment plan for one of the travelers in question and have begun biweekly collection. We are still trying to arrange a payment plan with the other traveler who has since left government employment.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Yap State-JTPA Program Expenditures

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
13.	17.250	<p>Expenditures of JTPA training funds should be in accordance with budget proposals approved by the Private Industry Council.</p> <p><u>Condition:</u> A local vendor expended and was reimbursed for the purchase of a TV and a VCR totaling \$1,999. The items purchased were based on a training proposal submitted by the vendor and approved by the Private Industry Council. The cost of the TV and VCR per the proposal was only \$799. There was no indication that the Private Industry Council had approved the \$1,200 increase in the budget for the items.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The above condition results in questioned costs of \$1,200.</p> <p><u>Recommendation:</u> We recommend that the approval of the Private Industry Council be obtained for subsequent amendments which materially affect the cost of training proposals.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We agree with the finding and will implement the recommendation.</p>	<p>\$ <u>1,200</u></p>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Yap State-Procurement Standards

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>																																
14.	84.256A	Purchases made with Federal grant funds should reflect evidence of informal price solicitations or other means of competitive procurement.																																	
		<u>Condition:</u> The following transactions charged to Yap STAR program funds did not contain evidence on file indicating that the lowest price was obtained (from a sample of 26 transactions or that competitive procurement methods were employed):																																	
		<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Org.</u></th> <th style="text-align: left;"><u>Doc</u></th> <th style="text-align: left;"><u>APV</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>3005</td> <td>P60442</td> <td>604143</td> <td style="text-align: right;">\$ 1,398</td> </tr> <tr> <td>3005</td> <td>P60199</td> <td>604142</td> <td style="text-align: right;">3,949</td> </tr> <tr> <td>3005</td> <td>P60444</td> <td>604156</td> <td style="text-align: right;">4,184</td> </tr> <tr> <td>3009</td> <td>P61776</td> <td>608218</td> <td style="text-align: right;">3,354</td> </tr> <tr> <td>3009</td> <td>N/A</td> <td>check 4207</td> <td style="text-align: right;">5,428</td> </tr> <tr> <td>3009</td> <td>N/A</td> <td>check 4189</td> <td style="text-align: right;">1,455</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>19,768</u></td> </tr> </tbody> </table>	<u>Org.</u>	<u>Doc</u>	<u>APV</u>		3005	P60442	604143	\$ 1,398	3005	P60199	604142	3,949	3005	P60444	604156	4,184	3009	P61776	608218	3,354	3009	N/A	check 4207	5,428	3009	N/A	check 4189	1,455				<u>19,768</u>	
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			<u>19,768</u>																																

Cause: Program managers were unaware of federal procurement requirements. The draft procurement procedures manual which address these requirements has not been finalized and distributed to the departments.

Effect: The above condition resulted in questioned costs.

Recommendation: We recommend that the federal procurement requirements be incorporated into the draft procurement procedures manual and such manual be finalized and distributed as soon as possible.

Auditee Response and Corrective Action Plan: We will ensure that evidence of compliance with competitive bidding is maintained on file.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Yap State-Compact CIP Funds

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
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15.	15.875	Expenditures of Compact funds should be consistent with the intent of the Compact treaty.	
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Condition: The appropriations below authorized funding for repair of existing government buildings. Such use of compact CIP funds appear to be inconsistent with the intent of the Compact Capital Account. During fiscal year 1996, the projects incurred expenses as follows:

<u>Org.</u>	<u>Org. Title</u>	
6185	MRMD Building Renovation	\$ 25,487
6186	Quarantine Building Renovation	5,386
6194	YSL Building Repair	<u>13,400</u>
		<u>44,273</u>

Cause: The cause of this condition is unknown.

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

Recommendation: We recommend that Yap State ensures that expenditures of Compact Funds are consistent with the intent of the applicable section of the Compact.

Auditee Response and Corrective Action Plan: We have discussed the matter with the appropriate officials and plan to ask the Legislature to appropriate local funds to replace the Compact CIP Funds in question.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Federal Findings, continued

Yap State-Compact CIP Funds

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
16.	15.875	The Compact of Free Association defines the Capital Account as the portion of total grant assistance which is to be obligated for "the construction or major repair of capital infrastructure" or "public and private sector projects identified in the official overall economic development plan."	

Condition: During the fiscal year 1996, Compact capital funds were expended in payment of certain transactions which seemed to be operational in nature and therefore appear to be unallowable costs under Compact Capital Account funds. The related transactions are listed below:

<u>Org.</u>	<u>Org. Title</u>	
6161	OIHS Library Building	\$ 2,720
6161	OIHS Library Building	4,900
6162	Maap School Building	4,590
6162	Maap School Building	2,923
6162	Maap School Building	2,730
6177	Ext. & Research	15,530
6177	Ext. & Research	1,587
6169	Gaanelay School Building	4,887
6169	Gaanelay School Building	4,888
6242	Road Development	5,000
6127	Manpower Training	<u>350</u>

50,105

Cause: Per the Chief of Budget, certain of the items were authorized in the project control.

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

Recommendation: Yap State should obtain an opinion from the Attorney General as to whether the above expenditures represent allowable expenditures under Compact Funds.

Auditee Response and Corrective Action Plan: Allotments were issued authorizing expense items in each project control document. The Yap Attorney General has advised that any or all questioned costs arising from the use of Capital Funds should be handled by the FSM AG's office and the FSM Public Auditor by legal opinion or rulings. However, more stringent procedures and cost elements for the use of Capital Funds will be developed for use henceforth.

Total questioned costs \$ 263,347

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Local Findings

CFSM Receivables

**Questioned
Costs**

Item No. **CFDA No.** **Criteria:**

1. N/A 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 \$779,912 at September 30, 1996, compared to the FSM National Government recorded liability to Yap State for CFSM grants of approximately \$111,682.

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 through 1995.

Auditee Response and Corrective Action Plan: We have been working with the FSM National Government to reconcile receivables and have been successful recently in collecting approximately \$600,000 from the National Government. Although there is still a balance outstanding the amount is substantially less than the prior years.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1996

Local Findings, continued

Yap State-Budgets

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
2.		<p>Expenditures should not be incurred in the absence of statutory budget authority.</p> <p><u>Condition:</u> \$84,015 in land payments were incurred under Compact Capital account org. 6189 during fiscal year 1996. No budget was authorized for org. 6189. The fiscal year 1996 appropriation for Land Lease and Acquisition was allotted under org. 6195 of which approximately \$4,000 remained unexpended as of year-end. In addition, \$11,660 was expended under org. 6146 for which no spending authority existed.</p> <p><u>Cause:</u> A reconciliation of the budget authority in Dilog was not performed regularly.</p> <p><u>Effect:</u> The effect of the above condition is unknown.</p> <p><u>Recommendation:</u> We recommend that Budget amounts in Dilog be reconciled with appropriation laws and continuing appropriations on a monthly basis.</p> <p><u>Auditee Response and Corrective Action Plan:</u> We will follow up and ensure that reconciliations are performed on a regular basis.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 1996

QUESTIONED COSTS

For the year ended September 30, 1996, the following questioned costs were noted and prior year questioned costs resolved:

Unresolved federal questioned costs at September 30, 1995	\$ 316,873
FY96 questioned costs	263,347
Resolved questioned costs	<u>-</u>
Total unresolved federal questioned costs at September 30, 1996	\$ <u>580,222</u>

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

FY84 unresolved questioned costs	\$ 28,904
FY85 unresolved questioned costs	16,364
FY86 unresolved questioned costs	168,555
FY92 unresolved questioned costs	216
FY93 unresolved questioned costs	2,241
FY95 unresolved questioned costs	<u>100,593</u>
	\$ <u>316,873</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 85 to 103). Certain findings repeat matters set forth in the 1995 Single Audit Reports. However, a prior year status has not been included for those matters due to the federal agency indicating resolution of the matter.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA
INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL STRUCTURE
YEAR ENDED SEPTEMBER 30, 1996**



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

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

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1996, and have issued our report thereon dated April 17, 1997. Our report on the audit of the general purpose financial statements was modified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Units - Proprietary Funds of the Gagil-Tomil Water Authority, the Southern Yap Water Authority, and the Yap Sports Council; 4) the omission from the Component Unit - Governmental Fund of the Yap Community Action Program; 5) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 6) our inability to express an opinion on Public Transportation System, a Proprietary Fund Type - Enterprise Fund.

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

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

In planning and performing our audit of the general purpose financial statements of the State of Yap for the year ended September 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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

The following items, which are further described in the accompanying Schedule of Internal Control Findings (pages 108 to 137), represent reportable conditions in finding numbers 16, 18 and 21 through 30.

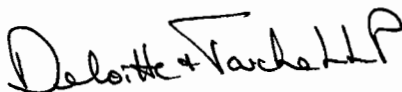
A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial 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 finding numbers 1-15, 17, 19 and 20, which we have reported to the management of the State of Yap.

We also noted matters involving the internal control structure and its operations used to administer federal financial assistance programs which we reported to the management of the State of Yap in a report dated April 17, 1997.

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



April 17, 1997

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings
Year Ended September 30, 1996

Yap State - Cash Receipts

Finding No. 1

Criteria: A proper system of internal controls require the timely banking of collections.

Condition: Tax and revenue collections from September 18-30, 1996 totaling \$65,350 were not deposited until October 8, 1996.

Cause: The collections were not turned in to the Treasury Division by the Tax and Revenue Division until October 7, 1996.

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

Recommendation: We recommend that the Tax and Revenue Division be required to deposit collections at the State Treasury on a daily basis.

Auditee Response and Corrective Action Plan: We agree with the finding. Tax and Revenue officials have been instructed to deposit collections at the Treasury on a daily basis.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Receivables

Finding No. 2

Criteria: Better tracking of account balances would be realized if separate accounts are maintained for different receivables.

Condition: The YFC Loan receivable and the loan receivable for the Satawal Community Lawsuit are both recorded in the general ledger account no. 255. No subsidiary ledger is maintained for the Satawal loan receivable making tracking of payments difficult.

Cause: The cause of this condition is unknown.

Effect: The above condition has no material effect on the financial statements.

Recommendation: We recommend that the Satawal Community loan receivable be transferred to a separate general ledger account. In addition, an expense account to track disbursements should be considered.

Auditee Response and Corrective Action Plan: The two loans were recorded under one general ledger account with the understanding that the Satawal Community Loan will be collected within a short time. We will follow-up with the appropriate officials and find out the status of the Satawal Loan. If it is anticipated that collection cannot be effected within the near future, the balance of the loan will be transferred to a new general ledger account.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Inventory

Finding No. 3

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

Condition: We performed counts on nine items in the medical supplies inventory at September 30, 1996. Year-end physical counts for five of the nine items selected could not be verified due to inadequate records relating to stock issues. In addition, the listing also contained errors due to incorrect posting of unit costs for certain inventory items.

Cause: A stock issue ticket is not required to be prepared in order to receive medical supplies. In addition, medical supply personnel were not required to supervise and/or verify the amount or description of stock issued.

Effect: The preliminary inventory listing prepared by Medical Supply personnel was overstated by \$184,734. The report was subsequently revised to reflect test counts.

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

Auditee Response and Corrective Action Plan: Staff have been instructed to pay attention to ensure that inventory counts are correct.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Inventory

Finding No. 4

Criteria: Inventory should be adjusted to reflect decline in value due to obsolescence.

Condition: Included in the inventory of the General Fund were one hundred nine 100 litre drums of Condor S.S. Sulphanate Oil with a book value of \$200,368. The materials were purchased for use in the road paving projects approximately ten years ago. It appears the State may have no use for the material, therefore, its value may be overstated.

Cause: The cause of the above condition is unknown.

Effect: The above condition results in overstatement of inventory values. However, the total General Fund inventory which includes the \$200,368 for the sulphanate oil has been reserved in the general fund reserves for related assets.

Recommendation: Yap State should consider the write down of the value of the sulphanate oil and record the loss in the General Fund.

Auditee Response and Corrective Action Plan: We have acquired the Governor's approval to write down the value of the Condor SS Sulphanate Oil inventory and charge the expense to the General Fund.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Budgets

Finding No. 5

Criteria: Budgets should be correctly entered into Dilog.

Condition: The Dilog 240p report for September 30, 1996 showed the following errors.

- The continuing appropriation budget for org. 6191 of \$1,260,000 was not carried forward into fiscal year 1996 resulting in a book deficit of \$765,760.
- Dilog shows a budget for the YSL Building Renovation of \$1,300,000 whereas \$40,000 was authorized.
- Org. 6189 shows no budget authority for fiscal year 1996, but \$84,015 was incurred for the year in expenditures.
- Org. 1711 showed a deficit for fiscal year 1996 because the continuing appropriation budget was not rolled into fiscal year 1996.
- Org. 6146 shows expenditures of \$11,400 in fiscal year 1996 but no budget authority.

Cause: It appears no reconciliation was conducted at the end of the fiscal year.

Effect: The above condition resulted in a material misstatement of the reserve for continuing appropriations. This matter was corrected in the audit process.

Recommendation: We recommend that the Finance and Budget office coordinate reconciliation of year-end balances to ensure that budget amounts are properly recorded.

Auditee Response and Corrective Action Plan: The errors described above have been corrected. In the future, care will be taken to prevent the recurrence of errors.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Program Budgets

Finding No. 6

Criteria: A proper system of internal control has procedures in place to ensure that expenditures are charged to the proper accounts.

Condition: During fiscal year 1996, \$2,985 in vehicle repair costs to the Neighboring Islands School Administration (NISA) was charged to the Outer Islands High School (OIHS) Compact 221 (b) org. 2119. Inquiries at the Budget Office revealed that the NISA has a program budget separate from OIHS.

Cause: The cause of this condition is unknown.

Effect: The above condition has no effect on the financial statements. However, expenditures incurred inconsistently with program budgets may result in charges which may be inconsistent with the Legislature intent for appropriations.

Recommendation: We recommend that Yap State Finance review transactions to ensure that expenses are obligated and paid under the proper program account.

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Travel Advances

Finding No. 7

Criteria: The Financial Management Regulations require travelers to file expense vouchers and return funds advanced in excess of travel expenses within a certain number of days after completion of trips.

Condition: Funds owed by travelers to the Government for travel funded by the Special Education Program remain outstanding seven months after completion of travel (TA 60602 and TA 50458).

Cause: The cause of this condition is unknown.

Effect: The above condition has no material effect on the financial statements.

Recommendation: Yap State should make every effort to collect travel advances due to the government.

Auditee Response and Corrective Action Plan: We have begun biweekly collections on one of the travel advance cited above. The other advance was given to a traveler who had since left government employment. The State Finance will contact the traveler and arrange a payment plan.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Unrecorded Liabilities

Finding No. 8

Criteria: Certification of funds should be obtained before procurement of goods and services.

Condition: The search for unrecorded payables revealed an invoice of \$18,303 for survey work performed on the Micro Spirit which was not recorded as a liability in fiscal year 1996. In addition, no encumbrance had been established to cover the payment of the invoice.

Cause: The cause of this condition is unknown.

Effect: The above condition has no material effect on the financial statements.

Recommendation: We recommend that Yap State ensure that funds are encumbered before acquiring goods and services.

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Cash

Finding No. 9

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

Condition: Differences existed between bank reconciliations and book balances as of September 30, 1996. However, these differences were adjusted in the reconciliation process.

Cause: Bank reconciliations were not performed and agreed to the general ledger balances in a timely manner.

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

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

Prior Year Status: This condition was reported as a finding in the Yap State Government Single Audit in fiscal year 1995.

Auditee Response and Corrective Action Plan: During fiscal year 1996, a new person was placed in charge of bank reconciliations. She has received instructions on how to reconcile bank accounts to the general ledger; therefore, we expect the bank accounts to be properly reconciled in the future.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Cash

Finding No. 10

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

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

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

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

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

Prior Year Status: This condition was reported as a finding in the Yap State Government Single Audit in fiscal year 1995.

Auditee Response and Corrective Action Plan: This item has been discussed widely and extensively with employees in Finance to review outstanding checks and take corrective action. We will ensure that this does not happen again in the future.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Disbursements

Finding No. 11

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

Condition: Per Orgs. #3006 and 3008 - Special Education, some purchases occurred in the total amount of \$20,825. There were no evidence on file indicating the lowest prices were obtained.

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: The lack of evidence of informal bidding was reported on the Yap State Government Single Audit for fiscal year 1995.

Auditee Response and Corrective Action Plan: The program managers and relevant Finance employees have been reminded of Federal procurement standards to ensure that evidence of compliance with those requirements is maintained on file.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - Travel Advances

Finding No. 12

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

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

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: This condition was reported in the finding in the Yap State Government Single Audit for fiscal year 1995.

Auditee Response and Corrective Action Plan: We are in the process of reviewing the travel account to write-off uncollectibles and effect collection of advances outstanding.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap State - CFSM Receivables

Finding No. 13

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

Condition: CFSM grants receivable from the FSM National Government include amounts withheld by the FSM National Government from prior years in the amount of \$324,462.

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: This condition was reported in the finding in the Yap State Government Single Audit for fiscal year 1995.

Auditee Response and Corrective Action Plan: We will continue to research and resolve the matter with the FSM National Government.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Encumbrances

Finding No. 14

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

Condition: A review of the 121p report at September 30, 1996, shows encumbrances dating back to fiscal year 1991. The contract period for some of these obligations had lapsed, however, encumbrances had not been canceled. The specific contracts are as follows: C10038, C40009, C40068, C30071 and C30070. In addition, a fiscal year 1994 obligation for a purchase order (P42466) showing no movement in fiscal year 1996 remained with an encumbrance at September 30, 1996, of \$15,550.

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

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

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

Prior Year Status: This condition was reported in the finding in the Yap State Government Single Audit for fiscal year 1995.

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Interfund Balances

Finding No. 15

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

Condition: As of September 30, 1996, approximately \$227,913 of interfund receivables exist in the Internal Service Fund.

Cause: Earnings have accumulated and have not been utilized.

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

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

Prior Year Status: This condition was reported in the finding in the Yap State Government Single Audit for fiscal year 1995.

Auditee Response and Corrective Action Plan: The employees in Finance have been instructed to prepare a journal voucher to transfer the amount to the general fund as recommended.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Receivables

Finding No. 16

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

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

FEMA receivables	\$ 158,225
Non US Grants	5,222
CFSM projects	328,369
TTPI projects	303,229
CFSM CIP projects	43,004
U.S. Federal grants	<u>470,457</u>
	\$ <u>1,308,506</u>

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: This condition was reported in the finding in the Yap State Government Single Audit for fiscal year 1995.

Auditee Response and Corrective Action Plan: We have been working with the FSM National Government to collect prior year receivables. A recent payment was submitted by the National Government thereby reducing the receivables outstanding from prior years.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Revenues

Finding No. 17

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

Condition: Revenue and Tax officials could not explain significant decreases in excise taxes for cigarettes and others for fiscal year 1996 as compared to fiscal year 1995. Also, import taxes increased by 51% while excise taxes increased only 10%.

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

Effect: Revenues could be misstated.

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

Prior Year Status: Unexplained variances in the taxes was reported as a finding in the Yap State Government Single Audit for fiscal year 1995.

Auditee Response and Corrective Action Plan: We agree with the finding that variances in revenues should be investigated. Efforts to increase the collection of local revenue is considered a priority by the State as evidenced by approval of two new positions for the Division of Tax and Revenue for the next fiscal year. With the new positions, it is hoped that careful study can be undertaken to ensure that taxes are collected.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Fixed Assets

Finding No. 18

Criteria: Fixed assets should be properly supported.

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

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: The lack of documentation supporting fixed assets was reported as a finding in the Yap State Government Single Audits for fiscal years 1992, 1993, 1994 and 1995.

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap Fishing Authority - Accounts Receivable

Finding No. 19

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

Condition: At September 30, 1996, \$446,708 of trade receivables had been outstanding for over 90 days. About half of the receivables had been outstanding for more than a year. In addition to the trade receivables, \$38,291 were due from employees, approximately 50% of whom are no longer working for the Authority.

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

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

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

Auditee Response and Corrective Action Plan: Complete lists of all receivables have been submitted to the Attorney General Office and Mulalap and Mulalap Law Office for the collection attempt, in addition to statements and follow-up made by YFA office staff. A few have been collected. The Authority has not enforced a strict no-credit policy, both to the public as well as employees, with a few exceptions, at the discretion of the YFA Board. Any credit allowed is upon a promissory note for a 30-day credit term. Immediate follow-ups are made with account statements and phone calls. Currently all receivables are collected on time.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Yap Fishing Authority - Cash Receipts

Finding No. 20

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

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

Cause: The cause of this condition is unknown.

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

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

Prior Year Status: The above condition was reported as a finding in the Yap State Government Single Audits for fiscal year 1995.

Auditee Response and Corrective Action Plan: The grant which was for the Outer Island Ornament Project was not implemented because the Peace Corp Volunteer in charge left as soon as the grant was received. YFA plans to return the money to the South Pacific Commission as soon as the grant agreement papers are located.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Accounts Receivable

Finding No. 21

Criteria: Controls should be in place to ensure that receivables are properly recorded.

Condition: The amounts recorded in accounts receivable cannot be substantiated and the accounts receivable listing has not been updated since October 1994. Further, no record has been kept of all bus charter receivables that were due from fiscal years 1995 and 1996. Some invoices were found in a file but there was no indication whether or not such had been paid.

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

Effect: The effect of the condition is that accounts receivable at September 30, 1996, of \$27,972 could not be substantiated. The amount is material to PTS's financial statements.

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

Auditee Response and Corrective Action Plan: We agree with the finding. The State Public Auditor is currently assisting us to reconcile our general ledger and develop accounting procedures to resolve audit findings.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Employee Files

Finding No. 22

Criteria: Employees' authorized pay rates should be documented.

Condition: PTS does not keep completed personnel files. Files do not record the starting salary of employees or any increase in individual pay rates. Some files do not contain employment agreements.

Cause: The cause of this condition is unknown.

Effect: The above condition has no material effect on the financial statements, however, insufficient personnel files increases the risk of errors and irregularities.

Recommendation: We recommend that individual personnel files be established and updated. Such files should contain employment agreements and records of starting salaries and subsequent pay increases.

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Board Minutes

Finding No. 23

Criteria: Written minutes of Board meeting procedures should be maintained.

Condition: No Board meeting minutes have been made available for the fiscal year 1996.

Cause: The cause of this condition is unknown.

Effect: Board decisions during fiscal year 1996, which may materially affect the financial statements, cannot be determined.

Recommendation: We recommend that written minutes of proceedings be maintained for each Board meeting held.

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Expenses

Finding No. 24

Criteria: Expenses should be properly classified.

Condition: Review of expenditures showed misclassifications as follows: a purchase of a machine was expensed rather than capitalized under fixed assets. Tires were classified as fixed assets. Fuel was classified under supplies, and income tax was classified as social security tax.

Cause: The cause of this condition is unknown.

Effect: Expense categories were misstated as a result of this condition.

Recommendation: Expenditures should be reviewed carefully to ensure that the proper accounts are assigned and the disbursements recorded properly.

Auditee Response and Corrective Action Plan: We are currently working with the State Auditor to resolve this finding.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Bank reconciliations

Finding No. 25

Criteria: Cash balances should be reconciled to the general ledger.

Condition: From our examination of the cash account, it was noted that bank reconciliations did not agree to the general ledger.

Cause: The cause of this condition is unknown.

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

Prior Year Status: A finding concerning bank reconciliations was present in the 1995 Schedule of Internal Control Findings.

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

Auditee Response and Corrective Action Plan: We agree with the finding. The Board is considering hiring a qualified accountant to work with the current bookkeeper to provide on the job training.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Inventory

Finding No. 26

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

Condition:

1. While an inventory was performed at year end, there appeared to be no costing of the inventory to determine its aggregate value.
2. The inventory account balance had not changed since September 30, 1994.
3. Purchase of inventory is immediately expensed and adjustments were not made at end of the year to reflect inventory on hand.

Cause: The cause of this condition is unknown.

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

Prior Year Status: A finding concerning inventory was present in the 1995 Schedule of Internal Control Findings.

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

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Fixed Assets

Finding No. 27

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

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

Cause: The cause of this condition is unknown.

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

Prior Year Status: A finding concerning fixed assets was present in the 1995 Schedule of Internal Control Findings.

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

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Disbursements

Finding No. 28

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

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

Cause: The cause of this condition is unknown.

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

Prior Year Status: A finding concerning proper classification of fixed assets and inventory purchases was present in the 1995 Schedule of Internal Control Findings.

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

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - External Financial Reporting

Finding No. 29

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

Condition:

1. An amount of \$35,661 was recorded in the equity account. The origins of this amount could not be ascertained and it appears to be a plug figure to balance the balance sheet.
2. The fund equity at September 30, 1996, increased by \$126,697, an amount which is not substantiated by activities of the income statement.
3. The cash balance was double posted in the general ledger. The other side of the entry could not be determined to reverse the error.
4. Beginning retained earnings does not agree with the prior year. Adjustments could not be made without further distorting the financial statements.
5. Accounts receivable at September 30, 1996 appear to have been derived by adding together the balances at October 1, 1994 and October 1, 1995.

Cause: The Commerce and Industry division helped the PTS establish an accounting system in 1995. However, the individual trained to maintain the system left PTS.

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

Recommendation: A simple accounting system should be developed which existing staff should be able to maintain with minimal training.

Auditee Response and Corrective Action Plan: We agree with the finding. The State Public Auditor is training our accounting staff on the use of a simple automated accounting package which should help prevent the errors mentioned above.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Public Transportation System - Amortization

Finding No. 30

Criteria: Prepaid items should be amortized over periods benefited.

Condition: The total insurance premium paid in 1995 and 1996 were expensed rather than recorded as a prepaid item and amortized over the average period.

Cause: The cause of this condition is unknown.

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

Prior Year Status: A finding concerning amortization of prepaid expenses was present in the 1995 Schedule of Internal Control Findings.

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

Auditee Response and Corrective Action Plan: We agree with the finding and will implement the recommendation.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Internal Control Findings, Continued
Year Ended September 30, 1996

Unresolved Prior Year Findings

The status of unresolved prior year internal control findings is disclosed within the Schedule of Internal Control Findings (pages 108 to 137).