

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 1999

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 1999

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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, 1999



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, 1999, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Yap. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Public Transportation System (PTS), an enterprise fund, the Yap Visitors Bureau (YVB), a discretely presented component unit, and Diving Seagull Inc., a material investee of the Yap Investment Trust Fund (YIT), an enterprise fund, which represent 1% and 86% of the assets and .01% and 100% of the operating revenues, respectively, of the discretely presented component units and the enterprise funds. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for PTS, YVB and YIT, is based solely on the reports of the other auditors.

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

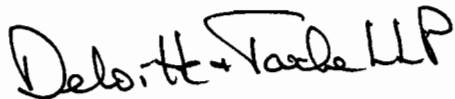
The Yap Fishing Authority (YFA), a Component Unit-Proprietary Fund, has not been able to provide original cost data to support the carrying value of contributed fixed assets and has not provided audited financial statements supporting the carrying value of a 50% investee. The impact of this matter on the accompanying general purpose financial statements is indeterminable.

Yap State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1999, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general purpose financial statements.

In our opinion, based on our audit and the reports of other auditors, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had; 1) original cost data been available to support the carrying value of contributed fixed assets and audited financial statements been available to support the carrying value of a 50% investee of YFA, a Component Unit-Proprietary Fund and 2) 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 General Fixed Assets Account Group, upon which we are unable to express an opinion because of the matters specified in the fourth paragraph, present fairly, in all material respects, the financial position of the State of Yap, as of September 30, 1999, and the results of its operations and the cash flows of its Proprietary Fund Types for the year then ended, in conformity with generally accepted accounting principles.

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 IV 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 and fourth paragraphs above, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2000 on our consideration of the State of Yap's (Primary Government, Yap Community Action Program and Yap Fishing Authority only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

January 28, 2000

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units
September 30, 1999
(With comparative totals as of September 30, 1998)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	Component	Totals	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Fiduciary Fund Type Expendable Trust	General Fixed Assets	General Long-Term Debt	Primary Government (Memorandum Only)		Reporting Entity (Memorandum Only)	
											1999	1998
Assets												
Cash and equivalents (note 3)	\$ 1,340,999	\$ -	\$ -	\$ 791,567	\$ -	\$ 217,890	\$ -	\$ -	\$ 2,350,456	\$ 1,721,082	\$ 4,071,538	\$ 3,575,031
Restricted cash (note 4)	1,657,417	-	-	-	-	-	-	-	1,657,417	878,493	2,535,910	2,189,748
Time certificates of deposit	-	-	-	-	-	-	-	-	-	1,149,275	1,149,275	671,599
Investments (note 5)	39,903,513	3,226,092	9,210,448	2,008,559	-	-	-	-	54,348,612	1,399,858	55,748,470	57,081,553
Receivables, net (note 6):												
Other governments	-	554,610	-	-	-	-	-	-	554,610	-	554,610	754,693
Federal agencies	-	-	20,472	-	-	-	-	-	20,472	-	20,472	295,423
U.S. Department of the Interior-TTPI	-	-	75,777	-	-	-	-	-	75,777	-	75,777	88,115
Federal and other-FSM government	657,538	2,055,193	441,212	-	-	-	-	-	3,153,943	213,495	3,367,438	2,357,865
General	62,711	-	-	29,195	4,484	-	-	-	96,390	448,269	544,659	1,564,479
Loans	-	-	6,500,000	-	-	-	-	-	6,500,000	206,436	6,706,436	6,834,863
Accrued interest on investments	-	-	-	-	-	-	-	-	-	10,333	10,333	381,041
Due from other funds (note 10)	342,611	249,971	3,040,743	506,250	265,812	8,080	-	-	4,413,467	-	4,413,467	9,458,742
Advances and prepayments (note 6)	295,811	117,337	7,145	31,826	-	-	-	-	452,119	166,903	619,022	722,874
Inventory of supplies, at cost (note 7)	198,608	-	-	34,355	56,837	-	-	-	289,800	566,258	856,058	755,782
Fixed assets, net (note 8)	-	-	-	4,732,535	-	-	64,620,758	-	69,353,293	10,855,629	80,208,922	81,683,174
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	20,837,852	20,837,852	-	20,837,852	30,038,686
	<u>\$ 44,459,208</u>	<u>\$ 6,203,203</u>	<u>\$ 19,295,797</u>	<u>\$ 8,134,287</u>	<u>\$ 327,133</u>	<u>\$ 225,970</u>	<u>\$ 64,620,758</u>	<u>\$ 20,837,852</u>	<u>\$ 164,104,208</u>	<u>\$ 17,616,031</u>	<u>\$ 181,720,239</u>	<u>\$ 198,453,668</u>

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, 1999
(With comparative totals as of September 30, 1998)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary	Account Groups		Totals	Component	Totals		
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Fund Type	General	General	Primary		Reporting Entity	1999	1998
						Expendable Trust	Fixed Assets	Long-Term Debt	(Memorandum Government Only)				
Liabilities and Fund Equity													
Liabilities:													
Accounts payable	\$ 470,429	\$ 331,105	\$ 21,326	\$ 11,540	\$ 6,182	\$ -	\$ -	\$ -	\$ 840,582	\$ 166,292	\$ 1,006,874	\$ 2,461,596	
Accrued payroll and others	350,585	64,283	-	132,709	-	-	-	437,138	984,715	227,011	1,211,726	1,803,427	
Intergovernmental note payable (note 9)	-	-	-	2,000,000	-	-	-	-	2,000,000	-	2,000,000	2,000,000	
Loans payable - Yap State (note 9)	-	-	-	7,000,000	-	-	-	-	7,000,000	-	7,000,000	6,500,000	
Due to other funds (note 10)	-	3,028,882	1,283,763	100,822	-	-	-	-	4,413,467	-	4,413,467	9,458,742	
Due to grantor	-	-	-	-	-	-	-	-	-	102,639	102,639	102,639	
Deferred revenue	37,544	720,385	935,787	-	-	-	-	-	1,693,716	142,590	1,836,306	1,080,612	
Notes payable (notes 9 and 13)	-	-	-	-	-	-	-	20,200,000	20,200,000	-	20,200,000	29,184,965	
Other payables	-	-	-	-	-	-	-	-	-	144,650	144,650	19,885	
Land acquisition claims payable (note 9)	-	-	-	-	-	-	-	200,714	200,714	-	200,714	383,940	
Total liabilities	858,558	4,144,655	2,240,876	9,245,071	6,182	-	-	20,837,852	37,333,194	783,182	38,116,376	52,995,806	
Fund equity (deficit):													
Contributed capital	-	-	-	7,976,934	-	-	-	-	7,976,934	15,941,495	23,918,429	22,349,063	
Investment in general fixed assets	-	-	-	-	-	-	64,620,758	-	64,620,758	-	64,620,758	64,620,758	
Retained earnings (deficit):													
Reserved	-	-	-	-	-	-	-	-	-	-	-	-	
Unreserved	-	-	-	(9,087,718)	320,951	-	-	-	(8,766,767)	(890,412)	(9,657,179)	(6,071,954)	
Net assets:													
Unrestricted	-	-	-	-	-	-	-	-	-	16,056	16,056	(38,824)	
Temporarily restricted	-	-	-	-	-	-	-	-	-	554,773	554,773	362,843	
Permanently restricted	-	-	-	-	-	-	-	-	-	1,210,937	1,210,937	1,324,722	
Fund balances:													
Reserved for:													
Related assets	23,592,914	-	-	-	-	-	-	-	23,592,914	-	23,592,914	30,766,233	
Loans	-	-	6,500,000	-	-	-	-	-	6,500,000	-	6,500,000	6,500,000	
Encumbrances	846,158	1,104,674	3,967,619	-	-	-	-	-	5,918,451	-	5,918,451	5,056,688	
Continuing appropriations (note 12)	48,857	-	2,200,000	-	-	-	-	-	2,248,857	-	2,248,857	1,444,761	
Unreserved	19,112,721	953,874	4,387,302	-	-	225,970	-	-	24,679,867	-	24,679,867	19,143,572	
Total fund equity (deficit)	43,600,650	2,058,548	17,054,921	(1,110,784)	320,951	225,970	64,620,758	-	126,771,014	16,832,849	143,603,863	145,457,862	
Contingent liabilities and commitments (notes 13 and 15)													
	\$ 44,459,208	\$ 6,203,203	\$ 19,295,797	\$ 8,134,287	\$ 327,133	\$ 225,970	\$ 64,620,758	\$ 20,837,852	\$ 164,104,208	\$ 17,616,031	\$ 181,720,239	\$ 198,453,668	

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, 1999
(With comparative totals for the year ended September 30, 1998)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1999	1998
Revenues:						
Compact of Free Association	\$ 5,880,096	\$ 2,931,301	\$ 3,618,144	\$ -	\$ 12,429,541	\$ 12,429,541
Federal contributions	-	2,405,306	-	-	2,405,306	3,386,043
U.S. Dept. of the Interior-TTPI	-	-	1,186,524	-	1,186,524	294,215
Revenue sharing (FSM)	2,055,645	-	-	-	2,055,645	1,738,438
CFSM grants	-	1,396,644	1,948,944	-	3,345,588	5,777,003
Taxes and licenses	1,824,418	-	-	-	1,824,418	1,584,739
Departmental charges	507,171	-	-	-	507,171	521,007
Interest income	14,426	-	-	4,363	18,789	254,013
Other	338,247	154,259	-	-	492,506	266,317
Total revenues	10,620,003	6,887,510	6,753,612	4,363	24,265,488	26,251,316
Expenditures:						
General government	1,228,505	-	282,840	-	1,511,345	1,479,471
Health services	1,239,967	801,194	-	-	2,041,161	2,148,680
Education	1,320,069	2,860,757	156,736	-	4,337,562	4,837,797
Economic development	384,364	132,656	248,062	-	765,082	891,796
Public safety	487,146	174,691	-	-	661,837	654,602
Public works and transportation	2,186,374	661,019	4,407,978	-	7,255,371	12,029,397
Community affairs	248,695	704,374	169,663	3,924	1,126,656	2,395,364
Boards and commissions	252,167	-	-	-	252,167	252,842
Other	663,251	1,097,039	103,224	1,774	1,865,288	1,548,759
Total expenditures	8,010,538	6,431,730	5,368,503	5,698	19,816,469	26,238,708
Excess (deficiency) of revenues over (under) expenditures	2,609,465	455,780	1,385,109	(1,335)	4,449,019	12,608
Other financing sources (uses):						
Investment income (note 5)	7,994,858	-	-	-	7,994,858	2,453,308
Bad debt expense	(500,000)	-	-	-	(500,000)	(326,806)
Inventory write-off	-	-	-	-	-	-
Operating transfers in (note 11)	-	617,891	5,176,057	-	5,793,948	5,241,828
Operating transfers out (note 11)	(8,950,253)	(448,666)	(40,000)	-	(9,438,919)	(6,826,266)
Payments of notes payable and interest (note 9)	(5,657,123)	(466,846)	(3,145,184)	-	(9,269,153)	(9,295,578)
Early retirement scheme ADB loan proceeds (note 9)	1,500,000	-	-	-	1,500,000	2,000,000
Early retirement program (note 9)	(500,918)	-	-	-	(500,918)	(1,029,555)
Total other financing sources (uses), net	(6,113,436)	(297,621)	1,990,873	-	(4,420,184)	(7,783,069)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,503,971)	158,159	3,375,982	(1,335)	28,835	(7,770,461)
Fund balances at beginning of year	47,104,621	1,900,389	13,678,939	227,305	62,911,254	70,681,715
Fund balances at end of year	\$ 43,600,650	\$ 2,058,548	\$ 17,054,921	\$ 225,970	\$ 62,940,089	\$ 62,911,254

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, 1999
(With comparative totals for the year ended September 30, 1998)

	1999 General Fund			1998 General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Current account compact funds	\$ 5,950,560	\$ 5,880,096	\$ (70,464)	\$ 5,873,280	\$ 5,880,096	\$ 6,816
FSM revenue sharing	1,416,740	2,055,645	638,905	1,398,560	1,738,438	339,878
Taxes and licenses	1,401,390	1,303,474	(97,916)	1,855,330	1,584,739	(270,591)
Interest income	250,000	14,426	(235,574)	250,000	248,810	(1,190)
Other	479,010	1,366,362	887,352	491,870	577,486	85,616
Total revenues	9,497,700	10,620,003	1,122,303	9,869,040	10,029,569	160,529
Expenditures-budgetary basis:						
General government	2,002,704	1,261,239	741,465	1,650,780	1,414,445	236,335
Health services	1,365,682	1,456,193	(90,511)	1,138,131	987,187	150,944
Education	1,405,010	1,324,364	80,646	1,356,570	1,331,833	24,737
Economic development	423,591	401,504	22,087	542,331	422,402	119,929
Public safety	541,150	487,719	53,431	573,920	530,234	43,686
Public works and transportation	1,668,410	1,582,630	85,780	2,065,130	1,851,191	213,939
Community affairs	233,050	248,026	(14,976)	230,450	186,271	44,179
Boards and commissions	271,220	245,409	25,811	294,940	261,674	33,266
Other	657,914	698,753	(40,839)	466,820	369,334	97,486
Total expenditures	8,568,731	7,705,837	862,894	8,319,072	7,354,571	964,501
Excess of revenues over expenditures	928,969	2,914,166	1,985,197	1,549,968	2,674,998	1,125,030
Other financing sources (uses):						
Investment income	-	7,994,858	7,994,858	-	2,453,308	2,453,308
Bad debt expense	(500,000)	(500,000)	-	-	(326,806)	(326,806)
Operating transfers out (note 11)	(8,950,253)	(8,950,253)	-	(1,624,878)	(6,116,266)	(4,491,388)
Payments of notes payable (note 9)	(5,657,123)	(5,657,123)	-	(4,995,821)	(4,995,821)	-
ERS ADB loan proceeds (note 9)	1,500,000	1,500,000	-	2,000,000	2,000,000	-
Early retirement program (note 9)	(2,470,445)	(543,140)	1,927,305	(1,000,000)	(1,029,555)	(29,555)
Total other financing sources (uses), net	(16,077,821)	(6,155,658)	9,922,163	(5,620,699)	(8,015,140)	(2,394,441)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(15,148,852)	(3,241,492)	11,907,360	(4,070,731)	(5,340,142)	(1,269,411)
Fund balance, unreserved, at beginning of year	12,629,341	14,865,708	2,236,367	16,700,072	16,700,072	-
Other changes in unreserved fund balance:						
Related assets	-	7,173,319	7,173,319	-	2,120,715	2,120,715
Loans	-	-	-	-	41,360	41,360
Continuing appropriations	-	315,186	315,186	-	1,343,703	1,343,703
Fund balance, unreserved, at end of year	\$ (2,519,511)	\$ 19,112,721	\$ 21,632,232	\$ 12,629,341	\$ 14,865,708	\$ 2,236,367

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency) -
All Proprietary Fund Types and Discretely Presented Component Units
Year Ended September 30, 1999
(With Comparative Totals for the Year Ended September 30, 1998)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)	
	Enterprise	Internal Service			1999	1998
Operating revenues:						
Rental income	\$ -	\$ 20,490	\$ 20,490	\$ 18,764	\$ 39,254	\$ 38,627
Charges for goods and services	2,644,396	-	2,644,396	2,692,161	5,336,557	8,841,576
Grants and contracts	-	-	-	1,372,420	1,372,420	1,459,201
Stock issues	-	5,522	5,522	-	5,522	7,817
Interest	-	-	-	64,318	64,318	93,672
Other	-	3,029	3,029	9,035	12,064	52,440
Total operating revenues	2,644,396	29,041	2,673,437	4,156,698	6,830,135	10,493,333
Operating expenses:						
Headstart program	-	-	-	872,806	872,806	994,848
Other federal programs	-	-	-	102,934	102,934	114,608
Other nonprofit and local programs	-	-	-	17,740	17,740	30,945
Personnel services	906,457	-	906,457	884,633	1,791,090	2,174,502
Travel	-	-	-	48,526	48,526	5,926
Supplies and materials	67,278	-	67,278	39,142	106,420	7,057
Production fuel	449,225	-	449,225	985,288	1,434,513	1,419,954
Contractual services	5,087	-	5,087	9,419	14,506	-
Depreciation	1,664,165	-	1,664,165	798,042	2,462,207	2,302,928
Bad debts expense	15,875	-	15,875	103,259	119,134	61,279
Utilities and communication	9,417	-	9,417	7,561	16,978	-
Repair and maintenance	423,798	-	423,798	-	423,798	301,957
Equipment lease	250,833	-	250,833	-	250,833	324,950
Matching fund program	-	-	-	18,174	18,174	34,504
Insurance	218,434	-	218,434	-	218,434	276,071
Lincense, agent and port fees	195,204	-	195,204	-	195,204	-
Provision	145,028	-	145,028	-	145,028	-
Management fee	108,625	-	108,625	-	108,625	-
Other	191,583	51,878	243,461	954,409	1,197,870	1,738,014
Total operating expenses	4,651,009	51,878	4,702,887	4,841,933	9,544,820	9,787,543
Operating income (loss)	(2,006,613)	(22,837)	(2,029,450)	(685,235)	(2,714,685)	705,790
Nonoperating revenues (expenses):						
Operating transfers in (note 11)	2,792,875	-	2,792,875	331,231	3,124,106	161,615
Repayment of debt (note 9)	(3,171,135)	-	(3,171,135)	-	(3,171,135)	-
Interest income	28,982	-	28,982	1,135	30,117	-
Other income	-	-	-	259,588	259,588	189,742
Loss on disposal of assets	(328,064)	-	(328,064)	-	(328,064)	-
Total nonoperating revenues (expenses), net	(677,342)	-	(677,342)	591,954	(85,388)	351,357
Other changes in net assets:						
Recovery of bad debt	-	-	-	-	-	316,804
Net income (loss)	(2,683,955)	(22,837)	(2,706,792)	(93,281)	(2,800,073)	1,373,951
Retained earnings/net assets (deficit) at beginning of year	(6,403,763)	343,788	(6,059,975)	1,227,610	(4,832,365)	(5,794,164)
Prior period adjustment (note 17)	-	-	-	(242,975)	(242,975)	(3,000)
Retained earnings/net assets (deficit) at end of year	(9,087,718)	320,951	(8,766,767)	891,354	(7,875,413)	(4,423,213)
Contributed capital at beginning of year	7,873,710	-	7,873,710	15,273,348	23,147,058	21,411,709
Additions	103,224	-	103,224	-	103,224	500,000
Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	668,147	668,147	437,354
Contributed capital at end of year	7,976,934	-	7,976,934	15,941,495	23,918,429	22,349,063
Fund equity (deficiency) at end of year	\$ (1,110,784)	\$ 320,951	\$ (789,833)	\$ 16,832,849	\$ 16,043,016	\$ 17,925,850

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, 1999
(With Comparative Totals for the Year Ended September 30, 1998)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)	
	Enterprise	Internal Service			1999	1998
Cash flows from operating activities:						
Operating income (loss)	\$ (2,006,613)	\$ (22,837)	\$ (2,029,450)	\$ (685,235)	\$ (2,714,685)	\$ 705,790
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	1,664,165	-	1,664,165	798,042	2,462,207	2,302,928
Bad debt expense	-	-	-	103,259	103,259	61,279
Other	10,232	-	10,232	-	10,232	(65,087)
	<u>(332,216)</u>	<u>(22,837)</u>	<u>(355,053)</u>	<u>216,066</u>	<u>(138,987)</u>	<u>3,004,910</u>
Change in assets and liabilities:						
Restricted cash	500,000	-	500,000	-	500,000	(861,911)
General receivables	1,062,763	480	1,063,243	(19,888)	1,043,355	(1,155,045)
Due from other funds	(12,398)	31,431	19,033	-	19,033	2,737
Prepayments	119,433	-	119,433	16,008	135,441	(52,410)
Inventory of supplies, at cost	8,019	(15,256)	(7,237)	(55,114)	(62,351)	(82,683)
Advances	-	-	-	3,066	3,066	1,247
Promotional materials	-	-	-	-	-	(4,450)
Loans receivable	-	-	-	128,427	128,427	93,285
Interest receivable	-	-	-	741	741	(25,725)
Accounts payable	(136,975)	6,182	(130,793)	(257,292)	(388,085)	63,787
Accrued payroll and others	(529,313)	-	(529,313)	6,853	(522,460)	(21,982)
Other payables	-	-	-	124,765	124,765	9,095
	<u>1,011,529</u>	<u>22,837</u>	<u>1,034,366</u>	<u>(52,434)</u>	<u>981,932</u>	<u>(2,034,055)</u>
Net cash provided by operating activities	<u>679,313</u>	<u>-</u>	<u>679,313</u>	<u>163,632</u>	<u>842,945</u>	<u>970,855</u>
Cash flows from noncapital financing activities:						
Operating transfers in and contributed capital	-	-	-	1,381,692	1,381,692	1,225,041
Grant from Federal Emergency Management Act	121,740	-	121,740	8,949	130,689	-
Net cash provided by noncapital financing activities	<u>121,740</u>	<u>-</u>	<u>121,740</u>	<u>1,390,641</u>	<u>1,512,381</u>	<u>1,225,041</u>
Cash flows from capital and related financing activities:						
Intergovernmental transfers	2,774,359	-	2,774,359	-	2,774,359	-
Acquisition of fixed assets	(245,840)	-	(245,840)	(661,159)	(906,999)	(1,002,862)
Proceeds from Yap State Government loan	500,000	-	500,000	-	500,000	1,000,000
Contributed capital	-	-	-	-	-	41,700
Retirement of debt	(3,171,135)	-	(3,171,135)	-	(3,171,135)	(1,000,000)
Net cash used for capital and related financing activities	<u>(142,616)</u>	<u>-</u>	<u>(142,616)</u>	<u>(661,159)</u>	<u>(803,775)</u>	<u>(961,162)</u>
Cash flows from investing activities:						
Proceeds from sales of fixed assets	(321,720)	-	(321,720)	-	(321,720)	-
Interest income	-	-	-	83,790	83,790	63,393
Acquisition of fixed assets	(35,954)	-	(35,954)	(53,450)	(89,404)	(392,948)
Dividend income	18,750	-	18,750	-	18,750	-
Acquisition of time certificate of deposit	-	-	-	(723,838)	(723,838)	(571,599)
Net cash used for investing activities	<u>(338,924)</u>	<u>-</u>	<u>(338,924)</u>	<u>(693,498)</u>	<u>(1,032,422)</u>	<u>(901,154)</u>
Net increase in cash and equivalents	319,513	-	319,513	199,616	519,129	333,580
Cash and equivalents at beginning of year	472,054	-	472,054	1,521,466	1,993,520	1,624,803
Cash and equivalents at end of year	<u>\$ 791,567</u>	<u>\$ -</u>	<u>\$ 791,567</u>	<u>\$ 1,721,082</u>	<u>\$ 2,512,649</u>	<u>\$ 1,958,383</u>

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(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

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. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1999. The State of Yap has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

1. Blended Component Units

- a) The Yap Economic Development Authority (YEDA) is responsible to promote and support economic development in the State of Yap. YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 and is governed by an eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YEDA is reported as an enterprise fund as it is designed to hold various Yap State investments in for-profit making activities.
- b) The Yap Investment Trust (YIT) is responsible to act as trustee for Deed of Trust guarantees as provided for under the Yap State Deed of Trust Act and to promote and support economic development in the State of Yap. YIT was created in fiscal year 1994 by Yap State Law No. 3-84 and is governed by an eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YIT is reported as an enterprise fund as its mission is similar to that of the YEDA. The 1999 presentation for YIT includes the results of its investee, Diving Seagull Inc. (DSI).

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

- c) 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.

PFC was not presented in the 1998 general purpose financial statements but is included in the 1999 presentation. Therefore, for enterprise funds, beginning contributed capital and beginning deficit is \$797,995 and \$409,152, respectively, greater than as previously reported.

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.
- c) The Yap Community Action Program (Yap CAP) is a non-profit corporation. Yap CAP was created in fiscal year 1968 by the Trust Territory Government, is governed by an eight member Board of Directors, two of which are appointed by the Governor and one each appointed by the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. Yap CAP is reported as a component unit-governmental fund.
- d) The Yap Visitors Bureau (YVB) was created pursuant to YSL No. 4-25 in October 1996. YSL 4-81 dated August 1998, enabled YVB to maintain books and records independent of the Government of the State of Yap. YVB is responsible for promoting tourism, developing the resources of the private sector and other activities related to the tourism industry. The YVB is governed by a seven member Board of Directors, five of which are appointed by the Governor with the advice and consent of the Legislature, one appointed by the Speaker of the State Legislature, and one elected by the vote of the six appointed members. A General Manager is hired by the Board to oversee daily operations.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Omitted Component Units

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

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting, Continued

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.

C. Basis of Presentation

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

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

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

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

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

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

D. Budgets

An annual appropriated budget is adopted by the Legislature for the General Fund and Compact Programs through an Appropriations Act. However, additional appropriations and budget modifications occur throughout the year. The majority of unencumbered appropriations lapse as of year end unless specifically extended by the Legislature. Budgets for Special Revenue Funds, except the Compact Program Fund, are not included in the annual Appropriations Act. Accordingly, a budget to actual presentation for Special Revenue Funds, except the Compact Program Fund, is not required or presented. Project-length financial plans are generally adopted for all capital project funds.

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Equivalents

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

F. Investments

Effective October 1, 1996, the State elected to implement the standards of GASB 31. GASB 31 provides that governmental activities shall, with certain exceptions, report investments at fair value in the balance sheet. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. Investments in the equity of companies are carried at cost if less than twenty percent of the companies' total equity, on the equity method if greater than twenty percent and less than fifty percent, and on a consolidated basis if greater than fifty percent. (See note 5).

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(1) Summary of Significant Accounting Policies, Continued

K. Fixed Assets

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

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

Depreciation is not charged on assets in the General Fixed Assets Account Group. However, depreciation is charged on proprietary fund fixed assets and is provided over the estimated useful lives of the assets through use of the straight line method. (See note 8 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, 1999 is \$437,138. 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, 1999, for all governmental funds, is estimated to be \$1,246,712.

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, 1999

(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 9)	\$ 16,700,000
Advances	352,617
Inventory of supplies	198,607
Interfund receivables which may require in excess of one year to affect collection	2,994,570
ERS loan proceeds (See note 9)	1,969,527
ERS debt service (See note 9)	916,460
20% Restricted National tax revenue	<u>461,133</u>
	\$ <u>23,592,914</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.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(1) Summary of Significant Accounting Policies, Continued

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.

S. Not-for-Profit-Accounting

Yap Community Action Program (YCAP), a discretely presented component unit, follows the reporting standards for the Not-for-Profit Organizations provided in Statement of Financial Accounting Standards (SFAS) No. 116, 117, and 124. SFAS 116 establishes standards for accounting for contributions. SFAS 117 establishes broad standards for reporting information in the financial statements issued by not-for-profit organizations and requires these financial statements to focus on the entity as a whole. Amounts related to an organization's financial position and activities are reported in three classes of net assets—permanently restricted, temporarily restricted, and unrestricted. SFAS 124 requires certain investments to be carried at market value.

These statements must classify an organization's assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The three classes of net assets are now classified as one of the following types:

- Unrestricted
- Temporarily restricted
- Permanently restricted

YCAP has determined that all assets, revenues, expenses, gains and losses resulting from local government contributions and federal grants are unrestricted and temporarily restricted, respectively. YCAP has determined that all loan funds, equipment and related transfers and depreciation expense are permanently restricted.

Net Assets

YCAP reports grants or gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Net assets were released from restrictions due to satisfaction of federal imposed restrictions in the amount of \$1,191,063 for the year ended September 30, 1999.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(1) Summary of Significant Accounting Policies, Continued

S. Not-for-Profit-Accounting, Continued

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted funding is recognized as support when received when the only limits on its use are the broad limits resulting from the nature of YCAP, the environment in which it operates, and the purposes specified in its articles of incorporation and by-laws and limits resulting from contractual agreements entered into by YCAP in the course of its business. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes.

(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, 1999, the State had deposits as follows:

Cost

General Fund:

Cash in checking and savings accounts with FDIC insured banks	\$ 243,400
Pacific Century Trust and Bankers Trust cash management fund	<u>1,097,599</u>
	\$ <u>1,340,999</u>

Expendable Trust Fund:

Cash in savings accounts with a FDIC insured bank	\$ <u>217,890</u>
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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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(5) Investments, Continued

3. Cash
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- 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.

At September 30, 1999, the market value of the State's investments was \$52,340,053. These investments have been reported at fair value in accordance with GASB 31 and are classified in the financial statements as follows:

General Fund Investments	\$ 39,903,513
Compact Capital Fund	9,210,448
Special Compact Funds	<u>3,226,092</u>
	<u>\$ 52,340,053</u>

The State's investment income for the year ended September 30, 1999, is summarized below:

Interest	\$ 1,775,431
Dividends	1,167,979
Realized gains	3,851,890
Management fees	(375,460)
Other expenses	<u>(820)</u>
	6,419,020
Unrealized gains	<u>1,575,838</u>
	<u>\$ 7,994,858</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(5) Investments, Continued

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, 1999, the State holds 10.7% 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 24.5% 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 also owns 100% of the 6,500,000 authorized and issued shares of Diving Seagull, Inc. (DSI). In exchange for the shares, YIT granted the use of a fishing vessel and purse seine fishing net to DSI under the terms of a Bareboat Charter Agreement, which expires July 2002. YIT's investment in DSI is recorded by the equity method. YIT's loss on investment in DSI for the year ended September 30, 1999 was \$2,101,009 (See notes 9 and 17).

Also, the Yap Fishing Authority (YFA), a Discretely Presented Component Unit, has an investment carrying value of \$1,642,833 as of September 30, 1999, 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, 1999, YFA's investment represents approximately 81.54% of YFTI's equity with 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). No adjustment has yet been made to the aforementioned investment account to reflect 1999 results pending completion of audited financial statements of YFTI.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(6) 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, 1999 (with comparative totals as of September 30, 1998) is presented below:

<u>SourceAmount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1999</u>	<u>1998</u>
FSM Government and other reimbursable	\$ <u>657,538</u>	\$ <u>-</u>	\$ <u>657,538</u>	\$ <u>160,876</u>
General:				
Taxes	\$ 359,437	\$ (354,437)	\$ 5,000	\$ 5,000
Leases	82,420	(64,776)	17,644	122,894
Airport operation	71,110	(31,145)	39,965	75,949
Other	<u>47,925</u>	<u>(47,823)</u>	<u>102</u>	<u>192</u>
	\$ <u>560,892</u>	\$ <u>(498,181)</u>	\$ <u>62,711</u>	\$ <u>204,035</u>
Advances:				
Travel/payroll	\$ 198,426	\$ (65,000)	\$ 133,426	\$ 99,522
Purchases	<u>162,385</u>	<u>-</u>	<u>162,385</u>	<u>305,642</u>
	\$ <u>360,811</u>	\$ <u>(65,000)</u>	\$ <u>295,811</u>	\$ <u>405,164</u>
Loans:				
Yap Fishing Corporation			\$ 7,400,000	\$ 7,400,000
Accrued interest-YFC			324,101	324,101
YIT OPIC debt service loan			<u>500,000</u>	<u>-</u>
			8,224,101	7,724,101
Allowance for doubtful accounts			<u>(8,224,101)</u>	<u>(7,724,101)</u>
			\$ <u>-</u>	\$ <u>-</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 13).

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, 1999, \$1,000,000 has been utilized by YFC. All amounts receivable from YFC have been reserved as uncollectible as of September 30, 1999.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(6) Receivables, Advances and Loans, Continued

A. General Fund, Continued

During fiscal year 1999, Yap State appropriated under YSL 4-85, \$500,000 to be transferred to YIT for repayment of the OPIC loan. The funds were intended as a loan to YIT which is due September 30, 2001. The loan accrues interest at 1% and is fully reserved for as of September 30, 1999. (Refer to Note 9).

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, 1999 follows (with comparative totals as of September 30, 1998):

<u>Source Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1999</u>	<u>1998</u>
Other governments	\$ <u>554,610</u>	\$ <u>-</u>	\$ <u>554,610</u>	\$ <u>749,729</u>
Federal agencies and CFSM	\$ <u>2,177,193</u>	\$ <u>(122,000)</u>	\$ <u>2,055,193</u>	\$ <u>1,449,646</u>
Advances - travel/ payroll	\$ <u>163,337</u>	\$ <u>(46,000)</u>	\$ <u>117,337</u>	\$ <u>98,585</u>

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 1999 (with comparative totals as of September 30, 1998):

<u>Source Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1999</u>	<u>1998</u>
Federal agencies	\$ <u>20,472</u>	\$ <u>-</u>	\$ <u>20,472</u>	\$ <u>295,423</u>
U.S. Department of the Interior - TTPI	\$ <u>75,777</u>	\$ <u>-</u>	\$ <u>75,777</u>	\$ <u>88,115</u>
CFSM Grants	\$ <u>462,212</u>	\$ <u>(21,000)</u>	\$ <u>441,212</u>	\$ <u>268,688</u>
Advances - travel	\$ <u>7,145</u>	\$ <u>-</u>	\$ <u>7,145</u>	\$ <u>1,147</u>
Loan - YIT	\$ <u>6,500,000</u>	\$ <u>-</u>	\$ <u>6,500,000</u>	\$ <u>6,500,000</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(6) Receivables, Advances and Loans, Continued

C. Capital Project Funds, Continued

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

D. Enterprise Funds

Receivables of the Public Transportation System are net of an allowance for doubtful accounts of \$44,730. Receivables of the Yap Investment Trust are net of a provision for fish rejections of \$75,711.

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, 1999 (with comparative totals as of September 30, 1998):

<u>Source</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1999</u>	<u>1998</u>
General:				
Trade	\$ 507,070	\$ (478,823)	\$ 28,247	\$ 2,129
Employees	33,602	(30,807)	2,795	702
Others	<u>4,274</u>	<u>(4,274)</u>	<u>-</u>	<u>-</u>
	\$ <u>544,946</u>	\$ <u>(513,904)</u>	\$ <u>31,042</u>	\$ <u>2,831</u>

Receivables of the Yap State Public Service Corporation are net of an allowance for doubtful accounts of \$213,315.

Housing loan receivables of the Yap Community Action Program are net of an allowance for doubtful accounts of \$1,427,566. Included in the amount outstanding at September 30, 1999 were \$48,901 in loans to officers and employees of Yap CAP and their immediate families. The loans were made in the ordinary course of business and were subject to the same terms and conditions as other borrowers.

(7) Inventory of Supplies

General Fund inventory consists of medical and pharmaceutical supplies of \$198,608 at September 30, 1999. The Internal Service Fund's inventory consists of general stores supplies of \$56,837.

Inventory of \$516,738 for the Yap State Public Services Corporation (a discretely presented component unit) as of September 30, 1999 consists of fuel and power distribution hardware and parts and water treatment plant chemical supplies.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(8) 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, 1999 (with comparative totals as of September 30, 1998), follows:

	<u>Estimated Useful Life</u>	<u>1999</u>	<u>1998</u>
Land		\$ 1,822,614	\$ 1,822,614
Infrastructure	20-50 years	41,645,543	41,645,543
Outer-island capital assets	5-10 years	1,804,550	1,804,550
All others - equipment, vehicles and machinery	5-10 years	<u>19,348,051</u>	<u>19,348,051</u>
		<u>\$ 64,620,758</u>	<u>\$ 64,620,758</u>

B. Discretely Presented Component Units

A summary of fixed assets accounted for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1999 (with comparative totals as of September 30, 1998), follows:

	<u>Estimated Useful Life</u>	<u>1999</u>	<u>1998</u>
Buildings	3-20 years	\$ 1,651,117	\$ 1,651,117
Dock	40 years	2,629,778	2,629,777
Fleet	3-10 years	1,064,102	1,064,102
Refrigeration and cold storage equipment	2-10 years	564,365	564,365
Motor vehicles	2-20 years	334,831	334,831
Other equipment	2-25 years	233,631	232,866
Other capital assets	2-25 years	<u>55,411</u>	<u>55,411</u>
Total fixed assets, at cost		6,533,235	6,532,469
Less: accumulated depreciation		<u>(3,612,202)</u>	<u>(3,385,547)</u>
Fixed assets, net		<u>\$ 2,921,033</u>	<u>\$ 3,146,922</u>

Details of fixed assets of the Yap State Public Service Corporation, a discretely presented component unit as of September 30, 1999 (with comparative totals as of September 30, 1998) are as follows:

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(8) Investment in Fixed Assets, Continued

B. Discretely Presented Component Units, Continued

	Estimated Useful Life	1999	1998
Production plant	5 - 40 years	\$ 8,366,591	\$ 8,220,736
Distribution plant	3 - 20 years	3,147,949	2,946,632
General plant	3 - 25 years	<u>968,033</u>	<u>870,636</u>
Utility plant in service		12,482,573	12,038,004
Construction in progress		<u>359,596</u>	<u>172,211</u>
		12,842,169	12,210,215
Less: accumulated depreciation		<u>(5,309,532)</u>	<u>(4,631,524)</u>
Fixed asset, net		\$ <u>7,532,637</u>	\$ <u>7,578,691</u>

Utility plant is comprised of the following components:

Electric plant	\$ 9,515,283	\$ 9,284,687
Water plant	<u>2,967,290</u>	<u>2,753,317</u>
	\$ <u>12,482,573</u>	\$ <u>12,038,004</u>

A summary of fixed assets accounted for the Yap Community Action Program, a discretely presented component unit as of September 30, 1999 (with comparative totals as of September 30, 1998), follows:

	Estimated Useful Life	1999	1998
Office furniture, fixtures and equipment	3-10 years	\$ 131,207	\$ 121,439
Vehicles	4 - 6 years	328,979	328,979
Recreation equipment	10 years	8,763	8,763
Others	4-25 years	73,765	46,159
Building	25 years	<u>261,263</u>	<u>261,263</u>
Total fixed assets, at cost		803,977	766,603
Less: accumulated depreciation		<u>(425,046)</u>	<u>(363,383)</u>
Fixed assets, net		\$ <u>378,931</u>	\$ <u>403,220</u>

A summary of fixed assets accounted for the Yap Visitors Bureau, a discretely presented component unit as of September 30, 1999, follows (with comparative totals as of September 30, 1998):

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(8) Investment in Fixed Assets, Continued

B. Discretely Presented Component Units, Continued

	<u>Estimated Useful Life</u>	<u>1999</u>	<u>1998</u>
Furniture and fittings	2 years	\$ 5,203	\$ 389
Office equipment	3 years	19,405	8,135
Automobile	3 years	<u>14,800</u>	<u>14,800</u>
Utility plant in service		39,408	23,324
Less: accumulated depreciation		<u>(16,380)</u>	<u>(6,490)</u>
Fixed asset, net		\$ <u>23,028</u>	\$ <u>16,834</u>

C. Enterprise Fund

Property and equipment of the Yap Investment Trust (with comparative totals for the year ended September 30, 1998), consists of the following:

	<u>Estimated Useful Life</u>	<u>1999</u>	<u>1998</u>
Leased fishing vessel	5 years	\$ 6,341,635	\$ 6,500,000
Leasehold improvement	up to 5 years	1,313,289	1,301,717
Computerized office equipment	3 years	<u>14,152</u>	<u>11,516</u>
		7,669,076	7,813,233
Less accumulated depreciation		<u>(3,299,493)</u>	<u>(1,896,484)</u>
		\$ <u>4,369,583</u>	\$ <u>5,916,749</u>

Property and equipment of the Public Transportation System consists of the following:

	<u>Estimated Useful Life</u>	<u>1999</u>
Buildings	10 to 25 years	\$ 92,659
Vehicles	3 to 7 years	594,061
Shop equipment	2 to 7 years	30,761
Office furniture	2 to 10 years	<u>33,989</u>
		751,470
Less accumulated depreciation		<u>(388,518)</u>
		\$ <u>362,952</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(9) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 1999 (with comparative totals for the year ended September 30, 1998), follow:

	<u>1999</u>	<u>1998</u>
Balance at beginning of year	\$ 30,038,686	\$ 31,710,966
Payments and accruals made on medium-term notes	(7,300,000)	(6,700,000)
Decrease in accrued annual leave	(32,643)	(86,826)
Decrease in land acquisition accrual	(183,226)	(70,419)
Increase in ERS program loan	1,500,000	2,000,000
Decrease in OPIC liability	<u>(3,184,965)</u>	<u>3,184,965</u>
Balance at end of year	\$ <u>20,837,852</u>	\$ <u>30,038,686</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, 1999. Interest due on the bonds was \$1,969,153 as of September 30, 1999 (\$2,595,578 as of September 30, 1998).

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, 1999, there is no shortfall as the reserve of fund balance equals the outstanding principal of \$16,700,000. This amount (\$16,700,000) is included in the reserve for related assets of the General Fund.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(9) Long-Term Debt, Continued

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>16,700,000</u>	\$ <u>1,831,798</u>	\$ <u>18,531,798</u>

Asian Development Bank Early Retirement Program Loan

During the year ended September 30, 1998, the State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years wages. The ERS program is funded by a \$3,500,000 loan from the Asian Development Bank through the FSM National Government. The activities of the ERS Program are recorded in the General Fund. Program expenditures of \$500,918 for the year ended September 30, 1999, consisted of employees' retirement payouts.

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2038. However, pursuant to the terms of the Financing Agreement between the State of Yap and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of Yap State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2001.

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. For the year ended September 30, 1998, \$391,960 of the appropriation for salaries and wages of the eighty-five positions abolished during the year was not utilized. In addition, the Yap State Legislature appropriated \$524,500 under YSL 4-82 for repayment of the loan in fiscal year 1999. These funds had not been deposited to the Trust Account as of September 30, 1999. \$1,969,527 of the loan proceeds and \$916,460 identified for future debt service payments are included in the General Fund reserve for related assets.

OPIC Loan

During the year ended September 30, 1999, the State, the National Fisheries Corporation (NFC) and Overseas Private Investment Corporation (OPIC) negotiated settlement of the refinancing of the OPIC debt (see note 13). The principal due was agreed to be \$4,011,535. The liability remained joint and several between the State and NFC. The State's share of the loan was 77.77%. The interest rate was 5.87% with the terms of three and one half years. The debt is collateralized by the assignment to OPIC of the Yap Investment Trust's (YIT) MV Mathawmarfach (see note 5).

Yap State Legislature appropriated \$500,000 principal payment under YSL No. 4-85 for repayment of the OPIC debt. This principal payment was made by the State on December 31, 1998, reducing the loan principal, interest and miscellaneous costs to \$2,684,965. The Yap State Legislature also appropriated in fiscal year 1999, \$2,684,965 for Yap State's share of the principal and interest due on the loan.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(9) Long-Term Debt, Continued

OPIC Loan

On April 15, 1999, that appropriation consisting of principal and interest payments of \$2,618,166 and \$44,211, respectively, was paid by Yap State to OPIC. The remainder of the appropriation was used to pay the miscellaneous closing costs of the OPIC loan.

The appropriation of \$500,000 made pursuant to YSL No. 4-85 for the OPIC debt was designed as a loan from the General Fund to the Yap Investment Trust. The note payable shall be due on September 30, 2000 and shall accrue interest at the rate of 1% per annum.

Land Purchase and Indefinite Land Use Payments

As of September 30, 1999, \$200,714 in long-term payments due under land purchase agreements were identified by the State. The amount includes \$3,433 due in fiscal year 2000. The remaining \$197,281 consists of indefinite land use payments of \$192,600 and other lease payments for which payment dates cannot be determined due to heirship disputes (see note 15).

Enterprise Funds

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 \$7,000,000 loan to the Yap Investment Trust (YIT) is comprised of \$6,500,000 appropriated under YSL 3-67 which is non-interest bearing and payable on demand and \$500,000 appropriated under YSL 4-85 which is due September 30, 2000 at 1% per annum.

(10) Interfund Receivables and Payables

As of September 30, 1999, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 342,611	\$ -
Special Revenue Funds:		
Compact Programs	-	1,295,943
Federal Grants	-	459,239
Other U.S. Grants	55,366	-
Non U.S. Grants	34,580	-
CFSM Grants	-	1,273,700
Sports Development Fund	160,025	-

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(10) Interfund Receivables and Payables, Continued

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Capital Projects Funds:		
Compact Capital Projects	-	785,383
TTPI Capital Projects	-	75,777
CFSM Capital Project	-	422,603
Public Projects	1,879,037	-
Other U.S. Capital Projects	911,706	-
Water Development Fund	250,000	-
Enterprise Funds		
YEDA	-	100,822
YIT	506,250	-
Expendable Trust Fund	8,080	-
Internal Service Fund	<u>265,812</u>	<u>-</u>
	<u>\$ 4,413,467</u>	<u>\$ 4,413,467</u>

(11) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 1999, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer to Enterprise Funds:		
Public Transportation System	\$ (121,740)	\$ -
OPIC debt service payment	(2,671,135)	-
Transfer to Special Revenue Funds:		
Typhoon Fern Matching	(111,045)	-
MTN debt service payments	(466,846)	-
Transfer to Capital Projects Funds:		
MTN debt service payments	(3,145,184)	-
Sports facilities	(2,000,000)	-
Reimbursement of prior years Compact Capital Questioned costs	(30,873)	-
Transfer to Component Units:		
Yap Community Action Program	(152,890)	-
Yap Visitor's Bureau	(93,540)	-
Yap Fishing Authority	<u>(157,000)</u>	<u>-</u>
	<u>\$ (8,950,253)</u>	<u>\$ -</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(11) Transfers In/Out, Continued

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 1999, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
MTN debt service payments	\$ -	\$ 466,846
Typhoon Fern matching	-	111,045
Transfers to Component Units:		
Yap Community Action Program (YCAP)	(100,000)	-
YCAP matching funds	(50,000)	-
CFSM reimbursement for FSM Games participation	(40,000)	40,000
Yap Visitor's Bureau	(81,600)	-
FEMA funds transferred to YSPSC	(177,066)	-
	<u>\$ (448,666)</u>	<u>\$ 617,891</u>

C. Capital Projects Funds

Material Capital Projects Funds transfers in/out for the year ended September 30, 1999, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Debt service payments	\$ -	\$ 3,145,184
Sports facilities	-	2,000,000
Reimbursement of prior years Compact Capital questioned costs	-	30,873
Transfers to Component Units:		
YCAP matching funds	(40,000)	-
	<u>\$ (40,000)</u>	<u>\$ 5,176,057</u>

D. Enterprise Funds

Material Enterprise Funds transfers in/out for the year ended September 30, 1999, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Subsidy for operations of Public Transportation System	\$ -	\$ 121,740
OPIC debt service payment	-	2,671,135
	<u>\$ -</u>	<u>\$ 2,792,875</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(12) Continuing Appropriations

Continuing appropriations as of September 30, 1999, are as follows:

General Fund:

Projects under YSL 5-5	\$ 32,549
Aluminum can recycling	<u>16,308</u>

\$ 48,857

Compact Capital Projects Fund:

Development Loan Fund	\$ <u>200,000</u>
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Public Projects Fund:

Sports facilities	\$ <u>2,000,000</u>
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(13) 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 by consolidating statements of YEDA, YPSC, and YFC with the primary elimination being YEDA's investment in YFC. YFC filed for bankruptcy in 1995 and was dissolved in 1997. Since its inception and through its dissolution, an audit of YFC's financial statement was never finalized. Therefore, YEDA's financial statements included within the State of Yap's general purpose financial statements do not include the consolidated financial statements of YFC. The effects of this omission on the accompanying general purpose financial statements is unknown, but is not expected to be material due to the dissolution 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 9 for a description of the subordinated debt). In the prior years, YFC was determined to be in noncompliance with certain debt covenants regarding the OPIC debt. Pursuant to an agreement signed by YEDA, the National Fisheries Corporation (NFC) and others, guaranteeing the OPIC debt, OPIC claimed certain sums against YEDA and NFC. As further discussed in note 9, a final settlement was negotiated with OPIC in 1999.

(14) 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, 1999, and for the year then ended.

	Yap Economic Development <u>Authority</u>	Yap Investment <u>Trust</u>	Public Transportation <u>System</u>
Operating loss	\$ <u>(12,602)</u>	\$ <u>(1,783,271)</u>	\$ <u>(210,740)</u>
Net income (loss)	\$ <u>6,148</u>	\$ <u>(2,594,759)</u>	\$ <u>(95,344)</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(14) Segment Information - Enterprise Funds, Continued

	Yap Economic Development <u>Authority</u>	Yap Investment <u>Trust</u>	Public Transportation <u>System</u>
Contributed capital	\$ <u>5,682,758</u>	\$ <u>1,392,957</u>	\$ <u>901,219</u>
Total assets	\$ <u>1,107,327</u>	\$ <u>6,609,623</u>	\$ <u>417,337</u>
Total deficit	\$ <u>(994,974)</u>	\$ <u>(512,533)</u>	\$ <u>(504,496)</u>

Contributed capital of \$500,000 during the year ended September 30, 1998, was provided the Yap Investment Trust (YIT) from the General Fund of the State of Yap, for an Escrow Account to be created for the United States Department of Agriculture Rural Housing Service Loan Program. The Escrow Account had not been established as of September 30, 1999.

(15) 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, \$263,724 in cumulative questioned costs exist for the operation of fiscal year 1984-99 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, 1999, there existed several unapproved claims. The Attorney General of the State of Yap is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths. Current claims against the State exist but do not appear to be material. Management has not provided for such claims in the accompanying general purpose financial statements as it is not currently possible to estimate the State's potential liability, if any, arising from these claims.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(15) Contingent Liabilities, Continued

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI). TTPI's obligation on these lands ceased in May, 1984. After that year, responsibility to rent or purchase the sites was transferred to Yap State. The Yap State Division of Land and Surveys has estimated that Yap State may be responsible for funding the indefinite land use sites for back rent with interest. The State is actively attempting to negotiate purchase prices for these properties and identified \$192,600 in indefinite land use payments as of September 30, 1999.

Risk Management

The State of Yap does not purchase insurance covering its potential risks. The State is self insured for all risks. The State is of the opinion that no material losses have been sustained as a result of this practice.

(16) Fund Deficit

The following funds have material fund deficits as of September 30, 1999:

Yap Fishing Authority	\$ <u>(1,554,216)</u>
Enterprise Funds:	
Yap Economic Development Authority Fund	\$ <u>(994,974)</u>
Yap Investment Trust	\$ <u>(512,533)</u>

Deficits of the Yap Fishing Authority, the Yap Economic Development Authority Fund and Yap Investment Trust are offset within fund equity to a certain extent by contributions of \$6,108,619, \$5,682,758 and \$1,392,957, respectively.

(17) Loss on Equity Investment

The Yap Investment Trust, an enterprise fund, holds a 100% investment in Diving Seagull Inc. (DSI). Condensed financial information for DSI for the year ended September 30, 1999, with comparative totals for the year ended September 30, 1998, is as follows:

	<u>1999</u>	<u>1998</u>
Balance sheet:		
Current assets	\$ 840,833	\$ 2,067,048
Property, plant and equipment	<u>4,369,583</u>	<u>5,916,749</u>
	<u>\$ 5,210,416</u>	<u>\$ 7,983,797</u>
Current liabilities	\$ 122,156	\$ 794,528
Stockholders' equity	<u>5,088,260</u>	<u>7,189,269</u>
	<u>\$ 5,210,416</u>	<u>\$ 7,983,797</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

(17) Loss on Equity Investment, Continued

Statement of revenues and expenses:

Sales	\$ 2,526,999	\$ 5,517,058
Operating expenses	(4,310,270)	(4,780,250)
Nonoperating revenues (expense), net	<u>(317,738)</u>	<u>(65,087)</u>
Net income (loss)	\$ <u>(2,101,009)</u>	\$ <u>671,721</u>

The Yap Fishing Authority, a proprietary fund - component unit, holds a 50% investment in Yap Fresh Tuna, Inc. (YFTI). Its financial statements show that YFTI has incurred substantial operating losses. An audit of YFTI's financial statements for the year ended September 30, 1999 has not been finalized. Condensed unaudited financial information for YFTI is as follows:

	<u>1999</u>	<u>1998</u>
Balance sheet:		
Current assets	\$ 87,432	\$ 72,494
Property, plant and equipment	<u>5,455,210</u>	<u>5,795,044</u>
	\$ <u>5,542,642</u>	\$ <u>5,867,538</u>
Current liabilities	\$ 2,826,288	\$ 2,258,686
Long-term debt	2,355,503	2,747,002
Stockholders' equity	<u>360,851</u>	<u>861,850</u>
	\$ <u>5,542,642</u>	\$ <u>5,867,538</u>
Statement of revenues and expenses:		
Sales	\$ 156,761	\$ 118,963
Cost of sales	(2,064)	(304)
Operating expenses	(457,899)	(470,161)
Interest income (expense), net	<u>(197,797)</u>	<u>(205,275)</u>
Net loss	\$ <u>(500,999)</u>	\$ <u>(556,777)</u>

Substantially all debt (\$3,761,479 in 1999) is due to the FSM Development Bank, a component unit of the FSM National Government.

A prior period adjustment was required to record the YFTI audited results in the Yap Fishing Authority's financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 1999

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**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -
All Governmental Fund Types
Year Ended September 30, 1999
(With comparative totals for the year ended September 30, 1998)

	Governmental Fund Types			Totals	
	General	Special Revenue	Capital Projects	1999	1998
Expenditures:					
Salaries and wages	\$ 4,198,847	\$ 1,450,467	\$ 32,474	\$ 5,681,788	\$ 6,185,445
Travel	248,373	608,513	23,447	880,333	879,880
Freight	55,642	85,563	301	141,506	150,459
Communications	102,028	87,481	1,677	191,186	177,770
Printing and reproduction	55,206	35,129	392	90,727	67,972
Professional services	230,006	105,042	53,896	388,944	58,716
Food stuffs	85,848	62,864	-	148,712	217,425
Medical supplies	270,446	71,138	-	341,584	314,289
Supplies and materials	530,867	683,931	47,902	1,262,700	1,904,737
Medical referral	116,072	109,323	-	225,395	226,456
POL	185,850	52,819	666	239,335	321,706
Capital outlay	305,483	805,050	4,631,119	5,741,652	12,536,633
Contractual services	269,959	813,665	225,816	1,309,440	639,118
Rentals	15,528	124,038	12,401	151,967	46,264
Repairs and maintenance	57,031	43,791	371	101,193	245,169
Allowances	84,000	-	-	84,000	107,175
Utilities	638	824,338	-	824,976	750,687
Grants and subsidies	207,508	58,608	100,000	366,116	478,489
Scholarships and training	80,763	234,144	-	314,907	284,474
Drydocking	833,046	-	-	833,046	-
Other	77,397	175,826	238,041	491,264	630,844
Total expenditures	\$ 8,010,538	\$ 6,431,730	\$ 5,368,503	\$ 19,810,771	\$ 26,223,708

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

General Fund
September 30, 1999

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, 1999

(With comparative totals for the year ended September 30, 1998)

	1999	1998
Revenues:		
Compact funds:		
Current 211A base grant	\$ 3,843,200	\$ 3,843,200
Inflation adjustment 217	2,036,896	2,036,896
	5,880,096	5,880,096
Revenue sharing:		
Import tax	702,225	667,418
Fuel tax	18,180	82,269
Income tax	400,813	415,229
Business gross revenue tax	934,427	573,522
	2,055,645	1,738,438
Excise taxes:		
Alcoholic beverages	644,364	536,539
Gasoline and diesel	122,761	102,293
Tobacco	115,374	108,124
Other excise taxes	388,718	335,049
	1,271,217	1,082,005
Licenses and permits	32,257	50,866
Fines/sale of confiscated property	234,724	243,006
Leases and other rentals	286,220	208,862
	553,201	502,734
Departmental charges:		
Sea transportation	205,545	166,690
Hospital services	177,892	186,590
Utilities	6,348	8,630
Other	117,386	159,097
	507,171	521,007
Interest income	14,426	248,810
Other income	338,247	56,479
Total revenues	10,620,003	10,029,569

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, 1999
(With comparative totals for the year ended September 30, 1998)

	<u>1999</u>	<u>1998</u>
Expenditures:		
General Government:		
Office of the Governor	\$ 207,774	\$ 196,901
State Legislature	467,358	436,151
Office of Administrative Services	304,976	387,818
Office of Planning, Budget and Statistics	142,680	166,278
Division of Revenue and Taxation	29,223	34,116
Disaster relief programs	76,494	150,554
	<u>1,228,505</u>	<u>1,371,818</u>
Health Services:		
Department of Health Services	<u>1,239,967</u>	<u>963,905</u>
Education:		
Department of Education	<u>1,320,069</u>	<u>1,335,793</u>
Economic Development:		
Department of Resources and Development	<u>384,364</u>	<u>432,238</u>
Public Safety:		
Department of Public Safety/Attorney General	<u>487,146</u>	<u>530,606</u>
Public Works and Transportation		
Department of Public Works and Transportation	<u>2,186,374</u>	<u>1,142,941</u>
Community Affairs:		
Department of Public Affairs	<u>248,695</u>	<u>182,970</u>
Boards and Commissions:		
Council of Pilung	93,430	100,947
Council of Tamol	98,898	100,613
EPA administration board	59,839	51,282
	<u>252,167</u>	<u>252,842</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, 1999
(With comparative totals for the year ended September 30, 1998)

	<u>1999</u>	<u>1998</u>
Other:		
Judiciary	150,454	161,984
Public Auditor	37,412	16,771
Legislative projects	475,385	204,272
Other	-	3
	<u>663,251</u>	<u>383,030</u>
 Total expenditures	 <u>8,010,538</u>	 <u>6,596,143</u>
 Excess of revenues over expenditures	 <u>2,609,465</u>	 <u>3,433,426</u>
Other financing sources (uses):		
Investment income	7,994,858	2,453,308
Bad debt expense	(500,000)	(326,806)
Operating transfers out	(8,950,253)	(6,116,266)
Payments of notes payable and interest	(5,657,123)	(4,995,821)
Early retirement scheme ADB loan proceeds	1,500,000	2,000,000
Early retirement program	(500,918)	(1,029,555)
	<u>(6,113,436)</u>	<u>(8,015,140)</u>
 Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing sources (uses)	 <u>(3,503,971)</u>	 <u>(4,581,714)</u>
 Fund balance at beginning of year	 <u>47,104,621</u>	 <u>51,686,335</u>
 Fund balance at end of year	 <u>\$ 43,600,650</u>	 <u>\$ 47,104,621</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 -
Budget and Actual - Budgetary Basis
Year Ended September 30, 1999

(With comparative totals for the year ended September 30, 1998)

	1999			1998		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Current account Compact funds	\$ 5,950,560	\$ 5,880,096	\$ (70,464)	\$ 5,873,280	\$ 5,880,096	\$ 6,816
FSM revenue sharing	1,416,740	2,055,645	638,905	1,398,560	1,738,438	339,878
Taxes and licenses	1,401,390	1,303,474	(97,916)	1,855,330	1,584,739	(270,591)
Interest income	250,000	14,426	(235,574)	250,000	248,810	(1,190)
Other	479,010	1,366,362	887,352	491,870	577,486	85,616
Total revenues	9,497,700	10,620,003	1,122,303	9,869,040	10,029,569	160,529
Expenditures budgetary basis:						
General Government:						
Office of the Governor	213,700	214,793	(1,093)	218,320	207,222	11,098
State Legislature	490,136	481,444	8,692	469,820	439,130	30,690
Office of Administrative Services	793,880	317,445	476,435	508,440	401,844	106,596
Office of Planning, Budget and Statistics	470,168	152,081	318,087	209,060	176,767	32,293
Division of Revenue and Taxation	34,820	29,182	5,638	36,080	34,115	1,965
Disaster relief programs	-	66,294	(66,294)	209,060	155,367	53,693
	<u>2,002,704</u>	<u>1,261,239</u>	<u>741,465</u>	<u>1,650,780</u>	<u>1,414,445</u>	<u>236,335</u>
Health Services:						
Department of Health Services	1,365,682	1,456,193	(90,511)	1,138,131	987,187	150,944
Education:						
Department of Education	1,405,010	1,324,364	80,646	1,356,570	1,331,833	24,737
Economic development:						
Department of Resources and Development	423,591	401,504	22,087	542,331	422,402	119,929
Public safety:						
Department of Public Safety and Attorney General	541,150	487,719	53,431	573,920	530,234	43,686
Public Works and Transportation:						
Department of Public Works and Transportation	1,668,410	1,582,630	85,780	2,065,130	1,851,191	213,939
Community affairs:						
Department of Public Affairs	233,050	248,026	(14,976)	230,450	186,271	44,179
Boards and commissions:						
Council of Pilung	96,570	94,352	2,218	102,590	100,946	1,644
Council of Tamol	108,550	99,412	9,138	107,330	103,795	3,535
EPA administration board	66,100	51,645	14,455	85,020	56,933	28,087
	<u>271,220</u>	<u>245,409</u>	<u>25,811</u>	<u>294,940</u>	<u>261,674</u>	<u>33,266</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 -
Budget and Actual - Budgetary Basis, Continued
Year Ended September 30, 1999
(With comparative totals for the year ended September 30, 1998)

	1999			1998		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Other:						
Judiciary	\$ 154,470	\$ 151,831	\$ 2,639	\$ 166,790	\$ 164,166	\$ 2,624
Public Auditor	44,720	37,221	7,499	45,670	15,434	30,236
Legislative projects	458,724	511,036	(52,312)	254,360	189,732	64,628
Other	-	(1,335)	1,335	-	2	(2)
	<u>657,914</u>	<u>698,753</u>	<u>(40,839)</u>	<u>466,820</u>	<u>369,334</u>	<u>97,486</u>
Total expenditures	<u>8,568,731</u>	<u>7,705,837</u>	<u>862,894</u>	<u>8,319,072</u>	<u>7,354,571</u>	<u>964,501</u>
Excess of revenues over expenditures	<u>928,969</u>	<u>2,914,166</u>	<u>1,985,197</u>	<u>1,549,968</u>	<u>2,674,998</u>	<u>1,125,030</u>
Other financing sources (uses):						
Investment income	-	7,994,858	7,994,858	-	2,453,308	2,453,308
Bad debt expense	(500,000)	(500,000)	-	-	(326,806)	(326,806)
Operating transfers out	(8,950,253)	(8,950,253)	-	(1,624,878)	(6,116,266)	(4,491,388)
Payment of notes payable	(5,657,123)	(5,657,123)	-	(4,995,821)	(4,995,821)	-
ERS ADB loan proceeds	1,500,000	1,500,000	-	2,000,000	2,000,000	-
Early retirement program	(2,470,445)	(543,140)	1,927,305	(1,000,000)	(1,029,555)	(29,555)
Total other financing sources (uses), net	<u>(16,077,821)</u>	<u>(6,155,658)</u>	<u>9,922,163</u>	<u>(5,620,699)</u>	<u>(8,015,140)</u>	<u>(2,394,441)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(15,148,852)</u>	<u>(3,241,492)</u>	<u>11,907,360</u>	<u>(4,070,731)</u>	<u>(5,340,142)</u>	<u>(1,269,411)</u>
Fund balance, unreserved at beginning of year	12,629,341	14,865,708	2,236,367	16,700,072	16,700,072	-
Other changes in unreserved fund balance:						
Related assets	-	7,173,319	7,173,319	-	2,120,715	2,120,715
Loans	-	-	-	-	41,360	41,360
Continuing appropriations	-	315,186	315,186	-	1,343,703	1,343,703
Fund balance, unreserved at end of year	<u>\$ (2,519,511)</u>	<u>\$ 19,112,721</u>	<u>\$ 21,632,232</u>	<u>\$ 12,629,341</u>	<u>\$ 14,865,708</u>	<u>\$ 2,236,367</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 1999

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, 1999, 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.

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, 1999

(With comparative totals as of September 30, 1998)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Totals	
							1999	1998
Assets								
Investments	\$ 3,226,092	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,226,092	\$ 1,724,768
Receivables, net:								
Other governments	-	-	554,610	-	-	-	554,610	749,729
FSM National								
Government	170,650	590,103	-	-	1,294,440	-	2,055,193	1,449,646
Due from other funds	-	-	55,366	34,580	-	160,025	249,971	251,733
Advances	19,860	82,795	4,452	-	10,230	-	117,337	98,585
Total assets	\$ 3,416,602	\$ 672,898	\$ 614,428	\$ 34,580	\$ 1,304,670	\$ 160,025	\$ 6,203,203	\$ 4,274,461
Liabilities and Fund Balances (Deficit)								
Liabilities:								
Accounts payable	\$ 190,975	\$ 107,594	\$ 13,756	\$ -	\$ 18,780	\$ -	\$ 331,105	\$ 329,800
Accrued payroll	31,161	32,975	147	-	-	-	64,283	9,659
Due to other funds	1,295,943	459,239	-	-	1,273,700	-	3,028,882	1,184,188
Deferred revenue	-	73,090	600,525	34,580	12,190	-	720,385	850,425
Total liabilities	1,518,079	672,898	614,428	34,580	1,304,670	-	4,144,655	2,374,072
Fund balances (deficit):								
Reserved for:								
Encumbrances	253,948	401,087	136,593	1,903	309,512	1,631	1,104,674	571,560
Unreserved	1,644,575	(401,087)	(136,593)	(1,903)	(309,512)	158,394	953,874	1,328,829
Total fund balances (deficit)	1,898,523	-	-	-	-	160,025	2,058,548	1,900,389
Total liabilities and fund balances (deficit)	\$ 3,416,602	\$ 672,898	\$ 614,428	\$ 34,580	\$ 1,304,670	\$ 160,025	\$ 6,203,203	\$ 4,274,461

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, 1999
(With comparative totals for the year ended September 30, 1998)

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Sports	Totals	
	Programs	Grants	Grants	Grants	Grants	Development	1999	1998
Revenues:								
Compact	\$ 2,931,301	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,931,301	\$ 2,931,301
Federal contributions	-	1,709,773	695,533	-	-	-	2,405,306	3,386,043
CFSM grants	-	-	-	-	1,396,644	-	1,396,644	1,310,864
Other	-	-	-	37,108	-	117,151	154,259	209,838
Total revenues	2,931,301	1,709,773	695,533	37,108	1,396,644	117,151	6,887,510	7,838,046
Expenditures:								
Health services	560,516	155,037	-	11,112	74,529	-	801,194	1,184,775
Education	1,189,755	1,302,725	-	12,905	355,372	-	2,860,757	3,408,153
Economic development	-	46,352	-	-	86,304	-	132,656	46,809
Public safety	-	-	-	-	174,691	-	174,691	123,996
Public works and transportation	29,700	28,789	130,000	5,125	467,405	-	661,019	1,809,313
Community affairs	-	109,908	481,123	-	113,343	-	704,374	1,657,022
Other	899,844	66,962	18,389	7,901	35,000	68,943	1,097,039	1,165,597
Total expenditures	2,679,815	1,709,773	629,512	37,043	1,306,644	68,943	6,431,730	9,395,665
Excess (deficiency) of revenues over (under) expenditures	251,486	-	66,021	65	90,000	48,208	455,780	(1,557,619)
Other financing sources (uses):								
Transfers in	466,846	-	111,045	-	-	40,000	617,891	1,323,444
Transfers out	(181,600)	-	(177,066)	-	(90,000)	-	(448,666)	(610,000)
Payments of notes payable	(466,846)	-	-	-	-	-	(466,846)	(1,154,573)
Total other financing sources (uses), net	(181,600)	-	(66,021)	-	(90,000)	40,000	(297,621)	(441,129)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	69,886	-	-	65	-	88,208	158,159	(1,998,748)
Fund balances (deficit) at beginning of year	1,828,637	-	-	(65)	-	71,817	1,900,389	3,899,137
Fund balances at end of year	\$ 1,898,523	\$ -	\$ -	\$ -	\$ -	\$ 160,025	\$ 2,058,548	\$ 1,900,389

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, 1999

(With comparative totals for the year ended September 30, 1998)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Totals	
							1999	1998
Revenues:								
Compact	\$ 2,931,301	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,931,301	\$ 2,931,301
Federal contributions	-	1,709,773	695,533	-	-	-	2,405,306	3,386,043
CFSM grants	-	-	-	-	1,396,644	-	1,396,644	1,310,864
Other	-	-	-	37,108	-	117,151	154,259	209,838
Total revenues	2,931,301	1,709,773	695,533	37,108	1,396,644	117,151	6,887,510	7,838,046
Expenditures:								
Salaries and wages	727,839	666,533	29,356	382	26,357	-	1,450,467	1,487,850
Travel	174,120	336,551	3,563	17,579	30,286	46,414	608,513	631,052
Freight	23,715	43,020	16,382	-	2,446	-	85,563	107,533
Communications	44,426	31,356	4,413	178	7,064	44	87,481	92,481
Printing and reproduction	16,992	15,242	-	97	2,798	-	35,129	41,106
Professional services	74,947	8,435	-	-	21,660	-	105,042	43,376
Food stuffs	50,533	126	-	-	12,136	69	62,864	141,129
Medical supplies	67,268	3,352	-	-	518	-	71,138	202,839
Supplies and materials	158,896	165,548	236,646	13,082	95,591	14,168	683,931	1,256,874
Medical referral	109,323	-	-	-	-	-	109,323	226,456
POL	12,232	4,919	31,590	981	3,089	8	52,819	57,545
Capital outlay	83,096	172,149	63,891	4,744	481,170	-	805,050	3,194,640
Contractual services	57,040	85,850	123,331	-	547,444	-	813,665	302,515
Rentals	24,332	1,638	86,049	-	6,299	5,720	124,038	37,092
Repairs and maintenance	14,577	8,748	3,180	-	17,286	-	43,791	171,393
Utilities	824,338	-	-	-	-	-	824,338	750,246
Grants and subsidies	-	-	28,608	-	30,000	-	58,608	249,420
Scholarship and training	172,100	60,024	-	-	500	1,520	234,144	221,159
Other	44,041	106,282	2,503	-	22,000	1,000	175,826	180,959
Total expenditures	2,679,815	1,709,773	629,512	37,043	1,306,644	68,943	6,431,730	9,395,665
Excess (deficiency) of revenues over (under) expenditures	251,486	-	66,021	65	90,000	48,208	455,780	(1,557,619)
Other financing sources (uses):								
Transfers in	466,846	-	111,045	-	-	40,000	617,891	1,323,444
Transfers out	(181,600)	-	(177,066)	-	(90,000)	-	(448,666)	(610,000)
Payments of notes payable	(466,846)	-	-	-	-	-	(466,846)	(1,154,573)
Total other financing sources (uses), net	(181,600)	-	(66,021)	-	(90,000)	40,000	(297,621)	(441,129)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	69,886	-	-	65	-	88,208	158,159	(1,998,748)
Fund balances (deficit) at beginning of year	1,828,637	-	-	(65)	-	71,817	1,900,389	3,899,137
Fund balances at end of year	\$ 1,898,523	\$ -	\$ -	\$ -	\$ -	\$ 160,025	\$ 2,058,548	\$ 1,900,389

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, 1999

(With comparative totals for the year ended September 30, 1998)

	1999			1998		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Other Compact funds	\$ 2,552,248	\$ 2,931,301	\$ (379,053)	\$ 2,542,148	\$ 2,931,301	\$ (389,153)
Total revenues	<u>2,552,248</u>	<u>2,931,301</u>	<u>(379,053)</u>	<u>2,542,148</u>	<u>2,931,301</u>	<u>(389,153)</u>
Expenditures budgetary basis:						
Health services	492,488	466,462	26,026	891,778	840,962	50,816
Education	1,316,710	1,186,863	129,847	1,467,820	1,394,860	72,960
Special Development Programs	97,691	171,613	(73,922)	1,475,650	1,463,027	12,623
Public works and utilities	900,000	822,351	77,649	900,000	920,311	(20,311)
Total expenditures	<u>2,806,889</u>	<u>2,647,289</u>	<u>159,600</u>	<u>4,735,248</u>	<u>4,619,160</u>	<u>116,088</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(254,641)</u>	<u>284,012</u>	<u>538,653</u>	<u>(2,193,100)</u>	<u>(1,687,859)</u>	<u>505,241</u>
Other financing sources (uses):						
Transfers/general fund	466,846	466,846	-	1,154,573	1,154,573	-
Payments of notes payable	(466,846)	(466,846)	-	(1,154,573)	(1,154,573)	-
Transfers out	(213,250)	(181,600)	(31,650)	(500,000)	(500,000)	-
Total other financing sources (uses), net	<u>(213,250)</u>	<u>(181,600)</u>	<u>(31,650)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(467,891)</u>	<u>102,412</u>	<u>570,303</u>	<u>(2,693,100)</u>	<u>(2,187,859)</u>	<u>505,241</u>
Fund balance, unreserved at beginning of year	<u>(2,077,931)</u>	<u>1,542,163</u>	<u>3,620,094</u>	<u>615,169</u>	<u>2,330,022</u>	<u>1,714,853</u>
Continuing appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,400,000</u>	<u>1,400,000</u>
Fund balance, unreserved at end of year	<u>\$ (2,545,822)</u>	<u>\$ 1,644,575</u>	<u>\$ 4,190,397</u>	<u>\$ (2,077,931)</u>	<u>\$ 1,542,163</u>	<u>\$ 3,620,094</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 1999

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, 1999, 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.

Water Development Projects Revolving Fund

This fund was established pursuant to YSL-4-69 to account for loan proceeds and other funds designated for State Water Development Projects.

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, 1999

(With comparative totals as of September 30, 1998)

Assets	Water Development Projects						Totals	
	Compact	TTPI	CFSM	Revolving Fund	Public	Other U.S.	1999	1998
Investments	\$ 9,210,448	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,210,448	\$ 50,009
Receivables, net:								
Federal agencies	-	-	-	-	-	20,472	20,472	295,423
U.S. Dept. of Interior - TTPI	-	75,777	-	-	-	-	75,777	88,115
CFSM	-	-	441,212	-	-	-	441,212	268,688
Loans	6,500,000	-	-	-	-	-	6,500,000	6,500,000
Due from other funds	-	-	-	250,000	1,879,037	911,706	3,040,743	8,395,988
Advances	7,145	-	-	-	-	-	7,145	1,147
Total assets	\$ 15,717,593	\$ 75,777	\$ 441,212	\$ 250,000	\$ 1,879,037	\$ 932,178	\$ 19,295,797	\$ 15,599,370
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 6,326	\$ -	\$ 15,000	\$ -	\$ -	\$ -	\$ 21,326	\$ 1,326,422
Due to other funds	785,383	75,777	422,603	-	-	-	1,283,763	590,401
Deferred revenue	-	-	3,609	-	-	932,178	935,787	3,608
Total liabilities	791,709	75,777	441,212	-	-	932,178	2,240,876	1,920,431
Fund balances:								
Reserved for:								
Loans	6,500,000	-	-	-	-	-	6,500,000	6,500,000
Encumbrances	2,646,662	154,180	1,166,624	-	153	-	3,967,619	3,376,491
Continuing appropriations	200,000	-	-	-	2,000,000	-	2,200,000	1,080,718
Unreserved	5,579,222	(154,180)	(1,166,624)	250,000	(121,116)	-	4,387,302	2,721,730
Total fund balances	14,925,884	-	-	250,000	1,879,037	-	17,054,921	13,678,939
Total liabilities and fund balances	\$ 15,717,593	\$ 75,777	\$ 441,212	\$ 250,000	\$ 1,879,037	\$ 932,178	\$ 19,295,797	\$ 15,599,370

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, 1999

(With comparative totals for the year ended September 30, 1998)

	Compact	TTPI	CFSM	Water Development Projects		Other U.S.	Totals	
				Revolving Fund	Public		1999	1998
Revenues:								
Compact	\$ 3,618,144	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,618,144	\$ 3,618,144
U.S. Dept. of the Interior-TTPI	-	72,800	-	-	-	1,113,724	1,186,524	294,215
CFSM grants	-	-	1,948,944	-	-	-	1,948,944	4,466,139
Total revenues	3,618,144	72,800	1,948,944	-	-	1,113,724	6,753,612	8,378,498
Expenditures:								
General Government	282,840	-	-	-	-	-	282,840	107,653
Education	156,736	-	-	-	-	-	156,736	93,851
Economic development	248,062	-	-	-	-	-	248,062	412,749
Public works and utilities	1,101,475	-	1,919,988	100,000	172,791	1,113,724	4,407,978	9,077,143
Community affairs	67,907	72,800	28,956	-	-	-	169,663	540,372
Other	103,224	-	-	-	-	-	103,224	132
Total expenditures	1,960,244	72,800	1,948,944	100,000	172,791	1,113,724	5,368,503	10,231,900
Excess (deficiency) of revenues over (under) expenditures	1,657,900	-	-	(100,000)	(172,791)	-	1,385,109	(1,853,402)
Other financing sources (uses):								
Transfers in	3,176,057	-	-	-	2,000,000	-	5,176,057	3,918,384
Transfer out	(40,000)	-	-	-	-	-	(40,000)	(100,000)
Payments of notes payable	(3,145,184)	-	-	-	-	-	(3,145,184)	(3,145,184)
Total other financing sources (uses), net	(9,127)	-	-	-	2,000,000	-	1,990,873	673,200
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,648,773	-	-	(100,000)	1,827,209	-	3,375,982	(1,180,202)
Fund balances at beginning of year								
	13,277,111	-	-	350,000	51,828	-	13,678,939	14,859,141
Fund balances at end of year	\$ 14,925,884	\$ -	\$ -	\$ 250,000	\$ 1,879,037	\$ -	\$ 17,054,921	\$ 13,678,939

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, 1999

(With comparative totals for the year ended September 30, 1998)

	Water Development Projects						Totals	
	Compact	TTP1	CFSM	Revolving Fund	Public	Other U.S.	1999	1998
Revenues:								
Compact	\$ 3,618,144	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,618,144	\$ 3,618,144
U.S. Dept. of the Interior-TTP1	-	72,800	-	-	-	1,113,724	1,186,524	294,215
CFSM grants	-	-	1,948,944	-	-	-	1,948,944	4,466,139
Total revenues	3,618,144	72,800	1,948,944	-	-	1,113,724	6,753,612	8,378,498
Expenditures:								
Salaries and wages	18,761	-	13,713	-	-	-	32,474	75,383
Travel	23,375	-	-	-	72	-	23,447	11,708
Freight	301	-	-	-	-	-	301	2,156
Communications	1,677	-	-	-	-	-	1,677	987
Printing and reproduction	392	-	-	-	-	-	392	150
Professional services	48,650	-	-	-	-	5,246	53,896	-
Supplies and materials	36,705	-	11,197	-	-	-	47,902	462,850
POL	666	-	-	-	-	-	666	1,541
Capital outlay	1,372,939	72,800	1,904,358	-	172,544	1,108,478	4,631,119	9,197,053
Contractual services	210,816	-	15,000	-	-	-	225,816	125,859
Rentals	7,725	-	4,676	-	-	-	12,401	875
Repairs and maintenance	196	-	-	-	175	-	371	-
Subsidies and grants	-	-	-	100,000	-	-	100,000	82,116
Other	238,041	-	-	-	-	-	238,041	271,222
Total expenditures	1,960,244	72,800	1,948,944	100,000	172,791	1,113,724	5,368,503	10,231,900
Excess (deficiency) of revenues over (under) expenditures	1,657,900	-	-	(100,000)	(172,791)	-	1,385,109	(1,853,402)
Other financing sources (uses):								
Transfers in	3,176,057	-	-	-	2,000,000	-	5,176,057	3,918,384
Transfer out	(40,000)	-	-	-	-	-	(40,000)	(100,000)
Payments of notes payable	(3,145,184)	-	-	-	-	-	(3,145,184)	(3,145,184)
Total other financing sources (uses), net	(9,127)	-	-	-	2,000,000	-	1,990,873	673,200
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,648,773	-	-	(100,000)	1,827,209	-	3,375,982	(1,180,202)
Fund balances at beginning of year								
	13,277,111	-	-	350,000	51,828	-	13,678,939	14,859,141
Fund balances at end of year	\$ 14,925,884	\$ -	\$ -	\$ 250,000	\$ 1,879,037	\$ -	\$ 17,054,921	\$ 13,678,939

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Enterprise Funds
September 30, 1999

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, 1999, 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, 1999, 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. YIT is also the sole shareholder of Diving Seagull, Inc. In turn YIT leases a tuna purse seiner to Diving Seagull, Inc. 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, 1999**

(With comparative totals as of September 30, 1998)

<u>ASSETS</u>	Public	Yap Economic	Yap	Totals	
	Transportation System	Development Authority	Investment Trust	1999	1998
Cash and equivalents	\$ 9,443	\$ -	\$ 782,124	\$ 791,567	\$ 936,917
Investments	8,559	1,107,043	892,957	2,008,559	2,000,000
General receivables	-	284	28,911	29,195	1,090,868
Due from other funds	-	-	506,250	506,250	500,000
Prepaid expenses	2,028	-	29,798	31,826	39,547
Inventory	34,355	-	-	34,355	-
Property and equipment, net	362,952	-	4,369,583	4,732,535	5,916,749
Total assets	\$ 417,337	\$ 1,107,327	\$ 6,609,623	\$ 8,134,287	\$ 10,484,081
 <u>LIABILITIES AND FUND EQUITY</u> 					
Liabilities:					
Accounts payable	\$ 9,583	\$ 382	\$ 1,575	\$ 11,540	\$ 141,495
Accrued payroll and others	11,031	1,097	120,581	132,709	653,570
Notes payable:					
Intergovernmental	-	2,000,000	-	2,000,000	2,000,000
Yap State	-	-	7,000,000	7,000,000	6,500,000
Due to other funds	-	100,822	-	100,822	107,912
Total liabilities	20,614	2,102,301	7,122,156	9,245,071	9,402,977
Fund equity:					
Contributed capital	901,219	5,682,758	1,392,957	7,976,934	7,075,715
Retained earnings (deficit)	(504,496)	(6,677,732)	(1,905,490)	(9,087,718)	(5,994,611)
Total fund equity	396,723	(994,974)	(512,533)	(1,110,784)	1,081,104
Total liabilities and fund equity	\$ 417,337	\$ 1,107,327	\$ 6,609,623	\$ 8,134,287	\$ 10,484,081

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

ENTERPRISE FUNDS

Combining Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency)

Year Ended September 30, 1999

(With comparative totals for the year ended September 30, 1998)

	Public	Yap	Yap	Totals	
	Transportation System	Economic Development Authority	Investment Trust	1999	1998
Operating revenues:					
Charges for goods and services	\$ 117,397	\$ -	\$ 2,526,999	\$ 2,644,396	\$ 5,517,058
Total operating revenues	<u>117,397</u>	<u>-</u>	<u>2,526,999</u>	<u>2,644,396</u>	<u>5,517,058</u>
Operating expenses:					
Personnel services	130,828	12,602	763,027	906,457	1,260,838
Supplies and materials	67,278	-	-	67,278	-
Fuel	-	-	449,225	449,225	372,607
Contractual services	5,087	-	-	5,087	-
Depreciation	81,045	-	1,583,120	1,664,165	1,561,318
Bad debts expense	15,875	-	-	15,875	-
Utilities and communications	9,417	-	-	9,417	-
Repair and maintenance	-	-	423,798	423,798	301,957
Equipment lease	-	-	250,833	250,833	324,950
Insurance	10,221	-	208,213	218,434	276,071
License, agent and port fees	-	-	195,204	195,204	196,655
Provision	-	-	145,028	145,028	167,647
Management fee	-	-	108,625	108,625	143,200
Other	8,386	-	183,197	191,583	179,711
Total operating expenses	<u>328,137</u>	<u>12,602</u>	<u>4,310,270</u>	<u>4,651,009</u>	<u>4,784,954</u>
Operating income (loss)	<u>(210,740)</u>	<u>(12,602)</u>	<u>(1,783,271)</u>	<u>(2,006,613)</u>	<u>732,104</u>
Nonoperating income (expense):					
Operating transfers in	121,740	-	2,671,135	2,792,875	-
Repayment of debt	-	-	(3,171,135)	(3,171,135)	-
Interest income (expense)	-	18,750	10,232	28,982	(65,087)
Loss on disposal of assets	(6,344)	-	(321,720)	(328,064)	-
Total nonoperating income (expense)	<u>115,396</u>	<u>18,750</u>	<u>(811,488)</u>	<u>(677,342)</u>	<u>(65,087)</u>
Net income (loss)	<u>(95,344)</u>	<u>6,148</u>	<u>(2,594,759)</u>	<u>(2,683,955)</u>	<u>667,017</u>
Retained earnings (deficit) at beginning of year	<u>(409,152)</u>	<u>(6,683,880)</u>	<u>689,269</u>	<u>(6,403,763)</u>	<u>(6,661,628)</u>
Retained earnings (deficit) at end of year	<u>(504,496)</u>	<u>(6,677,732)</u>	<u>(1,905,490)</u>	<u>(9,087,718)</u>	<u>(5,994,611)</u>
Contributed capital at beginning of year	797,995	5,682,758	1,392,957	7,873,710	6,575,715
Additions	<u>103,224</u>	<u>-</u>	<u>-</u>	<u>103,224</u>	<u>500,000</u>
Contributed capital at end of year	<u>901,219</u>	<u>5,682,758</u>	<u>1,392,957</u>	<u>7,976,934</u>	<u>7,075,715</u>
Fund equity (deficiency) at end of year	<u>\$ 396,723</u>	<u>\$ (994,974)</u>	<u>\$ (512,533)</u>	<u>\$ (1,110,784)</u>	<u>\$ 1,081,104</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

ENTERPRISE FUNDS

Combining Statement of Cash Flows

Year Ended September 30, 1999

(With comparative totals for the year ended September 30, 1998)

	Public	Yap	Yap	Totals	
	Transportation System	Economic Development Authority	Investment Trust	1999	1998
Cash flows from operating activities:					
Operating income (loss)	\$ (210,740)	\$ (12,602)	\$ (1,783,271)	\$ (2,006,613)	\$ 732,104
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation expense	81,045	-	1,583,120	1,664,165	1,561,318
Other expense	-	-	10,232	10,232	(65,087)
	<u>(129,695)</u>	<u>(12,602)</u>	<u>(189,919)</u>	<u>(332,216)</u>	<u>2,228,335</u>
Change in assets and liabilities:					
Restricted cash	-	-	500,000	500,000	(500,000)
General receivables	1,090	-	1,061,673	1,062,763	(1,051,386)
Due from other funds	-	(6,148)	(6,250)	(12,398)	4,704
Prepaid expense	109,684	-	9,749	119,433	(39,547)
Inventory	8,019	-	-	8,019	-
Accounts payable	2,563	-	(139,538)	(136,975)	74,028
Accrued expenses	3,521	-	(532,834)	(529,313)	(21,232)
	<u>124,877</u>	<u>(6,148)</u>	<u>892,800</u>	<u>1,011,529</u>	<u>(1,533,433)</u>
Net cash provided by operating activities	<u>(4,818)</u>	<u>(18,750)</u>	<u>702,881</u>	<u>679,313</u>	<u>694,902</u>
Cash flows from noncapital financing activities:					
Operating grant from Yap State government	121,740	-	-	121,740	-
Net cash provided by noncapital financing activities	<u>121,740</u>	<u>-</u>	<u>-</u>	<u>121,740</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Intergovernmental transfers	103,224	-	2,671,135	2,774,359	-
Acquisition of fixed assets	(245,840)	-	-	(245,840)	-
Proceeds from Yap State Government loan	-	-	500,000	500,000	1,000,000
Retirement of debt	-	-	(3,171,135)	(3,171,135)	(1,000,000)
Net cash used for capital and related financing activities	<u>(142,616)</u>	<u>-</u>	<u>-</u>	<u>(142,616)</u>	<u>-</u>
Cash flows from investing activities:					
Loss on disposal of assets	-	-	(321,720)	(321,720)	-
Acquisition of fixed assets	-	-	(35,954)	(35,954)	(346,981)
Dividend income	-	18,750	-	18,750	-
Net cash used for investing activities	<u>-</u>	<u>18,750</u>	<u>(357,674)</u>	<u>(338,924)</u>	<u>(346,981)</u>
Net increase in cash and equivalents	(25,694)	-	345,207	319,513	347,921
Cash and equivalents at beginning of year	35,137	-	436,917	472,054	88,996
Cash and equivalents at end of year	<u>\$ 9,443</u>	<u>\$ -</u>	<u>\$ 782,124</u>	<u>\$ 791,567</u>	<u>\$ 436,917</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Discretely Presented Component Units
September 30, 1999

The Component Units - proprietary funds are legally separate organizations for which the elected officials of Yap State are financially accountable. Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business and quasi - business activities - where net income and capital maintenance are measured - are accounted for through proprietary funds. The generally accepted accounting principles here are generally those applicable to similar businesses in the private sector; the measurement focus is on determination of net income, financial position and cash flows. The State government's component units - proprietary funds are described below:

Yap Visitors Bureau

The Yap Visitors Bureau (YVB) was created pursuant to YSL No. 4-25 in October 1996. YSL 4-81 dated August 1999, enabled YVB to maintain books and records independent of the Government of the State of Yap. YVB is responsible for promoting tourism, developing the resources of the private sector and other activities related to the tourism industry.

Yap Fishing Authority

The Yap Fishing Authority (YFA) was established by Yap District Law No. 6-13. The primary purpose of the Authority is to promote, develop, and support commercial utilization of living marine resources within the State of Yap.

Yap State Public Service Corporation

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.

Component Units – governmental funds are legally separate organizations for which the elected officials of Yap State are financially accountable. Governmental funds are used to account for a government's general activities, including the collection and disbursement of specific revenue sources that are legally restricted to expenditure for specified purposes. Revenues and expenditures are recognized on a modified accrual basis, and the measurement focus is on the flow of current financial resources rather than the measurement of net profit. The State government's one component unit – governmental fund is described below:

Yap Community Action Program

The Yap Community Action Program (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 Community Action Program is a nonprofit organization which is determined to be a component unit of the State of Yap, due to the amount of financial control exercisable over YCAP by the State.

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS
Combining Balance Sheet
September 30, 1999

(With comparative totals as of September 30, 1998)

ASSETS	Proprietary Fund Types			Totals Proprietary Fund Types	Governmental	Totals	
	Yap Visitors Bureau	Yap Fishing Authority	Yap State Public Service Corporation		Yap		
					Community Action Program		
Cash and equivalents	\$ 109,699	\$ 53,189	\$ 1,243,358	1,406,246	\$ 314,836	\$ 1,721,082	\$ 1,521,466
Cash, restricted	-	-	-	-	878,493	878,493	632,331
Time certificates of deposit	-	-	1,149,275	1,149,275	-	1,149,275	671,599
Investments	-	1,399,858	-	1,399,858	-	1,399,858	1,642,833
Federal and other grants receivable	-	-	-	-	213,495	213,495	478,655
General receivables, net	-	31,042	417,227	448,269	-	448,269	269,576
Loans receivable, net	-	-	-	-	206,436	206,436	334,863
Interest receivable	-	-	-	-	10,333	10,333	11,074
Advances and prepayments	3,389	152,022	5,003	160,414	6,489	166,903	178,431
Inventory	-	49,520	516,738	566,258	-	566,258	515,594
Fixed assets, net	23,028	2,921,033	7,532,637	10,476,698	378,931	10,855,629	11,145,667
Total assets	\$ 136,116	\$ 4,606,664	\$ 10,864,238	\$ 15,607,018	\$ 2,009,013	\$ 17,616,031	\$ 17,402,089
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 91,713	\$ 45,786	\$ 16,141	\$ 153,640	\$ 12,652	\$ 166,292	\$ 331,871
Accrued payroll and others	3,757	6,475	104,823	115,055	111,956	227,011	220,157
Due to grantor	-	-	-	-	102,639	102,639	102,639
Deferred revenues-grants	3,781	-	138,809	142,590	-	142,590	226,579
Other payables	150	-	144,500	144,650	-	144,650	19,885
Total liabilities	99,401	52,261	404,273	555,935	227,247	783,182	901,131
Fund equity (net assets):							
Contributed capital	39,408	6,108,619	9,793,468	15,941,495	-	15,941,495	15,273,348
Retained earnings (deficit)	(2,693)	(1,554,216)	666,497	(890,412)	-	(890,412)	(421,131)
Net assets:							
Unrestricted	-	-	-	-	16,056	16,056	(38,824)
Temporarily restricted	-	-	-	-	554,773	554,773	362,843
Permanently restricted	-	-	-	-	1,210,937	1,210,937	1,324,722
Total fund equity	36,715	4,554,403	10,459,965	15,051,083	1,781,766	16,832,849	16,500,958
Total liabilities and fund equity	\$ 136,116	\$ 4,606,664	\$ 10,864,238	\$ 15,607,018	\$ 2,009,013	\$ 17,616,031	\$ 17,402,089

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS
Combining Statement of Revenues, Expenses and Changes in Fund Equity
Year Ended September 30, 1999
(With comparative totals for the year ended September 30, 1998)

	Proprietary Fund Types			Totals Proprietary Fund Types	Governmental Fund Type	Totals	
	Yap Visitors Bureau	Yap Fishing Authority	Yap State Public Service Corporation		Yap		
					Community Action Program	1999	1998
Operating revenues:							
Rental income	\$ -	\$ 18,764	\$ -	\$ 18,764	\$ -	\$ 18,764	\$ 13,070
Charges for goods and services	460	79,388	2,612,313	2,692,161	-	2,692,161	3,304,543
Grants and contracts	-	-	-	-	1,372,420	1,372,420	1,459,201
Interest	-	-	-	-	64,318	64,318	93,672
Other	-	-	-	-	9,035	9,035	50,399
Total operating revenues	460	98,152	2,612,313	2,710,925	1,445,773	4,156,698	4,920,885
Operating expenses:							
Headstart program	-	-	-	-	872,806	872,806	994,848
Other federal program	-	-	-	-	102,934	102,934	114,608
Other nonprofit and local programs	-	-	-	-	17,740	17,740	30,945
Personnel services	41,112	85,381	619,638	746,131	138,502	884,633	913,664
Travel	48,526	-	-	48,526	-	48,526	5,926
Supplies and materials	3,407	32,375	-	35,782	3,360	39,142	7,057
Production fuel	-	-	985,288	985,288	-	985,288	1,047,347
Contractual services	9,419	-	-	9,419	-	9,419	-
Depreciation	9,890	24,298	691,129	725,317	72,725	798,042	741,610
Bad debt expense	-	24,055	-	24,055	79,204	103,259	61,279
Communications	7,561	-	-	7,561	-	7,561	-
Matching funds	18,174	-	-	18,174	-	18,174	34,504
Other	50,483	25,270	853,179	928,932	25,477	954,409	1,030,673
Total operating expenses	188,572	191,379	3,149,234	3,529,185	1,312,748	4,841,933	4,982,461
Operating income (loss)	(188,112)	(93,227)	(536,921)	(818,260)	133,025	(685,235)	(61,576)
Nonoperating revenues (expenses) :							
Operating transfers from Yap State	174,231	157,000	-	331,231	-	331,231	161,615
Interest income	1,135	-	-	1,135	-	1,135	-
Other income (expense)	8,949	-	250,639	259,588	-	259,588	254,829
Total nonoperating revenues (expense), net	184,315	157,000	250,639	591,954	-	591,954	416,444
Other changes in net assets :							
Recovery of bad debts	-	-	-	-	-	-	316,804
Net income (loss)	(3,797)	63,773	(286,282)	(226,306)	133,025	(93,281)	671,672
Retained earnings (deficit)/net assets							
at beginning of year	1,104	(1,375,014)	952,779	(421,131)	1,648,741	1,227,610	558,938
Prior period adjustment	-	(242,975)	-	(242,975)	-	(242,975)	(3,000)
Retained earnings (deficit)/net assets at end of year	(2,693)	(1,554,216)	666,497	(890,412)	1,781,766	891,354	1,227,610
Contributed capital at beginning of year	23,324	6,315,224	8,934,800	15,273,348	-	15,273,348	14,835,994
Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital	16,084	(206,605)	858,668	668,147	-	668,147	437,354
Contributed capital at end of year	39,408	6,108,619	9,793,468	15,941,495	-	15,941,495	15,273,348
Total fund equity	\$ 36,715	\$ 4,554,403	\$ 10,459,965	\$ 15,051,083	\$ 1,781,766	\$ 16,832,849	\$ 16,500,958

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS
Combining Statement of Cash Flows
Year Ended September 30, 1999
(With comparative totals for the year ended September 30, 1998)

	Proprietary Fund Types			Totals Proprietary Fund Types	Governmental	Totals	
	Yap Visitors Bureau	Yap Fishing Authority	Yap State Public Service Corporation		Fund Type		
					Yap Community Action Program	1999	1998
Cash flows from operating activities:							
Operating income (loss)	\$ (188,112)	\$ (93,227)	\$ (536,921)	\$ (818,260)	\$ 133,025	\$ (685,235)	\$ (61,576)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Depreciation	9,890	24,298	691,129	725,317	72,725	798,042	741,610
Bad debts	-	24,055	-	24,055	79,204	103,259	61,279
	<u>(178,222)</u>	<u>(44,874)</u>	<u>154,208</u>	<u>(68,888)</u>	<u>284,954</u>	<u>216,066</u>	<u>741,313</u>
Change in assets and liabilities:							
Restricted cash	-	-	-	-	-	-	(361,911)
General receivables	(3,096)	(52,266)	(34,765)	(90,127)	70,239	(19,888)	(103,659)
Prepayments	4,950	-	11,058	16,008	-	16,008	(16,561)
Inventory of supplies, at cost	1,960	6,562	(63,636)	(55,114)	-	(55,114)	(45,690)
Advances	-	-	-	-	3,066	3,066	1,247
Promotional materials	-	-	-	-	-	-	(4,450)
Loans receivable	-	-	-	-	128,427	128,427	93,285
Interest receivable	-	-	-	-	741	741	(25,725)
Accounts payable	(1,880)	(38,103)	(197,407)	(237,390)	(19,902)	(257,292)	(10,241)
Accrued payroll and others	1,455	(1,230)	1,011	1,236	5,617	6,853	(750)
Other payables	-	-	124,765	124,765	-	124,765	9,095
	<u>3,389</u>	<u>(85,037)</u>	<u>(158,974)</u>	<u>(240,622)</u>	<u>188,188</u>	<u>(52,434)</u>	<u>(465,360)</u>
Net cash provided by (used for) operating activities	<u>(174,833)</u>	<u>(129,911)</u>	<u>(4,766)</u>	<u>(309,510)</u>	<u>473,142</u>	<u>163,632</u>	<u>275,953</u>
Cash flows from noncapital financing activities:							
Operating transfer in and contributed capital	175,140	157,000	1,049,552	1,381,692	-	1,381,692	1,225,041
Grant from Federal Emergency Management Act	8,949	-	-	8,949	-	8,949	-
Net cash provided by noncapital financing activities	<u>184,089</u>	<u>157,000</u>	<u>1,049,552</u>	<u>1,390,641</u>	<u>-</u>	<u>1,390,641</u>	<u>1,225,041</u>
Cash flows from capital and related financing activities:							
Capital grants from Yap State and FSM	-	-	-	-	-	-	41,700
Acquisition of fixed assets	(16,084)	-	(645,075)	(661,159)	-	(661,159)	(1,002,862)
Net cash provided by (used for) capital and related financing activities	<u>(16,084)</u>	<u>-</u>	<u>(645,075)</u>	<u>(661,159)</u>	<u>-</u>	<u>(661,159)</u>	<u>(961,162)</u>
Cash flows from investing activities:							
Interest income	1,135	-	82,655	83,790	-	83,790	63,393
Acquisition of fixed assets	-	(5,014)	-	(5,014)	(48,436)	(53,450)	(45,967)
Acquisition of time certificate of deposits	-	-	(477,676)	(477,676)	(246,162)	(723,838)	(571,599)
Net cash provided by (used for) investing activities	<u>1,135</u>	<u>(5,014)</u>	<u>(395,021)</u>	<u>(398,900)</u>	<u>(294,598)</u>	<u>(693,498)</u>	<u>(554,173)</u>
Net increase (decrease) in cash and equivalents	(5,693)	22,075	4,690	21,072	178,544	199,616	(14,341)
Cash and equivalents at beginning of year	115,392	31,114	1,238,668	1,385,174	136,292	1,521,466	1,535,807
Cash and equivalents at end of year	<u>\$ 109,699</u>	<u>\$ 53,189</u>	<u>\$ 1,243,358</u>	<u>\$ 1,406,246</u>	<u>\$ 314,836</u>	<u>\$ 1,721,082</u>	<u>\$ 1,521,466</u>

See accompanying Independent Auditors' Report.



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

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

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1999, and have issued our report thereon dated January 28, 2000, which was qualified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and audited financial statements to support the carrying value of an investment of the Yap Fishing Authority, a Component Unit - Proprietary Fund and 2) our inability to determine the effects of not updating the General Fixed Assets Account Group. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

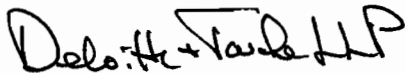
As part of obtaining reasonable assurance about whether the State of Yap's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 81 through 102) as items 99-1 and 99-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Yap's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Yap's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 99-2 and 99-8 through 99-18.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 99-2, 99-8 and 99-9 to be material weaknesses.

This report is intended for the information of the management of the State of Yap, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "Deloitte Touche LLP". The signature is stylized and cursive.

January 28, 2000



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the compliance of the State of Yap with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1999. The State of Yap's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 81 through 102). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Yap's management. Our responsibility is to express an opinion on the State of Yap's compliance based on our audit.

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

As described in Findings 99-1 through 99-7 in the accompanying Schedule of Findings and Questioned Costs, the State of Yap did not comply with requirements regarding cash management, equipment and real property management, period of availability of federal funds, and procurement and suspension and debarment that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Yap to comply with requirements applicable to its major federal programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Yap complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1999.

Internal Control Over Compliance

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

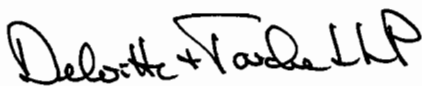
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Yap's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-1 through 99-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider findings 99-1 and 99-2 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1999, and have issued our report thereon dated January 28, 2000, which was qualified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and audited financial statements to support the carrying value of an investment of the Yap Fishing Authority, a Component Unit - Proprietary Fund and 2) our inability to determine the effects of not updating the General Fixed Assets Account Group. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 66 through 77) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Yap. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the management of the State of Yap, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.



January 28, 2000

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>U.S. Department of Education:</u>			
Year 7 Prel Vocational Education	84.994S	3014	\$ 35,165
Year 6 Prel Vocational Education	84.994S	3012	<u>16,550</u>
Total CFDA #84.994S			<u>51,715</u>
FY97 Special Education	84.027A	3015	63,638
FY98 Special Education	84.027A	3015	<u>479,949</u>
Total CFDA #84.027A			<u>543,587</u>
FY97 Yap Star	84.256A	3010	8,287
FY98 Yap Star	84.256A	3020	193,865
FY99 Yap Star	84.256A	3021	<u>398,053</u>
Total CFDA #84.256A			<u>600,205</u>
FY95 School-To-Work	84.276A	3013	19,502
School-To-Work Implementation	84.276A	3018	17,654
FY97 Goal 2000 Program	84.276A	3029	6,432
FY98 Goal 2000 Program	84.276A	3030	<u>63,629</u>
Total CFDA #84.276A			<u>107,217</u>
Total U.S. Department of Education			<u>1,302,724</u>
<u>U.S. Department of Labor:</u>			
FY96 JTPA Youth Program	17.250	3227	2,096
FY97 JTPA Admin	17.250	3239	482
FY97 JTPA Adult Program	17.250	3240	10,000
FY97 JTPA Youth Program	17.250	3241	2,099
FY97 JTPA Elderly Program	17.250	3242	11,411
FY98 JTPA Administration	17.250	3244	17,233
FY98 JTPA Adult Program	17.250	3245	29,740
FY98 JTPA Youth Program	17.250	3246	21,460
FY98 JTPA Elderly Program	17.250	3247	<u>15,387</u>
Total U.S. Department of Labor (CFDA #17.250)			<u>109,908</u>
<u>U.S. Department of Agriculture:</u>			
FY98 Forestry	10.664	3310	
FY97 Forestry Urban	10.664	3305	2,250
FY97 Forestry Nursery	10.664	3306	30
FY98 Forestry/Resource	10.664	3308	3,418
FY98 Forestry/U Comm.	10.664	3309	11,680
FY98 Forestry/Snt	10.664	3309	5,414
FY98 Fire Prevention	10.664	3311	<u>23,559</u>
Total CFDA #10.664			<u>46,351</u>
Total U.S. Department of Agriculture			<u>46,351</u>
Balance Forward			<u>1,458,983</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
Balance Forwarded			\$ <u>1,458,983</u>
<u>U.S. Department of the Interior:</u>			
FY98 Historic Preservation	15.904	3452	34,380
FY97 Historic Preservation	15.904	3463	3,837
FY97 History/Archaeology	15.904	3464	6,111
FY98 HPO/Site Restoration	15.904	3465	<u>22,633</u>
Total CFDA #15.904			<u>66,961</u>
OMIP Yap 99 Grant Summary:			
Equipment Maintenance Training	15.875	3457	6,351
Computer Network R&M T.	15.875	3457	<u>22,438</u>
Total CFDA #10.664			<u>28,789</u>
Total U.S. Department of the Interior			<u>95,750</u>
<u>U.S. Department of Health and Human Services:</u>			
FY98 Family Planning	93.217	3786	2,354
FY00 Family Planning	93.217	3716	3,941
FY99 Family Planning	93.217	3716	<u>25,638</u>
Total CFDA #93.217			<u>31,933</u>
FY98 Immunization Program	93.268	3699	2,116
FY99 Immunization Program	93.268	3710	<u>6,596</u>
Total CFDA #93.268			<u>8,712</u>
FY97 SAPT/Health Services	93.959	3777	2,414
FY98 SAPT/Health Services	93.959	3745	23,952
FY98 SAPT/Youth Services	93.959	3746	<u>17,066</u>
Total CFDA #93.959			<u>43,432</u>
FY98 Diabetes Program	93.988	3702	<u>4,560</u>
Total CFDA #93.988			<u>4,560</u>
FY98 Preventive and Public Health	93.991	3709	<u>1,821</u>
Total CFDA #93.991			<u>1,821</u>
FY98 MCH Program	93.994	3729	<u>44,920</u>
Total CFDA #93.994			<u>44,920</u>
Balance Forward			<u>1,554,733</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
Balance Forwarded			\$ <u>1,554,733</u>
<u>U.S. Department of Health and Human Services, Continued:</u>			
FY99 Tuberculosis & AIDS Program	96.116	3711	10,292
FY98 Tuberculosis & AIDS Program	96.116	3773	5,484
FY98 AIDS Prevention	96.116	3789	218
FY99 AIDS Prevention	96.116	3774	<u>3,668</u>
Total CFDA #96.116			<u>19,662</u>
Total U.S. Department of Health and Human Services			<u>155,040</u>
Total Federal Grants Fund			<u>\$ 1,709,773</u>

Note: With the exception of the FY97, FY98 and FY99 Yap Star grants, Yap Org. No. 3010, 3020 and 3021 (CFDA #84.256A), and the PREL grants, Yap Org. No. 3014 and 3012 (CFDA #84.994S), which are received directly from U.S. Department of Education, the above grants are received in a subrecipient capacity through the FSM National Government.

The expenditures for the U.S. Dept. of Health and Human Services above do not include \$902,002 in expenditures for the Head Start Program (CFDA 93.600) for which funds are received directly by YCAP, the subrecipient. Expenditures for the Headstart Program are, however, included in the Notes to Schedule of Expenditures of Federal Awards on page 80.

The expenditures for the U.S. Dept. of Agriculture on page 66 do not include \$8,360 expended for the Housing Preservation Grant (CFDA No. 10.433). The Housing Preservation Grant is received directly by the Yap Community Action Program (YCAP) through the U.S. Dept. of Agriculture Rural Housing Service and is reflected in YCAP's Schedule of Expenditures of Federal Awards on page 78.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Other U.S. Grants Fund
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>Federal Emergency Management Agency</u>			
<u>(FEMA) grants:</u>			
HMG/Water Development & Drought	83.516	3860	\$ 177,066
FEMA - 1166 HMG OI Water Development	83.516	3862	96,300
El Nino Drought/Sub-Grant	83.516	3863	3,412
El Nino Drought/Public Assistance	83.516	3864	60,952
HMG P Management Cost	83.516	3865	6,277
Typhoon Fern/Admin.	83.516	3881	4,187
Typhoon Fern/Management	83.516	3882	14,202
Typhoon Fern/Public Assistance	83.516	3885	<u>444,182</u>
Total Federal Emergency Management Agency (CFDA #83.516)			<u>806,578</u>
Total Other U.S. Grants Fund			<u>\$ 806,578</u>
Reconciliation to financial statements:			
Balance per above			\$ 806,578
Less: Transfer to Yap State Public Service Corporation			<u>(177,066)</u>
Balance per financial statements			<u>\$ 629,512</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Other U.S. Capital Projects Fund
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>			
Yap Airport Runway Reconstruction	15.875	6858	\$ <u>1,113,724</u>
Total Other U.S. Capital Projects Fund			\$ <u><u>1,113,724</u></u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
CFSM Grants Fund
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Typhoon Owen Deferred Revenue	5807	\$ 5,000
Satawal L. fees	5825	1,691
FY95 State Court	5827	57,444
MMFA (Yap State)	5828	7,746
FY96 Joint Law Enforcement	5830	117,247
O/I Agri. & Culture	5832	45,000
Faraulap Elementary School	5833	8,792
Woleai Health Center	5834	21,244
Falolop Ulithi Elementary	5836	47,198
Rull Suppl.	5841	33,750
Rumuu/Fanif Elementary School	5861	34,416
Yap Water Project	5863	447,629
Falalop Ulithi Dispensary	5873	2,377
Yap Youth Program	5891	56
Yap Rural Development	5898	33,558
Yap State Youth Projects	5927	5,730
Medical Supplies and Equipment	5930	518
Yap SDA School	5937	33,336
St. Mary School Construction	5939	25,000
Outer Island Schools	5940	12,500
Yap Outer Island CHC	5942	4,085
Outer Island Culture Program	5943	27,905
Tomil Municipal Project	5944	13,600
Yap CAP Matching	5945	50,000
Rumuu Elementary School	5946	126,295
Ifalik Water Tanks	5947	17,399
Gachpar Community Project	5948	49,499
Yap Culture Projects	5949	14,344
YMH Anesthetic Equipment/Training	5950	41,510
Nims Vocational Education	5951	30,000
YSPSC Woleai Land Lease	5953	30,000
Hospital Medical Supply & Equipment/Com. Tr	5955	796
Hospital High Priority Program	5956	<u>10,979</u>
Total CFSM Grants Fund		<u>\$ 1,356,644</u>

Reconciliation to financial statements:

Balance per above	\$ 1,356,644
Less: Transfer to Yap CAP	<u>(50,000)</u>
Balance per financial statements	<u>\$ 1,306,644</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
TTPI Capital Projects Fund
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>		
Rural Sanitation	6382	\$ 49,900
Village Water System	6387	<u>22,900</u>
Total TTPI Capital Projects Fund		\$ <u><u>72,800</u></u>

Note: The above grants were originally 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 Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
CFSM Capital Projects Fund
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
TTPI CIP Admin.	6621	\$ 8,999
Runway Repair	6636	33,630
Dabach Retaining Wall	6638	17,759
Wanyan Youth R. F. Project	6642	2,198
Yap Aiport Reconstruction	6648	1,871,358
Bechyal Power Extension Project	6652	<u>15,000</u>
Total CFSM Capital Projects Fund		<u>\$ 1,948,944</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Programs Fund
Section 221(B) Special Block Grant (CFDA No. 15.875)
Section 212(A) Special Development Grant (CFDA No. 15.875)
Section 216(A)(2) Health and Medical Programs (CFDA No. 15.875)
Section 216(A)(3) Post Secondary Education (CFDA No. 15.875)
Section 214(B) Energy Programs (CFDA No. 15.875)
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>Special Block Grant Programs</u>		
Department of Education Budget Supply/Maintenance	2113	\$ 21,091
Education Administration	2114	17,855
Instruction and Curriculum	2115	125,047
Yap Elementary Schools	2116	142,727
Outer Island Elementary Schools	2117	11,145
Yap High School	2118	406,363
Outer Island High School	2119	190,349
Outer Island Middle School	2126	75,729
Schools Feeding Program	2128	417
DHS Administration	2129	19,686
Public Health Care	2131	40,364
Primary Health Care	2132	114,506
Sanitation program	2134	23,218
Alcohol/Drug Abuse and Mental Health	2136	7,978
Medical Supply and Equipment	2138	55,735
Ancillary Services	2140	20,003
DHS Clinical and Medical Care	2141	20,880
Dental Services Yap	2142	39,226
Dental Services Outer Islands	2143	<u>16,091</u>
Total Compact of Free Association Compact Programs Fund-Section 221(B)		<u>1,348,410</u>
<u>Special Development Program</u>		
St. Mary's School Building	2208	28,382
Small Business Center	2210	10,278
Yap International Airport Reconstruction	2211	29,700
Community Development Program Matching	2214	100,000
Yap visitors Bureau	2287	81,600
Computer Migration Project	2288	<u>67,215</u>
Total Compact of Free Association Compact Programs Fund-Section 212(A)		<u>317,175</u>
<u>Health and Medical Programs</u>		
Medical Referral Program	2448	196,462
Outer island medical Referral	2450	<u>6,367</u>
Total Compact of Free Association Compact Programs Fund-Section 216(A)(2)		<u>202,829</u>
<u>Post Secondary Education</u>		
Scholarships and grants	2641	<u>170,650</u>
Total Compact of Free Association Compact Programs Fund-Section 216(A)(3)		<u>170,650</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Compact Programs Fund
Section 221(B) Special Block Grant (CFDA No. 15.875)
Section 212(A) Special Development Grant (CFDA No. 15.875)
Section 216(A)(2) Health and Medical Programs (CFDA No. 15.875)
Section 216(A)(3) Post Secondary Education (CFDA No. 15.875)
Section 214(B) Energy Programs (CFDA No. 15.875)
Year Ended September 30, 1999

<u>Energy Programs</u>		
POL/Power Generation	2853	<u>822,351</u>
Total Compact of Free Association Compact Programs Fund-Section 214(B)		<u>822,351</u>
Total Compact of Free Association Compact Program Fund		<u>\$ 2,861,415</u>
Reconciliation to financial statements:		
Balance per above		\$ 2,861,415
Transfer out to Yap Community Action Program		(100,000)
Transfer out to Yap Visitors Bureau		<u>(81,600)</u>
Balance per financial statements		<u>\$ 2,679,815</u>

Note: These funds are made by available by Title Two, Article I, Sections 221(B), 212(A), 216(A)(2), 216(A)(3) and 214(B) of the Compact of Free Association and are disbursed through the Office of Territorial and International Affairs (OTIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211(A) Capital Account (CFDA No. 15.875)
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
Yap CAP Matching Fund	6102	\$ 40,000
Yap SDA Basketball & Bathroom	6103	44,236
Family Food Production & Nutrition	6104	5,035
PTS Bus Purchase	6107	103,224
V6AI/TV New Building	6112	23,116
FY93 Manpower Development	6127	400
Yap International Airport Reconstruction	6171	636,759
Road Cleaning/VII	6173	6,205
FY95 Roads & Equipment	6191	236,634
Lipmur Water Extension	6193	198
Malay/Thabeth Causeway	6197	33,086
Leb/Riken/Gachpar Water	6198	30,376
Computer Migration - OAS	6199	234,904
Nims Vocational Building	6216	112,500
Waab Building	6228	4,446
Roads Development	6242	100,590
Roads Development Phase VII	6243	71,883
Land Lease and Acquisition	6245	219,851
Trocus Fishery Mngmt and H.M.	6247	9,376
Manpower Training	6262	24,820
Feasibility Studies	6263	13,400
Outter Island Airfields	6298	<u>49,205</u>
Total Compact of Free Association Capital Projects Fund - Section 211(A)		<u>\$ 2,000,244</u>

Reconciliation to financial statements:

Balance per above	\$ 2,000,244
Less: Transfer to Yap Community Action Program	<u>(40,000)</u>
Balance per financial statements	<u>\$ 1,960,244</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association General Fund
Section 211(A) Current Account (CFDA NO. 15.875)
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
General Fund:		
Current Account	Various	\$ <u>5,880,096</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 1999

(1) Scope of Review

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

A. Programs Subject to Single Audit

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

(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. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

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. Yap Community Action Program's Schedule of Expenditures of Federal Awards is as follows:

<u>Grantor Agency/Program</u>	<u>CFDA#</u>	<u>Fiscal Year 1999 Expenditures</u>
U.S. Department of Health and Human Services: Headstart Program (Received in a subrecipient relationship through the State of Yap)	93.600	\$ 902,002
U.S. Department of Agriculture: Housing Preservation Grants (A Direct Program)	10.433	8,360

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 1999

(3) Component Units. Continued

U.S. Department of the Interior: Compact of Free Association: CIP Fund, Section 211 (Received in a subrecipient relationship through the State of Yap)	15.875	<u>8,360</u>
U.S. Department of the Interior: Compact of Free Association: Special Development Fund, Section 212A (Received in a subrecipient relationship through the State of Yap)	15.875	<u>86,213</u>
Total expenditures		<u>\$ 1,004,935</u>

The Headstart programs are received from the State of Yap in a subrecipient capacity. The Housing Preservation Grants are received in a subrecipient capacity through the Yap USDA Rural Housing Service. The Compact of Free Association program is received from the State of Yap in a subrecipient capacity.

The Yap State Public Service Corporation programs are received in a subrecipient capacity. Following is the Schedule of Expenditures of Federal Awards for Yap State Public Service Corporation:

<u>Grantor</u>	<u>CFDA #</u>	<u>Amounts Received</u>	<u>Prior Year Expenditures</u>	<u>1999 Expenditures</u>	<u>Remaining Balance</u>
U.S. Department of the Interior, Pass through from FSM National Government and through the State of Yap:	15.875				
Compact of Free Association Section 211 (a) Capital Account		\$ 467,497	\$ 376,070	\$ -	\$ 91,427
U.S. Department of the Interior, Direct Award-Operations and Maintenance Improvement Programs (OMIP) Yap State Omnibus	15.875	157,155	110,000	66,063	(18,908)
Year 2		251,642	230,441	27,059	(5,858)
Maintenance		95,067	-	126,842	(31,775)
Trust Territory Capital Improvement Project - Yap Water Supply	15.875	229,000	90,191	-	138,809
U.S. Federal Emergency Management Agency, Direct Award - Typhoon Fern Damage Survey Reports	83.516	290,203	272,625	17,578	-
Draught Relief Damage Survey Reports		16,184	16,184	-	-
Hazard Mitigation: Yap State Water Projects		<u>211,040</u>	<u>107,657</u>	<u>51,008</u>	<u>52,375</u>
		<u>\$ 1,717,788</u>	<u>\$ 1,203,168</u>	<u>\$ 288,550</u>	<u>\$ 226,070</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for
Audit In Accordance With OMB Circular A-133
Year Ended September 30, 1999

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>1999 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association, Capital Account, 211(A)	15.875	\$ 2,000,244
Yap Airport Runway Reconstruction	15.875	<u>1,113,724</u>
Total U.S. Department of the Interior		<u>3,113,968</u>
<u>U.S. Federal Emergency Management Agency</u>		
Typhoon Fern Administration	83.516	18,389
El Nino Drought Public Assistance	83.516	64,364
Typhoon Owen Hazard Mitigation	83.516	279,643
Typhoon Fern Public Assistance	83.516	<u>444,182</u>
Total U.S. Federal Emergency Agency		<u>806,578</u>
<u>U.S. Department of Education</u>		
Yap Star (TFAS Education Grant)	84.256A	600,205
Yap Special Education (SEPPIE Grant)	84.027A	<u>543,578</u>
Total U.S. Department of Education		<u>1,143,783</u>
<u>U.S. Dept. of Health and Human Services</u>		
Headstart Program	93.600	<u>902,002</u>
Total U.S. Department of Health and Human Services		<u>902,002</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>5,966,331</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>9,466,536</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>63%</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association Capital Funds	15.875
Yap Airport Runway Reconstruction	15.875
Typhoon Owen/Fern	83.516
Yap STAR (TFAS Education Grant)	84.256A
Special Education SEPIIE	84.027A
Headstart Program	93.600

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
99-2	Equipment and Real Property Management	\$ -
99-8	Cash	\$ -
99-9	Budgetary Controls	\$ -
99-10	Yap Community Action Program – Allowance for Bad Debts	\$ -
99-11	Investments	\$ -
99-12	Restricted Revenue Sharing Taxes	\$ -
99-13	Revenue Sharing Taxes	\$ -
99-14	Special Early Retirement Program Loan	\$ -
99-15	Purchase Order Advances	\$ -

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Part II - Financial Statement Findings Section, Continued

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
99-16	Travel Advances	\$ -
99-17	Yap Fishing Authority Accounts Receivable	\$ -
99-18	Yap Fishing Authority Prepaid Expenses	\$ -

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
99-1	Equipment and Real Property Management	\$ -
99-2	Equipment and Real Property Management	\$ -
99-3	Special Education Program Procurement and Suspension and Debarment	\$ -
99-4	FEMA Standards and Suspension and Debarment	\$ -
99-5	OMIP Grant Period of Availability of Federal Funds	\$ -
99-6	DOI-CIP Runway Reconstruction Cash Management	\$ -
99-7	Headstart Program Procurement and Suspension and Debarment	\$ 55,658

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Federal Findings

Equipment and Real Property Management

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
99-1	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 33 (d) (2) requires that a physical inventory of property acquired with federal funds be performed at least every two years and that the inventory be reconciled to property records.</p> <p><u>Condition:</u> A physical inventory of property has not been performed in over two years.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Prior Year Status:</u> Noncompliance with the administrative requirements over federal grants was reported in the Single Audits of Yap State Government for fiscal years 1997 and 1998.</p> <p><u>Recommendation:</u> We recommend that a physical inventory of property be taken and the results reconciled to the property records at least once every two years.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Federal Findings, Continued

Equipment and Real Property Management

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
99-2	All	<p>An updated property ledger by funding source should be maintained for all of Yap State Government.</p> <p><u>Condition:</u> The Division of Real and Personal Property Management (RPPM) maintains property cards. However, these records have not been updated in the accounting system.</p> <p><u>Cause:</u> The off-site terminal used by RPPM no longer works and no manual ledgers appear to have been prepared.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants due to not being able to test the accuracy of fixed asset inventory ledgers.</p> <p><u>Prior Year Status:</u> Noncompliance with the administrative requirements over federal grants was reported in the Single Audits of Yap State Government for fiscal years 1997 and 1998.</p> <p><u>Recommendation:</u> We recommend that property ledgers be maintained on a timely basis, by funding source, in the General Fixed Assets Account Group.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Federal Findings, Continued

Special Education Program Procurement and Suspension and Debarment

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
99-3	84.027A	<p>OMB Circular A-87 requires that charges to federal grants be adequately supported by underlying documentation to support the costs claimed and contain evidence of competitive procurement.</p> <p><u>Condition:</u> The program acquired certain customized wheelchairs without benefit of competitive procurement. No written documentation was on file substantiating the reason for use of sole source procurement.</p> <p><u>Cause:</u> It appears that while program management understood the basis for its sole source determination, management neglected to reduce its determination to writing.</p> <p><u>Effect:</u> There is no effect of this condition on the financial statements.</p> <p><u>Recommendation:</u> If sole source procurement is utilized, the reasons therefore should be reduced to writing and should be maintained on file in support of the transaction.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Federal Findings, Continued

FEMA Standards and Suspension and Debarment

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
99-4	83.516	<p>The "Common Rule" procurement standards prohibit the participation of an employee, officer, or agent in the selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved.</p> <p><u>Condition:</u> During fiscal year 1999, the Department of Public Works and Transportation awarded a FEMA contract for road repair to the supervisor of the Road and Ground division. The total cost of the contract was \$47,000. In addition, the Public Works inspector assigned to certify completion of FEMA projects is also responsible for soliciting bids, writing contracts and preparing change orders for the same contracts.</p> <p><u>Cause:</u> The FEMA road repair contract was awarded to the employee of the Road and Ground division because it was determined that his company was the most qualified for the work. The Department of Public Works may not have considered the potential conflict of interest.</p> <p><u>Effect:</u> Yap State may be in noncompliance with Federal procurement standards for the prevention of conflicts of interest in the administration of contracts involving Federal funds.</p> <p><u>Recommendation:</u> We recommend that the State review its contracts administration policies and procedures to ensure compliance with Federal procurement standards. No questioned costs result from this finding though this item should be specifically reviewed by the grantor agency.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Federal Findings, Continued

OMIP Grant Period of Availability of Federal Funds

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
99-5	15.875	<p>OMB Circular A-102 requires that costs charged to federal grants be adequately documented.</p> <p><u>Condition:</u> During fiscal year 1998, Yap State received FY-94 U.S. DOI Operation and Maintenance Improvement Program (OMIP) funds totaling \$253,000. An additional \$56,000 was received in fiscal year 1999. Yap State credited these funds to the General Fund instead of the Federal Grants Fund. Yap believed that the funds were intended to reimburse the General Fund for prior year expenditures incurred on various operation and maintenance activities of the type funded by the OMIP Grants. Our discussions with Department of Public Works and Transportation personnel indicated that the funds were awarded to Yap State after the State submitted a report of operation and maintenance expenditures for the years prior to fiscal year 1998. Such costs were not sufficiently documented to allow us to determine that a credit to the General Fund was appropriate. Additionally, Yap State has not provided authoritative documentation from DOI indicating that the funds awarded were intended to reimburse the State of Yap for costs incurred from the General Fund.</p> <p><u>Cause:</u> Yap State has not communicated with the grantor agency to obtain sufficient understanding of the intention of the grant award.</p> <p><u>Effect:</u> The above condition results in potential noncompliance with the intent of the grant award. No questioned costs result from this finding. Program management has shown us documentation that indicates that grant expenditures were charged to the general fund. Due to the timing associated with the documentation was provided to us, no testing was able to be performed on these balances. Additionally, the Schedule of Expenditures of Federal Awards will have to be revised to reflect the federal expenditures.</p> <p><u>Recommendation:</u> Given the matters set forth in the effect, we recommend that resolution of this matter be deferred to the 2000 audit and that the information be tested at that time and necessary adjustments to the Schedule of Expenditures of Federal Awards, if any, be made at that time.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Federal Findings, Continued

DOI – CIP Runway Reconstruction Cash Management

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
99-6	15.875	<p>US Treasury requirements provide that interest earned on federal funds advanced be reported to the granting agency.</p> <p><u>Condition:</u> Our testing of cash receipts determined that during fiscal year 1999, \$2,045,902 was received as a drawdown under the OTIA/DOI Grant for Airport Reconstruction and was received by Yap State on January 20, 1999. FY99 expenditures for the grant totaled \$1,113,724, with \$932,178 recorded as deferred revenue as of September 30, 1999.</p> <p>The funds were deposited into an interest bearing savings account, however, there was no evidence that interest income earned on the funds were accounted for separately or that such interest was reported to the granting agency. Yap State's General Checking Account is a zero-balance account, therefore, federal funds received by the State remain in the savings account until expended.</p> <p><u>Cause:</u> The DOI grant was passed through the FSM National Government, therefore, the required federal financial reports are prepared by the National Government. Yap State did not report the interest earned on the funds to the FSM National Government for inclusion on those reports.</p> <p><u>Effect:</u> Yap State may be in noncompliance with U.S. Treasury requirements relating to advances of Federal funds.</p> <p><u>Recommendation:</u> We recommend that Yap State calculate the interest earned on the DOI Grant funds received in fiscal year 1999 and report the interest income through the FSM National Government to the U.S. Department of the Interior. No questioned costs result from this finding as Yap State will merely have to amend its federal financial reports to reflect the interest income earned.</p>	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Federal Findings, Continued

Headstart Program – Procurement and Suspension and Debarment

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>																																	
99-7	93.600	<p>Purchases made with Federal grant funds should reflect evidence of informal price solicitations or other means of competitive procurement.</p> <p><u>Condition:</u> The following transactions charged to the Headstart program did not contain evidence on file indicating that the lowest price was obtained (from a sample of 25 transactions):</p> <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Check #</u></th> <th style="text-align: left;"><u>Check Date</u></th> <th style="text-align: right;"><u>Amount</u></th> </tr> </thead> <tbody> <tr><td>20648</td><td>10/21/98</td><td style="text-align: right;">\$ 1,474</td></tr> <tr><td>20657</td><td>11/04/98</td><td style="text-align: right;">12,532</td></tr> <tr><td>20706</td><td>11/30/98</td><td style="text-align: right;">6,764</td></tr> <tr><td>20707</td><td>11/30/98</td><td style="text-align: right;">14,220</td></tr> <tr><td>20863</td><td>02/03/99</td><td style="text-align: right;">8,524</td></tr> <tr><td>20884</td><td>02/12/99</td><td style="text-align: right;">6,684</td></tr> <tr><td>20985</td><td>03/25/99</td><td style="text-align: right;">4,364</td></tr> <tr><td>20989</td><td>03/25/99</td><td style="text-align: right;">604</td></tr> <tr><td>21193</td><td>05/27/99</td><td style="text-align: right;"><u>492</u></td></tr> <tr> <td colspan="2"></td> <td style="text-align: right;"><u>55,658</u></td> </tr> </tbody> </table> <p><u>Cause:</u> Management may not be reviewing transactions to ensure compliance with Federal procurement standards.</p> <p><u>Effect:</u> The effect is non-compliance with the federal regulations and questioned costs of \$55,658.</p> <p><u>Recommendation:</u> It is recommended that the YCAP ensure that evidence of compliance with federal procurement procedure be maintained on file.</p>	<u>Check #</u>	<u>Check Date</u>	<u>Amount</u>	20648	10/21/98	\$ 1,474	20657	11/04/98	12,532	20706	11/30/98	6,764	20707	11/30/98	14,220	20863	02/03/99	8,524	20884	02/12/99	6,684	20985	03/25/99	4,364	20989	03/25/99	604	21193	05/27/99	<u>492</u>			<u>55,658</u>	
<u>Check #</u>	<u>Check Date</u>	<u>Amount</u>																																		
20648	10/21/98	\$ 1,474																																		
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20985	03/25/99	4,364																																		
20989	03/25/99	604																																		
21193	05/27/99	<u>492</u>																																		
		<u>55,658</u>																																		
Total Questioned Costs (see page 101)			\$ <u>55,658</u>																																	

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Yap State - Cash

Finding No. 99-8

Criteria: A proper system of accounting controls require that bank accounts be reconciled on a monthly basis. Bank reconciliations should be reviewed by a person independent of the preparer to ensure accuracy.

Condition: During fiscal year 1999, Yap State did not perform bank reconciliations on a monthly basis. At September 30, 1999, general ledger cash reconciliations contained immaterial variances in the general checking and payroll accounts. As of January 2000, Finance was not current in preparation of its monthly bank reconciliations.

Cause: In fiscal year 2000, Yap State transferred its financial records to a new automated system. The Finance employees were still in the process of learning the new system.

Effect: The lack of monthly bank reconciliations increases the risk of errors in the financial statements.

Prior Year Status: This condition was reported as a finding in the Single Audits of Yap State Government for fiscal years 1995 through 1998.

Recommendation: We recommend that the State ensure that adequate training is provided to staff to enable them to perform bank reconciliations on a monthly basis.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Budgetary Controls

Finding No. 99-9

Criteria: The Yap State Financial Management Regulations prohibit the State from incurring expenditures in excess of authorized spending limits set by appropriation laws. Therefore, the general ledger should properly reflect authorized budgeted amounts.

Condition: Our comparison of budgetary amounts in the general ledger against appropriation laws and allotment reports showed the following discrepancies:

<u>Org. #</u>	<u>Appropriated</u>	<u>Allotment Report</u>	<u>Dilog 240p</u>	<u>Expenditures</u>	<u>Overexp</u>
1078	\$ 260,000	\$ 260,000	\$ 151,287	\$ 972	\$ -
1212	46,502	46,502	60,002	40,396	-
1361	17,450	12,450	17,450	13,320	-
1471	91,810	93,269	102,669	95,556	(3,746)
1784	47,500	117,500	117,500	109,826	(62,326)
7105	157,000	157,000	-	157,000	-
7107	121,740	121,740	-	121,740	-
7118	3,184,965	3,184,965	8,025,000	3,171,135	-
6107	140,000	140,000	-	103,224	-
6228	<u>298,065</u>	<u>298,065</u>	<u>291,722</u>	<u>234,904</u>	<u>(72,416)</u>
	\$ <u>4,365,032</u>	\$ <u>4,431,491</u>	\$ <u>8,765,630</u>	\$ <u>4,048,073</u>	\$ <u>(138,488)</u>

Funding for Org. 6228 was appropriated in fiscal year 1998. At September 30, 1998, \$190,412 represented continuing appropriations with no encumbrances. That amount should have carried over into fiscal year 1999; however, FY99 expenditures and encumbrances for the Org exceeded the budget by \$72,416 in the general ledger.

Cause: The Budget Office did not properly reconcile its allotment report with the general ledger budgetary amounts.

Effect: The budgetary and accounting controls previously established to ensure compliance with the State Financial Management Act appear to have been abandoned thereby resulting in overexpenditures which is a violation of the State Financial Management Regulations.

Prior Year Status: Discrepancies with budgetary amounts in the appropriation laws, allotment reports and general ledger were reported as a finding in the Single Audit Report for Yap State for fiscal year 1998.

Recommendation: We recommend that Budget Office properly reconcile its allotment reports with the general ledger. We also recommend that Finance ensure that funds are certified available before processing of transactions to avoid overexpenditures.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Yap Community Action Program – Allowance for Bad Debts

Finding No. 99-10

Criteria: Relevant financial information should enable management to make accurate accounting estimates.

Condition: During the year ended September 30, 1999, YCAP did not determine delinquent loan principal as of year-end.

Cause: Management has not required that delinquent loan information be compiled from individual loan ledgers in the prior years. During our field work, YCAP began compiling schedules of delinquent balances but did not complete such on time for us to re-evaluate the allowance for doubtful loans.

Effect: The effect of the above condition is that an accurate basis for determining the allowance for doubtful loans was unavailable. As of September 30, 1999, based on available information, the allowance for doubtful loans was \$1,427,566.

Recommendation: We recommend that management require the preparation of a report detailing delinquent loans on a periodic basis. Management should use these reports and other financial information to estimate the allowance for doubtful loans at the end of the year.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Investments

Finding No. 99-11

Criteria: Proper accounting controls should be in place to ensure that general ledger balances are accurate.

Condition: The State investment balances by Compact Program differed materially from records maintained by the FSM National Government. The State general ledger investment balances differed from amounts confirmed by the FSM National Government by the amounts shown below:

	<u>FSMNG</u>	<u>Yap State</u>	<u>Variance</u>
Current Account	\$ 47,351,678	\$ 41,001,112	\$ 6,350,566
Capital Account	3,787,766	9,210,448	(5,422,682)
Special Programs	<u>2,284,873</u>	<u>3,226,092</u>	<u>(941,219)</u>
	<u>\$ 53,424,317</u>	<u>\$ 53,437,652</u>	<u>\$ (13,335)</u>

Balances in total differed immaterially from FSM National Government balances. Therefore, the differences appear to be related to investment classification by Compact programs.

Cause: The FSM National Government schedules showing the fund status of Yap's investments at September 30, 1999 included approximately \$7 million which is not identified by Compact Program source. These are currently shown as General Fund investments by the FSM National Government. Another reason for the discrepancies may be the classifications of drawdown and debt service payments. During fiscal year 1998, a difference of \$280,384 existed for drawdowns credited to the Capital Projects Fund and the Special Programs Fund.

Effect: Yap's classification of Compact Investment by Fund may be misstated.

Recommendation: We recommend that the State require the FSM National Government to provide on a quarterly basis, the Compact Funds Transfer and Drawdown Schedule so that the State can review and reconcile the investment balances to its own records on a timely basis.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Restricted Revenue Sharing Taxes

Finding No. 99-12

Criteria: A Memorandum of Understanding (MOU) exists between the FSM National Government and the State of Yap regarding revenue-sharing taxes restricted for capital account uses related to education and health. The MOU requires that the funds be accounted for separately.

Condition: During the year ended September 30, 1999, Yap State received \$461,133 related to the restricted revenue-sharing taxes. The State recorded these funds in the General Fund in the same manner as unrestricted revenue-sharing taxes.

Cause: The State did not create any special fund or account in which to record the restricted revenue sharing taxes during fiscal year 1999.

Effect: The restricted taxes received during fiscal year 1999 are currently recorded in the General Fund reserve for related assets.

Recommendation: We recommend that the State ensure that proper and separate accounting for the restricted taxes is carried out in accordance with the terms of the MOU. The State has the option to either create a special fund in which revenues and expenditures related to the restricted taxes are recorded or to account for the taxes in a separate General Fund account.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Revenue Sharing Taxes

Finding No. 99-13

Criteria: Authoritative documentation should be obtained from the FSM National Government to confirm the revenue sharing receivable at September 30, 1999.

Condition: A review of cash receipts from the FSM National Government for revenue sharing taxes, and discussions with FSM National Government officials indicated that Yap State's share of national taxes for the quarter ended September 30, 1999, approximates \$25,565. In the prior year, the average quarterly share of revenue for Yap State was \$434,000. A higher figure was expected for fiscal year 1999 because of a change in tax laws which became effective in FY99.

Cause: The FSM National Government has not closed its books for fiscal year 1999 and currently cannot confirm the taxes payable to the State Governments.

Effect: Yap State fiscal year 1999 revenue and receivable for national taxes may be materially misstated.

Recommendation: We recommend that Yap State pursue and obtain from the FSM National Government documentation necessary to determine the total amounts due to Yap State for revenue-sharing taxes as of September 30, 1999.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Special Early Retirement Program Loan

Finding No. 99-14

Criteria: Per the terms of the Financing Agreement between the State of Yap and the FSM National Government, the State shall transfer to the Trust Account (established by the FSM National Government in the name of Yap State), for repayment of loan, the funds earmarked each fiscal year for those salaries and wages for positions eliminated under the Early Retirement (ERS) program. By September 30, 2001, the balance of the Trust Account shall not be less than \$3.5 million.

Condition: Unused personnel funds for the positions eliminated under the ERS program were \$391,960 for fiscal year 1998 and \$524,500 for fiscal year 1999. At September 30, 1999, Yap State had not transferred these funds to the Trust Account. The appropriation laws authorizing the funds lapsed as of September 30, 1998 and 1999.

Cause: The cause of this condition is unknown.

Effect: Yap State may not be in compliance with the terms of its Financial Agreement with the FSM National Government.

Prior Year Status: This condition was reported as a finding in the Single Audit of Yap State Government for fiscal year 1998.

Recommendation: We recommend that Yap State ensure that personnel funds appropriated by the State Legislature for positions eliminated under the ERS Program be transferred to the Trust Account in accordance with the terms of the Financing Agreement.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Purchase Order Advances

Finding No. 99-15

Criteria: Purchase order advances should consist only of payments made for which goods and services have not been received. To prevent budget overruns and misstatement of expenditures, advance payments should be limited to emergency cases. In all cases, the advance should be cleared as soon as goods and invoices are received.

Condition: At September 30, 1999, \$438,408 was outstanding for purchase order advances. Yap State was able to liquidate all but \$162,385 of the advances during audit fieldwork. Due to the age of the purchase order advances, approximately \$120,000 was charged to the general fund because the original accounts under which the purchase orders were obligated had since expired.

Cause: It appears that Yap State has become more dependent on advance payments when acquiring goods and services from off-island vendors. However, there currently are no procedures in place to ensure that Finance is provided with the vendor invoice after goods are received.

Effect: If any of these purchase orders were charged to federal grants, Yap State runs the risk of questioned costs or of not being reimbursed by the FSM National Government when the advances are not cleared in a timely manner.

Prior Year Status: This condition was reported as a finding in the Single Audit of Yap State Government for fiscal year 1998.

Recommendation: We recommend that the State review its current policies and procedures to curtail the use of purchase order advances. To ensure that advances are cleared on a timely basis, the State should establish procedures which will allow Finance to obtain invoices immediately after receipt of goods. The departments and agencies with advances outstanding should be required to immediately provide invoices and receiving reports to allow Finance to clear the advances from the general ledger.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Travel Advances

Finding No. 99-16

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

Condition: Listed below were the travel advances outstanding for various funds as of September 30, 1999:

General Fund (Regular)	\$ 159,790
General Fund (Special)	38,045
Compact Special Revenue Fund	22,860
U.S. Grant Fund	122,795
Other U.S. Grants Fund	4,452
CFSM Special Revenue Fund	13,229
Compact Capital Projects	<u>7,145</u>
	\$ <u>368,316</u>

Of the general ledger total of \$368,316, \$164,897 has been expensed but cannot be cleared from the advances account until \$203,419 in related outstanding advances are cleared.

Cause: Automatic payroll deductions for current employees are not being made, contrary to established procedures.

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

Prior Year Status: This condition was reported as a finding in the Single Audit of Yap State Government for fiscal year 1998.

Recommendation: We recommend that the State implement procedures to ensure that travel advances are collected in a timely manner.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Yap Fishing Authority – Accounts Receivable

Finding No. 99-17

Criteria: Management has the responsibility to implement policies and procedures to ensure the timely collection of receivables.

Condition: September 30, 1999 gross trade receivables increased 11% over FY98 to \$507,071 and employee receivables increased 7% to \$31,421. Also a review of the receivables listing showed that \$5,778 of outstanding accounts were from former employees and customers who are employed by the State and National Government departments and agencies and \$4,634 were due from State and National departments and agencies. All efforts should be made to collect these and other past due accounts.

Cause: The Authority does not appear to have procedures in place to ensure timely collection of receivable accounts. Neither does it appear to have a policy of limiting sales on account only to credit-worthy customers.

Effect: Poor collection of receivables has necessitated the increase of the allowance for bad debts from \$489,849 to \$513,904 as of September 30, 1999.

Recommendation: We recommend that YFA review its credit policy and limit credit sales to customers with a proper credit history. In addition, YFA should vigorously pursue and collect outstanding trade and employee receivable accounts.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 1999

Yap Fishing Authority – Prepaid Expenses

Finding No. 99-18

Criteria: General ledger amounts should be reconciled on a periodic basis.

Condition: Reported at September 30, 1999 and 1998 were \$150,022 in prepaid expenses relating to fishing supplies received by YFA as part of the Japanese Government Goods and Services Contributions for fiscal years 1994 and 1995. This account has not shown any movement for the past three years and YFA was unable to determine how much of the assets, if any, should be expensed in the current year.

Cause: The Authority's accountant departed during the fiscal year and the remaining employees could not provide a detailed listing of prepaid expense as of September 30, 1999.

Effect: Prepaid expenses may be materially misstated by an indeterminable amount.

Recommendation: We recommend that YFA reconcile its prepaid expense account and maintain a listing of the items on hand as of year-end.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 1999

QUESTIONED COSTS

For the year ended September 30, 1999, the following questioned costs were noted and prior year questioned costs resolved:

	Questioned Costs Set Forth in Prior Audit Report <u>1998</u>	Questioned Costs Resolved in Fiscal Year <u>1999</u>	Questioned Costs at <u>September 30, 1999</u>
Unresolved Questioned Costs FY 96	\$ 225,978	\$ 30,873 (1)	\$ 195,105
Unresolved Questioned Costs FY 99	68,619 (2)	-	68,619
Unresolved Questioned Costs FY 99	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 294,597</u>	<u>\$ 30,873</u>	<u>\$ 263,724</u>

- (1) \$30,873 of questioned costs were resolved in fiscal year 1998 due to reimbursement of federal funds from the General Fund.
- (2) \$68,619 of fiscal years 1997 and 1998 questioned costs for a subrecipient were unresolved as of September 30, 1999, and are therefore included in the above total.
- (3) \$55,658 of FY-1999 questioned costs for a subrecipient are not included in the above total (see page 89). Yap State is to resolve the findings in fiscal year 2000 or it will report these as questioned costs in its 2000 Single Audit report.



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Response to Audit Findings
Year Ended September 30, 1999

FEDERAL FINDINGS

1. **Finding No. 99-1 (Equipment and Real Property Management)** **CFDA #: ALL**

The Chief of Procurement and Property Management with the Director of Administrative Services will make sure that the physical inventory for all government property will be complete by the end of this fiscal year.
2. **Finding No. 99-2 (Equipment and Real Property Management)** **CFDA #: ALL**

The Chief of Procurement and Property Management with the help of Computer Manager will establish and maintain an updated property ledger for funding sources in the General Fixed Assets Account. They will try to complete this by the end of this fiscal year, but we are aware that this must be completed prior to the impending implementation of GASB #34.
3. **Finding No. 99-3 (Special Education Program Procurement Standards)** **CFDA # : 84.027A**

The Special Education Coordinator has taken upon herself to be responsible for all transactions and that she documents any and all activities in the future that might bring about a question cost.
4. **Finding No. 99-4 (FEMA Procurement Standards)**

The Chief of Planning and the Deputy Director of PW&T will review all contract administration policies and procedures to ensure compliance with federal procurement standards.
5. **Finding No. 99-5 (OMIP Grant Funds)** **CFDA #: 15.875**

The Deputy Director of PW&T will ensure that all needed documents are properly filed and obtained from the Grantor Agency, authoritative documentations indicating that the FY-94 OMIP Grant funds were intended to reimburse the General Fund of the State of Yap for the prior year relating to operations and maintenance activities.

FEDERAL FINDINGS, (CONT.)

- 6 . Finding No. 99-6 (DOI - CIP Runway Reconstruction) **CFDA #: 15.875**

The Deputy Director of PW&T and the Chief of Finance are tasked to calculate the interest earned on the DOI Grant and report it to FSM National Government and to the US Department of Interior. This will be completed by the end of the Fiscal Year.

- 7 . Finding No. 99-7 (Headstart Program – Procurement) **CFDA #: 93.600**

The Director and Assistant Director of Head Start Program will be responsible for all transactions and documentation of all activities and ensure compliance with the U.S. Federal Procurement requirement from here on.

LOCAL FINDINGS

- 8 . Finding No. 99-8 (Yap State – Cash)

The Accounting Supervisor is responsible for the direct reconciliation of the bank accounts. The Chief of Finance will ensure that the bank reconciliation procedures are carried out on a monthly basis. The Chief of Taxation and Revenue who oversees the cash receipts operation will ensure that all receipts are recorded and accounted for on the new system on a daily basis.

- 9 . Finding No. 99-9 (Budgetary Controls)

The Budget Division will reconcile its Allotment Reports on a quarterly basis with the Financial Report on all fund types. Copy of such reports would be filed in the Allotment Files. Effective immediately, the Chief of the division of Budget will ensure that all Allotment Reports are reconciled properly with General Ledger Reports.

- 10 . Finding No. 99-10 (Yap Community Action Program - Allowance for Bad Debts)

The Agency has bought a Time Value software to account for delinquent principals and accrued interests on a periodic basis. With the software, the Agency should be able to keep more accurate accounting estimates of the delinquent balances. The T-Value is being used and the Loan Officer is tasked with the responsibility. Information needed for re-evaluation of allowance of bad debts should be available by the end of this FY. The Deputy Director and/or the Fiscal Officer will ensure that the information is produced in a timely manner.

LOCAL FINDINGS, (CONT.)

11. Finding No. 99-11 (Investments)

The Director of Administrative Services and Governor will work with the National Government to make sure that the National Government provides Yap State on a quarterly basis, the compact funds transfer and drawdown schedule so we can review and reconcile our Investment balances on a timely basis.

12. Finding No. 99-12 (Restricted Revenue Sharing Taxes)

The Chief of Taxation and Revenue and the Finance Consultant will make sure that all fund received from the restricted taxes are deposited into the 20% Revenue Sharing Special Account and account for. This is effective immediately.

13. Finding No. 99-13 (Revenue Sharing Taxes)

The Chief of Taxation and Revenue with the help of the Finance Consultant will pursue and obtain from the FSM National Government documentation necessary to determine the total amount due to Yap State for revenue-sharing taxes as of September 30, 1999.

14. Finding No. 99-14 (Special Early Retirement Program Loan)

The Finance Consultant with the help of Rose Nakanaga will ensure that personnel funds appropriated for the positions eliminated under the ERS Program is transferred to the Trust Account in accordance with the terms of the Financing Agreement.

15. Finding No 99-15 (Purchase Order Advances)

Purchase Order Advances are now being updated. A proposed amendment to the Financial Management Regulation is now out for public comments. This amendment would require all departments and agencies with outstanding advances to immediately provide invoices and receiving reports to allow Finance to clear the advances from the general ledger.

16. Finding No. 99-16 (Travel Advances)

Robert Fathal with the help of Arlene Falurag are tasked to implement procedure to ensure that travel advances are collected in a timely manner. Travelers with outstanding advances will be notified immediately.

17. Finding No. 99-17 (Yap Fishing Authority – Accounts Receivable)

The Chairman and member of the YFA Board will be responsible to review YFA credit policy to make sure that credit is limited to worthy customers. The YFA Intern Manager is tasked to pursue and collect outstanding trade and employees receivable accounts.

LOCAL FINDINGS, (CONT.)

18. Finding No. 99- 18(**Yap Fishing Authority – Prepaid Expenses**)

The YFA Intern Manager is tasked to ensure that all prepaid expense accounts are reconciled and periodically maintain a listing of all items on hand as of year-end.



Al Fong
Director, OAS

Cc: Governor, State of Yap
Speaker, Yap State Legislature