

STATE OF YAP
FEDERATED STATES OF MICRONESIA

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2003

STATE OF YAP
FEDERATED STATES OF MICRONESIA

FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2003

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INDEPENDENT AUDITORS' REPORT

Honorable Robert Ruecho
Governor, State of Yap
Federated States of Micronesia:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap (the State), as of and for the year ended September 30, 2003, which collectively comprise the State's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Public Transportation System, which represents the State's business-type activities or the Yap Visitor's Bureau, the Yap Fishing Authority, and the Diving Seagull, Inc., which represent 33% and 61%, respectively, of the assets and revenues of the State's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Transportation System, the Yap Visitor's Bureau, the Yap Fishing Authority, and the Diving Seagull, Inc. are based solely on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 respective financial statements are free of material misstatement. The financial statements of the Diving Seagull, Inc., were audited in accordance with auditing standards generally accepted in the United States of America, but were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Because of inadequacies in the accounting records and the internal control over financial reporting, the general ledger beginning balances for the Yap Fishing Authority for fiscal year 2003 did not agree with the fiscal year 2002 ending balances, schedules to support the carrying balances of the Yap Fishing Authority's fixed assets and trade receivables were not available, nor were the audited financial statements of Yap Fresh Tuna, Inc., a 50%-owned subsidiary in which the Yap Fishing Authority is deemed to have a controlling interest in, were not available to be consolidated with the financial statements of the Yap Fishing Authority. Consolidation of Yap Fresh Tuna, Inc. financial statements with the financial statements of Yap Fishing Authority is required to conform to accounting principles generally accepted in the United States of America.

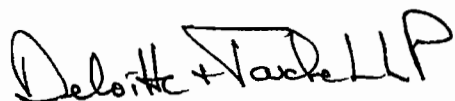
In our opinion, based on our audit and the reports of other auditors, except for the effects on the respective financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to assure ourselves as to the propriety of fixed assets, trade receivables, and the general ledger beginning balances for the Yap Fishing Authority, or had we obtained audited financial statements of Yap Fresh Tuna, Inc., as discussed in the third paragraph above, such financial statements, as set forth in Section II of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the year ended September 30, 2003, the State adopted the provisions of the Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The implementation of these standards changed the basic financial statement reporting model to include government-wide, full accrual statements and created a modified reporting of the fund perspective financial statements. Implementing these standards also required reporting of infrastructure assets, changed the method of reporting cash flows from the indirect method to the direct method, and included the requirement for reporting a Management's Discussion and Analysis as required supplementary information. Beginning net asset and fund balances have been restated to account for the implementation of these accounting standards.

The Management's Discussion and Analysis, on pages 3 through 9, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, on pages 44 and 45, are not a required part of the basic financial statements but are supplementary information required by GASB. This supplementary information is the responsibility of the management of the State. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the State's respective financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements, as set forth in Section IV of the foregoing table of contents, which are also the responsibility of the management of the State, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the State. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of the matter discussed in the third paragraph above, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005, on our consideration of the State's (Primary Government only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



October 6, 2005

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ended September 30, 2003

This analysis, prepared by the Department of Administrative Services, offers readers of the Yap State Government's (Yap State) financial statements a narrative overview of the activities of the government for the fiscal year ended September 30, 2003. We encourage readers to consider this information in conjunction with Yap State's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board, (GASB) which provides guidelines on what must be included and excluded from this analysis.

Because Yap State is implementing new reporting standards for fiscal year 2003 resulting in significant changes in content and structure, much of the information is not comparable to prior years. However in future years, comparisons will be more meaningful and will go farther towards explaining Yap State's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2003, Yap State's total net assets increased by \$9.67 million (up 11%) from \$81.96 million in prior year (as restated) to \$91.63 million. This increase is primarily attributable to an increase in the fair value of investments.
- During fiscal year 2003, Yap State's revenues of \$28.66 million exceeded total expenditures (\$24.47 million) by \$4.18 million.
- The resources available for appropriation for fiscal year 2003 of \$17.75 million were \$8.01 million more than budgeted for the General Fund, with positive variances in increases in the fair value of investments (\$5.88 million) and increases in other revenue collections (\$2.13 million). With charges to appropriations of \$16.63 million, Yap State's general fund revenues exceeded expenditures by \$1.13 million thereby maintaining its budgetary stability.
- The unreserved surplus of the General Fund increased by \$1.42 million (up 7.8%), from \$18.19 million in the prior year to \$19.62 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Yap State's basic financial statements. Yap State's basic financial statements comprise three components: 1) governmental-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the budgetary basis of accounting, and other optional supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds and component units.

Government-Wide Financial Statements

The government-wide statements report information about Yap State as a whole using accounting methods similar to those used by private-sector companies. It provides both long-term and short-term information about the State's financial status.

The statement of net assets includes all the government's assets and liabilities. The difference in the two is called net assets. Over time, increases or decreases in the State's net assets serve as indicator to measure the State's financial position.

The statement of activities on the other hand, account for the State's current year's revenues and expenses regardless of when cash is received or paid.

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ended September 30, 2003

The government-wide financial statements of Yap State are divided into three categories:

- Governmental activities -- Most of Yap State's basic services are included here, such as education, health, special appropriations, finance, judiciary, and general administration. Federal grants finance most of these activities.
- Business-type activities -- Yap State reports the operations of its Public Transportation System, which charges tariffs to help cover the costs of the transportation services it provides.
- Component Units -- Yap State includes the operating results of the Yap Visitor's Bureau, the Yap State Public Service Corporation, the Yap Fishing Authority, and The Diving Seagull, Inc in its report. Although legally separate, these "component units" are important because Yap State is financially accountable for them.

Fund Financial Statements

The fund financial statements provide more detailed information about Yap State's significant funds. Funds are accounting devices that Yap State uses to keep track of specific sources of funding and spending for particular services. The State uses fund accounting to comply with financial and related legal requirements

Yap State has two types of funds:

- Governmental funds. Most of Yap State's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance Yap State programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains and reconciles the relationship (or differences) between them.
- Proprietary funds. Services for which Yap State charge customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

FINANCIAL ANALYSIS OF YAP STATE AS A WHOLE

Net assets may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2003, Yap State's assets exceeded liabilities by \$91.6 million. Of this amount, \$91.37 million pertains to its governmental activities; the remaining \$0.26 million to its business-type activities. Of its total net assets, \$29.77 million (32%) are restricted as to the purposes they can be used for. Another \$37.30 million (41%) can be used for or are invested in capital assets (buildings, roads, etc.) Yap State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although Yap State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ended September 30, 2003

The following schedule summarizes Yap State's net assets as of September 30, 2003:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Current and other non-capital assets	\$ 61,381,634	\$101,517	\$61,483,151
Capital assets	37,056,367	241,786	37,298,153
Total Assets	<u>98,438,001</u>	<u>343,303</u>	<u>98,781,304</u>
Long-term liabilities	4,163,942	-	4,163,942
Other liabilities	2,906,606	84,479	2,991,085
Total Liabilities	<u>7,070,548</u>	<u>84,479</u>	<u>7,155,027</u>
Net Assets			
Invested in capital assets, net of related debt	37,056,367	241,786	37,298,153
Restricted	29,771,953	-	29,771,953
Unrestricted	24,539,133	17,038	24,556,171
Total Net Assets	<u>91,367,453</u>	<u>258,824</u>	<u>91,626,277</u>

At the end of fiscal year 2003, Yap State's unrestricted assets show a surplus of \$24.56 million. These funds are included in Yap State's investment portfolio and are available for discretionary purposes subject to appropriation by the Yap State Legislature. Yap State's net assets increased by \$9.67 million in fiscal year 2003, all of which was contributed by its governmental activities. Key elements of this increase are shown in the following schedule:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 1,156,629	\$ 213,562	\$ 1,370,191
Operating grants and contributions	6,170,668	-	6,170,668
Capital grants and contributions	13,701,617	-	13,701,617
General Revenues:			
Taxes	2,608,394	-	2,608,394
Grants and contributions not restricted	7,523,302	-	7,523,302
Unrestricted investment earnings	5,878,201	-	5,878,201
Other	619,029	109,220	728,249
Total revenues	<u>37,657,840</u>	<u>322,782</u>	<u>37,980,622</u>

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ended September 30, 2003

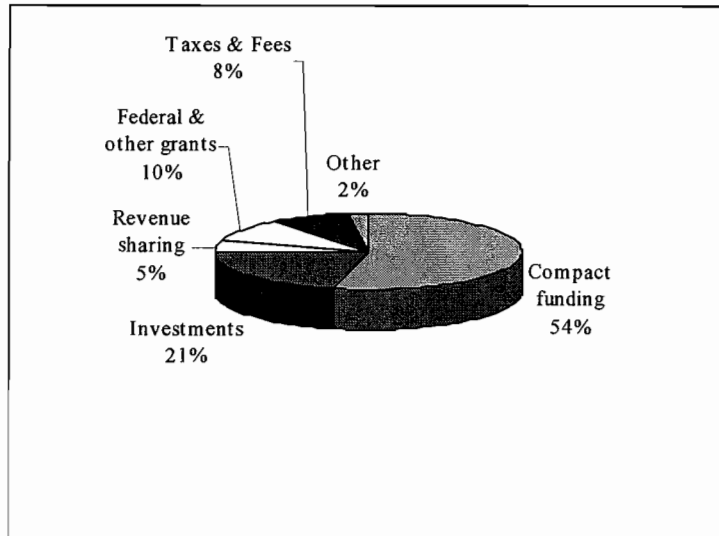
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Expenses:			
General government	4,095,273	-	4,095,273
Health Services	2,469,394	-	2,469,394
Education	4,155,707	-	4,155,707
Economic development	1,215,413	-	1,215,413
Public Safety	621,547	-	621,547
Public works and transportation	5,148,411	397,068	5,545,479
Community affairs	955,222	-	955,222
Boards and commissions	292,384	-	292,384
Payments to components	683,470	-	683,470
Judiciary	227,284	-	227,284
Public auditor	57,606	-	57,606
Capital projects	577,974	-	577,974
Other	7,416,399	-	7,416,399
	27,916,084	397,068	28,313,152
Change in net assets	9,741,756	(74,286)	9,667,470
Net assets at the beginning of year	81,625,697	333,110	81,958,807
Net assets at the end of the year	\$91,367,453	\$258,824	\$91,626,277

Yap State's revenues from governmental activities and business-type activities, including local revenues, CFMS revenue sharing, investment increases, Compact and other grant funding totaled \$38.0 million in fiscal year 2003. The cost of governmental and business-type activities, totaled \$28.3 million; the surplus representing an increase in net assets of \$9.7 million. The graphs below show the major components of governmental and business-type activities.

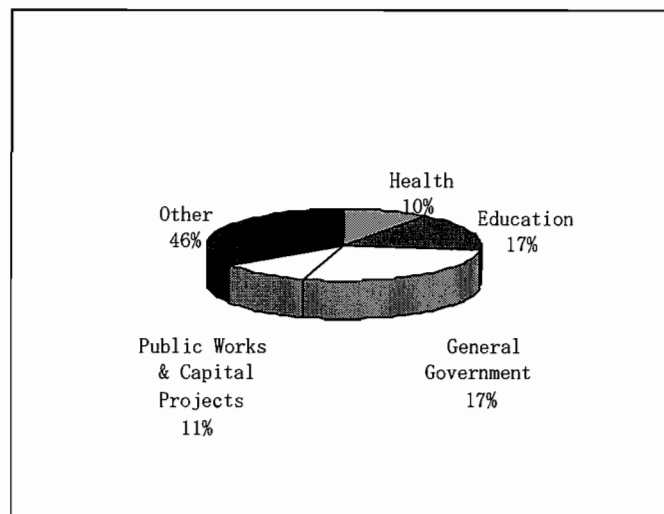
YAP STATE GOVERNMENT

Management's Discussion and Analysis
Year Ended September 30, 2003

Yap State Revenue Sources For the Year Ended September 30, 2003



Yap State's Cost of Governmental and Business-type Activities For the Year Ended September 30, 2003



YAP STATE GOVERNMENT

Management's Discussion and Analysis
Year Ended September 30, 2003

FINANCIAL ANALYSIS OF YAP STATE'S FUNDS

As noted earlier, Yap State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of the end of fiscal year 2003, Yap State's governmental funds reported a combined fund balance of \$58.58 million, an increase of \$4.18 million (up 7.69%) in comparison with the prior year. This increase is primarily attributable to the general surplus resulting from revenues exceeding expenditures. Of this total combined fund balance, \$16.44 million is reserved to indicate it is not available for new spending because it has already been committed: 1) to generate income for future operations (\$6.46 million); 2) to liquidate contracts and purchase orders of the prior period (\$2.92 million); 3) to fund specific general fund and Compact activities (\$6.42 million); or 4) for on-going capital projects (\$0.64 million). The unreserved combined fund balance of \$42.13 million is split between the general fund (\$19.62 million), special revenue funds (\$0.31 million), and capital project funds (\$22.20 million).

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, Yap State revised its budget several times to accommodate supplemental funding for departments and offices requiring increases in appropriations to avoid budget overruns. The revised budget included an increase in overall revenue projections of \$1.12 million (up 13%) with a corresponding increase in appropriations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Yap State's investment in capital assets for its governmental and business type activities as of September 30, 2003 amounted to \$96.94 million net of accumulated depreciation of \$59.64 million leaving a net book value of \$37.3 million. With the implementation of new GASB standards in fiscal year 2003, infrastructure assets are required to be reported on Yap State's statement of net assets. Infrastructure includes assets that are normally immovable and of value only to Yap State, such as roads, docks and bridges. The net increase in Yap State's investment in capital assets from fiscal year 2002 to 2003 (including additions and retirements) was approximately \$4.99 million (up 7.7%).

Yap State's Capital Assets

September 30, 2003

	Governmental	Business-Type	Total Primary
	<u>Activities</u>	<u>Activities</u>	<u>Government</u>
Land	1,661,889	-	1,661,889
Buildings	7,831,133	92,659	7,923,792
Equipment	-	57,760	57,760
Vehicles	191,430	92,367	283,797
Boats	8,820	-	8,820
Infrastructure	27,363,095	-	27,363,095
	<u>\$37,056,367</u>	<u>\$241,786</u>	<u>\$37,298,152</u>

YAP STATE GOVERNMENT

Management's Discussion and Analysis Year Ended September 30, 2003

The major capital asset addition for the fiscal year 2003 was the paved road from the PTS facility to Gargey; financed by a grant from the Japanese government.

Additional information on Yap State's capital assets can be found in the notes to the financial statements.

Long-Term Debt

Long-term debt obligations of the Yap State primary government total \$4.27 million at September 30, 2003, virtually unchanged from the prior year. This debt is comprised of the non-current portion of the ADB Early Retirement Program Loan (\$3.5 million), liability for compensated absences (\$0.53 million) and long-term payments due under land purchase agreements (\$0.24 million).

Additional information on Yap State's long-term debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The policy of the Yap State government is to strictly maintain expenditure budgets within available local resources and specific outside grant funding. Moreover, earnings on or increases of value in Yap State's investment portfolio are to be reinvested for future growth and not used for current budget needs. This conservative fiscal approach will also be effective in fiscal year 2004 wherein no new budget initiatives are planned.

A conservative budget approach is also warranted by the new financial agreement under the Compact of Free Association (Compact) between the FSM and the United States of America that will become effective in fiscal year 2004. Compact funding for government operations will be limited to the education, health, environmental, government capacity-building and private sector development sectors. Additionally, public infrastructure grants will be given for approved capital projects. There are uncertainties concerning the timing and implementation of these new grants that call into question whether the new Compact will entail increased or decreased funding from the U.S. Strict procedures concerning implementation and drawdown, delayed funding for the infrastructure grants and potential decreases in eligibility for other U.S. federal programs all justify Yap State's planned fiscal restraint in fiscal year 2004.

CONTACTING YAP STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of Yap State's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Administrative Services, P.O. Box 610, Yap, FM 96943.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Assets
September 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,516,149	\$ 47,669	\$ 3,563,818	\$ 3,488,549
Equity interest in internal investment pool	52,047,518	-	52,047,518	-
Investments	-	-	-	399,732
Receivables, net of allowance for uncollectibles	881,120	12,236	893,356	632,413
Advances	253,989	-	253,989	-
Inventories	122,169	-	122,169	375,362
Other current assets	485,338	41,612	526,950	91,867
Total current assets	<u>57,306,283</u>	<u>101,517</u>	<u>57,407,800</u>	<u>4,987,923</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	1,265,061	-	1,265,061	-
Investments	2,000,000	-	2,000,000	-
Receivables	810,290	-	810,290	-
Capital assets, net of accumulated depreciation	37,056,367	241,786	37,298,153	13,676,884
Total noncurrent assets	<u>41,131,718</u>	<u>241,786</u>	<u>41,373,504</u>	<u>13,676,884</u>
Total assets	<u>\$ 98,438,001</u>	<u>\$ 343,303</u>	<u>\$ 98,781,304</u>	<u>\$ 18,664,807</u>
LIABILITIES				
Current liabilities:				
Current portion of long-term obligations	-	-	-	\$ 251,382
Bank overdraft	554,421	-	554,421	-
Accounts payable	1,131,305	20,738	1,152,043	311,790
Customer deposits	-	-	-	308,820
Compensated absences payable	101,086	-	101,086	-
Other liabilities and accruals	194,161	6,585	200,746	315,405
Deferred revenue	925,633	57,156	982,789	321,598
Total current liabilities	<u>2,906,606</u>	<u>84,479</u>	<u>2,991,085</u>	<u>1,508,995</u>
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	3,500,000	-	3,500,000	3,262,998
Compensated absences payable	426,359	-	426,359	-
Other noncurrent liabilities	237,583	-	237,583	-
Total noncurrent liabilities	<u>4,163,942</u>	<u>-</u>	<u>4,163,942</u>	<u>3,262,998</u>
Total liabilities	<u>7,070,548</u>	<u>84,479</u>	<u>7,155,027</u>	<u>4,771,993</u>
NET ASSETS				
Invested in capital assets, net of related debt	37,056,367	241,786	37,298,153	10,162,504
Restricted for:				
Compact related	28,713,493	-	28,713,493	-
Capital projects	637,993	-	637,993	-
Other purposes	420,467	-	420,467	539,265
Unrestricted	24,539,133	17,038	24,556,171	3,191,045
Total net assets	<u>91,367,453</u>	<u>258,824</u>	<u>91,626,277</u>	<u>13,892,814</u>
Total liabilities and net assets	<u>\$ 98,438,001</u>	<u>\$ 343,303</u>	<u>\$ 98,781,304</u>	<u>\$ 18,664,807</u>

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Activities
Year Ended September 30, 2003

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Operating		Capital	Primary Government			Component Units
		Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 4,095,273	\$ 631,471	\$ 1,232,164	\$ -	\$ (2,231,638)	\$ -	\$ (2,231,638)	\$ -
Health services	2,469,394	140,234	723,796	-	(1,605,364)	-	(1,605,364)	-
Education	4,155,707	-	3,362,106	-	(793,601)	-	(793,601)	-
Economic development	1,215,413	-	567,002	-	(648,411)	-	(648,411)	-
Public safety	621,547	111,036	16,002	-	(494,509)	-	(494,509)	-
Public works and transportation	5,148,411	-	-	9,000,000	3,851,589	-	3,851,589	-
Community affairs	955,222	141,755	209,740	-	(603,727)	-	(603,727)	-
Boards and commissions	292,384	-	-	-	(292,384)	-	(292,384)	-
Payments to components	683,470	-	-	-	(683,470)	-	(683,470)	-
Judiciary	227,284	-	59,858	-	(167,426)	-	(167,426)	-
Public auditor	57,606	-	-	-	(57,606)	-	(57,606)	-
Capital projects	577,974	-	-	4,701,617	4,123,643	-	4,123,643	-
Other	7,416,399	132,133	-	-	(7,284,266)	-	(7,284,266)	-
Total governmental activities	27,916,084	1,156,629	6,170,668	13,701,617	(6,887,170)	-	(6,887,170)	-
Business-type activities:								
Public Transportation System	397,068	213,562	-	-	-	(183,506)	(183,506)	-
Total primary government	\$ 28,313,152	\$ 1,370,191	\$ 6,170,668	\$ 13,701,617	(6,887,170)	(183,506)	(7,070,676)	-
Component units:								
Yap Visitor's Bureau	\$ 444,173	\$ 1,464	\$ -	\$ -	-	-	-	(442,709)
Yap State Public Service Corporation	3,871,276	3,304,830	-	420,000	-	-	-	(146,446)
Yap Fishing Authority	888,686	198,192	-	-	-	-	-	(690,494)
The Diving Seagull, Inc.	3,978,544	5,050,612	-	-	-	-	-	1,072,068
Total component units	\$ 9,182,679	\$ 8,555,098	\$ -	\$ 420,000	-	-	-	(207,581)
General revenues:								
Taxes:								
Revenue sharing					1,382,787	-	1,382,787	-
Excise taxes					1,225,607	-	1,225,607	-
Grants and contributions not restricted to specific programs					7,523,302	-	7,523,302	-
Unrestricted investment earnings					5,878,201	-	5,878,201	13,735
Contributions from primary government					-	-	-	462,712
Other					619,029	109,220	728,249	-
Total general revenues and transfers					16,628,926	109,220	16,738,146	476,447
Change in net assets					9,741,756	(74,286)	9,667,470	268,866
Net assets at the beginning of the year					81,625,697	333,110	81,958,807	13,623,948
Net assets at the end of the year					\$ 91,367,453	\$ 258,824	\$ 91,626,277	\$ 13,892,814

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Balance Sheet
Governmental Funds
September 30, 2003

	General	Special Revenue U.S Federal Grants	Capital Projects Compact Capital Projects	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 3,361,283	\$ -	\$ -	\$ 154,866	\$ 3,516,149
Equity interest in internal investment pool	39,610,978	-	9,210,448	3,226,092	52,047,518
Investments	2,000,000	-	-	-	2,000,000
Receivables, net:					
Loans	810,290	-	-	-	810,290
Federal agencies	-	178,787	-	-	178,787
CFSM	389,367	-	-	62,293	451,660
Taxes	5,000	-	-	-	5,000
Other	241,189	-	-	4,484	245,673
Due from other funds	1,565,716	4,597	17,691,392	1,341,874	20,603,579
Advances	206,548	-	47,441	-	253,989
Prepaid items	485,338	-	-	-	485,338
Inventories	122,169	-	-	-	122,169
Restricted assets:					
Cash and cash equivalents	1,265,061	-	-	-	1,265,061
Total assets	\$ 50,062,939	\$ 183,384	\$ 26,949,281	\$ 4,789,609	\$ 81,985,213
LIABILITIES AND FUND BALANCES					
Liabilities:					
Bank overdraft	\$ 554,421	\$ -	\$ -	\$ -	\$ 554,421
Accounts payable	759,547	30,250	59,366	282,142	1,131,305
Other liabilities and accruals	17,213	157,483	248	19,217	194,161
Deferred revenue	-	-	-	925,633	925,633
Due to other funds	19,274,748	-	-	1,328,831	20,603,579
Total liabilities	20,605,929	187,733	59,614	2,555,823	23,409,099
Fund balances (deficits):					
Reserved for:					
Related assets	6,462,971	-	-	-	6,462,971
Encumbrances	1,100,843	649,862	254,756	914,101	2,919,562
Continuing appropriations	1,638,259	-	4,634,176	150,000	6,422,435
Capital projects	637,993	-	-	-	637,993
Unreserved:					
General fund	19,616,944	-	-	-	19,616,944
Special revenue funds	-	(654,211)	-	1,363,856	709,645
Capital projects funds	-	-	22,000,735	(194,171)	21,806,564
Total fund balances (deficits)	29,457,010	(4,349)	26,889,667	2,233,786	58,576,114
Total liabilities and fund balances	\$ 50,062,939	\$ 183,384	\$ 26,949,281	\$ 4,789,609	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					
					37,056,367
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:					
				(3,500,000)	
				(527,445)	
				(237,583)	
					(4,265,028)
Net assets of governmental activities					\$ 91,367,453

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)
Governmental Funds
Year Ended September 30, 2003

	General	Special Revenue U.S Federal Grants	Capital Projects Compact Capital Projects	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ 7,640,922	\$ -	\$ 4,701,617	\$ 2,730,842	\$ 15,073,381
Net increase in the fair value of investments	5,878,201	-	-	-	5,878,201
Federal contributions	-	1,698,042	-	867,886	2,565,928
Revenue sharing	1,382,787	-	-	-	1,382,787
Excise taxes	1,225,607	-	-	-	1,225,607
CFSM grants	-	-	-	756,278	756,278
Fees and charges	582,498	-	-	141,755	724,253
Departmental charges	432,376	-	-	-	432,376
Other	609,688	-	-	9,341	619,029
Total revenues	17,752,079	1,698,042	4,701,617	4,506,102	28,657,840
Expenditures:					
Current:					
General government	1,783,928	53,792	-	2,261,821	4,099,541
Health services	1,735,632	240,070	-	483,726	2,459,428
Education	764,165	1,050,668	-	2,311,438	4,126,271
Economic development	567,402	137,002	-	430,000	1,134,404
Public safety	622,896	-	-	16,002	638,898
Public works and transportation	1,837,998	-	-	67,419	1,905,417
Community affairs	322,992	209,740	-	140,796	673,528
Boards and commissions	305,676	-	-	-	305,676
Payments to components	683,470	-	-	-	683,470
Judiciary	166,823	-	-	59,858	226,681
Public auditor	60,806	-	-	-	60,806
Other	7,416,399	-	-	-	7,416,399
Capital projects	-	-	742,852	-	742,852
Total expenditures	16,268,187	1,691,272	742,852	5,771,060	24,473,371
Excess (deficiency) of revenues over (under) expenditures	1,483,892	6,770	3,958,765	(1,264,958)	4,184,469
Other financing sources (uses):					
Operating transfers in	-	-	-	2,528,211	2,528,211
Operating transfers out	(2,528,211)	-	-	-	(2,528,211)
Total other financing sources (uses), net	(2,528,211)	-	-	2,528,211	-
Net change in fund balances	(1,044,319)	6,770	3,958,765	1,263,253	4,184,469
Fund balances (deficits) at the beginning of the year	30,501,329	(11,119)	22,930,902	970,533	54,391,645
Fund balances (deficits) at the end of the year	\$ 29,457,010	\$ (4,349)	\$ 26,889,667	\$ 2,233,786	\$ 58,576,114

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2003

Amounts reported for governmental activities in the statement of activities on page 11 are different because:

Net change in fund balances - total governmental funds from page 13	\$ 4,184,469
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in progress	<u>5,483,001</u>
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Change in net assets of governmental activities as presented on page 11.	\$ <u>9,667,470</u>
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See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Net Assets
Proprietary Funds
September 30, 2003

	<u>Public Transportation System</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 47,669
Receivables, net of allowance for uncollectibles	12,236
Other current assets	<u>41,612</u>
Total current assets	<u>101,517</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>241,786</u>
Total assets	<u>\$ 343,303</u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 20,738
Other liabilities and accruals	6,585
Deferred revenue	<u>57,156</u>
Total liabilities	<u>84,479</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	241,786
Unrestricted	<u>17,038</u>
Total net assets	<u>258,824</u>
	<u>\$ 343,303</u>

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended September 30, 2003

	<u>Public Transportation System</u>
Operating revenues:	
Charges for services	\$ 89,879
Sales	83,812
Other	40,342
Total operating revenues	<u>214,033</u>
Operating expenses:	
Cost of services	99,128
Administration costs	229,977
Depreciation and amortization	67,963
Total operating expenses	<u>397,068</u>
Operating loss	<u>(183,035)</u>
Nonoperating expenses:	
Other	<u>(471)</u>
Total nonoperating expenses	<u>(471)</u>
Loss before operating transfers	(183,506)
Operating transfers in	<u>109,220</u>
Change in net assets	(74,286)
Net assets at the beginning of the year	<u>333,110</u>
Net assets at the end of the year	<u>\$ 258,824</u>

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2003

	<u>Public Transportation System</u>
Cash flows from operating activities:	
Cash received from customers	\$ 273,785
Cash payments to employees	(138,556)
Cash payments to suppliers	(192,754)
Net cash used in operating activities	<u>(57,525)</u>
Cash flows from noncapital financing activities:	
Contributions from the primary government	109,220
Net cash provided by noncapital financing activities	<u>109,220</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(20,281)
Net cash used in capital and related financing activities	<u>(20,281)</u>
Net change in cash and cash equivalents	31,414
Cash and cash equivalents at the beginning of the year	16,255
Cash and cash equivalents at the end of the year	<u>\$ 47,669</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (183,035)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	67,963
Bad debts expense	6,047
Changes in assets and liabilities:	
Receivables, net	(3,209)
Inventory	(9,328)
Other assets	12,416
Accounts payable	(1,944)
Other liabilities and accruals	(3,348)
Deferred revenue	56,913
Net cash used in operating activities	<u>\$ (57,525)</u>

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Statement of Net Assets
Component Units
September 30, 2003

	Yap Visitor's Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
<u>ASSETS</u>					
Current assets:					
Cash and cash equivalents	\$ 315,277	\$ 1,426,645	\$ 2,232	\$ 1,744,395	\$ 3,488,549
Investments	-	-	399,732	-	399,732
Receivables, net:					
General	-	369,306	15,010	203,388	587,704
Other	4,920	-	33,963	5,826	44,709
Inventories	11,744	355,646	7,972	-	375,362
Other current assets	5,455	-	-	86,412	91,867
Total current assets	<u>337,396</u>	<u>2,151,597</u>	<u>458,909</u>	<u>2,040,021</u>	<u>4,987,923</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation	57,863	10,370,251	2,221,347	1,027,423	13,676,884
Total noncurrent assets	<u>57,863</u>	<u>10,370,251</u>	<u>2,221,347</u>	<u>1,027,423</u>	<u>13,676,884</u>
Total assets	<u>\$ 395,259</u>	<u>\$ 12,521,848</u>	<u>\$ 2,680,256</u>	<u>\$ 3,067,444</u>	<u>\$ 18,664,807</u>
<u>LIABILITIES</u>					
Current liabilities:					
Current portion of long-term debt	\$ -	\$ 60,618	\$ -	\$ 190,764	\$ 251,382
Accounts payable	19,832	12,843	18,450	260,665	311,790
Customer deposits	-	308,820	-	-	308,820
Other liabilities and accruals	9,305	-	79,718	226,382	315,405
Deferred revenue	321,598	-	-	-	321,598
Total current liabilities	<u>350,735</u>	<u>382,281</u>	<u>98,168</u>	<u>677,811</u>	<u>1,508,995</u>
Noncurrent liabilities:					
Noncurrent portion of long-term debt	-	3,118,708	-	144,290	3,262,998
Total liabilities	<u>350,735</u>	<u>3,500,989</u>	<u>98,168</u>	<u>822,101</u>	<u>4,771,993</u>
<u>NET ASSETS</u>					
Invested in capital assets, net of related debt	57,863	7,190,925	2,221,347	692,369	10,162,504
Restricted	-	539,265	-	-	539,265
Unrestricted	(13,339)	1,290,669	360,741	1,552,974	3,191,045
Total net assets	<u>44,524</u>	<u>9,020,859</u>	<u>2,582,088</u>	<u>2,245,343</u>	<u>13,892,814</u>
	<u>\$ 395,259</u>	<u>\$ 12,521,848</u>	<u>\$ 2,680,256</u>	<u>\$ 3,067,444</u>	<u>\$ 18,664,807</u>

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Component Units
Year Ended September 30, 2003

	Yap Visitor's Bureau	Yap State Public Service Corporation	Yap Fishing Authority	The Diving Seagull, Inc.	Total
Operating revenues:					
Charges for services	\$ -	\$ 2,909,060	\$ 102,554	\$ 135,091	\$ 3,146,705
Sales	1,464	395,770	95,638	4,915,521	5,408,393
Total operating revenues	<u>1,464</u>	<u>3,304,830</u>	<u>198,192</u>	<u>5,050,612</u>	<u>8,555,098</u>
Operating expenses:					
Cost of services	-	2,972,047	85,471	3,563,313	6,620,831
Administration costs	434,279	321,646	170,250	232,540	1,158,715
Depreciation and amortization	13,903	719,616	284,030	111,479	1,129,028
Total operating expenses	<u>448,182</u>	<u>4,013,309</u>	<u>539,751</u>	<u>3,907,332</u>	<u>8,908,574</u>
Operating income (loss)	<u>(446,718)</u>	<u>(708,479)</u>	<u>(341,559)</u>	<u>1,143,280</u>	<u>(353,476)</u>
Nonoperating revenues (expenses):					
Contributions from the primary government	462,712	-	-	-	462,712
Interest income	-	-	-	13,735	13,735
Interest expense	-	(20,608)	-	(53,766)	(74,374)
Other	4,009	162,641	(348,935)	(17,446)	(199,731)
Total nonoperating revenues (expenses), net	<u>466,721</u>	<u>142,033</u>	<u>(348,935)</u>	<u>(57,477)</u>	<u>202,342</u>
Capital contributions	-	420,000	-	-	420,000
Net income (loss)	20,003	(146,446)	(690,494)	1,085,803	268,866
Net assets at the beginning of the year	24,521	9,167,305	3,272,582	1,159,540	13,623,948
Net assets at the end of the year	<u>\$ 44,524</u>	<u>\$ 9,020,859</u>	<u>\$ 2,582,088</u>	<u>\$ 2,245,343</u>	<u>\$ 13,892,814</u>

See accompanying notes to basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the State of Yap (the State) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

A. Reporting Entity

The State is one of the four states that make up the Federated States of Micronesia (FSM), along with the states of Chuuk, Kosrae and Pohnpei. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of 10 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and two Associate Justices, and other courts that may be created by law. The State also has traditional leaders that serve in the Council of Pilung and the Council of Tamol that advise the State on matters concerning customary law and traditional practice.

For financial reporting purposes, the State has included all funds, organizations, agencies, boards, commissions and institutions. The State has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the State, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the State. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each blended and discretely presented component unit of the State has a September 30 year-end.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the State, are deemed to be related organizations. The nature and relationship of the State's component units and related organizations are disclosed in the following section.

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The net assets and results of operations of the following legally separate entities are presented as part of the State's operations:

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

i. Blended Component Units

The following Component Units are blended within the Primary Government:

Public Transportation System (PTS), a Proprietary Fund Type - Enterprise Fund. This fund was created by Yap State Law (YSL) No. 1-170 and is responsible for the provision of reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature.

Yap Economic Development Authority (YEDA), a Governmental Fund Type - Special Revenue Fund. This fund was created by YSL No. 2-97 and is responsible for the promotion and support of economic development in the State. YEDA is governed by an eight-member Board of Directors, of which six members are appointed by the Governor subject to the advice and consent of the Legislature, one member is appointed by the Council of Pilung, and one member is appointed by the Council of Tamol.

Yap Investment Trust (YIT), a Governmental Fund Type - Special Revenue Fund. This fund was created by YSL No. 3-84 and is responsible for the promotion and support of economic development in the State. YIT is governed by an eight-member Board of Directors, which comprises of: the Director of the Department of Resources and Development; the Director of Office of Administrative Services; one representative appointed by the Council of Pilung; one representative appointed by the Council of Tamol; two representatives from the public sector appointed by the Governor; and two representatives from the private sector appointed by the Governor. The members appointed by the Governor are subject to the advice and consent of the Legislature.

ii. Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

Yap Visitor's Bureau (YVB): YVB was created by YSL No. 4-25 and is responsible for the promotion of Yap as a tourist destination. YVB is governed by a seven-member Board of Directors, of which five members are appointed by the Governor subject to the advice and consent of the Legislature, one member is appointed by the Speaker of the Legislature, and one member elected by the six appointed members.

Yap State Public Service Corporation (YSPSC): YSPSC was created by YSL No. 4-4 and is responsible for the delivery of electrical, water, sewer, and refuse collection and disposal in the State. YSPSC is governed by a seven-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Discretely Presented Component Units, Continued

Yap Fishing Authority (YFA): YFA was created by Yap District Law (YDL) No. 6-13 and is responsible for the promotion, development, and supporting of commercial utilization of living marine resources within the State. YFA is governed by a five-member Board of Directors appointed by the Governor subject to the advice and consent of the Legislature.

The Diving Seagull, Inc. (DSI): DSI was incorporated in the State on March 17, 1997 and was organized primarily to pursue fishing and other fishing related activities by operating fishing vessels, marketing and selling fish, and developing cold storage and/or transshipment facilities. DSI is governed by a seven-member Board of Directors.

The State's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities or obtaining them directly from the Office of the Public Auditor at the following address.

P.O. Box 927
Colonia, Yap, FSM 96943

iii. Omitted Component Units

The following component units have been omitted from the basic financial statements due to the lack of available financial information:

Gagil-Tomil Water Authority (GTWA): GTWA was created by YSL No. 1-183 and is responsible for the provision of services in the operation and maintenance of the Gagil-Tomil Water System. GTWA 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. The financial activities of this omitted component unit are not considered material to the basic financial statements.

Southern Yap Water Authority (SYWA): SYWA was created by YSL No. 1-221 and is responsible for the operation and maintenance of the Southern Yap Water System. SYWA is governed by a six-member Board of Directors, of which one is appointed by the Governor, two members who are appointed by the Municipal Chief of Rull on the Council of Pilung, one of whom shall be from either Lamer or Luwech Villages, and three members who are appointed by the municipal chiefs of Gilman, Kanifay, and Dalipebinaw on the Council of Pilung. The financial activities of this omitted component unit are not considered material to the basic financial statements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

iii. Omitted Component Units, Continued

Yap Sports Council (YSC): YSC was created by YSL No. 4-65 and is responsible for promoting and encouraging sports participation at all levels of society. YSC is governed by an eleven-member Board of Directors, of which three members are appointed by the Governor subject to the advice and consent of the Legislature, two members are appointed by the Speaker of the Legislature, two members are appointed by the Council of Pilung, two members are appointed by the Council of Tamol, and two members are appointed by the Congress of the FSM National Government. The financial activities of this omitted component unit are not considered material to the basic financial statements.

B. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

The government-wide Statement of Net Assets reports \$29,771,953 of restricted net assets, of which \$420,467 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds.

Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The State reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements account for the general governmental activities of the State and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The State reports the following fund types:

1. Governmental Funds

i. General Fund

This fund is the primary operating fund of the State. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

ii. Special Revenue Funds

These funds account for specific revenue sources that have been aggregated according to enabling legislation to support specific governmental activities.

iii. Capital Projects Funds

These funds account for the acquisition or construction of major State capital facilities financed primarily from loans and federal reimbursements.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

2. Proprietary Funds

i. Enterprise Fund

This fund accounts for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The State reports the following major funds:

U.S. Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions formally related to the Trust Territory of the Pacific Islands (TTPI) United States federally assisted funds, which are subgranted to the State, as well as other direct federal grants that the State received from the United States government once the State's subgrantee status with the TTPI ceased.

Compact Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund. This fund is used to account for financial transactions related to Compact Capital Account funds as provided under Section 211(a) of the Compact of Free Association.

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

F. Cash and Cash Equivalents and Time Certificates of Deposit

The State pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the State. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net assets/balance sheet.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

F. Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2003, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$4,828,879 and the corresponding bank balances were \$5,047,848. Of the bank balance amounts, \$5,047,848 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003, bank deposits in the amount of \$200,000 were FDIC insured. The State does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

G. Receivables

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the State for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies".

Receivables of the primary government are primarily due from businesses and individuals residing in the State. The allowance for uncollectible accounts primarily represents those accounts that are more than ninety days delinquent as of September 30, 2003.

H. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

I. Interfund Receivables/Payables

During the course of its operations, the State records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet.

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

J. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through loan agreements or enabling legislation. Specifically, the State has collateralized Asian Development Bank loan proceeds and earnings in the amount of \$1,265,061 for the Yap State Early Retirement Scheme.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

K. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, docks, water and sewer lines, water catchments, and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The State currently holds no title to land. Machinery and equipment, other than vehicles and boats, are capitalized when the cost of individual items exceed \$50,000. Vehicles and boats, along with significant repair and maintenance qualifying as a betterment of such, are capitalized regardless of cost and depreciated. Buildings and infrastructure projects, along with significant improvements or reconstruction qualifying as a betterment of such, are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

Capital assets of the primary government and the component units are depreciated using the straight-line method over their estimated useful lives, with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

Buildings	40 - 50 years
Infrastructure	25 - 50 years
Facilities	3 - 40 years
Machinery and equipment	3 - 25 years
Furniture and fixtures	3 - 10 years

L. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

M. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

N. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of one working day per bi-weekly pay period.

O. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2003, is represented by the following assets:

	<u>General</u>	<u>U.S. Federal Grants</u>	<u>Compact Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Investments	\$ 4,234,939	\$ -	\$ -	\$ -	\$ 4,234,939
Receivables:					
Loans	810,290	-	-	-	810,290
Due from other funds	30,512	-	-	-	30,512
Inventories	122,169	-	-	-	122,169
Restricted assets:					
Cash and cash equivalents	<u>1,265,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,265,061</u>
	<u>\$ 6,462,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,462,971</u>

The reserve for related assets within the General Fund includes the amount of \$3,500,000 set aside for future repayment of the Early Retirement Program Loan.

P. Risk Financing

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the State management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the State reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

Q. Reclassifications and Restatements

During fiscal 2003, the State implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - Omnibus*. GASB Statement No. 34 establishes new financial reporting standards for state and local governments. The requirements of this statement result in a significant change in the financial reporting model used by governments, including statement formats and changes in fund types. In addition to the traditional fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

In addition, the State implemented the following new accounting standards issued by GASB:

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, amends certain note disclosures and adds additional note disclosure requirements related to GASB Statement Nos. 34 and 37.

GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, amends required supplemental information disclosure of adopted budget and actual amounts per GASB Statement No. 34. Should there be a perspective difference between these amounts and fund perspective revenues and expenditures, reconciliation is required.

Due to the implementation of GASB Statement Nos. 34 and 37, the beginning net assets of the governmental activities in the statement of net assets have been restated. Fund balances of the governmental funds at September 30, 2002 (as disclosed below) were increased by \$27,234, 082 for the cumulative effect of these changes on years prior to fiscal year 2003:

The effect of those items is as follows:

Fund balances as of September 30, 2002, as restated	\$ <u>54,391,645</u>
GASB Statement No. 34 Adjustments:	
Long-term debt payable	(3,500,000)
Compensated absences payable	(527,445)
Land acquisition claims payable	(237,583)
Capital assets	86,740,405
Accumulated depreciation	<u>(55,241,325)</u>
	<u>27,234,052</u>
Beginning net assets as of September 30, 2002	\$ <u>81,625,697</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

Q. Reclassifications and Restatements, Continued

Due to the implementation of GASB Statement No. 34, certain governmental funds have been reclassified to conform with the GASB Statement No. 34 reporting model. The effects of such are as follows:

	September 30, 2002 As Previously Reported	Fund Reclassifications	Adjustments	September 30, 2002 As Restated
<u>Governmental Funds and Activities</u>				
Major governmental funds:				
General Fund	\$ 30,501,329	\$ -	\$ -	\$ 30,501,329
Previously reported as Special Revenue Funds:				
U.S. Federal Grants Fund	-	(11,119)	-	(11,119)
Previously reported as Capital Projects Funds:				
Compact Capital Projects Fund	-	22,930,902	-	22,930,902
	<u>\$ 30,501,329</u>	<u>\$ 22,919,783</u>	<u>\$ -</u>	<u>\$ 53,421,112</u>
Nonmajor governmental funds:				
Special Revenue Funds	\$ 2,546,018	\$ -	\$ -	\$ 2,546,018
Previously reported as Special Revenue Funds:				
U.S. Federal Grants Fund	-	11,119	-	11,119
Previously reported as Expendable Trust Funds:				
Other Special Revenue Fund	-	170,454	-	170,454
Previously reported as Enterprise Funds:				
Yap Economic Development Authority Fund	-	(1,160,503)	-	(1,160,503)
Yap Investment Trust Fund	-	(1,018,783)	-	(1,018,783)
Previously reported as Internal Service Fund:				
General Service Agency Fund	-	153,954	-	153,954
	<u>2,546,018</u>	<u>(1,843,759)</u>	<u>-</u>	<u>702,259</u>
Previously reported as Capital Projects Funds:				
Capital Projects Funds	23,199,176	-	-	23,199,176
Compact Capital Projects Fund	-	(22,930,902)	-	(22,930,902)
	<u>23,199,176</u>	<u>(22,930,902)</u>	<u>-</u>	<u>268,274</u>
Previously reported as Expendable Trust Funds:				
Expendable Trust Funds	170,454	-	-	170,454
Other Special Revenue Fund	-	(170,454)	-	(170,454)
	<u>170,454</u>	<u>(170,454)</u>	<u>-</u>	<u>-</u>
Previously reported as Enterprise Funds:				
Enterprise Funds	(6,108,186)	-	-	(6,108,186)
Yap Economic Development Authority Fund	-	1,160,503	-	1,160,503
Yap Investment Trust Fund	-	1,018,783	3,928,900	4,947,683
	<u>(6,108,186)</u>	<u>2,179,286</u>	<u>3,928,900</u>	<u>-</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

Q. Reclassifications and Restatements, Continued

	September 30, 2002 As Previously Reported	Fund Reclassifications	Adjustments	September 30, 2002 As Restated
<u>Governmental Funds and Activities, Continued</u>				
Previously reported as Internal Service Fund:				
Internal Service Funds	153,954	-	-	153,954
General Service Agency Fund	-	(153,954)	-	(153,954)
	<u>153,954</u>	<u>(153,954)</u>	<u>-</u>	<u>-</u>
	\$ <u>19,961,416</u>	\$ <u>(22,919,783)</u>	\$ <u>3,928,900</u>	\$ <u>970,533</u>
<u>Discretely Presented Component Units</u>				
Previously reported as Discretely Presented Component Units:				
Discretely Presented Component Units	\$ 9,191,826	\$ -	\$ -	\$ 9,191,826
Yap Fishing Authority	-	-	3,272,582	3,272,582
The Diving Seagull, Inc.	-	-	1,159,540	1,159,540
	<u>\$ 9,191,826</u>	<u>\$ -</u>	\$ <u>4,432,122</u>	\$ <u>13,623,948</u>

R. New Accounting Standards

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of GASB Statement 14), which provides additional guidance on GASB Statement No. 14, in determining whether an entity should be reported as a component unit based on the nature and significance of its relationship with a primary government. The provisions of this Statement are effective for periods beginning after June 15, 2003. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The provisions of this Statement are effective for periods beginning after June 15, 2004. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

In June 2003, GASB issued Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, which clarifies guidance on derivative disclosures, pending the results of the GASB's project on reporting and measurement of derivatives and hedging activities. This Technical Bulletin applies to derivatives that are not reported at fair value on the statement of net assets. The provisions of this Technical Bulletin are effective for periods beginning after June 15, 2003. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the State.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(1) Summary of Significant Accounting Policies, Continued

S. Estimates

The preparation of financial statements in conformity with GAAP 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, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

(2) Investments

The State has invested the majority of its excess Compact Funds in a pooled investment fund which is managed under the control of the Federated Development Authority, an entity comprised of the FSM National Government and its four component states. Investment income originating from the pool accrues to the general fund.

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:

Cash and cash equivalents - The manager may engage in all normally accepted short-term investment practices including, but not limited to U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply: (1) Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moody's Investor Services; and (2) 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%.

Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.

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

- 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.

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(2) Investments, Continued

- Category 1 Insured or registered, or securities held by the State or its agent in the State's name;
- Category 2 Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the State's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in the State's name.

Investments of the primary government and the discretely presented component units as of September 30, 2003, are as follows:

Primary Government

	Categories			Carrying Value
	1	2	3	
Fixed income	\$ -	\$ 11,002,721	\$ -	\$ 11,002,721
Mixed income	-	252,509	-	252,509
Common stock	2,000,000	24,793,294	-	26,793,294
U.S. Government agencies	-	8,524,910	-	8,524,910
Mutual funds	-	<u>2,035,464</u>	-	<u>2,035,464</u>
	<u>\$ 2,000,000</u>	<u>\$ 46,608,898</u>	<u>\$ -</u>	48,608,898
Money market funds				<u>5,649,593</u>
Less: Due to brokers				54,258,491
				<u>(210,973)</u>
				<u>\$ 54,047,518</u>

As of September 30, 2003, the General Fund holds 10.7% of the shares of the Bank of the Federated States of Micronesia in the amount of \$1,000,000 and 24.5% of the shares of the Pacific Islands Development Bank in the amount of \$1,000,000. As the fair market value of these investments is not readily available, such have been recorded at cost.

Discretely Presented Component Units

The Yap State Fishing Authority (YFA) investment represents a 50% interest in Yap Fresh Tuna, Inc., an unconsolidated entity that should be consolidated into YFA in accordance with accounting principles generally accepted in the United States of America.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(3) Receivables

Receivables as of September 30, 2003, for the primary government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>U.S. Federal Grants</u>	<u>Compact Capital Projects</u>	<u>Public Transportation System</u>	<u>Nonmajor And Other Funds</u>	<u>Totals</u>
Receivables:						
Loans	\$ 8,210,290	\$ -	\$ -	\$ -	\$ 2,000,000	\$ 10,210,290
Federal agencies	-	178,787	-	-	-	178,787
CFSM	389,367	754,910	-	-	2,311,574	3,455,851
Taxes	359,437	-	-	-	-	359,437
Accrued interest	324,101	-	-	-	-	324,101
Other	<u>241,189</u>	<u>-</u>	<u>-</u>	<u>77,490</u>	<u>4,484</u>	<u>323,163</u>
	9,524,384	933,697	-	77,490	4,316,058	14,851,629
Less: allowance for uncollectible accounts	<u>(8,078,538)</u>	<u>(754,910)</u>	<u>-</u>	<u>(65,254)</u>	<u>(4,249,281)</u>	<u>(13,147,983)</u>
Net receivables	<u>\$ 1,445,846</u>	<u>\$ 178,787</u>	<u>\$ -</u>	<u>\$ 12,236</u>	<u>\$ 66,777</u>	<u>\$ 1,703,646</u>

Loans receivable of the primary government as of September 30, 2003 are as follows:

Major Governmental Funds

General Fund:

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 2-96, uncollateralized, due and payable on or before June 11, 2004. This note has been fully provided for in the allowance for uncollectibles. \$ 6,400,000

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 3-8, uncollateralized, due September 30, 2004, interest at 6% per annum. This note has been fully provided for in the allowance for uncollectibles. 1,000,000

Note receivable from the Yap State Public Service Corporation, uncollateralized, due in quarterly interest only payments through March 2003; monthly principal and interest payments of \$5,651 starting June 1, 2003; interest at 2%, maturing in May 2017. 810,290

8,210,290

Nonmajor Governmental Funds

Note receivable from the Yap Fishing Corporation, appropriated under YSL No. 3-67, uncollateralized, non-interest bearing and payable on demand. This note has been fully provided for in the allowance for uncollectibles. 2,000,000

\$ 10,210,290

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2003, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
U.S. Federal Grants	General	\$ 4,597
General	Nonmajor governmental funds	1,565,716
Compact Capital Projects	General	17,691,392
Nonmajor governmental funds	General	<u>1,341,874</u>
		<u>\$ 20,603,579</u>

(5) Fixed Assets

Capital asset activities of the primary government for the year ended September 30, 2003, are as follows:

	<u>Balance October 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2003</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,661,889	\$ -	\$ -	\$ 1,661,889
Capital assets, being depreciated:				
Buildings	12,399,181	-	-	12,399,181
Heavy equipment	1,617,275	-	-	1,617,275
Vehicles	365,591	107,222	-	472,813
Boats	1,207,100	-	-	1,207,100
Infrastructure	<u>69,489,369</u>	<u>9,186,878</u>	-	<u>78,676,247</u>
Total capital assets, being depreciated	85,078,516	9,294,100	-	94,372,616
Less accumulated depreciation for:				
Buildings	(4,104,331)	(463,716)	-	(4,568,047)
Heavy equipment	(1,587,248)	(30,027)	-	(1,617,275)
Vehicles	(236,016)	(45,367)	-	(281,383)
Boats	(1,194,853)	(3,427)	-	(1,198,280)
Infrastructure	<u>(48,118,877)</u>	<u>(3,194,276)</u>	-	<u>(51,313,153)</u>
	<u>(55,241,325)</u>	<u>(3,736,813)</u>	-	<u>(58,978,138)</u>
Total capital assets, being depreciated, net	<u>29,837,191</u>	<u>5,557,287</u>	-	<u>35,394,478</u>
Governmental activities capital assets, net	<u>\$ 31,499,080</u>	<u>\$ 5,557,287</u>	<u>\$ -</u>	<u>\$ 37,056,367</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(5) Fixed Assets, Continued

	Balance October 1, 2002	Additions	Retirements	Balance September 30, 2003
Business-type activities:				
Capital assets, being depreciated:				
Buildings	\$ 92,659	\$ -	\$ -	\$ 92,659
Vehicles	712,311	6,396	-	718,707
Other equipment	<u>76,760</u>	<u>13,415</u>	-	<u>90,175</u>
Total capital assets, being depreciated	881,730	19,811	-	901,541
Less accumulated depreciation	<u>(591,792)</u>	<u>(67,963)</u>	-	<u>(659,755)</u>
Business-type activities capital assets, net	<u>\$ 289,938</u>	<u>\$ (48,152)</u>	<u>\$ -</u>	<u>\$ 241,786</u>

Depreciation expense was charged to functions/programs of the primary government's governmental activities as follows:

General government	\$ 64,732
Health services	9,966
Education	47,936
Economic development	81,009
Public safety	2,671
Public works and transportation	3,243,994
Community affairs	281,694
Boards and commissions	3,408
Judiciary	603
Public auditor	<u>800</u>
	<u>\$ 3,736,813</u>

(6) Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2003, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfers Out</u>	<u>Transfers In</u>
<u>Major Governmental Funds</u>			
General	Nonmajor governmental funds	\$ <u>2,528,211</u>	\$ <u>-</u>
<u>Nonmajor Governmental Funds</u>			
General	Nonmajor governmental funds	\$ <u>-</u>	\$ <u>2,528,211</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(6) Operating Transfers In/Out, Continued

Transfers are used to: 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid. During the year ended September 30, 2003, the State made a one-time transfer from the General Fund to certain nonmajor governmental funds of \$2,179,286 representing reductions in interfund loans that are not expected to be paid and the transfer of investment balances to the General Fund.

(7) Long-term Obligations

Primary Government

Asian Development Bank (ADB) 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. This ERS program is funded by a \$3,500,000 loan from the ADB through the FSM National Government. The activities of the ERS Program are recorded in the General Fund.

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 and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of the State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2002.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ -	\$ -	\$ -
2005	-	-	-
2006	-	-	-
2007	-	-	-
2008	116,667	-	116,667
2009 - 2013	583,335	-	583,335
2014 - 2018	583,335	-	583,335
2019 - 2023	583,335	-	583,335
2024 - 2028	583,335	-	583,335
2029 - 2033	583,335	-	583,335
2034 - 2038	466,658	-	466,658
	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$ 3,500,000</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(7) Long-term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Early Retirement Program Loan, Continued

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. These funds had not been deposited to the Trust Account as of September 30, 2002. \$3,500,000 identified for future debt service payments is included in the General Fund reserve for related assets of which \$1,265,061 is actually deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt.

Land Acquisition Claims Payable

As of September 30, 2003, \$237,583 in long-term payments due under land purchase agreements were identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2003, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003	Due Within One Year
Loan payable:					
ADB loan	\$ 3,500,000	\$ -	\$ -	\$ 3,500,000	\$ -
Other:					
Compensated absences	527,445	101,086	(101,086)	527,445	101,086
Land acquisition claims	237,583	-	-	237,583	-
	<u>765,028</u>	<u>-</u>	<u>-</u>	<u>765,028</u>	<u>101,086</u>
	<u>\$ 4,265,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,265,028</u>	<u>\$ 101,086</u>

Discretely Presented Component Units

Yap State Public Service Corporation (YSPSC)

Loan payable to the FSM National Government for construction of certain water projects. This loan is uncollateralized and is a subsidiary loan to a loan agreement between the Asian Development Bank (ADB) and the FSM National Government, with interest at 6.82% on the outstanding balance; however, the FSM National Government has waived the interest payment requirement. The loan is repayable in Special Drawing Rights commencing August 2007 with the final payment due in August 2036.

\$ 2,270,837

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Yap State Public Service Corporation (YSPSC), Continued

Uncollateralized note payable to the State in quarterly interest only payments through March 2003; monthly principal and interest payments of \$5,651 starting June 1, 2003; interest at 2%, maturing in May 2017. 810,290

Note payable to United States of America, acting through the Rural Housing Service, for the construction of the warehouse facility and main office. The note is payable in monthly installments of \$1,075 including interest at 4.625% commencing March 26, 2003 and maturing in September 2013. The note is collateralized by YSPSC's equipment, furniture and fixtures located at YSPSC's office. 98,199

3,179,326

The Diving Seagull, Inc.

Loan payable to the FSM Development Bank to cover the dry-dock costs of a fishing vessel. The loan is payable in quarterly installments of \$44,100, including interest at 9% per annum, commencing June 25, 2003. The loan is collateralized by chattel mortgage on all property and equipment of DSI, including the fishing vessel MV Mathawmarfach. 335,054

\$ 3,514,380

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 251,382	\$ 20,092	\$ 271,474
2005	206,362	18,638	225,000
2006	63,568	17,143	80,711
2007	87,812	15,606	103,418
2008	112,099	14,028	126,127
2009 - 2013	577,977	44,929	622,906
2014 - 2018	580,192	9,091	589,283
2019 - 2023	605,630	-	605,630
2024 - 2028	605,630	-	605,630
2029 - 2033	<u>423,728</u>	<u>-</u>	<u>423,728</u>
	<u>\$ 3,514,380</u>	<u>\$ 139,527</u>	<u>\$ 3,653,907</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(8) Continuing Appropriations

Continuing appropriations as of September 30, 2003, are as follows:

Major Governmental Funds

General Fund:

Autopsies (YSL No. 5-47)	\$ 18,191
Can recycling (YSL No. 5-46 and 5-85)	55,168
Hospital renovation matching (YSL No. 5-62)	71,250
FEMA matching (YSL No. 5-84)	280,904
Disaster/Search and Rescue (YSL No. 5-84)	11,572
Court building project (YSL No. 6-5)	53,321
Palau Micronesia Air shares (YSL No. 6-8)	500,000
20% revenue sharing (DOE)	<u>647,853</u>
	\$ <u>1,638,259</u>

Compact Capital Projects Fund:

Yap State Loan	
Yap Airport Project (YSL No. 5-23)	372,090
Road Phase VII (YSL No. 5-23)	25,783
Outer Island Airfield Projects (YSL No. 5-23)	21,888
KGAI New Tower (YSL No. 5-42)	309
Gargey Road/Water Project (YSL No. 5-59)	25,606
Southern Road Project (YSL No. 6-5)	<u>3,988,500</u>
	\$ <u>4,634,176</u>

Nonmajor Governmental Funds

Yap Community Development Program matching (YSL No. 5-34)	\$ <u>150,000</u>
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(9) Contingencies

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2003 is \$527,445.

Insurance Coverage

The State does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the State may be self-insured to a material extent.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Financial Statements
September 30, 2003

(9) Contingencies, Continued

Federal Grants

The State participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$400,253 relating to fiscal years 1999 through 2003 have been set forth in the State's Single Audit Report for the year ended September 30, 2003. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Litigation

The State is party to several legal proceedings arising from governmental operations. Claims are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. At September 30, 2003, there existed several unapproved claims. The State's Attorney General 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 financial statements as it is not currently possible to estimate the State's potential liability, if any, arising from these claims.

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI), for which obligation on these lands ceased in May, 1984. Subsequent to May 1984, responsibility to rent or purchase the sites was transferred to the State. The State's Division of Land and Surveys has estimated that the 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.

(10) Individual Deficit Fund Balances

Specific individual funds which had significant individual deficit fund balances as at September 30, 2003, are as follows:

Nonmajor Governmental Funds

Other U.S. Grants Fund	\$ <u>530,685</u>
Non-U.S. Grants Fund	\$ <u>15,058</u>
Sports Development Fund	\$ <u>43,468</u>
CFSM Capital Projects Fund	\$ <u>10,483</u>

STATE OF YAP
FEDERATED STATES OF MICRONESIA

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2003

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2003

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Compact funds	\$ 7,437,897	\$ 7,437,897	\$ 7,640,922	\$ 203,025
Revenue sharing	-	1,122,141	1,382,787	260,646
Excise taxes	995,749	995,749	1,225,607	229,858
Fees and charges	-	-	582,498	582,498
Departmental charges	-	-	432,376	432,376
Net decrease in the fair value of investments	-	-	5,878,201	5,878,201
Other	188,040	188,040	609,688	421,648
Total revenues	<u>8,621,686</u>	<u>9,743,827</u>	<u>17,752,079</u>	<u>8,008,252</u>
Expenditures:				
Current:				
General government	1,679,120	1,810,378	2,163,696	(353,318)
Health services	1,537,510	1,537,510	2,022,842	(485,332)
Education	323,020	1,039,020	710,868	328,152
Economic development	764,940	764,940	597,664	167,276
Public safety	712,740	712,740	703,648	9,092
Public works and transportation	1,151,700	1,301,700	1,400,586	(98,886)
Community affairs	466,150	466,150	353,536	112,614
Boards and commissions	298,590	318,150	309,046	9,104
Payments to component units	683,470	683,470	683,470	-
Other	434,247	539,570	7,680,960	(7,141,390)
Total expenditures	<u>8,051,487</u>	<u>9,173,628</u>	<u>16,626,316</u>	<u>(7,452,688)</u>
Excess of revenues over expenditures	<u>570,199</u>	<u>570,199</u>	<u>1,125,763</u>	<u>555,564</u>
Other financing uses:				
Operating transfers out	(570,199)	(570,199)	(2,528,211)	(1,958,012)
Net change in unreserved fund balance	-	-	(1,402,448)	(1,402,448)
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	2,160,856	2,160,856
Increase in reserve for continuing appropriations	-	-	(369,565)	(369,565)
Decrease in reserve for capital projects	-	-	1,035,000	1,035,000
Unreserved fund balance at the beginning of the year	<u>18,193,101</u>	<u>18,193,101</u>	<u>18,193,101</u>	<u>-</u>
Unreserved fund balance at the end of the year	<u>\$ 18,193,101</u>	<u>\$ 18,193,101</u>	<u>\$ 19,616,944</u>	<u>\$ 1,423,843</u>

See accompanying notes to required supplementary information - budgetary reporting.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2003

(1) Budgetary Information

An annual appropriated budget is adopted by the State's 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 State's 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 GAAP, 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.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2003

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2003

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total
		U.S Federal Grants	Compact Capital Projects		
Expenditures:					
Bad debt writedowns	\$ 7,431,003	\$ -	\$ -	\$ -	\$ 7,431,003
Salaries and wages	3,669,906	941,454	7,569	1,677,654	6,296,583
Grants and subsidies	1,019,129	-	29,436	1,520,209	2,568,774
Contractual services	589,376	181,558	626,771	285,250	1,682,955
Capital outlay	773,912	18,912	19,734	98,389	910,947
Supplies and materials	538,354	73,616	6,691	248,768	867,429
Utilities	652	-	-	826,991	827,643
Travel	344,226	337,032	-	104,018	785,276
Medical supplies	554,616	1,911	-	1,643	558,170
Medical referral	46,380	-	-	322,479	368,859
Scholarship and training	100,680	27,383	-	238,106	366,169
POL	261,208	11,681	-	16,530	289,419
Communications	220,904	15,854	-	47,567	284,325
Food stuffs	134,038	2,799	-	64,501	201,338
Rentals	37,808	18,057	-	80,185	136,050
Allowances	135,677	-	-	-	135,677
Repairs and maintenance	60,991	15,495	-	45,437	121,923
Professional services	77,427	10,557	10,082	12,060	110,126
Printing and reproduction	40,334	9,134	-	45,907	95,375
Freight	50,073	1,331	-	29,552	80,956
Leased housing	6,597	8,150	-	37,002	51,749
Other	174,896	16,348	42,569	68,812	302,625
	<u>\$ 16,268,187</u>	<u>\$ 1,691,272</u>	<u>\$ 742,852</u>	<u>\$ 5,771,060</u>	<u>\$ 24,473,371</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

GENERAL FUND

September 30, 2003

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

Statement of Revenues, Expenditures by Function, and Changes in Fund Balance
General Fund
Year Ended September 30, 2003
(with comparative totals for the year ended September 30, 2002)

	2003	2002
Revenues:		
Compact funds:		
Current Section 211(a) base grant	\$ 4,836,027	\$ 4,836,027
Current Section 217 inflation adjustment	2,804,895	2,804,895
	7,640,922	7,640,922
Revenue sharing:		
Import tax	-	856,547
Fuel tax	-	87,626
Income tax	-	690,505
Business gross receipts tax	-	717,439
Unallocated	1,382,787	-
	1,382,787	2,352,117
Excise taxes:		
Alcoholic beverages	549,826	434,287
Gasoline and diesel	60,510	10,222
Tobacco	150,728	76,213
Other excise taxes	464,543	258,990
	1,225,607	779,712
Fees and charges:		
Licenses and permits	79,264	159,866
Fines/sale of confiscated property	111,036	28,991
Leases and other rentals	392,198	122,897
	582,498	311,754
Departmental charges:		
Sea transportation	160,009	163,887
Hospital services	140,234	176,755
Other	132,133	133,030
	432,376	473,672
Interest and dividends	-	52,049
Net increase (decrease) in the fair value of investments	5,878,201	(2,086,377)
Other revenues	609,688	1,530,083
Total revenues	17,752,079	11,053,932
Expenditures:		
Current:		
General government:		
Office of the Governor	226,865	222,472
State Legislature	407,412	421,751
Office of Administrative Services	741,167	749,057
Office of Planning, Budget and Statistics	151,533	329,642
Division of Revenue and Taxation	91,116	34,087
Disaster relief programs	154,055	-
Other	11,780	-
	1,783,928	1,757,009

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function, and Changes in Fund Balance, Continued
General Fund
Year Ended September 30, 2003
(with comparative totals for the year ended September 30, 2002)

	2003	2002
Expenditures, continued:		
Current, continued:		
Health services:		
Department of Health Services	1,735,632	1,428,188
Education:		
Department of Education	764,165	2,088,170
Economic Development:		
Department of Resources and Development	567,402	559,049
Public Safety:		
Department of Public Safety/Attorney General	622,896	512,448
Public Works and Transportation:		
Department of Public Works and Transportation	1,837,998	1,390,705
Community Affairs		
Department of Public Affairs	322,992	261,248
Boards and Commissions:		
Council of Pilung	100,272	109,903
Council of Tamol	127,520	128,399
EPA Administration Board	77,884	67,006
	305,676	305,308
Payments to component units:		
Public Transportation System	109,220	161,220
Yap Visitor's Bureau	574,250	579,020
Southern Yap Water System	-	459
Yap Fishing Authority	-	38,000
	683,470	778,699
Other:		
Judiciary	166,823	161,191
Public Auditor	60,806	49,880
Legislative projects	-	770,958
Debt service payments	-	35,000
Other	7,416,399	69,681
	7,644,028	1,086,710
Total expenditures	16,268,187	10,167,534
Excess of revenues over expenditures	1,483,892	886,398
Other financing uses:		
Operating transfers out	(2,528,211)	-
Net change in fund balance	(1,044,319)	886,398
Fund balance at the beginning of the year	30,501,329	29,614,931
Fund balance at the end of the year	\$ 29,457,010	\$ 30,501,329

See Accompanying Independent Auditors' Report.

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, 2003

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Revenues:				
Compact funds:				
Current Section 211(a) base grant	\$ 4,836,027	\$ 4,836,027	\$ 4,836,027	\$ -
Current Section 217 inflation adjustment	2,601,870	2,601,870	2,804,895	203,025
	<u>7,437,897</u>	<u>7,437,897</u>	<u>7,640,922</u>	<u>203,025</u>
Revenue sharing:				
Import tax	-	-	-	-
Fuel tax	-	-	-	-
Income tax	-	-	-	-
Business gross receipts tax	-	-	-	-
Unallocated	-	1,122,141	1,382,787	260,646
	<u>-</u>	<u>1,122,141</u>	<u>1,382,787</u>	<u>260,646</u>
Excise taxes:				
Alcoholic beverages	-	-	549,826	549,826
Gasoline and diesel	-	-	60,510	60,510
Tobacco	-	-	150,728	150,728
Other excise taxes	995,749	995,749	464,543	(531,206)
	<u>995,749</u>	<u>995,749</u>	<u>1,225,607</u>	<u>229,858</u>
Fees and charges:				
Licenses and permits	-	-	79,264	79,264
Fines/sale of confiscated property	-	-	111,036	111,036
Leases and other rentals	-	-	392,198	392,198
	<u>-</u>	<u>-</u>	<u>582,498</u>	<u>582,498</u>
Departmental charges:				
Sea transportation	-	-	160,009	160,009
Hospital services	-	-	140,234	140,234
Utilities	-	-	-	-
Other	-	-	132,133	132,133
	<u>-</u>	<u>-</u>	<u>432,376</u>	<u>432,376</u>
Net increase in the fair value of investments	-	-	5,878,201	5,878,201
Other revenues	188,040	188,040	609,688	421,648
Total revenues	<u>8,621,686</u>	<u>9,743,827</u>	<u>17,752,079</u>	<u>8,008,252</u>
Expenditures:				
Current:				
General government:				
Office of the Governor	183,140	255,140	257,287	(2,147)
State Legislature	467,760	467,760	440,637	27,123
Office of Administrative Services	701,170	745,428	749,885	(4,457)
Office of Planning, Budget and Statistics	146,450	161,450	218,131	(56,681)
Division of Revenue and Taxation	-	-	331,921	(331,921)
Disaster relief programs	165,000	165,000	154,055	10,945
Other	15,600	15,600	11,780	3,820
	<u>1,679,120</u>	<u>1,810,378</u>	<u>2,163,696</u>	<u>(353,318)</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Statement of Revenues, Expenditures by Function, and Changes in Fund Balance, Continued
General Fund
Year Ended September 30, 2003

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		
Expenditures, continued:				
Current, continued:				
Health services:				
Department of Health Services	1,537,510	1,537,510	2,022,842	(485,332)
Education:				
Department of Education	323,020	1,039,020	710,868	328,152
Economic Development:				
Department of Resources and Development	764,940	764,940	597,664	167,276
Public Safety:				
Department of Public Safety/Attorney General	712,740	712,740	703,648	9,092
Public Works and Transportation:				
Department of Public Works and Transportation	1,151,700	1,301,700	1,400,586	(98,886)
Community Affairs				
Department of Public Affairs	466,150	466,150	353,536	112,614
Boards and Commissions:				
Council of Pilung	99,560	99,560	96,821	2,739
Council of Tamol	115,860	135,420	131,548	3,872
EPA Administration Board	83,170	83,170	80,677	2,493
	298,590	318,150	309,046	9,104
Payments to component units:				
Public Transportation System	109,220	109,220	109,220	-
Yap Visitor's Bureau	574,250	574,250	574,250	-
Southern Yap Water System	-	-	-	-
Yap Fishing Authority	-	-	-	-
	683,470	683,470	683,470	-
Other:				
Judiciary	152,070	216,972	167,927	49,045
Public Auditor	64,880	74,900	62,249	12,651
Legislative projects	30,550	30,550	34,330	(3,780)
Debt service payments	-	-	-	-
Other	186,747	217,148	7,416,454	(7,199,306)
	434,247	539,570	7,680,960	(7,141,390)
Total expenditures	8,051,487	9,173,628	16,626,316	(7,452,688)
Excess of revenues over expenditures	570,199	570,199	1,125,763	555,564
Other financing uses:				
Operating transfers out	(570,199)	(570,199)	(2,528,211)	(1,958,012)
Net change in fund balance	-	-	(1,402,448)	(1,402,448)
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	2,160,856	2,160,856
Increase in reserve for continuing appropriations	-	-	(369,565)	(369,565)
Decrease in reserve for capital projects	-	-	1,035,000	1,035,000
Unreserved fund balance at the beginning of the year	18,193,101	18,193,101	18,193,101	-
Unreserved fund balance at the end of the year	\$ 18,193,101	\$ 18,193,101	\$ 19,616,944	\$ 1,423,843

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet
Nonmajor Governmental Funds
September 30, 2003

	<u>Other Special Revenue</u>	<u>Other Capital Projects</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 154,866	\$ -	\$ 154,866
Equity interest in internal investment pool	3,226,092	-	3,226,092
Receivables, net:			
CFSM	62,293	-	62,293
Other	4,484	-	4,484
Due from other funds	<u>1,119,810</u>	<u>222,064</u>	<u>1,341,874</u>
Total assets	<u>\$ 4,567,545</u>	<u>\$ 222,064</u>	<u>\$ 4,789,609</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 265,895	\$ 16,247	\$ 282,142
Other liabilities and accruals	19,217	-	19,217
Intergovernmental payable	-	-	-
Deferred revenue	925,633	-	925,633
Due to other funds	<u>1,323,869</u>	<u>4,962</u>	<u>1,328,831</u>
Total liabilities	<u>2,534,614</u>	<u>21,209</u>	<u>2,555,823</u>
Fund balances:			
Reserved for:			
Encumbrances	519,075	395,026	914,101
Continuing appropriations	150,000	-	150,000
Unreserved:			
Special revenue funds	1,363,856	-	1,363,856
Capital projects funds	<u>-</u>	<u>(194,171)</u>	<u>(194,171)</u>
Total fund balances	<u>2,032,931</u>	<u>200,855</u>	<u>2,233,786</u>
Total liabilities and fund balances	<u>\$ 4,567,545</u>	<u>\$ 222,064</u>	<u>\$ 4,789,609</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2003

	Other Special Revenue	Other Capital Projects	Total
Revenues:			
Compact funding	\$ 2,730,842	\$ -	\$ 2,730,842
CFSM grants	755,923	355	756,278
Federal contributions	867,886	-	867,886
Fees and charges	141,755	-	141,755
Other	9,341	-	9,341
Total revenues	4,505,747	355	4,506,102
Expenditures by function:			
Current:			
General government	2,261,821	-	2,261,821
Health services	483,371	355	483,726
Education	2,311,438	-	2,311,438
Economic development	430,000	-	430,000
Public safety	16,002	-	16,002
Public works and transportation	-	67,419	67,419
Community affairs	140,796	-	140,796
Judiciary	59,858	-	59,858
Total expenditures	5,703,286	67,774	5,771,060
Deficiency of revenues under expenditures	(1,197,539)	(67,419)	(1,264,958)
Other financing sources:			
Operating transfers in	2,528,211	-	2,528,211
Net change in fund balances	1,330,672	(67,419)	1,263,253
Fund balances at the beginning of the year	702,259	268,274	970,533
Fund balances at the end of the year	\$ 2,032,931	\$ 200,855	\$ 2,233,786

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Combined Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2003

	Other Special Revenue	Other Capital Projects	Total
Revenues:			
Compact funding	\$ 2,730,842	\$ -	\$ 2,730,842
CFMSM grants	755,923	355	756,278
Federal contributions	867,886	-	867,886
Fees and charges	141,755	-	141,755
Other	9,341	-	9,341
Total revenues	4,505,747	355	4,506,102
Expenditures by account:			
Salaries and wages	1,668,917	8,737	1,677,654
Grants and subsidies	1,520,209	-	1,520,209
Utilities	826,991	-	826,991
Medical referral	322,479	-	322,479
Contractual services	260,276	24,974	285,250
Supplies and materials	248,768	-	248,768
Scholarship and training	238,106	-	238,106
Travel	104,018	-	104,018
Capital outlay	98,389	-	98,389
Rentals	80,185	-	80,185
Food stuffs	64,501	-	64,501
Communications	47,567	-	47,567
Printing and reproduction	45,907	-	45,907
Repairs and maintenance	45,437	-	45,437
Leased housing	37,002	-	37,002
Freight	29,502	50	29,552
POL	16,530	-	16,530
Professional services	12,060	-	12,060
Medical supplies	1,338	305	1,643
Other	35,104	33,708	68,812
Total expenditures	5,703,286	67,774	5,771,060
Deficiency of revenues under expenditures	(1,197,539)	(67,419)	(1,264,958)
Other financing sources:			
Operating transfers in	2,528,211	-	2,528,211
Net change in fund balances	1,330,672	(67,419)	1,263,253
Fund balances at the beginning of the year	702,259	268,274	970,533
Fund balances at the end of the year	\$ 2,032,931	\$ 200,855	\$ 2,233,786

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2003

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of the State's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2003, follows:

Section 221(b) Special Block Grant Fund

This fund is used to account for financial transactions related to the Compact program accounts under Section 221(b) of the Compact of Free Association.

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 the 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.

Disaster Fund

This fund accounts for funds dedicated to remediation of a certain disaster on Ulithi Atoll.

General Services Agency Fund

This fund accounts for funds dedicated to the acquisition of certain supplies for the State.

Other Special Revenue Funds

This fund accounts for funds dedicated to certain special purposes.

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2003

	Section 221(b) Special Block Grant	Other U.S. Grants	Non-U.S. Grants	CFSM Grants	Sports Development	Disaster	General Services Agency	Other Special Revenue	Yap Economic Development Authority	Yap Investment Trust	Total
ASSETS											
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,866	\$ -	\$ -	\$ 154,866
Equity interest in internal investment pool	3,226,092	-	-	-	-	-	-	-	-	-	3,226,092
Receivables, net:											
CFSM	-	-	-	62,293	-	-	4,484	-	-	-	62,293
Other	-	-	-	-	-	-	63,959	-	-	-	4,484
Due from other funds	-	996,256	-	38,049	-	-	-	21,546	-	-	1,119,810
Total assets	\$ 3,226,092	\$ 996,256	\$ -	\$ 100,342	\$ -	\$ -	\$ 68,443	\$ 176,412	\$ -	\$ -	\$ 4,567,545
LIABILITIES AND FUND BALANCES (DEFICITS)											
Liabilities:											
Accounts payable	\$ 96,273	\$ 70,318	\$ 333	\$ 68,352	\$ 27,681	\$ -	\$ 515	\$ 2,423	\$ -	\$ -	\$ 265,895
Other liabilities and accruals	12,636	315	-	1,812	-	-	4,454	-	-	-	19,217
Intergovernmental payable	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	925,633	-	-	-	-	-	-	-	-	925,633
Due to other funds	1,293,357	-	14,725	-	15,787	-	-	-	-	-	1,323,869
Total liabilities	1,402,266	996,266	15,058	70,164	43,468	-	4,969	2,423	-	-	2,534,614
Fund balances (deficits):											
Reserved for:											
Encumbrances	201,423	227,571	-	89,001	-	-	-	1,080	-	-	519,075
Continuing appropriations	150,000	-	-	-	-	-	-	-	-	-	150,000
Unreserved (deficit)	1,472,403	(227,581)	(15,058)	(58,823)	(43,468)	-	63,474	172,909	-	-	1,363,856
Total fund balances (deficits)	1,823,826	(10)	(15,058)	30,178	(43,468)	-	63,474	173,989	-	-	2,032,931
Total liabilities and fund balances (deficits)	\$ 3,226,092	\$ 996,256	\$ -	\$ 100,342	\$ -	\$ -	\$ 68,443	\$ 176,412	\$ -	\$ -	\$ 4,567,545

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2003

	Section 221(b) Special Block Grant	Other U.S. Grants	Non-U.S. Grants	CFSM Grants	Sports Development	Disaster	General Services Agency	Other Special Revenue	Yap Economic Development Authority	Yap Investment Trust	Total
Revenues:											
Compact funding	\$ 2,730,842	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,730,842
Federal contributions	-	867,886	-	-	-	-	-	-	-	-	867,886
CFSM grants	-	-	-	755,923	-	-	-	-	-	-	755,923
Fees and charges	-	-	-	-	141,755	-	-	-	-	-	141,755
Other	-	-	-	-	-	-	-	9,341	-	-	9,341
Total revenues	<u>2,730,842</u>	<u>867,886</u>	<u>-</u>	<u>755,923</u>	<u>141,755</u>	<u>-</u>	<u>-</u>	<u>9,341</u>	<u>-</u>	<u>-</u>	<u>4,505,747</u>
Expenditures by function:											
Current:											
General government	826,207	1,157,179	735	181,414	-	-	90,480	5,806	-	-	2,261,821
Health services	465,302	-	-	18,069	-	-	-	-	-	-	483,371
Education	2,260,858	-	-	50,580	-	-	-	-	-	-	2,311,438
Economic development	-	-	-	430,000	-	-	-	-	-	-	430,000
Public safety	-	-	-	16,002	-	-	-	-	-	-	16,002
Community affairs	-	-	-	-	140,796	-	-	-	-	-	140,796
Judiciary	-	-	-	59,858	-	-	-	-	-	-	59,858
Total expenditures	<u>3,552,367</u>	<u>1,157,179</u>	<u>735</u>	<u>755,923</u>	<u>140,796</u>	<u>-</u>	<u>90,480</u>	<u>5,806</u>	<u>-</u>	<u>-</u>	<u>5,703,286</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(821,525)</u>	<u>(289,293)</u>	<u>(735)</u>	<u>-</u>	<u>959</u>	<u>-</u>	<u>(90,480)</u>	<u>3,535</u>	<u>-</u>	<u>-</u>	<u>(1,197,539)</u>
Other financing sources:											
Operating transfers in	-	289,295	-	-	-	59,630	-	-	1,160,503	1,018,783	2,528,211
Net change in fund balances (deficit)	<u>(821,525)</u>	<u>2</u>	<u>(735)</u>	<u>-</u>	<u>959</u>	<u>59,630</u>	<u>(90,480)</u>	<u>3,535</u>	<u>1,160,503</u>	<u>1,018,783</u>	<u>1,330,672</u>
Fund balances (deficits) at the beginning of the year	<u>2,645,351</u>	<u>(12)</u>	<u>(14,323)</u>	<u>30,178</u>	<u>(44,427)</u>	<u>(59,630)</u>	<u>153,954</u>	<u>170,454</u>	<u>(1,160,503)</u>	<u>(1,018,783)</u>	<u>702,259</u>
Fund balances (deficits) at the end of the year	<u>\$ 1,823,826</u>	<u>\$ (10)</u>	<u>\$ (15,058)</u>	<u>\$ 30,178</u>	<u>\$ (43,468)</u>	<u>\$ -</u>	<u>\$ 63,474</u>	<u>\$ 173,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,032,931</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS

Combining Statement of Revenues, Expenditures By Account,
 and Changes in Fund Balances (Deficits)
 Year Ended September 30, 2003

	Section 221(b) Special Block Grant	Other U.S. Grants	Non-U.S. Grants	CFSM Grants	Sports Development	Disaster	General Services Agency	Other Special Revenue	Yap Economic Development Authority	Yap Investment Trust	Total
Revenues:											
Compact funding	\$ 2,730,842	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,730,842
Federal contributions	-	867,886	-	-	-	-	-	-	-	-	867,886
CFSM grants	-	-	-	755,923	-	-	-	-	-	-	755,923
Fees and charges	-	-	-	-	141,755	-	-	-	-	-	141,755
Other	-	-	-	-	-	-	-	9,341	-	-	9,341
Total revenues	2,730,842	867,886	-	755,923	141,755	-	-	9,341	-	-	4,505,747
Expenditures by account:											
Salaries and wages	1,574,060	74,381	-	20,476	-	-	-	-	-	-	1,668,917
Grants and subsidies	-	959,413	-	420,000	140,796	-	-	-	-	-	1,520,209
Utilities	826,991	-	-	-	-	-	-	-	-	-	826,991
Medical referral	322,479	-	-	-	-	-	-	-	-	-	322,479
Contractual services	18,509	42,408	-	199,359	-	-	-	-	-	-	260,276
Supplies and materials	136,826	34,647	-	34,891	-	-	41,864	540	-	-	248,768
Scholarship and training	207,320	-	-	30,786	-	-	-	-	-	-	238,106
Travel	79,224	6,492	-	16,097	-	-	-	-	-	-	104,018
Capital outlay	51,701	38,250	-	5,758	-	-	2,680	2,205	-	-	98,389
Rentals	79,248	125	-	272	-	-	540	-	-	-	80,185
Food stuffs	62,772	-	-	1,704	-	-	25	-	-	-	64,501
Communications	41,386	634	-	5,447	-	-	100	-	-	-	47,567
Printing and reproduction	21,992	97	-	1,765	-	-	22,053	-	-	-	45,907
Repairs and maintenance	20,951	-	-	5,643	-	-	18,443	400	-	-	45,437
Leased housing	37,002	-	-	-	-	-	-	-	-	-	37,002
Freight	26,697	732	-	1,983	-	-	90	-	-	-	29,502
POL	12,263	-	333	3,897	-	-	37	-	-	-	16,530
Professional services	11,820	-	-	240	-	-	-	-	-	-	12,060
Medical supplies	1,338	-	-	-	-	-	-	-	-	-	1,338
Other	19,788	-	402	7,605	-	-	4,648	2,661	-	-	35,104
Total expenditures	3,552,367	1,157,179	735	755,923	140,796	-	90,480	5,806	-	-	5,703,286
Excess (deficiency) of revenues over (under) expenditures	(821,525)	(289,293)	(735)	-	959	-	(90,480)	3,535	-	-	(1,197,539)
Other financing sources:											
Operating transfers in	-	289,295	-	-	-	59,630	-	-	1,160,503	1,018,783	2,528,211
Net change in fund balances (deficit)	(821,525)	2	(735)	-	959	59,630	(90,480)	3,535	1,160,503	1,018,783	1,330,672
Fund balances (deficits) at the beginning of the year	2,645,351	(12)	(14,323)	30,178	(44,427)	(59,630)	153,954	170,454	(1,160,503)	(1,018,783)	702,259
Fund balances (deficits) at the end of the year	\$ 1,823,826	\$ (10)	\$ (15,058)	\$ 30,178	\$ (43,468)	\$ -	\$ 63,474	\$ 173,989	\$ -	\$ -	\$ 2,032,931

See Accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2003

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. A brief discussion of the State's Nonmajor Governmental Funds - Capital Projects Funds as of September 30, 2003, follows:

TTPI Capital Projects Fund

This fund is used to account for various capital projects constructed using 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.

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 the State from the FSM National Government.

Yap State 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 State's Legislature for capital improvement projects funded by the General Fund are also accounted for within this fund.

Water Development Projects Revolving Fund

This fund was established pursuant to YSL No. 4-69 to account for loan proceeds and other funds designated for State Water Development Projects.

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Balance Sheet
 September 30, 2003

	<u>TTPI Capital Projects</u>	<u>CFSM Capital Projects</u>	<u>Other U.S. Capital Projects</u>	<u>Yap State Public Projects</u>	<u>Water Development Projects Revolving</u>	<u>Total</u>
<u>ASSETS</u>						
Due from other funds	\$ -	\$ 5,764	\$ -	\$ -	\$ 216,300	\$ 222,064
	<u>\$ -</u>	<u>\$ 5,764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,300</u>	<u>\$ 222,064</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICITS)</u>						
Liabilities:						
Accounts payable	\$ -	\$ 16,247	\$ -	\$ -	\$ -	\$ 16,247
Due to other funds	-	-	-	4,962	-	4,962
Total liabilities	<u>-</u>	<u>16,247</u>	<u>-</u>	<u>4,962</u>	<u>-</u>	<u>21,209</u>
Fund balances (deficits):						
Reserved for:						
Encumbrances	-	-	-	395,026	-	395,026
Unreserved	<u>-</u>	<u>(10,483)</u>	<u>-</u>	<u>(399,988)</u>	<u>216,300</u>	<u>(194,171)</u>
Total fund balances (deficit)	<u>-</u>	<u>(10,483)</u>	<u>-</u>	<u>(4,962)</u>	<u>216,300</u>	<u>200,855</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 5,764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,300</u>	<u>\$ 222,064</u>

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Function,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2003

	TTPI Capital Projects	CFSM Capital Projects	Other U.S. Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Total
Revenues:						
CFSM grants	\$ -	\$ 355	\$ -	\$ -	\$ -	\$ 355
	-	355	-	-	-	355
Expenditures by function:						
Health services	-	355	-	-	-	355
Public works and transportation	-	-	-	67,419	-	67,419
Total expenditures	-	355	-	67,419	-	67,774
Net change in fund balances (deficit)	-	-	-	(67,419)	-	(67,419)
Fund balances (deficit) at the beginning of the year	-	(10,483)	-	62,457	216,300	268,274
Fund balances (deficit) at the end of the year	\$ -	\$ (10,483)	\$ -	\$ (4,962)	\$ 216,300	\$ 200,855

See Accompanying Independent Auditors' Report.

STATE OF YAP
 FEDERATED STATES OF MICRONESIA
 NONMAJOR GOVERNMENTAL FUNDS
 CAPITAL PROJECTS FUNDS

Combining Statement of Expenditures by Account,
 and Changes in Fund Balances (Deficit)
 Year Ended September 30, 2003

	TTPI Capital Projects	CFSM Capital Projects	Other U.S. Capital Projects	Yap State Public Projects	Water Development Projects Revolving	Total
Revenues:						
CFSM grants	\$ -	\$ 355	\$ -	\$ -	\$ -	\$ 355
	-	355	-	-	-	355
Expenditures by account:						
Contractual services	-	-	-	24,974	-	24,974
Salaries and wages	-	-	-	8,737	-	8,737
Medical supplies	-	305	-	-	-	305
Freight	-	50	-	-	-	50
Other	-	-	-	33,708	-	33,708
Total expenditures	-	355	-	67,419	-	67,774
Net change in fund balances (deficit)	-	-	-	(67,419)	-	(67,419)
Fund balances (deficit) at the beginning of the year	-	(10,483)	-	62,457	216,300	268,274
Fund balances (deficit) at the end of the year	\$ -	\$ (10,483)	\$ -	\$ (4,962)	\$ 216,300	\$ 200,855

See Accompanying Independent Auditors' Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Robert Ruecho
Governor, State of Yap
Federated States of Micronesia:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap as of and for the year ended September 30, 2003, which collectively comprise the State of Yap's basic financial statements and have issued our report thereon dated October 6, 2005, which report was qualified due to our inability to determine the propriety of fixed assets, trade receivables, and general ledger beginning balances for the Yap Fishing Authority, and the lack of audited financial statements of Yap Fresh Tuna, Inc. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

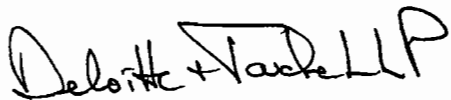
In planning and performing our audit, we considered the State of Yap's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 (pages 78 through 94) as items 2003-01 and 2003-07 through 2003-13.

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 caused by error or fraud 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 of 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 item 2003-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Yap's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-01 through 2003-06.

This report is intended solely for the information and use 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 that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

October 6, 2005

**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 Robert Ruecho
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, 2003. 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 78 through 94). 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 auditing standards generally accepted in the United States of America; 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 of the State of Yap's compliance with those requirements.

As described in items 2003-01 through 2003-06 in the accompanying Schedule of Findings and Questioned Costs, the State of Yap did not comply with requirements regarding equipment and real property management, allowable costs/cost principles, 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 the 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, 2003.

Internal Control Over Compliance

The management of the State of Yap is responsible for establishing and maintaining effective internal control over compliance with the 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 the internal control over compliance in accordance with OMB Circular A-133.

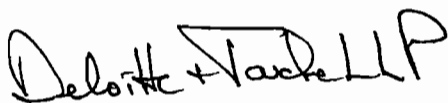
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Yap's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-01 through 2003-06.

A material weakness is a reportable 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 the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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. However, of the reportable conditions described above, we consider item 2003-01 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Yap as of and for the year ended September 30, 2003, and have issued our report thereon dated October 6, 2005, which was qualified due to our inability to determine the propriety of fixed assets, trade receivables, and general ledger beginning balances for the Yap Fishing Authority and the lack of audited financial statements of Yap Fresh Tuna, Inc. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the State of Yap's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use 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.



October 6, 2005

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2003

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2003 <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of Education:</u>		
2001 - PVIEP	84.048B	\$ 18,004
2002 - PVIEP	84.048B	11,074
2003 - PVIEP	84.048B	<u>106,473</u>
Total CFDA #84.048B		<u>135,551</u>
00-01 Special Education	84.027B	754
02-03 Special Education	84.027B	31,439
FY03 Special Education	84.027B	<u>587,431</u>
Total CFDA #84.027B		<u>619,624</u>
FY 01 Yap Star (Award # 3256 A01-0004-02)	84.256A	<u>165,725</u>
Total CFDA #84.256A		<u>165,725</u>
Bilingual Education	84.288S	<u>114,810</u>
Total CFDA #84.288S		<u>114,810</u>
Total U.S. Department of Education		<u>1,035,710</u>
<u>U.S. Department of Labor:</u>		
2000 WIA Title I - Administration	17.250	5,576
2000 WIA Title I - Adult	17.250	6,169
2000 WIA Title I - Youth	17.250	870
2000 WIA Title I - DIS.WO	17.250	4,150
01 WIA Title I - Administration	17.250	778
01 WIA Title I - Youth	17.250	13,699
01 FMI/DIS Worker	17.250	892
01 WIA Title I - Adult	17.250	21,562
01 WIA Title I - Worker	17.250	30,588
02 WIA Title I - Administration	17.250	18,082
02 WIA Title I - Youth	17.250	37,182
02 WIA Title I - Adult	17.250	4,510
02 WIA Title I - Worker	17.250	<u>1,000</u>
Total CFDA #17.250		<u>145,059</u>
Total U.S. Department of Labor		<u>145,059</u>
Balance Forwarded		<u>1,180,769</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, 2003

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2003 Fiscal Year <u>Expenditures</u>
Balance Forwarded		1,180,769
<u>U.S. Department of Agriculture:</u>		
03 Yap FRM/RGNR	10.664	3,693
FY01 Forestry Urban Community	10.664	22,322
FY03 Forestry Urban Community	10.664	13,797
03 Yap Forest Health Project	10.664	254
03 Yap Forest Management	10.664	16,985
03 Yap Conservation Education	10.664	4,422
Yap Forest Stewardship Program	10.664	3,207
Total CFDA #10.664		64,682
Total U.S. Department of Agriculture		64,682
<u>U.S. Department of the Interior:</u>		
FY00 HPO - Historic Operation	15.904	1,798
FY01-02 HPO Administration	15.904	7,901
FY01-02 HPO Special	15.904	26,644
FY01-02 HPO Archaeology	15.904	21,153
FY02.HPO Administration	15.904	30,831
FY02 HPO Special	15.904	43,844
FY02 HPO Archaeology	15.904	4,831
Total CFDA #15.904		137,002
2002 Yap Hospital Renovation	15.875	27,547
Y2K Remediation Project	15.875	60,561
Total CFDA #15.875		88,108
Total U.S. Department of the Interior		225,110
<u>U.S. Department of Health and Human Services:</u>		
FY02/03/04 Family Planning	93.217	25,900
Total CFDA #93.217		25,900
2002 Immunization Program	93.268	9,270
2003 Immunization Program	93.268	12,864
Total CFDA #93.268		22,134
2001 Tobacco Prevention	93.283	220
2003 Tobacco Prevention	93.283	4,657
Total CFDA #93.283		4,877
2003 Yap SEED Program	93.959	14,959
FY02 SAPT/Health Services	93.959	5,664
FY03 Yap SAPT Program	93.959	33,583
Total CFDA #93.959		54,206
FY03 Diabetes Programs	93.988	6,586
FY 04 Diabetes Programs	93.988	2,175
Total CFDA #93.988		8,761
Balance Forward		1,470,561

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, 2003

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2003 <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of Health and Human Services, Continued:</u>		
Balance Forwarded		\$ <u>1,470,561</u>
FY01 MCH	93.994	1,062
FY02 MCH	93.994	<u>43,792</u>
Total CFDA #93.994		<u>44,854</u>
FY02 Tuberculosis & AIDS Program	93.116	11,631
FY03 Tuberculosis & AIDS Program	93.116	<u>7,129</u>
Total CFDA #93.116		<u>18,760</u>
2002 Aids Prevention	93.940	<u>7,469</u>
Total CFDA #93.940		<u>7,469</u>
2002 Yap CHC Planning	93.224	<u>40,520</u>
Total CFDA #93.224		<u>40,520</u>
Total U.S. Department of Health and Human Services		<u>227,482</u>
Total Federal Grants Fund		1,698,043
	Unadjusted expenditures	<u>6,771</u>
	Per Financial Statements \$	<u><u>1,691,272</u></u>

Note: With the exception of the Yap Star grants, (CFDA #84.256A), the Bilingual Education grant (CFDA #84.288S) and the PREL grants (CFDA #84.048B), which are received directly from U.S. Department of Education, the above grants are received in a subrecipient capacity through the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Other U.S. Grants Fund
Year Ended September 30, 2003

<u>Grantor</u>			2003
<u>Program Title</u>		<u>CFDA No.</u>	<u>Fiscal Year Expenditures</u>
<u>Federal Emergency Management Agency</u>			
<u>(FEMA) grants:</u>			
Hazard & Mitigation Administration and others		83.516	\$ <u>1,157,179</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
Compact of Free Association Compact Program Funds
Year Ended September 30, 2003

<u>Grantor</u> <u>Program Title</u>	2003 Fiscal Year <u>Expenditures</u>
<u>Special Block Grant Programs</u>	
Clinical Care Division	\$ 34,308
Budget and Supply Division	17,331
Curriculum and Instruction	95,458
Various	89,363
Yap Proper Elementary School	282,767
Yap Proper High School	447,455
O.I. Elementary Schools	963,048
O.I. Middle Schools	113,844
O.I. High Schools	44,201
Primary Health Care Division	61,111
Public Health Care Division	26,196
Health Services Administration	1,939
Ancillary Services Division	17,674
Dental Services	<u>2,917</u>
Total Compact of Free Association Compact Programs Fund-Section 221(B) CFDA #15.875	<u>2,197,612</u>
<u>Health and Medical Programs</u>	
Medical Referral Program	<u>321,228</u>
Total Compact of Free Association Compact Programs Fund-Section 216(A)(2) CFDA #15.875	<u>321,228</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 Program Funds
Year Ended September 30, 2003

Post Secondary Education

Scholarships and grants	<u>207,320</u>
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Total Compact of Free Association Compact

Programs Fund-Section 216(A)(3) CFDA #15.875	<u>207,320</u>
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Energy Programs

State Utilities Program	<u>826,207</u>
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Total Compact of Free Association Compact

Programs Fund-Section 214(B) CFDA #15.875	<u>826,207</u>
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Total Compact of Free Association Compact Program Fund	<u>\$ 3,552,367</u>
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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 Insular Affairs (OIA), 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
Year Ended September 30, 2003

<u>Grantor</u> <u>Program Title</u>	2003 Fiscal Year <u>Expenditures</u>
<u>Office of Insular Affairs</u>	
Capital Improvement Projects	\$ <u>742,852</u>
Total Compact of Free Association Capital Projects Fund - Section 211(A) CFDA #15.875	\$ <u><u>742,852</u></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 Insular Affairs (OIA), 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
Year Ended September 30, 2003

<u>Grantor</u> <u>Program Title</u>	2003 Fiscal Year <u>Expenditures</u>
<u>Office of Insular Affairs</u>	
General Fund:	
Compact of Free Association	
Current Account - Section 211(A) CFDA #15.875	\$ <u>7,640,922</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 Insular Affairs (OIA), 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, 2003

(1) Scope of Review

The Yap State Government is a governmental entity governed by its own Constitution. All significant operations of the State of Yap 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 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

In prior years, the Yap Community Action Program (YAPCAP) was classified as a component unit. In 2001, due to the State operating the Headstart Program, YAPCAP is no longer classified as a component unit. The State operated the Program until March 31, 2002 and then transferred responsibility thereafter, to a non-profit corporation.

The Yap State Public Service Corporation (YSPSC) programs are received in a subrecipient capacity. No federal awards were received in fiscal year 2003 exceeding threshold and therefore compliance testing was not performed.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for
Audit In Accordance With OMB Circular A-133
Year Ended September 30, 2003

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>2003 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association, Capital Projects Fund, Section 211(A) Capital Account	15.875	\$ 742,852
Compact of Free Association, Health and Medical Program, Section 216 (A)(2)	15.875	321,228
Compact of Free Association, Energy Programs, Section 214 (B)	15.875	826,207
Compact of Free Association, Post Secondary Education Programs, Section 216 (A)(3)	15.875	<u>207,320</u>
Total U.S. Department of the Interior		\$ <u>2,097,607</u>
<u>U.S. Department of Education</u>		
Yap Special Education (SEPIIE Grant) (Grant # 3256 A01-0004-02)	84.027B	\$ <u>619,624</u>
Total U.S. Department of Education		\$ <u>619,624</u>
<u>U.S. Federal Emergency Management Agency (FEMA)</u>		
FEMA Grant	83.516	\$ <u>1,157,179</u>
Total U.S. Federal Emergency Management Agency (FEMA)		\$ <u>1,157,179</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>3,874,410</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures of \$7,640,922		\$ <u>7,150,441</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>54%</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Part I - Summary of Auditors' Results Section

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to various inadequacies in the financial statements of the Yap Fishing Authority.
2. Reportable conditions in internal control over financial reporting were identified, one of which is considered to be a material weakness.
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, one of which is considered to be a material weakness.
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 Projects Fund, Section 211 (A)	15.875
Compact of Free Association, Health and Medical Programs, Section 216 (A)(2)	15.875
Compact of Free Association, Energy Programs, Section 216 (A)(3)	15.875
Compact of Free Association, Post Secondary Education Programs, Section 216 (A)(3)	15.875
Special Education (SEPPIE Grant)	84.027B
Federal Emergency Management Agency Grant	83.516

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>
03-01	Equipment and Real Property Management	\$ -
03-07	Travel Advance Follow Up	\$ -
03-08	Payroll- Approval of Master File Changes	\$ -
03-09	Cash-Untimely Deposit of Collections	\$ -
03-10	Cash-Bank Reconciliation	\$ -
03-11	Accounts Receivable and Accounts Payable	\$ -
03-12	Accounts Receivable-No Collection Policy	\$ -
03-13	Budgetary Reconciliations	\$ -

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
03-01	All	Equipment and Real Property Management	\$ -
03-02	15.875	Allowable Costs/Cost Principles	\$ 27,000
03-03	83.516	Allowable Costs/Cost Principles	\$ 20,846
03-04	15.875/ 84.027B	Allowable Costs/Cost Principles	\$ 18,265
03-05	84.027B/ 84.048B	Allowable Costs/Cost Principles	\$ 35,447
03-06	84.027B	Procurement and Suspension and Debarment	\$ -

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-01
CFDA No.: 84.027B Special Education
Grant ID: 3256 A01-0004-02
Grantor Agency: U.S. Department of Education
CFDA No.: 83.516
Grantor Agency: U.S. Federal Emergency Management Agency
Program/Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: Fixed assets should be properly identified.

Condition: Fixed assets greater than \$5,000 per unit were unable to be identified.

Cause: There is no current system in place that appears to assign identification tags to individual fixed assets. We understand that the State will be subsequently defining fixed assets at a higher threshold (\$5,000) and this action should assist in resolving this finding.

Effect: The inability to properly identify fixed assets may increase the risk of not identifying potential problems or abuse in a timely manner.

Prior Year Status: This matter was reported in the 2002 Single Audit Report.

Recommendation: The Federated States of Micronesia as a whole has moved to adopting the federal equipment standard and this process should assist the State in its fixed asset inventory management.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The inventory and tagging of fixed assets is being performed by the Division of Procurement & Property Management and will be completed by December 31, 2005. A fixed asset register is being concurrently prepared with this inventory. Additionally, the Director, Office of Administrative Services will submit promulgate proposed changes to amend the Yap State Procurement Code to raise the capitalization threshold of capital assets to \$5,000, in line with the FSM and federal equipment standards. These amendments will be proposed no later than November 30, 2005.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-02
 CFDA No.: 15.875 Post Secondary Education Program
 Grantor: U.S. Department of Education
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$27,000

Criteria: Scholarship Awards are restricted to students with at least 12 credits per semester and who are enrolled in U.S. or FSM universities.

Condition: Scholarships were granted to students who had less than 12 credits per semester or who attended non-US and non-FSM universities.

Student with less than 12 credits per semester:

<i>Transaction #</i>	<i>Date</i>	<i>Questioned Cost</i>
1306T-0000001	February 4, 2003	\$3,000

Student who attended non-US/non-FSM universities

<i>Transaction #</i>	<i>Date</i>	<i>Questioned Cost</i>
1) 2494T-0000001	April 17, 2003	\$ 4,000
5371T-0000008	September 26, 2003	4,000
2) 2494T-0000002	April 17, 2003	4,000
5371T-0000007	September 26, 2003	4,000
3) 2494T-0000003	April 17, 2003	4,000
5371T-0000033	September 26, 2003	4,000

Cause: The cause of the description is that awards were granted outside of the Compact requirements.

Effect: Questioned costs result from the criteria.

Recommendation: We recommend implementation of strict policy relative to granting scholarships to only qualified students. Management shall design measures that will monitor compliance with program requirements.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The policy promulgated by the Yap State Scholarship Board and enforced by the Student Assistance Program Coordinator, puts students on probation if they have an inadequate GPA or are taking less than 12 credits per semester. They are allowed two consecutive semesters of probation before they are terminated from the scholarship program. The finding concerning awards to students attending non-U.S. schools was an oversight resulting from new program management in the scholarship office: in prior fiscal years, two sources of funding were available for scholarships----Compact 216 monies and general fund appropriations. Students attending non-U.S institutions were paid from the general fund. No general funds were appropriated for FY-03 so payments were inappropriately charged against the Compact monies. This concern was corrected as of FY-04, where the YSL 6-21 appropriated some general funds for Yap Scholarship. These funds are awarded to students attending non-US affiliated universities. The Scholarship Coordinator is now strictly monitoring compliance with program requirements.

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FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-03
CFDA No.: 83.516 Federal Emergency Management Agency Grant
Grantor: U.S. Federal Emergency Management Agency
Area: Allowable Costs/Cost Principles
Questioned Costs: \$20,846

Criteria: Expenditures charged to Federal Emergency Management Agency (FEMA) funds should only be those that fall under a specific advice of allotment.

Condition: Retroactive pay was provided to two employees designated as the Public Assistance Coordinator and as the Public Assistance Officer. The retroactive pay was not supported by an advice of allotment and the pay was not processed through the required State process. As a result, the payment does not appear to conform to either State or federal requirements.

	Employee No.	CK No.	Retroactive Pay
Public Assistance Coordinator	703424	15227	\$ 9,432
Public Assistance Officer	44662	11971	<u>11,414</u>
			<u>\$20,846</u>

Cause: The cause of this condition is that required federal and State procedures were not followed in the preparation of the retroactive pay.

Effect: Use of funds outside FEMA and State requirements results in questioned costs.

Recommendation: We recommend that management review the abovementioned disbursements and determine whether the funding program should be reimbursed.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The payment of retroactive FEMA disaster allowances through the general bank account rather than through properly approved payroll personnel action forms was a breach of Department of Finance normal operating procedures. The eligibility and payment of some OPB and Public Works inspectors' differentials had been verbally approved by FEMA but it is not clear why some were paid through payroll and others not. This practice was discontinued by June 2003 and since then all employees working for the auspices of FEMA programs have employee contracts which detail their responsibilities under the FEMA programs and in which their pay rate, inclusive of all differentials, is stated in the contract. The Yap State FEMA Public Assistance Officer is now responsible to ensure all FEMA program payroll payments are supported by personnel contracts.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-04
 CFDA No.: 15.875 Special Block Grant
 Grantor: U.S. Department of the Interior
 CFDA No. 84.027B Special Education
 Grant ID: 3256 A01-0004-02
 Grantor: U.S. Department of Education
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$18,265

Criteria: Payments to vendors should be supported by invoices for goods/services provided.

Condition:

No invoices were provided for the following disbursements:

<u>Date</u>	<u>Check #</u>	<u>Check Amount</u>	<u>Unsupported Amount</u>
<u>Compact Special Block Grant – 15.875</u>			
12/12/2002	1413	\$ 8,000	\$ 6,000
<u>Special Education Fund</u>			
12/12/2002	1446	-	4,065
10/18/2002	225	-	8,200

Cause: The cause of the condition is that the underlying invoices could not be located.

Effect: No known financial statement effect results from this condition.

Recommendation: We recommend that all vendor payments be supported by invoices and that these invoices be maintained on file.

Auditee Response and Corrective Action Plan: The finding is partially correct and we agree with the recommendation. Of the instance cited, the check under the Compact Special Block Grant is supported by vendor invoices. Check 1413 was in payment of an invoice for freight of DOE supplies send to Outer Island schools.

Of the two checks referred to under the Special Education Fund, check 1446 was for a travel advance to an early childhood program conference in Washington D.C (T.A. on file), and check 225 was for payment to a Special Consultant to Education.

It has always been established procedure that the Department of Education will not approve, and the Department of Finance not authorize vendor payments without supporting invoices. The Chief of Finance is responsible to ensure that supporting documents for payments be maintained and secured properly.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.:	2003-04, Continued
CFDA No.:	15.875 Special Block Grant
Grantor:	U.S. Department of the Interior
CFDA No.:	84.027B Special Education
Grant ID:	3256 A01-0004-02
Grantor:	U.S. Department of Education
Area:	Allowable Costs/Cost Principles
Questioned Costs:	\$18,265

Auditor Response: With respect to the Compact Special Block Grant invoice, there is a blank statement that indicates payment is due. However, there is no indication of the detail of the items shipped or delivered and no indication of the applicability of the charge to the program.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-05
CFDA No.: 84.048B PVEIP
Grantor: U.S. Department of Education
CFDA No. 84.027B Special Education
Grantor: U.S. Department of Education
Area: Allowable Costs/Cost Principles
Questioned Costs: \$35,447

Criteria: Employees who travel off-island should submit a travel authorization form, boarding passes and trip reports to support actual attendance at conferences and other training venues.

Condition: Of twenty travel transactions tested totaling \$49,233, nine were noted for unsubmitted travel authorization forms and trip expense reports, two did not have boarding passes on file and one was not provided for review.

The following travel authorization forms and trip expense reports were not made available for our review.

#A2003120	\$ 2,837	Special Education
#A2003055	4,066	Special Education
#A2003009	<u>2,906</u>	Special Education
	<u>\$ 9,809</u>	
#A2003254	\$ 1,680	PVEIP
#A2003255	1,680	PVEIP
#A2003118	2,203	PVEIP
#A2003119	5,805	PVEIP
#A2003117	2,203	PVEIP
#A2003121	<u>3,837</u>	PVEIP
	<u>\$17,408</u>	

No boarding passes were on file for the travel expense report of the following:

#A2003121	\$ 2,962	PVEIP
#S2003072	\$ 2,404	PVEIP

Travel expense report A2003325 was not provided to us for our review. Total travel costs of \$2,864 (PVEIP) were unsupported

Cause: The cause of the condition is that the above documents have yet to be located.

Effect: The effect of the above condition is the risk of disbursing funds without adequate support.

Recommendation: We recommend strict implementation of the submission of travel expense reports, including attaching the necessary documents to support actual trips.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.:	2003-05, Continued
CFDA No.:	84.048B PVEIP
Grantor:	U.S. Department of Education
CFDA No.:	84.027B Special Education
Grantor:	U.S. Department of Education
Area:	Allowable Costs/Cost Principles
Questioned Costs:	\$35,447

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Although all the travel authorization forms mentioned were for authorized travel for DOE employees, in most cases subsequent expense vouchers had not been filed and consequently trip reports and boarding passes were not available. Effective in FY-04, the Department of Education began strictly enforcing a policy requiring timely filing of travel vouchers upon completion of travel that will include trip reports and boarding passes. Those employees who have lost required documents must file an affidavit attesting to this loss. Effective December 2005, the travel accountant in Finance will begin payroll check deductions for outstanding advances as well.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-06
CFDA No.: 84.027B Special Education
Grantor: U.S. Department of Education
Area: Procurement and Suspension and Debarment
Questioned Costs: \$0

Criteria: Procurement should provide for full and open competition and be performed in accordance with the Government requirements.

Condition: Even though Yap State Government's internal policy does not require personnel contracts to be competitively procured, we recommend that the Government consider adopting a formal policy requiring documentation of procurement rationale.

Cause: There appears to be weak internal controls over ensuring that full and open competition is obtained in procurement.

Effect: No material effect on the financial statements occurs as a result of this condition. The absence of compliance with competitive procurement may increase the risk of not identifying potential problems or abuse in a timely manner.

Recommendation: The Yap State Government should reevaluate its current procurement policies for personnel contracts.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The finding in question refers to the previous practice (now discontinued) of Department of Education using temporary personnel contracts to pay for what were in fact temporary consulting services that had not been publicly announced or competitively procured. A review of the payments in question indicates that all individuals were performing services to DOE and were qualified to do such work. Moreover, there are circumstances where local procurement of such services is necessary and desirable and where, because of the unique skills and experience of the consultant in question, the DOE may find it desirable to make such procurements exempt from competitive procurement policies. The problem being cited was the incorrect usage of personnel contracts when more complete consultancy contracts with clearly defined scopes of services should have been used; with any exemption from normal procurement practices documented and approved. Effective with the appointment of a new Director, DOE in FY-04, the use of personnel contracts in lieu of proper consulting services contracts was discontinued.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-07
Area: Travel Advance Follow Up

Criteria:

Travel advances should be collected in a timely manner.

Condition:

Follow up or mandatory withholding of travel advances is not occurring and reconciliations of the accounts is not occurring.

Cause:

No one is requiring that such be done.

Effect:

Potential cash flows are adversely impacted and travel advances may have to be written off.

Prior Year Status:

This matter was reported in the 2002 Single Audit Report.

Recommendation:

Travel advances should be reconciled with the general ledger on a monthly basis and mandatory payroll deductions should occur for those who do not file their travel vouchers in the required time period.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. Currently, travel advances are only reconciled at year-end as part of the annual audit tasks and payroll deductions are not being made for those employees who have not filed travel expense claims. Effective December, 2005 the travel accountant in the Finance Department will perform monthly reconciliations and make appropriate deductions of outstanding advances.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-08
Area: Payroll-Approval of Master File Changes

Criteria:

Approvals of changes to master file information should occur and be appropriately documented.

Condition:

No edits or approvals of changes to master file information are documented. Such appear unilaterally performed.

Cause:

No documented review process is required.

Effect:

Unauthorized changes to the master files could occur and go undetected.

Recommendation:

An edit of changes should be printed and approved by a higher level and that review should be evidenced in writing.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. The current payroll accounting software allows the option to maintain a log of employee changes to masterfile records. This option, however, was not implemented with the initial FundWare set-up, perhaps because of storage problems with the old server. The Director, OAS, will research with the software vendor the suitability of using and reporting under this option and, if possible, will implement procedures within Finance to have higher approval for all masterfile changes. This change will be implemented by December 31, 2005, and the Chief of Finance will be responsible for approving changes to the employee masterfile.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-09
Area: Cash-Untimely Deposit of Collections

Criteria:

Cash received at the Treasury Office should be deposited in a timely manner.

Condition:

For 8 out of 29 cash receipt transactions tested, cash was not deposited in a timely manner. The lag in time from the date a receipt was issued to the date of deposit ranged from 2 to 7 days.

The payroll bank reconciliation indicated deposits in transit that were never actually deposited.

Cause:

The condition appears to have occurred due to a lack of effective internal controls over assuring that all cash receipts are timely deposited.

Effect:

Since collections are recorded only when deposits to banks are made, a delay in deposits will also cause delay in recording of collections. As a result, financial statement carrying balances may be misstated.

Prior Year Status:

This matter was reported in the 2002 Single Audit Report.

Recommendation:

Cash should be deposited on a daily basis.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. Effective in FY-04, collections in the Treasury Office are being deposited on a daily basis. An accountant in Finance who does not work in the Treasury office verifies the collections daily before bank deposits are made.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-10
Area: Cash-Bank Reconciliation

Criteria:

Cash in bank per general ledger and per bank should be reconciled on a periodic basis.

Condition:

Bank reconciliations for payroll and general fund accounts are not balanced on a monthly basis. Rather, the bank reconciliation was performed as of year end for the entire year.

Cause:

Monthly bank reconciliations have not been performed.

Effect:

Misstatements of the financial statements can occur as a result of the condition.

Prior Year Status:

This matter was reported in the 2002 Single Audit Report.

Recommendation:

Management should require monthly bank reconciliations.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. The general checking account is now being reconciled on a monthly basis and the Chief Accountant was current on this process throughout FY-05. Progress is also being made on becoming current with monthly reconciliations for the payroll bank account and it is expected to become current on this process in June FY-06. Finance will implement automated bank reconciliation software in FY-06 and this will enhance considerably the ability to do timely, monthly bank reconciliations. The Chief Accountant will be responsible for becoming current on the bank reconciliation.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-11
Area: Accounts Receivable and Accounts Payable

Criteria:

Subsidiary ledgers should reconcile to the general ledger.

Condition:

Expenditure details for selected funds are not reconciled with the General Ledger.

The following accounts did not agree with the general ledger:

Account	Description	Subsidiary Ledger	General Ledger	Variance
01 1501	Inventory of General Supplies	\$206,195	\$122,169	\$(84,026)
01 1340	Delinquent Taxes Receivable	240,813	359,437	118,624
01 1404	Advances on Purchase	408,218	458,168	49,950
01 2101	Accounts Payable	151,182	142,693	(8,490)
11 2101	Accounts Payable	84,571	96,273	11,702
12 2101	Accounts Payable	14,862	30,250	15,388
15 2101	Accounts Payable	62,671	68,352	5,681
31 2101	Accounts Payable	21,791	59,395	37,604
96 2101	Accounts Payable	520,574	616,817	96,244

Cause:

Subsidiary ledgers are not reconciled to the general ledger in a timely manner. The general ledger and the subsidiary ledgers were only reconciled some eighteen months after year end.

Effect:

Misstatements in the financial statements can result from this condition.

Prior Year Status:

This matter was reported in the 2002 Single Audit Report.

Recommendation:

The Finance office should perform regular reconciliations of subsidiary and general ledgers for key financial statement accounts.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. Effective October 1, 2005 monthly subsidiary and general ledger reconciliations are being done for accounts payable, encumbrance control, direct grants accounts receivable, and travel advances. The Chief of Finance will be responsible to ensure that the reconciliations are done.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-12
Area: Accounts Receivable-No Collection Policy

Criteria:

Outstanding receivables should be cleared in a timely manner.

Condition:

The following accounts received no or immaterial subsequent receipts as of October 22, 2004:

Account	Description	Balance @ 9/30/03	Subsequent receipts as of 10/22/04
01 1301	ACCOUNTS RECEIVABLE-CFSM	\$ 389,367	\$ 0
01 1307	REIMBURSABLE YGE CREDIT UNION	54,942	4,000
01 1340	DELINQUENT TAXES RECEIVABLE	359,437	0
01 1313	RECEIVABLES-LEASES	72,069	0

Cause:

No collection policy has been formally established.

Effect:

If a collection policy is not established, the result may be decreased cash flows.

Recommendation:

The above receivables should either be collected or written off after coordination with appropriate parties.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. Significant collection efforts undertaken by the Office of Administrative Services have reduced the amount of taxes receivable as of September 30, 2005. Delinquent taxpayers are put on promissory notes, the terms of which are rigorously enforced. Moreover, the hiring of a lease coordinator in FY-05 has increased the frequency of billing and collecting leases. Consequently OAS will maintain the balances of its tax receivable accounts and continue collection efforts. The amounts due for CFSM accounts receivable pertain to reimbursement requests for old CFSM grants on which the FSM withheld payment. Because balances pertain to lapsed appropriations under which the FSM Finance will not now make disbursements, the OAS has been advised to write these balances off. OAS Director ensure that the necessary adjustments are made as of September 30, 2004.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Finding No.: 2003-13
Area: Budgetary Reconciliations

Criteria:

Budgetary balances in the financial statements should be reconcilable to public laws and such limits should not be exceeded.

Condition:

Budget reconciliations to the financial statement balances are not occurring on an annual basis. Additionally, no formal tracking of continuing appropriations is occurring and such balances are not being reconciled and recorded in the fund level financial statements. Upon reconciliation of the 2003 appropriations some 23 months after the audit date, it was discovered that the Compact Capital funded appropriation for Colonia Bridge reconstruction was over expended by \$25,497.

Cause:

The cause of this condition is that budget reconciliations are not occurring and that continuing appropriations are not being tracked.

Effect:

The effect of this condition is potential over expenditures of appropriations as documented in the condition and an inability to determine appropriable fund balances.

Recommendation:

Budgetary balances should be reconciled on a periodic basis and continuing appropriations should be detailed and reconciled on an annual basis at a minimum.

Auditee Response and Corrective Action Plan:

We agree with the finding and recommendation. Procedures will be developed by the Office of Administrative Services to ensure general fund and continuing appropriations are reconciled to the general ledger on a periodic basis. Estimated completion date is December 31, 2005.

**STATE OF YAP
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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2003

QUESTIONED COSTS

For the year ended September 30, 2003, the following questioned costs remain unresolved.

	Questioned Costs Set Forth in Prior Audit Report <u>2002</u>	Questioned Costs Resolved in Fiscal Year <u>2003</u>	<u>Questioned Costs at September 30, 2003</u>
Unresolved Questioned Costs FY 99	\$ 68,619	\$ -	\$ 68,619
Unresolved Questioned Costs FY 00	30,010	-	30,010
Unresolved Questioned Costs FY 01	225,369	114,320	111,049
Unresolved Questioned Costs FY 02	419,254	330,237	89,017
Unresolved Questioned Costs FY 03	<u>-</u>	<u>-</u>	<u>101,558</u>
	\$ <u>743,252</u>	\$ <u>444,557</u>	\$ <u>400,253</u>

The above 2001 and 2002 questioned costs were resolved by the United States Department of Education in an audit resolution letter dated June 20, 2005.

The prior year status of findings is contained in the accompanying Schedule of Findings and Questioned Costs.