

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 1998**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**YEAR ENDED SEPTEMBER 30, 1998**

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**STATE OF YAP  
FEDERATED STATES OF MICRONESIA  
GENERAL PURPOSE FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 1998**



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the State of Yap, as set forth in Section II of the foregoing table of contents, as of September 30, 1998, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Yap. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Yap Visitors Bureau (YVB), a discretely presented component unit, and Diving Seagull Inc., a material investee of the Yap Investment Trust Fund (YIT), an enterprise fund which represent 1% and 89% of the assets and .01% and 100% of the operating revenues, respectively, of the discretely presented component units and the enterprise funds. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for YVB and YIT, is based solely on the reports of the other auditors.

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

The Yap Fishing Authority, a Component Unit-Proprietary Fund, has not been able to provide original cost data to support the carrying value of contributed fixed assets. Additionally, as disclosed in note 19, an investee has not provided audited financial statements and therefore, the related investment account has not been adjusted for the investee's 1998 results. The impact of this matter on the accompanying general purpose financial statements is indeterminable.

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

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

Yap State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 1998, nor were we able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial statements. Accordingly, a statement of changes in general fixed assets has not been included within the accompanying general purpose financial statements.

Yap State did not provide adequate detail of its general fund medical supplies inventory at September 30, 1998. We were unable to apply sufficient alternative procedures to assure ourselves that supplies inventory is fairly stated.

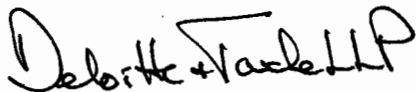
In our opinion, based on our audit and the reports of other auditors, except for the effects on the general purpose financial statements of such adjustments, if any, as might have been determined to be necessary had; 1) original cost data been available to support the carrying value of contributed fixed assets and audited financial statements been available to support the carrying value of an investment of the Yap Fishing Authority, a Component Unit-Proprietary Fund; 2) audited financial statements been available for the Yap Fishing Corporation, a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the propriety of financial statements of the Public Transportation System, a Proprietary Fund Type - Enterprise Fund been ascertainable; 4) the General Fixed Assets Account Group been updated; and 5) sufficient information to determine the propriety of supplies inventory of the governmental fund types been available, the accompanying general purpose financial statements, as set forth in Section II of the table of contents, with the exception of the Proprietary Fund Type - Enterprise Funds and the General Fixed Assets Account Group, upon which we are unable to express an opinion because of the matters specified in the foregoing paragraphs, present fairly, in all material respects, the financial position of the State of Yap, as of September 30, 1998, and the results of its operations and the cash flows of its Proprietary Fund Type - Internal Service Fund and Component Units - Proprietary Funds for the year then ended, in conformity with generally accepted accounting principles.

Government Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosures of certain matters regarding the year 2000 issue. Yap State Government has included such disclosures listed in Section III of the foregoing table of contents. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support Yap State's disclosures with respect to the year 2000 issue. Further, we do not provide assurance that Yap State will be year 2000 ready, that Yap State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Yap State does business will be year 2000 ready.

As further explained in note 15, YFC, an investee of YEDA, was undergoing liquidation as of September 30, 1998. The impact of this matter on the accompanying financial statement is currently not determinable. Accordingly, no provision for any adjustments which may result upon resolution of YFC's liquidation has been recorded in the accompanying general purpose financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 1999 on our consideration of the State of Yap's (Primary Government, Yap Community Action Program and Yap Fishing Authority only) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.



March 25, 1999



STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1998  
(With comparative totals as of September 30, 1997)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government	Component Units	Totals Reporting Entity	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Expendable Trust	General	General	(Memorandum Only)		1998	1997
							Fixed Assets	Long-Term Debt				
<b>Assets</b>												
Cash and equivalents (note 3)	\$ 1,403,121	\$ -	\$ -	\$ 436,917	\$ -	\$ 213,527	\$ -	\$ -	\$ 2,053,565	\$ 1,521,466	\$ 3,575,031	\$ 2,097,762
Restricted cash (note 4)	1,057,417	-	-	500,000	-	-	-	-	1,557,417	632,331	2,189,748	-
Time certificates of deposit	-	-	-	-	-	-	-	-	-	671,599	671,599	-
Investments (note 5)	51,663,943	1,724,768	50,009	2,000,000	-	-	-	-	55,438,720	1,642,833	57,081,553	71,390,703
Receivables, net (note 6):												
Other governments	-	749,729	-	-	4,964	-	-	-	754,693	-	754,693	382,938
Federal agencies	-	-	295,423	-	-	-	-	-	295,423	-	295,423	509,868
U.S. Department of the Interior-TTPI	-	-	88,115	-	-	-	-	-	88,115	-	88,115	366,441
Federal and other-FSM government	160,876	1,449,646	268,688	-	-	-	-	-	1,879,210	478,655	2,357,865	1,306,354
General	204,035	-	-	1,090,868	-	-	-	-	1,294,903	269,576	1,564,479	486,260
Loans	-	-	6,500,000	-	-	-	-	-	6,500,000	334,863	6,834,863	6,541,644
Accrued interest on investments (note 5)	369,967	-	-	-	-	-	-	-	369,967	11,074	381,041	395,833
Due from other funds (note 10)	-	251,733	8,395,988	500,000	297,243	13,778	-	-	9,458,742	-	9,458,742	10,345,739
Advances and prepayments (note 6)	405,164	98,585	1,147	39,547	-	-	-	-	544,443	178,431	722,874	477,599
Inventory of supplies, at cost (note 7)	198,607	-	-	-	41,581	-	-	-	240,188	515,594	755,782	706,520
Fixed assets, net (note 8)	-	-	-	5,916,749	-	-	64,620,758	-	70,537,507	11,145,667	81,683,174	75,264,352
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-	30,038,686	30,038,686	-	30,038,686	31,710,966
<b>Total assets</b>	<b>\$ 55,463,130</b>	<b>\$ 4,274,461</b>	<b>\$ 15,599,370</b>	<b>\$ 10,484,081</b>	<b>\$ 343,788</b>	<b>\$ 227,305</b>	<b>\$ 64,620,758</b>	<b>\$ 30,038,686</b>	<b>\$ 181,051,579</b>	<b>\$ 17,402,089</b>	<b>\$ 198,453,668</b>	<b>\$ 201,982,979</b>

See accompanying notes to financial statements.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units  
September 30, 1998  
(With comparative totals as of September 30, 1997)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Expendable Trust	General Fixed Assets	General Long-Term Debt			1998	1997
<b>Liabilities and Fund Equity</b>												
<b>Liabilities:</b>												
Accounts payable	\$ 332,008	\$ 329,800	\$ 1,326,422	\$ 141,495	\$ -	\$ -	\$ -	\$ -	\$ 2,129,725	\$ 331,871	\$ 2,461,596	\$ 773,263
Accrued payroll and others	450,260	9,659	-	653,570	-	-	-	469,781	1,583,270	220,157	1,803,427	1,009,300
Intergovernmental note payable	-	-	-	2,000,000	-	-	-	-	2,000,000	-	2,000,000	2,000,000
Loans payable - Yap State	-	-	-	6,500,000	-	-	-	-	6,500,000	-	6,500,000	6,500,000
Due to other funds (note 10)	7,576,241	1,184,188	590,401	107,912	-	-	-	-	9,458,742	-	9,458,742	10,345,739
Due to grantor	-	-	-	-	-	-	-	-	-	102,639	102,639	-
Deferred revenue	-	850,425	3,608	-	-	-	-	-	854,033	226,579	1,080,612	511,124
Notes payable (notes 9 and 15)	-	-	-	-	-	-	-	29,184,965	29,184,965	-	29,184,965	30,700,000
Other payables	-	-	-	-	-	-	-	-	-	19,885	19,885	-
Land acquisition claims payable (note 9)	-	-	-	-	-	-	-	383,940	383,940	-	383,940	454,359
<b>Total liabilities</b>	<b>8,358,509</b>	<b>2,374,072</b>	<b>1,920,431</b>	<b>9,402,977</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,038,686</b>	<b>52,094,675</b>	<b>901,131</b>	<b>52,995,806</b>	<b>52,293,785</b>
<b>Fund equity (deficit):</b>												
Contributed capital	-	-	-	7,075,715	-	-	-	-	7,075,715	15,273,348	22,349,063	21,388,385
Investment in general fixed assets	-	-	-	-	-	-	64,620,758	-	64,620,758	-	64,620,758	64,620,758
<b>Retained earnings (deficit):</b>												
Reserved	-	-	-	-	-	-	-	-	-	-	-	(6,679,176)
Unreserved	-	-	-	(5,994,611)	343,788	-	-	-	(5,650,823)	(421,131)	(6,071,954)	(604,311)
<b>Net assets:</b>												
Unrestricted	-	-	-	-	-	-	-	-	-	(38,824)	(38,824)	-
Temporarily restricted	-	-	-	-	-	-	-	-	-	362,843	362,843	-
Permanently restricted	-	-	-	-	-	-	-	-	-	1,324,722	1,324,722	-
<b>Fund balances:</b>												
<b>Reserved for:</b>												
Related assets (note 9)	30,766,233	-	-	-	-	-	-	-	30,766,233	-	30,766,233	32,932,226
Loans	-	-	6,500,000	-	-	-	-	-	6,500,000	-	6,500,000	6,541,360
Encumbrances	1,108,637	571,560	3,376,491	-	-	-	-	-	5,056,688	-	5,056,688	1,912,260
<b>Continuing appropriations</b>												
(note 14)	364,043	-	1,080,718	-	-	-	-	-	1,444,761	-	1,444,761	12,214,124
Unreserved	14,865,708	1,328,829	2,721,730	-	-	227,305	-	-	19,143,572	-	19,143,572	17,363,568
<b>Total fund equity (deficit)</b>	<b>47,104,621</b>	<b>1,900,389</b>	<b>13,678,939</b>	<b>1,081,104</b>	<b>343,788</b>	<b>227,305</b>	<b>64,620,758</b>	<b>-</b>	<b>128,956,904</b>	<b>16,500,958</b>	<b>145,457,862</b>	<b>149,689,194</b>
<b>Contingent liabilities and commitments (notes 13 and 15)</b>												
<b>Total liabilities and fund equity (deficit)</b>	<b>\$ 55,463,130</b>	<b>\$ 4,274,461</b>	<b>\$ 15,599,370</b>	<b>\$ 10,484,081</b>	<b>\$ 343,788</b>	<b>\$ 227,305</b>	<b>\$ 64,620,758</b>	<b>\$ 30,038,686</b>	<b>\$ 181,051,579</b>	<b>\$ 17,402,089</b>	<b>\$ 198,453,668</b>	<b>\$ 201,982,979</b>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -  
All Governmental Fund Types and Expendable Trust Fund  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1998	1997
<b>Revenues:</b>						
Compact of Free Association	\$ 5,880,096	\$ 2,931,301	\$ 3,618,144	\$ -	\$ 12,429,541	\$ 12,216,298
Federal contributions	-	3,386,043	-	-	3,386,043	2,887,919
U.S. Dept. of the Interior-TTPI	-	-	294,215	-	294,215	136,192
Revenue sharing (FSM)	1,738,438	-	-	-	1,738,438	1,519,412
CFSM grants	-	1,310,864	4,466,139	-	5,777,003	1,809,643
Taxes and licenses	1,584,739	-	-	-	1,584,739	1,457,507
Departmental charges	521,007	-	-	-	521,007	648,036
Interest income	248,810	-	-	5,203	254,013	453,625
Other	56,479	209,838	-	-	266,317	133,554
<b>Total revenues</b>	<b>10,029,569</b>	<b>7,838,046</b>	<b>8,378,498</b>	<b>5,203</b>	<b>26,251,316</b>	<b>21,262,186</b>
<b>Expenditures:</b>						
General government	1,371,818	-	107,653	-	1,479,471	1,418,951
Health services	963,905	1,184,775	-	-	2,148,680	2,528,163
Education	1,335,793	3,408,153	93,851	-	4,837,797	4,007,602
Economic development	432,238	46,809	412,749	-	891,796	1,895,778
Public safety	530,606	123,996	-	-	654,602	745,713
Public works and transportation	1,142,941	1,809,313	9,077,143	-	12,029,397	1,931,280
Community affairs	182,970	1,657,022	540,372	15,000	2,395,364	2,223,918
Boards and commissions	252,842	-	-	-	252,842	309,594
Other	383,030	1,165,597	132	-	1,548,759	1,421,308
<b>Total expenditures</b>	<b>6,596,143</b>	<b>9,395,665</b>	<b>10,231,900</b>	<b>15,000</b>	<b>26,238,708</b>	<b>16,482,307</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>3,433,426</b>	<b>(1,557,619)</b>	<b>(1,853,402)</b>	<b>(9,797)</b>	<b>12,608</b>	<b>4,779,879</b>
<b>Other financing sources (uses):</b>						
Investment income (note 5)	2,453,308	-	-	-	2,453,308	9,594,013
Bad debt expense	(326,806)	-	-	-	(326,806)	(9,547,183)
Inventory write-off	-	-	-	-	-	(200,368)
Operating transfers in (note 11)	-	1,323,444	3,918,384	-	5,241,828	4,297,940
Operating transfers out (note 11)	(6,116,266)	(610,000)	(100,000)	-	(6,826,266)	(4,422,490)
Payments of notes payable and interest (note 9)	(4,995,821)	(1,154,573)	(3,145,184)	-	(9,295,578)	(9,260,211)
Early retirement scheme ADB loan proceeds (note 9)	2,000,000	-	-	-	2,000,000	-
Early retirement program (note 9)	(1,029,555)	-	-	-	(1,029,555)	-
<b>Total other financing sources (uses), net</b>	<b>(8,015,140)</b>	<b>(441,129)</b>	<b>673,200</b>	<b>-</b>	<b>(7,783,069)</b>	<b>(9,538,299)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principle</b>	<b>(4,581,714)</b>	<b>(1,998,748)</b>	<b>(1,180,202)</b>	<b>(9,797)</b>	<b>(7,770,461)</b>	<b>(4,758,420)</b>
<b>Add: cumulative effect of a change in accounting principle</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,166,535</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(4,581,714)</b>	<b>(1,998,748)</b>	<b>(1,180,202)</b>	<b>(9,797)</b>	<b>(7,770,461)</b>	<b>(2,591,885)</b>
<b>Fund balances at beginning of year</b>	<b>51,686,335</b>	<b>3,899,137</b>	<b>14,859,141</b>	<b>237,102</b>	<b>70,681,715</b>	<b>73,246,897</b>
<b>Fund balances at end of year</b>	<b>\$ 47,104,621</b>	<b>\$ 1,900,389</b>	<b>\$ 13,678,939</b>	<b>\$ 227,305</b>	<b>\$ 62,911,254</b>	<b>\$ 70,655,012</b>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual - General Fund  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	1998 General Fund			1997 General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Current account compact funds	\$ 5,873,280	\$ 5,880,096	\$ 6,816	\$ 5,796,000	\$ 5,764,800	\$ (31,200)
FSM revenue sharing	1,398,560	1,738,438	339,878	1,353,724	1,519,412	165,688
Taxes and licenses	1,855,330	1,584,739	(270,591)	2,056,116	1,457,507	(598,609)
Interest income	250,000	248,810	(1,190)	200,000	448,486	248,486
Other	491,870	577,486	85,616	437,860	665,265	227,405
<b>Total revenues</b>	<u>9,869,040</u>	<u>10,029,569</u>	<u>160,529</u>	<u>9,843,700</u>	<u>9,855,470</u>	<u>11,770</u>
<b>Expenditures-budgetary basis:</b>						
General government	1,650,780	1,414,445	236,335	1,999,543	1,411,598	587,945
Health services	1,138,131	987,187	150,944	1,631,910	1,578,521	53,389
Education	1,356,570	1,331,833	24,737	1,666,800	1,623,553	43,247
Economic development	542,331	422,402	119,929	605,910	569,136	36,774
Public safety	573,920	530,234	43,686	584,710	559,554	25,156
Public works and transportation	2,065,130	1,851,191	213,939	1,541,251	1,477,450	63,801
Community affairs	230,450	186,271	44,179	210,190	202,304	7,886
Boards and commissions	294,940	261,674	33,266	290,670	308,488	(17,818)
Other	466,820	369,334	97,486	1,086,400	740,559	345,841
<b>Total expenditures</b>	<u>8,319,072</u>	<u>7,354,571</u>	<u>964,501</u>	<u>9,617,384</u>	<u>8,471,163</u>	<u>1,146,221</u>
<b>Excess of revenues over expenditures</b>	<u>1,549,968</u>	<u>2,674,998</u>	<u>1,125,030</u>	<u>226,316</u>	<u>1,384,307</u>	<u>1,157,991</u>
<b>Other financing sources (uses):</b>						
Investment income	-	2,453,308	2,453,308	-	9,594,013	9,594,013
Bad debt expense	-	(326,806)	(326,806)	-	(7,547,183)	(7,547,183)
Inventory write-off	-	-	-	-	(200,368)	(200,368)
Operating transfers out	(1,624,878)	(6,116,266)	(4,491,388)	(4,422,490)	(4,422,490)	-
Payments of notes payable	(4,995,821)	(4,995,821)	-	(5,111,456)	(5,111,456)	-
ERS ADB loan proceeds	2,000,000	2,000,000	-	-	-	-
Early retirement program	(1,000,000)	(1,029,555)	(29,555)	-	-	-
<b>Total other financing sources (uses), net</b>	<u>(5,620,699)</u>	<u>(8,015,140)</u>	<u>(2,394,441)</u>	<u>(9,533,946)</u>	<u>(7,687,484)</u>	<u>1,846,462</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principle</b>	<u>(4,070,731)</u>	<u>(5,340,142)</u>	<u>(1,269,411)</u>	<u>(9,307,630)</u>	<u>(6,303,177)</u>	<u>3,004,453</u>
<b>Add: cumulative effect of a change in accounting principle</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,166,535</u>	<u>2,166,535</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<u>(4,070,731)</u>	<u>(5,340,142)</u>	<u>(1,269,411)</u>	<u>(9,307,630)</u>	<u>(4,136,642)</u>	<u>5,170,988</u>
<b>Fund balance, unreserved, at beginning of year</b>	16,700,072	16,700,072	-	9,266,555	9,266,555	-
<b>Other changes in unreserved fund balance:</b>						
Related assets	-	2,120,715	2,120,715	-	5,665,435	5,665,435
Loans	-	41,360	41,360	-	7,547,183	7,547,183
Continuing appropriations	-	1,343,703	1,343,703	-	(1,642,459)	(1,642,459)
<b>Fund balance, unreserved, at end of year</b>	<u>\$ 12,629,341</u>	<u>\$ 14,865,708</u>	<u>\$ 2,236,367</u>	<u>\$ (41,075)</u>	<u>\$ 16,700,072</u>	<u>\$ 16,741,147</u>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenses and Changes in Fund Equity -  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1998  
(With Comparative Totals for the Year Ended September 30, 1997)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)	
	Enterprise	Internal Service			1998	1997
<b>Operating revenues:</b>						
Rental income	\$ -	\$ 25,557	\$ 25,557	\$ 13,070	\$ 38,627	\$ 109,385
Charges for goods and services	5,517,058	19,975	5,537,033	3,304,543	8,841,576	2,420,930
Grants and contracts	-	-	-	1,459,201	1,459,201	10,119
Stock issues	-	7,817	7,817	-	7,817	-
Interest	-	-	-	93,672	93,672	-
Other	-	2,041	2,041	50,399	52,440	1,983
<b>Total operating revenues</b>	<b>5,517,058</b>	<b>55,390</b>	<b>5,572,448</b>	<b>4,920,885</b>	<b>10,493,333</b>	<b>2,542,417</b>
<b>Operating expenses:</b>						
Headstart program	-	-	-	994,848	994,848	-
Other federal programs	-	-	-	114,608	114,608	-
Other nonprofit and local programs	-	-	-	30,945	30,945	-
Personnel services	1,260,838	-	1,260,838	913,664	2,174,502	736,155
Travel	-	-	-	5,926	5,926	-
Production fuel	372,607	-	372,607	1,047,347	1,419,954	1,063,413
Supplies and materials	-	-	-	7,057	7,057	68,090
Printing and reproduction	-	-	-	-	-	1,525
Capital acquisitions	-	-	-	-	-	18,221
Depreciation	1,561,318	-	1,561,318	741,610	2,302,928	592,270
Bad debts expense	-	-	-	61,279	61,279	2,071,284
Matching fund program	-	-	-	34,504	34,504	-
Equipment lease	324,950	-	324,950	-	324,950	-
Repair and maintenance	301,957	-	301,957	-	301,957	-
Insurance	276,071	-	276,071	-	276,071	-
Other	687,213	20,128	707,341	1,030,673	1,738,014	721,120
<b>Total operating expenses</b>	<b>4,784,954</b>	<b>20,128</b>	<b>4,805,082</b>	<b>4,982,461</b>	<b>9,787,543</b>	<b>5,272,078</b>
<b>Operating income (loss)</b>	<b>732,104</b>	<b>35,262</b>	<b>767,366</b>	<b>(61,576)</b>	<b>705,790</b>	<b>(2,729,661)</b>
<b>Nonoperating revenues (expenses):</b>						
Loss on equity investment (note 19)	-	-	-	-	-	(221,128)
Operating transfers from Yap State	-	-	-	161,615	161,615	79,124
Other income (expense)	(65,087)	-	(65,087)	254,829	189,742	341,920
<b>Total nonoperating revenues (expenses), net</b>	<b>(65,087)</b>	<b>-</b>	<b>(65,087)</b>	<b>416,444</b>	<b>351,357</b>	<b>199,916</b>
<b>Other changes in net assets:</b>						
Recovery of bad debt	-	-	-	316,804	316,804	-
<b>Net income (loss)</b>	<b>667,017</b>	<b>35,262</b>	<b>702,279</b>	<b>671,672</b>	<b>1,373,951</b>	<b>(2,529,745)</b>
<b>Retained earnings/net assets (deficit) at beginning of year</b>	<b>(6,661,628)</b>	<b>308,526</b>	<b>(6,353,102)</b>	<b>558,938</b>	<b>(5,794,164)</b>	<b>(4,445,216)</b>
Prior period adjustment	-	-	-	(3,000)	(3,000)	-
<b>Retained earnings/net assets (deficit) at end of year</b>	<b>(5,994,611)</b>	<b>343,788</b>	<b>(5,650,823)</b>	<b>1,227,610</b>	<b>(4,423,213)</b>	<b>(6,974,961)</b>
Contributed capital at beginning of year	6,575,715	-	6,575,715	14,835,994	21,411,709	21,301,998
Additions (note 11)	500,000	-	500,000	-	500,000	-
Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital	-	-	-	437,354	437,354	86,387
<b>Contributed capital at end of year</b>	<b>7,075,715</b>	<b>-</b>	<b>7,075,715</b>	<b>15,273,348</b>	<b>22,349,063</b>	<b>21,388,385</b>
<b>Fund equity at end of year</b>	<b>\$ 1,081,104</b>	<b>\$ 343,788</b>	<b>\$ 1,424,892</b>	<b>\$ 16,500,958</b>	<b>\$ 17,925,850</b>	<b>\$ 14,413,424</b>

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows  
All Proprietary Fund Types and Discretely Presented Component Units  
Year Ended September 30, 1998  
(With Comparative Totals for the Year Ended September 30, 1997)

	Proprietary Fund Types		Totals	Component Units	Totals		
	Enterprise	Internal Service	Primary		Reporting Entity	1998	1997
			Government (Memorandum Only)				
<b>Cash flows from operating activities:</b>							
Operating income (loss)	\$ 732,104	\$ 35,262	\$ 767,366	\$ (61,576)	\$ 705,790	\$ (2,746,629)	
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Depreciation	1,561,318	-	1,561,318	741,610	2,302,928	592,270	
Bad debt expense	-	-	-	61,279	61,279	2,071,284	
Other	(65,087)	-	(65,087)	-	(65,087)	46,687	
	<u>2,228,335</u>	<u>35,262</u>	<u>2,263,597</u>	<u>741,313</u>	<u>3,004,910</u>	<u>(36,388)</u>	
<b>Change in assets and liabilities:</b>							
Restricted cash	(500,000)	-	(500,000)	(361,911)	(861,911)	-	
General receivables	(1,051,386)	-	(1,051,386)	(103,659)	(1,155,045)	138,319	
Due from other funds	4,704	(1,967)	2,737	-	2,737	(17,832)	
Inventory of supplies, at cost	-	(36,993)	(36,993)	(45,690)	(82,683)	(73,502)	
Prepayments	(39,547)	3,698	(35,849)	(16,561)	(52,410)	-	
Advances	-	-	-	1,247	1,247	(7,194)	
Promotional materials	-	-	-	(4,450)	(4,450)	-	
Loans receivable	-	-	-	93,285	93,285	-	
Interest receivable	-	-	-	(25,725)	(25,725)	-	
Accounts payable	74,028	-	74,028	(10,241)	63,787	(44,154)	
Accrued payroll and others	(21,232)	-	(21,232)	(750)	(21,982)	18,989	
Other payables	-	-	-	9,095	9,095	-	
	<u>(1,533,433)</u>	<u>(35,262)</u>	<u>(1,568,695)</u>	<u>(465,360)</u>	<u>(2,034,055)</u>	<u>14,626</u>	
Net cash provided by (used for) operating activities	<u>694,902</u>	<u>-</u>	<u>694,902</u>	<u>275,953</u>	<u>970,855</u>	<u>(21,762)</u>	
<b>Cash flows from noncapital financing activities:</b>							
Operating transfers in and contributed capital	-	-	-	1,225,041	1,225,041	602,378	
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,225,041</u>	<u>1,225,041</u>	<u>602,378</u>	
<b>Cash flows from capital and related financing activities:</b>							
Contributed capital	-	-	-	41,700	41,700	-	
Acquisition of fixed assets	-	-	-	(1,002,862)	(1,002,862)	-	
Proceeds from Yap State Government loan	1,000,000	-	1,000,000	-	1,000,000	-	
Retirement of debt	(1,000,000)	-	(1,000,000)	-	(1,000,000)	-	
Disposals of fixed assets and other	-	-	-	-	-	(642,538)	
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(961,162)</u>	<u>(961,162)</u>	<u>(642,538)</u>	
<b>Cash flows from investing activities</b>							
Interest income	-	-	-	63,393	63,393	48,893	
Acquisition of fixed assets	(346,981)	-	(346,981)	(45,967)	(392,948)	-	
Acquisition of investment	-	-	-	(571,599)	(571,599)	(100,000)	
Net cash used for investing activities	<u>(346,981)</u>	<u>-</u>	<u>(346,981)</u>	<u>(554,173)</u>	<u>(901,154)</u>	<u>(51,107)</u>	
Net increase (decrease) in cash and equivalents	347,921	-	347,921	(14,341)	333,580	(113,029)	
Cash and equivalents at beginning of year	88,996	-	88,996	1,535,807	1,624,803	1,312,906	
Cash and equivalents at end of year	<u>\$ 436,917</u>	<u>\$ -</u>	<u>\$ 436,917</u>	<u>\$ 1,521,466</u>	<u>\$ 1,958,383</u>	<u>\$ 1,199,877</u>	
Supplemental disclosure of cash flow information:							
Cash paid for interest	<u>\$ 80,000</u>						

See accompanying notes to financial statements.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

The general purpose financial statements of the State of Yap have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1999. The State of Yap has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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

1. Blended Component Units

- a) The Yap Economic Development Authority (YEDA) is responsible to promote and support economic development in the State of Yap. YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 and is governed by an eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YEDA is reported as an enterprise fund as it is designed to hold various Yap State investments in for-profit making activities.
- b) The Yap Investment Trust (YIT) is responsible to act as trustee for Deed of Trust guarantees as provided for under the Yap State Deed of Trust Act and to promote and support economic development in the State of Yap. YIT was created in fiscal year 1994 by Yap State Law No. 3-84 and is governed by an eight member Board of Directors, six of which are appointed by the Governor, one appointed by the Council of Pilung, and one appointed by the Council of Tamol. YIT is reported as an enterprise fund as its mission is similar to that of the YEDA. The 1998 presentation for YIT includes the results of its investee, Diving Seagull Inc. (DSI). Prior general purpose financial statements have not included DSI.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units

- a) The Yap Fishing Authority (YFA) is responsible to promote, develop, and support commercial utilization of living marine resources within the State of Yap. YFA was created in fiscal year 1979 by Yap District Law No. 6-13, provides services to private enterprises and the government, and is governed by a five member Board of Directors, three of which are appointed by the Governor, with the remaining two coming from specific Legislative Committees. YFA is reported as a component unit - propriety fund.
- b) The Yap State Public Service Corporation (YSPSC) is a public corporation which administers electric and water utilities for Yap State. YSPSC commenced operations on April 1, 1996 with assets and liabilities transferred from the Yap State Department of Public Utilities and Contracts. YSPSC is governed by a seven member Board of Directors who are nominated by the Governor with the advise and consent of the Legislature of the State of Yap.
- c) The Yap Community Action Program (Yap CAP) is a non-profit corporation. Yap CAP was created in fiscal year 1968 by the Trust Territory Government, is governed by an eight member Board of Directors, two of which are appointed by the Governor and one each appointed by the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. Yap CAP is reported as a component unit-governmental fund in 1998 but was not previously reported within the State's general purpose financial statements.
- d) The Yap Visitors Bureau (YVB) was created pursuant to YSL No. 4-25 in October 1996. YSL 4-81 dated August 1998, enabled YVB to maintain books and records independent of the Government of the State of Yap. YVB is responsible for promoting tourism, developing the resources of the private sector and other activities related to the tourism industry. The YVB is governed by a seven member Board of Directors, five of which are appointed by the Governor with the advice and consent of the Legislature, one appointed by the Speaker of the State Legislature, and one elected by the vote of the six appointed members. A General Manager is hired by the Board to oversee daily operations. The Yap Visitors Bureau is included with the 1998 presentation but was not previously included in the 1997 presentation.

3. Omitted Component Units

- a) The Gagil-Tomil Water Authority (GTWA) is responsible to provide services in the operation and maintenance of the Gagil-Tomil Water System. GTWA was created in fiscal year 1985 by Yap State Law No. 1-183, serves all citizens of the Gagil-Tomil Water System, and is governed by a nine member Board of Directors, four of which are appointed by the Gagil member of the Council of Pilung, four appointed by the Tomil member of the Council of Pilung, and one appointed by the Governor. GTWA would be reported as a component unit-proprietary fund.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Omitted Component Units, Continued

- b) The Southern Yap Water Authority (SYWA) is responsible to operate and maintain the Southern Yap Water System. SYWA was created in fiscal year 1987 by Yap State Law No. 1-221, serves all citizens of the Southern Yap Water System, and is governed by a five member Board of Directors, one of which is appointed by the Governor with the remaining four appointed by the municipal chiefs of the four related municipalities represented in the Council of Pilung. SYWA would be reported as a discretely presented component unit-proprietary fund.
- c) Information with respect to the Yap Sports Council is not available.
- d) The Public Transportation System (PTS) is responsible to provide reliable and inexpensive transportation for those people living outside of the Colonia area. PTS is not a legally separate entity. However the State of Yap has determined that accountability on a proprietary basis is appropriate for PTS as it primarily provides services to the State. PTS was established in fiscal year 1984 by Yap State Law No. 1-170 and is governed by a five member Board of Directors appointed by the Governor.

4. Special Revenue Funds

During fiscal year 1998, the State closed three immaterial special revenue funds to the General Fund. These funds included the Traditional Award Fund, The Feed Sales Fund and the Slaughter House Fund. Due to the immateriality of the fund deficits of these funds, an other expenditure account was charged in the General Fund.

B. Fund Accounting

The State of Yap uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Yap State functions or activities.

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

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

B. Fund Accounting, Continued

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

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

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

C. Basis of Presentation

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

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

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

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

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

D. Budgets

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

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

E. Cash and Equivalents

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

F. Investments

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

G. Receivables

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

H. Due From/To Other Funds

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

I. Advances and Prepayments

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

J. Inventories

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

K. Fixed Assets

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

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

Depreciation is not charged on assets in the General Fixed Assets Account Group. However, depreciation is charged on proprietary fund fixed assets and is provided over the estimated useful lives of the assets through use of the straight line method. (See note 8 for a breakdown of fixed assets and the related estimated useful lives).

L. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. (See also note 1M). Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. The liability as of September 30, 1998 is \$469,781. No expenditure is reported for these amounts. Vested accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. The accumulated amount of unused sick leave at September 30, 1998, for all governmental funds, is estimated to be \$1,265,571.

M. Long-Term Obligations

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

N. Fund Equity

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

N. Fund Equity, Continued

The reserve for related assets of the General Fund is comprised of the following:

MTN principal payable (See note 9)	\$ 24,000,000
Advances	503,661
Inventory of supplies	198,607
Interfund receivables which may require in excess of one year to affect collection	1,516,595
ERS loan proceeds (See note 9)	970,445
ERS debt service (See note 9)	391,960
OPIC debt (See note 9)	<u>3,184,965</u>
	\$ <u>30,766,233</u>

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

O. Interfund Transactions

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

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

P. Memorandum Only - Total Columns

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

Q. Comparative Data/Reclassification

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

R. Management Estimates

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

S. Not-for-Profit-Accounting

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

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

- Unrestricted
- Temporarily restricted
- Permanently restricted

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

Net Assets

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

Net assets were released from restrictions due to satisfaction of federal imposed restrictions in the amount of \$1,328,684 for the year ended September 30, 1998.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(1) Summary of Significant Accounting Policies, Continued

S. Not-for-Profit-Accounting, Continued

Contributions

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

(2) Budgetary Information

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

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

(3) Cash and Equivalents

State law requires that cash held in foreign banks must be with banks which have total assets in excess of one billion dollars. There is no such requirement for local banks. At September 30, 1998, the State had deposits as follows:

Cost

General Fund:

Cash in checking and savings accounts with FDIC insured banks	\$ 376,138
Pacific Century Trust and Bankers Trust cash management fund	<u>1,026,983</u>
	\$ <u>1,403,121</u>

Expendable Trust Fund:

Cash in savings accounts with a FDIC insured bank	\$ <u>213,527</u>
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Of the above cash, \$200,000 is subject to FDIC coverage with the balance exceeding insurable amounts. The State does not require collateralization of its deposits by its banks. Therefore, the amounts which exceed the FDIC insurable limitations are characterized as uncollateralized.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(3) Cash and Equivalents, Continued

Discretely Presented Component Units:

Cash in checking and savings accounts with a FDIC insured bank                      \$ 1,521,466

Of Yap State Public Service Corporation's and Yap CAP's cash balances, \$200,000 each is subject to FDIC coverage with the remaining balances being noninsured and uncollateralized.

Yap Visitors Bureau cash balances at September 30, 1998 includes \$107,552 which is subject to FDIC coverage. The remaining balance is uncollateralized.

(4) Restricted Cash

General Fund:

Restricted cash represents the Asian Development Bank loan proceeds and earnings reserved for the Yap State Early Retirement Scheme. The funds are held by Pacific Century Trust. (See note 9).

\$ 1,057,417

Discretely Presented Component Units:

Restricted cash for the Yap Community Action Program consists of savings accounts and time certificates of deposits designated for housing loan programs.

\$ 632,331

Enterprise Fund:

Restricted cash represents cash that is designated to collateralize various housing related loans (see note 12).

\$ 500,000

(5) Investments

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

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

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

1. Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(5) Investments, Continued

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The manager may engage in all normally accepted short-term investment practices including, but not limited to: U.S. Treasury and Agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply:

- a. Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moody's Investor Services.
  - b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury Securities at 102%.
- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

At September 30, 1998, the market value of the State's investments was \$52,033,910. These investments have been reported at fair value in accordance with GASB 31 and are classified in the financial statements as follows:

Investments	\$ 51,663,943
Accrued interest	<u>369,967</u>
	\$ <u>52,033,910</u>

The State's investment income, including \$57,417 in interest for the ERS program, for the year ended September 30, 1998, is summarized below:

Interest	\$ 2,263,965
Dividends	1,293,672
Realized gains	2,871,084
Management fees	(379,020)
Other expenses	<u>(35,114)</u>
	6,014,587
Unrealized gains/losses	<u>(3,561,279)</u>
	\$ <u>2,453,308</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(5) Investments, Continued

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

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

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

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

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

Additionally, as of September 30, 1998, the State holds 10.7% of the shares of the Bank of the Federated States of Micronesia, carried at cost, in the amount of \$1,000,000 (\$750,000 of these investments held by the Yap Economic Development Authority (YEDA) with the remaining \$250,000 held by the Yap Investment Trust (YIT) - Enterprise Funds) and 24.5% of the shares of the Pacific Islands Development Bank, also carried at cost, in the amount of \$1,000,000 (\$357,043 of these investments are held by the YEDA with the remaining \$642,957 held by the YIT). The market value of these shares is difficult to assess, as they are not publicly traded so a market versus cost analysis could not be performed. This investment in stock has therefore been recorded at cost.

YIT also owns 100% of the 6,500,000 authorized and issued shares of Diving Seagull, Inc. (DSI). In exchange for the shares, YIT granted the use of a fishing vessel and purse seine fishing net to DSI under the terms of a Bareboat Charter Agreement, which expires July 2002. YIT's investment in DSI is recorded by the equity method. YIT's gain on investment in DSI for the year ended September 30, 1998 was \$689,269 (See notes 9 and 17).

Also, the Yap Fishing Authority (YFA), a Discretely Presented Component Unit, has an investment carrying value of \$1,642,833 as of September 30, 1998, in Yap Fresh Tuna, Inc., (YFTI) a joint venture between YFA and the National Fisheries Corporation (NFC), a Component Unit of the FSM National Government, in the form of equity contributions. As of September 30, 1998, YFA's investment represents approximately 81.54% of YFTI's equity with only 50% of the voting shares. As NFC appears to be the controlling partner, YFTI is consolidated with NFC's financial statements and is carried on the equity method in YFA's financial statements (See note 19). No adjustment has yet been made to the aforementioned investment account to reflect 1998 results pending completion of audited financial statements of YFTI.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(6) Receivables, Advances and Loans

A. General Fund

A summary of receivables, advances, loans and the corresponding allowance for doubtful accounts for the General Fund as of September 30, 1998 (with comparative totals as of September 30, 1997) is presented below:

<u>SourceAmount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1998</u>	<u>1997</u>
FSM Government and other reimbursable	\$ <u>160,876</u>	\$ <u>-</u>	\$ <u>160,876</u>	\$ <u>231,247</u>
General:				
Taxes	\$ 208,780	\$ (203,780)	\$ 5,000	\$ 5,000
General	-	-	-	282
Leases	169,734	(46,840)	122,894	3,315
Airport operation	107,094	(31,145)	75,949	147,540
Other	<u>48,015</u>	<u>(47,823)</u>	<u>192</u>	<u>-</u>
	\$ <u>533,623</u>	\$ <u>(329,588)</u>	\$ <u>204,035</u>	\$ <u>156,137</u>
Advances:				
Travel/payroll	\$ 164,522	\$ (65,000)	\$ 99,522	\$ 72,325
Purchases	<u>305,642</u>	<u>-</u>	<u>305,642</u>	<u>191,792</u>
	\$ <u>470,164</u>	\$ <u>(65,000)</u>	\$ <u>405,164</u>	\$ <u>264,117</u>
Loans:				
Yap Fishing Corporation			\$ 7,400,000	\$ 7,400,000
Accrued interest-YFC			324,101	147,183
Satawal Community			<u>-</u>	<u>41,360</u>
			7,724,101	7,588,543
Allowance for doubtful accounts			<u>(7,724,101)</u>	<u>(7,547,183)</u>
			\$ <u>-</u>	\$ <u>41,360</u>

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(6) Receivables, Advances and Loans, Continued

A. General Fund, Continued

Yap State Government also appropriated \$1,000,000 as a revolving line of credit under Yap State Law No. 3-8 for the use of YFC. In a subsequent agreement dated August 21, 1992, the terms of the original line of credit agreement were changed to an interest rate of 6% and a termination date of September 30, 2004. As of September 30, 1998, \$1,000,000 has been utilized by YFC. All amounts receivable from YFC have been reserved as uncollectible as of September 30, 1998.

B. Special Revenue Funds

A summary of loans receivable, advances and the corresponding allowance for doubtful accounts for the Special Revenue Funds as of September 30, 1998 follows (with comparative totals as of September 30, 1997):

<u>Source Amount</u>	<u>Gross</u>	Allowance for Doubtful <u>Accounts</u>	<u>Net Balance</u>	
			<u>1998</u>	<u>1997</u>
Other governments	\$ <u>764,951</u>	\$ <u>(15,222)</u>	\$ <u>749,729</u>	\$ <u>382,938</u>
Federal agencies and CFSM	\$ <u>1,511,646</u>	\$ <u>(62,000)</u>	\$ <u>1,449,646</u>	\$ <u>891,967</u>
Advances - travel/ payroll	\$ <u>144,585</u>	\$ <u>(46,000)</u>	\$ <u>98,585</u>	\$ <u>54,249</u>

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 1998 (with comparative totals as of September 30, 1997):

<u>Source Amount</u>	<u>Gross</u>	Allowance for Doubtful <u>Accounts</u>	<u>Net Balance</u>	
			<u>1998</u>	<u>1997</u>
Federal agencies	\$ <u>295,423</u>	\$ <u>-</u>	\$ <u>295,423</u>	\$ <u>509,868</u>
U.S. Department of the Interior - TTPI	\$ <u>88,115</u>	\$ <u>-</u>	\$ <u>88,115</u>	\$ <u>366,441</u>
CFSM Grants	\$ <u>289,688</u>	\$ <u>(21,000)</u>	\$ <u>268,688</u>	\$ <u>183,140</u>
Advances - travel	\$ <u>1,147</u>	\$ <u>-</u>	\$ <u>1,147</u>	\$ <u>7,211</u>
Loan - YIT	\$ <u>6,500,000</u>	\$ <u>-</u>	\$ <u>6,500,000</u>	\$ <u>6,500,000</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(6) Receivables, Advances and Loans, Continued

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

D. Discretely Presented Component Units

A summary follows of receivables and the corresponding allowance for doubtful accounts for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1998 (with comparative totals as of September 30, 1997):

<u>Source</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>1998</u>	<u>1997</u>
General:				
Trade	\$ 456,985	\$ (454,856)	\$ 2,129	\$ 30,973
Employees	31,421	(30,719)	702	1,162
Others	<u>4,274</u>	<u>(4,274)</u>	<u>-</u>	<u>-</u>
	<u>\$ 492,680</u>	<u>\$ (489,849)</u>	<u>\$ 2,831</u>	<u>\$ 32,135</u>

Receivables of the Yap State Public Service Corporation are net of an allowance for doubtful accounts of \$209,789.

Housing loan receivables of the Yap Community Action Program are net of an allowance for doubtful accounts of \$1,427,566. Included in the amount outstanding at September 30, 1998 were \$56,533 in loans to officers and employees of Yap CAP and their immediate families. The loans were made in the ordinary course of business and were subject to the same terms and conditions as other borrowers.

(7) Inventory of Supplies

General Fund inventory consists of medical and pharmaceutical supplies of \$198,607 at September 30, 1998. The Internal Service Fund's inventory consists of general stores supplies of \$41,581.

(8) Investment in Fixed Assets

A. General Fixed Asset Account Group

A summary of general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 1998 (with comparative totals as of September 30, 1997), follows:

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(8) Investment in Fixed Assets, Continued

A. General Fixed Asset Account Group, Continued

	<u>Estimated Useful Life</u>	<u>1998</u>	<u>1997</u>
Land	-	\$ 1,822,614	\$ 1,822,614
Infrastructure	20-50 years	41,645,543	41,645,543
Outer-island capital assets	5-10 years	1,804,550	1,804,550
All others - equipment, vehicles and machinery	5-10 years	<u>19,348,051</u>	<u>19,348,051</u>
		<u>\$ 64,620,758</u>	<u>\$ 64,620,758</u>

B. Discretely Presented Component Units

A summary of fixed assets accounted for the Yap Fishing Authority, a discretely presented component unit as of September 30, 1998 (with comparative totals as of September 30, 1997), follows:

	<u>Estimated Useful Life</u>	<u>1998</u>	<u>1997</u>
Buildings	3-20 years	\$ 1,651,117	\$ 1,651,117
Dock	40 years	2,629,777	2,629,777
Fleet	3-10 years	1,064,102	1,064,102
Refrigeration and cold storage equipment	2-10 years	564,365	631,697
Motor vehicles	2-20 years	334,831	334,831
Other equipment	2-25 years	232,866	232,866
Other capital assets	2-25 years	<u>55,411</u>	<u>55,411</u>
Total fixed assets, at cost		6,532,469	6,599,801
Less: accumulated depreciation		<u>(3,385,547)</u>	<u>(3,169,500)</u>
Fixed assets, net		<u>\$ 3,146,922</u>	<u>\$ 3,430,301</u>

Details of fixed assets of the Yap State Public Service Corporation, a discretely presented component unit as of September 30, 1998 (with comparative totals as of September 30, 1997) are as follows:

	<u>Estimated Useful Life</u>	<u>1998</u>	<u>1997</u>
Production plant	40 years	\$ 8,220,736	\$ 7,770,108
Distribution plant	3 - 20 years	2,946,632	2,914,875
General plant	3 - 25 years	<u>870,636</u>	<u>498,904</u>
Utility plant in service		12,038,004	11,183,887

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(8) Investment in Fixed Assets, Continued

B. Discretely Presented Component Units, Continued

Construction in progress	<u>172,211</u>	<u>59,381</u>
	12,210,215	11,243,268
Less: accumulated depreciation	<u>(4,631,524)</u>	<u>(4,029,975)</u>
Fixed asset, net	<u>\$ 7,578,691</u>	<u>\$ 7,213,293</u>

Utility plant is comprised of the following components:

Electric plant	\$ 9,284,687	\$ 8,961,297
Water plant	<u>2,753,317</u>	<u>2,222,590</u>
	<u>\$ 12,038,004</u>	<u>\$ 11,183,887</u>

A summary of fixed assets accounted for the Yap Community Action Program, a discretely presented component unit as of September 30, 1998 (with comparative totals as of September 30, 1997), follows:

	<u>Estimated Useful Life</u>	<u>1998</u>	<u>1997</u>
Office furniture, fixtures and equipment	3-10 years	\$ 121,439	\$ 130,933
Vehicles	4 - 6 years	328,979	285,194
Recreation equipment	10 years	8,763	8,763
Others	4-25 years	46,159	40,283
Building	25 years	<u>261,263</u>	<u>261,264</u>
Total fixed assets, at cost		766,603	726,437
Less: accumulated depreciation		<u>(363,383)</u>	<u>(302,330)</u>
Fixed assets, net		<u>\$ 403,220</u>	<u>\$ 424,107</u>

A summary of fixed assets accounted for the Yap Visitors Bureau, a discretely presented component unit as of September 30, 1998, follows:

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



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(8) Investment in Fixed Assets, Continued

C. Enterprise Fund

Property and equipment of the Yap Investment Trust consists of the following:

	<u>Estimated Useful Life</u>	<u>1998</u>
Leased fishing vessel	5 years	\$ 6,500,000
Leasehold improvement	up to 5 years	1,301,717
Computerized office equipment	3 years	<u>11,516</u>
		7,813,223
Less accumulated depreciation		<u>(1,896,484)</u>
		<u>\$ 5,916,749</u>

(9) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 1998 (with comparative totals for the year ended September 30, 1997), follow:

	<u>1998</u>	<u>1997</u>
Balance, beginning of year	\$ 31,710,966	\$ 37,369,816
Payments and accruals made on medium-term notes	(6,700,000)	(6,100,000)
Decrease in accrued annual leave	(86,826)	(13,209)
Increase (decrease) in land acquisition accrual	(70,419)	454,359
Increase in ERS program loan	2,000,000	-
Increase in OPIC liability	<u>3,184,965</u>	<u>-</u>
Balance, end of year	<u>\$ 30,038,686</u>	<u>\$ 31,710,966</u>

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

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

Upon receipt of Compact payments, the Trustee is responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants exist and are detailed in the Trust Agreement dated January 4, 1991. Management is of the opinion that it has complied with such covenants through September 30, 1998. Interest due on the bonds was \$2,595,578 for the fiscal year ended September 30, 1998 (\$3,160,211 in the fiscal year ended September 30, 1997).

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(9) Long-Term Debt, Continued

The bonds are taxable. Under the guidelines imposed by the borrowing, the amount of the investments, at market value, must equal or exceed the amount of the outstanding notes plus accrued interest.

Any shortfall restricts the State's general fund unreserved fund balance equal to the amount of the shortfall. As a result, the amount of the investment which may be withdrawn and utilized by the State is that amount which corresponds to the Compact drawdown apportionments plus related earnings, provided that the investment balance exceeds the outstanding debt plus accrued interest. As of September 30, 1998, there is no shortfall as the reserve of fund balance equals the outstanding principal of \$24,000,000. This amount (\$24,000,000) is included in the reserve for related assets of the General Fund.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 7,300,000	\$ 1,969,153	\$ 9,269,153
2000	7,900,000	1,289,768	9,189,768
2001	<u>8,800,000</u>	<u>542,030</u>	<u>9,342,030</u>
Total	\$ <u>24,000,000</u>	\$ <u>3,800,951</u>	\$ <u>27,800,951</u>

Asian Development Bank Early Retirement Program Loan

During the year ended September 30, 1998, the State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years wages. The ERS program is funded by a \$3,500,000 loan from the Asian Development Bank through the FSM National Government. During the year ended September 30, 1998, \$2,000,000 of the loan was released to the FSM National Government, \$1,000,000 of which was transferred by the FSM National Government to Pacific Century Trust (see note 4) and \$1,000,000 was disbursed to the State of Yap. The activities of the ERS Program are recorded in the General Fund. The program expenditures of \$1,029,555 as of September 30, 1998, consisted of \$993,367 in employees' retirement payouts, with the remainder representing training costs.

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

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. For the year ended September 30, 1998, \$391,960 of the appropriation for salaries and wages of the eighty-five positions abolished during the year was not utilized. These funds had not been deposited to the Trust Account as of September 30, 1998. \$970,445 of the loan proceeds and \$391,360 identified for future debt service payments are included in the General Fund reserve for related assets.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(9) Long-Term Debt, Continued

OPIC Loan

Subsequent to September 30, 1998, the State, the National Fisheries Corporation (NFC) and Overseas Private Investment Corporation (OPIC) were in the final stages of completing the negotiated settlement of the refinancing of the OPIC debt (see note 15). The principal due has been agreed to be \$4,011,535. The liability remains joint and several between the State and NFC. The State's share of the loan is 77.77%. The interest rate is 5.87% with the terms of three and one half years. The debt will be collateralized by the assignment to OPIC of the Yap Investment Trust's (YIT) MV Mathawmarfach (see note 5).

As a result of certain events which occurred subsequent to September 30, 1998, the total State liability relating to the OPIC debt has been determined to be \$3,184,965 (refer to note 18). This whole amount is to be paid in fiscal year 1999 and is therefore included in the General Fund reserve for related assets.

Land Purchase and Indefinite Land Use Payments

As of September 30, 1998, \$383,940 in long-term payments due under land purchase agreements were identified by the State. The amount includes \$186,659 due in fiscal year 1999. The remaining \$197,281 consists of indefinite land use payments of \$192,600 and other lease payments for which payment dates cannot be determined due to heirship disputes (see note 13).

(10) Interfund Receivables and Payables

As of September 30, 1998, interfund receivables and payables resulting from various interfund transactions are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ -	\$ 7,576,241
Special Revenue Funds:		
Compact Programs	135,839	-
Federal Grants	-	96,991
Other U.S. Grants	-	253,653
Non U.S. Grants	44,077	-
CFSM Grants	-	833,544
Sports Development Fund	71,817	-
Capital Projects Funds:		
Compact Capital Projects	7,994,160	-
TTPI Capital Projects	-	36,561
CFSM Capital Project	-	258,417
Public Projects	51,828	-
Other U.S. Capital Projects	-	295,423
Water Development Fund	350,000	-
Enterprise Funds		
YEDA	-	107,912
YIT	500,000	-
Expendable Trust Fund	13,778	-
Internal Service Fund	<u>297,243</u>	<u>-</u>
	<u>\$ 9,458,742</u>	<u>\$ 9,458,742</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(11) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 1998, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer to Enterprise Funds:		
Public Transportation System	\$ 116,560	\$ -
Transfer to Special Revenue Funds:		
For bond payments	1,154,573	-
Typhoon Fern Matching	168,871	-
Transfer to Capital Projects Funds:		
YSL building renovation reimbursement	13,400	-
For bond payments	3,145,184	-
Water catchment projects	309,800	-
Water development project	450,000	-
Transfer to Component Units:		
Yap Community Action Program operations	239,251	-
Yap Community Action Program Loan Program	200,000	-
Yap Visitors Bureau	217,137	-
Yap Fishing Authority	46,490	-
Yap State Public Service Corporation	<u>55,000</u>	<u>-</u>
	<u>\$ 6,116,266</u>	<u>\$ -</u>

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 1998, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
For bond payments	\$ -	\$ 1,154,573
Typhoon Fern matching	-	168,871
Transfers from Special Revenue Fund:		
YSPSC FY94 OMIP Power System Improvement	50,000	-
YSPSC FY94 OMIP Government Facilities Metering	60,000	-
YIT/RSH Loan Guaranty	<u>500,000</u>	<u>-</u>
	<u>\$ 610,000</u>	<u>\$ 1,323,444</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(11) Transfers In/Out, Continued

C. Capital Projects Funds

Material Capital Projects Funds transfers in/out for the year ended September 30, 1998, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
YSPSC/Water development project	\$ 100,000	\$ 450,000
YSL building renovation reimbursement	-	13,400
For bond payments	-	3,145,184
Water catchment projects	<u>-</u>	<u>309,800</u>
	<u>\$ 100,000</u>	<u>\$ 3,918,384</u>

D. Enterprise Funds

Material Enterprise Funds transfers in/out for the year ended September 30, 1998, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Subsidy for operations of Public Transportation System	\$ -	\$ 116,560
Transfer from Compact Special Development:		
YIT/RHS Loan Guaranty	<u>-</u>	<u>500,000</u>
	<u>\$ -</u>	<u>\$ 616,560</u>

(12) Segment Information - Enterprise Funds

The following presents key data extracted from the financial statements of the Enterprise Funds of the State of Yap as of September 30, 1998, and for the year then ended.

	Yap Economic Development Authority	Yap Investment Trust
Operating income (loss)	\$ <u>(4,704)</u>	\$ <u>736,808</u>
Net income (loss)	\$ <u>(4,704)</u>	\$ <u>671,721</u>
Contributed capital	\$ <u>5,682,758</u>	\$ <u>1,392,957</u>
Total assets	\$ <u>1,107,327</u>	\$ <u>9,356,754</u>
Total equity (deficit)	\$ <u>(1,001,122)</u>	\$ <u>2,082,226</u>

The increase in contributed capital of \$500,000 for the Yap Investment Trust (YIT) was due to a contribution from the General Fund of the State of Yap, for an Escrow Account to be created for the United States Department of Agriculture Rural Housing Service Loan Program. The Escrow Account had not been established as of September 30, 1998.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(13) Contingent Liabilities

Federal and Other Grants

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$271,600 in cumulative questioned costs exist for the operation of fiscal year 1984-98 grants. If these costs are ultimately disallowed, the General Fund will be charged for the necessary reimbursement to the grantor agencies.

Additionally, the State receives certain grants from the Congress of the Federated States of Micronesia (CFSM) for public and other projects. In an audit report dated January 30, 1992, the Public Auditor of the Federated States of Micronesia questioned \$24,695 of expenditures incurred in addition to the \$67,400 previously questioned in an audit report dated November 30, 1989, in connection with these CFSM projects. If these costs are ultimately disallowed, the General Fund may be correspondingly impacted. No provision for any liabilities that may result upon the ultimate outcome of these matters has been made in the accompanying general purpose financial statements.

Litigation

Yap State is party to several legal proceedings arising from governmental operations. Claims are filed with the Yap State Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. At September 30, 1998, there existed several unapproved claims. The Attorney General of the State of Yap is of the opinion that the State Liability Act has established claims limits of \$40,000 for wrongful injuries and \$20,000 for deaths. Current claims against the State exist but do not appear to be material. Management has not provided for such claims in the accompanying general purpose financial statements as it is not currently possible to estimate the State's potential liability, if any, arising from these claims.

Indefinite Land Use Sites

Payment obligations on rental lands termed "Indefinite Land Use Sites" were originally undertaken by the Trust Territory of the Pacific Islands (TTPI). TTPI's obligation on these lands ceased in May, 1984. After that year, responsibility to rent or purchase the sites was transferred to Yap State. The Yap State Division of Land and Surveys has estimated that Yap State may be responsible for funding the indefinite land use sites for back rent with interest. The State is actively attempting to negotiate purchase prices for these properties and identified \$192,600 in indefinite land use payments as of September 30, 1998.

Medical Referrals

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(13) Contingent Liabilities, Continued

Yap Economic Development Authority

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

Risk Management

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

Insurance

The State of Yap is substantially self-insured for potential risks. The State has not experienced material prior year losses as a result of this policy.

(14) Continuing Appropriations

Continuing appropriations as of September 30, 1998, are as follows:

General Fund:

Disaster Relief Program	\$ 307,033
OMIP Matching Funds	54,500
Tourism Promotional Program	<u>2,510</u>
	\$ <u>364,043</u>

Compact Capital Projects Fund:

Outer Islands Airfield Project	\$ 58,883
Roads Development Project	71,918
Project Feasibility Study	22,794
Malay/Thabeth Causeway Project	7,942
Roads Development Phase VII (Clearing)	14,961
Roads Development Phase V and VI	109,866
Roads Development Phase VII	226,816
Yap Airport Runway Reconstruction	189,014
Leebinaw/Riken/Gachpar Waterline Extension	45,988
Computer Migration Project	<u>298,056</u>
	\$ <u>1,046,238</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(14) Continuing Appropriations, Continued

State Capital Projects Fund:

Repair and install water catchment \$ 34,480

(15) Yap Economic Development Authority

The Yap Economic Development Authority (YEDA) statutorily owns 100% of the Yap Purse Seiner Corporation (YPSC) and controlling interest of the Yap Fishing Corporation (YFC) common stock. YPSC's sole function is to own the fishing vessels and assume the associated debt for the joint venture. Based on the ownership circumstances described above, YEDA's financial statements are prepared by consolidating statements of YEDA, YPSC, and YFC with the primary elimination being YEDA's investment in YFC. YFC filed for bankruptcy in 1995 and was dissolved in 1997. Since its inception and through its dissolution, an audit of YFC's financial statement was never finalized. Therefore, YEDA's financial statements included within the State of Yap's general purpose financial statements do not include the consolidated financial statements of YFC. The effects of this omission on the accompanying general purpose financial statements is unknown.

In fiscal year 1992, YFC acquired \$9,000,000 in debt from the Overseas Private Investment Corporation (OPIC), a U.S. corporation, which has subordinated all YFC debt to Yap State Government and YEDA to the OPIC debt. (Refer to note 6 for a description of the subordinated debt). In the prior years, YFC was determined to be in noncompliance with certain debt covenants regarding their debt to OPIC. Pursuant to an agreement signed by YEDA, the National Fisheries Corporation (NFC) and others, guaranteeing the OPIC debt, OPIC claimed certain sums against YEDA and NFC. Negotiations regarding this claim were ongoing as of September 30, 1998. As further discussed in notes 9 and 18, a final settlement was negotiated with OPIC in 1999.

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

(16) Fund Deficit

The following funds have material fund deficits as of September 30, 1998:

Enterprise Funds:

Yap Economic Development Authority Fund \$ (6,683,880)

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



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(17) Gain on Equity Investment

The Yap Investment Trust, an enterprise fund, holds a 100% investment in Diving Seagull Inc. (DSI). Condensed financial information for DSI is as follows:

	<u>1998</u>	<u>1997</u>
Balance sheet:		
Current assets	\$ 2,067,048	\$ 128,194
Property, plant and equipment	<u>5,916,749</u>	<u>7,131,086</u>
	<u>\$ 7,983,797</u>	<u>\$ 7,259,280</u>
Current liabilities	\$ 794,528	\$ 741,732
Stockholders' equity	<u>7,189,269</u>	<u>6,517,548</u>
	<u>\$ 7,983,797</u>	<u>\$ 7,259,280</u>
Statement of revenues and expenses:		
Sales	\$ 5,517,058	\$ 996,827
Operating expenses	(4,780,250)	(978,822)
Nonoperating revenues (expense), net	<u>(65,087)</u>	<u>(457)</u>
Net income	<u>\$ 671,721</u>	<u>\$ 17,548</u>

(18) Subsequent Events

Yap State Legislature appropriated \$500,000 principal payment under YSL No. 4-85 for the OPIC debt discussed in note 9. This principal payment was made by the State on December 31, 1998, reducing the loan principal, interest and miscellaneous costs to \$2,684,965. The Yap State Legislature also appropriated in fiscal year 1999, \$2,684,965 for Yap State's share of the principal and interest due on the loan. On April 15, 1999, that appropriation consisting of principal and interest payments of \$2,618,166 and \$44,211, respectively, was paid by Yap State to OPIC. The remainder of the appropriation will be used to pay the miscellaneous closing costs of the OPIC loan.

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

(19) Loss on Equity Investment

The Yap Fishing Authority, a proprietary fund - component unit, holds a 50% investment in Yap Fresh Tuna, Inc. (YFTI). Its financial statements show that YFTI has incurred substantial operating losses. An audit of YFTI's financial statements for the year ended September 30, 1998 has not been finalized. Condensed unaudited financial information for YFTI is as follows:

	<u>1998</u>	<u>1997</u>
Balance sheet:		
Current assets	\$ 72,494	\$ 124,169
Property, plant and equipment	<u>5,650,750</u>	<u>6,145,546</u>
	<u>\$ 5,723,244</u>	<u>\$ 6,269,715</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 1998

(19) Loss on Equity Investment, Continued

Current liabilities	\$ 2,258,686	\$ 1,651,307
Long-term debt	2,602,708	2,809,301
Stockholders' equity	<u>861,850</u>	<u>1,809,107</u>
	<u>\$ 5,723,244</u>	<u>\$ 6,269,715</u>
Statement of revenues and expenses:		
Sales	\$ 118,963	\$ 551,285
Cost of sales	(340)	(280,896)
Operating expenses	(470,161)	(712,841)
Interest income (expense), net	<u>(205,275)</u>	<u>194</u>
Net loss	<u>\$ (556,813)</u>	<u>\$ (442,258)</u>

Substantially all debt (\$3,708,641 in 1998 and 1997) is due to the FSM Development Bank, a component unit of the FSM National Government.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Supplemental Year 2000 Information  
September 30, 1998

Like other organizations and individuals around the world, Yap State could be adversely affected if the computer systems it uses and those used by significant third parties (e.g. vendors, customers, third party administrators, etc.) do not properly process and calculate date-related information and data. This is commonly known as the "Year 2000 issue." Management is assessing its computer systems and business processes and intends to initiate actions to address the Y2K needs identified. Management is also assessing the actions being taken by significant third parties that interface with the State. The State has identified that its current accounting software system is not year 2000 compliant. As a result, the State has decided to purchase and implement new accounting software to ensure year 2000 compatability. Management is of the opinion that it is still on schedule to receive a production ready product by the end of 1999. Other hardware and operating system upgrades are also scheduled to be implemented in early 1999. At this time, management is not able to determine the estimated costs of remediation of the year 2000 issue.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -  
All Governmental Fund Types  
Year Ended September 30, 1998

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

	Governmental Fund Types			Totals	
	General	Special Revenue	Capital Projects	1998	1997
<b>Expenditures:</b>					
Salaries and wages	\$ 4,622,212	\$ 1,487,850	\$ 75,383	\$ 6,185,445	\$ 6,774,897
Travel	237,120	631,052	11,708	879,880	943,109
Freight	40,770	107,533	2,156	150,459	132,133
Communications	84,302	92,481	987	177,770	184,945
Printing and reproduction	26,716	41,106	150	67,972	94,899
Professional services	15,340	43,376	-	58,716	385,478
Food stuffs	76,296	141,129	-	217,425	246,318
Medical supplies	111,450	202,839	-	314,289	278,424
Supplies and materials	185,013	1,256,874	462,850	1,904,737	1,747,395
Medical referral	-	226,456	-	226,456	269,917
POL	262,620	57,545	1,541	321,706	287,787
Capital outlay	144,940	3,194,640	9,197,053	12,536,633	2,212,191
Contractual services	210,744	302,515	125,859	639,118	347,359
Rentals	8,297	37,092	875	46,264	189,483
Repairs and maintenance	73,776	171,393	-	245,169	136,824
Allowances	107,175	-	-	107,175	110,300
Utilities	441	750,246	-	750,687	690,723
Grants and subsidies	146,953	249,420	82,116	478,489	459,701
Scholarships and training	63,315	221,159	-	284,474	349,376
Other	178,663	180,959	271,222	630,844	641,048
<b>Total expenditures</b>	<b>\$ 6,596,143</b>	<b>\$ 9,395,665</b>	<b>\$ 10,231,900</b>	<b>\$ 26,223,708</b>	<b>\$ 16,482,307</b>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

General Fund  
September 30, 1998

General Fund

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

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	1998	1997
Revenues:		
Compact funds:		
Current 211A base grant	\$ 3,843,200	\$ 3,843,200
Inflation adjustment 217	2,036,896	1,921,600
	5,880,096	5,764,800
Revenue sharing:		
Import tax	667,418	436,732
Fuel tax	82,269	102,925
Income tax	415,229	428,556
Business gross revenue tax	573,522	551,199
	1,738,438	1,519,412
Excise taxes:		
Alcoholic beverages	536,539	489,316
Gasoline and diesel	102,293	113,247
Tobacco	108,124	101,925
Other excise taxes	335,049	298,816
	1,082,005	1,003,304
Licenses and permits	50,866	45,175
Fines/sale of confiscated property	243,006	200,638
Leases and other rentals	208,862	208,390
	502,734	454,203
Departmental charges:		
Sea transportation	166,690	260,019
Hospital services	186,590	120,998
Utilities	8,630	8,180
Other	159,097	258,839
	521,007	648,036
Interest income	248,810	448,486
Other income	56,479	17,229
	10,029,569	9,855,470

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	1998	1997
Expenditures:		
General Government:		
Office of the Governor	\$ 196,901	\$ 225,167
State Legislature	436,151	435,761
Office of Administrative Services	387,818	449,293
Office of Planning, Budget and Statistics	166,278	194,094
Division of Revenue and Taxation	34,116	33,711
Disaster relief programs	150,554	80,925
	1,371,818	1,418,951
Health Services:		
Department of Health Services	963,905	1,567,280
Education:		
Department of Education	1,335,793	1,611,019
Economic Development:		
Department of Resources and Development	432,238	560,377
Public Safety:		
Department of Public Safety/Attorney General	530,606	569,231
Public Works and Transportation		
Department of Public Works and Transportation	1,142,941	1,413,748
Community Affairs:		
Department of Public Affairs	182,970	196,089
Boards and Commissions:		
Council of Pilung	100,947	92,582
Council of Tamol	100,613	138,595
EPA administration board	51,282	78,417
	252,842	309,594

See accompanying Independent Auditors' Report.

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	1998	1997
Other:		
Yap Visitors Bureau	-	10,543
Judiciary	161,984	164,087
Public Auditor	16,771	27,652
Legislative projects	204,272	525,155
Other	3	-
	383,030	727,437
 Total expenditures	 6,596,143	 8,373,726
 Excess of revenues over expenditures	 3,433,426	 1,481,744
Other financing sources (uses):		
Investment income	2,453,308	9,594,013
Bad debt expense	(326,806)	(7,547,183)
Inventory write-off	-	(200,368)
Operating transfers out	(6,116,266)	(4,422,490)
Payments of notes payable and interest	(4,995,821)	(5,111,456)
Early retirement system ADB loan proceeds	2,000,000	-
Early retirement program	(1,029,555)	-
	(8,015,140)	(7,687,484)
 Deficiency of revenues and other financing sources under expenditures and other financing uses before the cumulative effect of a change in accounting principle	 (4,581,714)	 (6,205,740)
 Add: cumulative effect of a change in accounting principle	 -	 2,166,535
 Deficiency of revenues and other financing sources under expenditures and other financing uses	 (4,581,714)	 (4,039,205)
 Fund balance at beginning of year	 51,686,335	 55,725,540
 Fund balance at end of year	 \$ 47,104,621	 \$ 51,686,335
	\$ 47,104,621	\$ 51,686,335

See accompanying Independent Auditors' Report.



**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**GENERAL FUND**  
Statement of Revenues, Expenditures by Function and Changes in Fund Balance -  
Budget and Actual - Budgetary Basis  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	1998			1997		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Current account Compact funds	\$ 5,873,280	\$ 5,880,096	\$ 6,816	\$ 5,796,000	\$ 5,764,800	\$ (31,200)
FSM revenue sharing	1,398,560	1,738,438	339,878	1,353,724	1,519,412	165,688
Taxes and licenses	1,855,330	1,584,739	(270,591)	2,056,116	1,457,507	(598,609)
Interest income	250,000	248,810	(1,190)	200,000	448,486	248,486
Other	491,870	577,486	85,616	437,860	665,265	227,405
<b>Total revenues</b>	<b>9,869,040</b>	<b>10,029,569</b>	<b>160,529</b>	<b>9,843,700</b>	<b>9,855,470</b>	<b>11,770</b>
<b>Expenditures budgetary basis:</b>						
<b>General Government:</b>						
Office of the Governor	218,320	207,222	11,098	220,890	225,961	(5,071)
State Legislature	469,820	439,130	30,690	501,460	437,854	63,606
Office of Administrative Services	508,440	401,844	106,596	482,070	449,576	32,494
Office of Planning, Budget and Statistics	209,060	176,767	32,293	192,940	182,041	10,899
Division of Revenue and Taxation	36,080	34,115	1,965	36,880	29,856	7,024
Disaster relief programs	209,060	155,367	53,693	565,303	86,310	478,993
	<b>1,650,780</b>	<b>1,414,445</b>	<b>236,335</b>	<b>1,999,543</b>	<b>1,411,598</b>	<b>587,945</b>
<b>Health Services:</b>						
Department of Health Services	1,138,131	987,187	150,944	1,631,910	1,578,521	53,389
<b>Education:</b>						
Department of Education	1,356,570	1,331,833	24,737	1,666,800	1,623,553	43,247
<b>Economic development:</b>						
Department of Resources and Development	542,331	422,402	119,929	605,910	569,136	36,774
<b>Public safety:</b>						
Department of Public Safety and Attorney General	573,920	530,234	43,686	584,710	559,554	25,156
<b>Public Works and Transportation:</b>						
Department of Public Works and Transportation	2,065,130	1,851,191	213,939	1,541,251	1,477,450	63,801

See accompanying Independent Auditors' Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**GENERAL FUND**  
Statement of Revenues, Expenditures by Function and Changes in Fund Balance -  
Budget and Actual - Budgetary Basis, Continued  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	1998			1997		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Community affairs:</b>						
Department of Public Affairs	\$ 230,450	\$ 186,271	\$ 44,179	\$ 210,190	\$ 202,304	\$ 7,886
<b>Boards and commissions:</b>						
Council of Pilung	102,590	100,946	1,644	94,040	91,417	2,623
Council of Tamol	107,330	103,795	3,535	105,210	135,303	(30,093)
EPA administration board	85,020	56,933	28,087	91,420	81,768	9,652
	<u>294,940</u>	<u>261,674</u>	<u>33,266</u>	<u>290,670</u>	<u>308,488</u>	<u>(17,818)</u>
<b>Other:</b>						
Judiciary	166,790	164,166	2,624	173,390	160,609	12,781
Public Auditor	45,670	15,434	30,236	43,570	27,562	16,008
Yap Visitors Bureau	-	-	-	230,470	(2,932)	233,402
Legislative projects	254,360	189,732	64,628	638,970	553,984	84,986
Other	-	2	(2)	-	1,336	(1,336)
	<u>466,820</u>	<u>369,334</u>	<u>97,486</u>	<u>1,086,400</u>	<u>740,559</u>	<u>345,841</u>
<b>Total expenditures</b>	<u>8,319,072</u>	<u>7,354,571</u>	<u>964,501</u>	<u>9,617,384</u>	<u>8,471,163</u>	<u>1,146,221</u>
<b>Excess of revenues over expenditures</b>	<u>1,549,968</u>	<u>2,674,998</u>	<u>1,125,030</u>	<u>226,316</u>	<u>1,384,307</u>	<u>1,157,991</u>
<b>Other financing sources (uses):</b>						
Investment income	-	2,453,308	2,453,308	-	9,594,013	9,594,013
Bad debt expense	-	(326,806)	(326,806)	-	(7,547,183)	(7,547,183)
Inventory write-off	-	-	-	-	(200,368)	(200,368)
Operating transfers out	(1,624,878)	(6,116,266)	(4,491,388)	(4,422,490)	(4,422,490)	-
Payment of notes payable	(4,995,821)	(4,995,821)	-	(5,111,456)	(5,111,456)	-
ERS ADB loan proceeds	2,000,000	2,000,000	-	-	-	-
Early retirement program	(1,000,000)	(1,029,555)	(29,555)	-	-	-
	<u>(5,620,699)</u>	<u>(8,015,140)</u>	<u>(2,394,441)</u>	<u>(9,533,946)</u>	<u>(7,687,484)</u>	<u>1,846,462</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses before the cumulative effect of a change in accounting principle</b>	<u>(4,070,731)</u>	<u>(5,340,142)</u>	<u>(1,269,411)</u>	<u>(9,307,630)</u>	<u>(6,303,177)</u>	<u>3,004,453</u>
<b>Add: cumulative effect of a change in accounting principle</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,166,535</u>	<u>2,166,535</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<u>(4,070,731)</u>	<u>(5,340,142)</u>	<u>(1,269,411)</u>	<u>(9,307,630)</u>	<u>(4,136,642)</u>	<u>5,170,988</u>
<b>Fund balance, unreserved at beginning of year</b>	<u>16,700,072</u>	<u>16,700,072</u>	<u>-</u>	<u>9,266,555</u>	<u>9,266,555</u>	<u>-</u>
<b>Other changes in unreserved fund balance:</b>						
Related assets	-	2,120,715	2,120,715	-	5,665,435	5,665,435
Loans	-	41,360	41,360	-	7,547,183	7,547,183
Continuing appropriations	-	1,343,703	1,343,703	-	(1,642,459)	(1,642,459)
<b>Fund balance, unreserved at end of year</b>	<u>\$ 12,629,341</u>	<u>\$ 14,865,708</u>	<u>\$ 2,236,367</u>	<u>\$ (41,075)</u>	<u>\$ 16,700,072</u>	<u>\$ 16,741,147</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds  
September 30, 1998

Specific revenues that are legally restricted to expenditures for particular purposes are accounted for in Special Revenue Funds. A brief discussion of Yap State's Special Revenue Funds as of September 30, 1998, follows:

Compact Programs Fund

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

Federal Grants Fund

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

Other U.S. Grants Fund

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

Non U.S. Grants Fund

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

CFSM Grants Fund

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

Sports Development Fund

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

See accompanying Independent Auditors' Report.

**STATE OF YAP**  
**FEDERATED STATES OF MICRONESIA**  
**SPECIAL REVENUE FUNDS**  
Combining Balance Sheet  
September 30, 1998  
(With comparative totals as of September 30, 1997)

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Sports	Totals	
	Programs	Grants	Grants	Grants	Grants	Development	1998	1997
<b>Assets</b>								
Investments	\$ 1,724,768	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,724,768	\$ 2,341,882
Receivables, net:								
Other governments	-	-	747,333	2,396	-	-	749,729	382,938
FSM National								
Government	48,320	521,581	-	-	879,745	-	1,449,646	891,967
Due from other funds	135,839	-	-	44,077	-	71,817	251,733	1,743,274
Advances	8,990	77,014	5,176	-	7,405	-	98,585	54,249
<b>Total assets</b>	<b>\$ 1,917,917</b>	<b>\$ 598,595</b>	<b>\$ 752,509</b>	<b>\$ 46,473</b>	<b>\$ 887,150</b>	<b>\$ 71,817</b>	<b>\$ 4,274,461</b>	<b>\$ 5,414,310</b>
<b>Liabilities and Fund Balances (Deficit)</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 79,738	\$ 196,060	\$ 17,587	\$ -	\$ 36,415	\$ -	\$ 329,800	\$ 160,253
Accrued payroll	9,542	-	117	-	-	-	9,659	7,223
Due to other funds	-	96,991	253,653	-	833,544	-	1,184,188	867,364
Deferred revenue	-	305,544	481,152	46,538	17,191	-	850,425	507,036
<b>Total liabilities</b>	<b>89,280</b>	<b>598,595</b>	<b>752,509</b>	<b>46,538</b>	<b>887,150</b>	<b>-</b>	<b>2,374,072</b>	<b>1,541,876</b>
<b>Fund balances (deficit):</b>								
<b>Reserved for:</b>								
Encumbrances	286,474	246,399	37,056	-	-	1,631	571,560	923,737
Continuing appropriations	-	-	-	-	-	-	-	1,400,000
Unreserved	1,542,163	(246,399)	(37,056)	(65)	-	70,186	1,328,829	1,548,697
<b>Total fund balances (deficit)</b>	<b>1,828,637</b>	<b>-</b>	<b>-</b>	<b>(65)</b>	<b>-</b>	<b>71,817</b>	<b>1,900,389</b>	<b>3,872,434</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 1,917,917</b>	<b>\$ 598,595</b>	<b>\$ 752,509</b>	<b>\$ 46,473</b>	<b>\$ 887,150</b>	<b>\$ 71,817</b>	<b>\$ 4,274,461</b>	<b>\$ 5,414,310</b>

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Compact	Federal	Other U.S.	Non U.S.	CFSM	Sports	Totals	
	Programs	Grants	Grants	Grants	Grants	Development	1998	1997
<b>Revenues:</b>								
Compact	\$ 2,931,301	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,931,301	\$ 2,904,298
Federal contributions	-	2,141,740	1,244,303	-	-	-	3,386,043	1,839,231
CFSM grants	-	-	-	-	1,310,864	-	1,310,864	1,275,404
Other	-	-	-	107,164	-	102,674	209,838	116,325
<b>Total revenues</b>	<b>2,931,301</b>	<b>2,141,740</b>	<b>1,244,303</b>	<b>107,164</b>	<b>1,310,864</b>	<b>102,674</b>	<b>7,838,046</b>	<b>6,135,258</b>
<b>Expenditures:</b>								
Health services	737,228	190,335	-	54,450	202,762	-	1,184,775	960,883
Education	1,351,882	1,667,488	-	-	388,783	-	3,408,153	2,391,844
Economic development	-	-	-	-	46,809	-	46,809	272,031
Public safety	13,500	-	-	-	110,496	-	123,996	176,482
Public works and utilities	1,370,300	-	-	24,714	414,299	-	1,809,313	110
Community affairs	42,163	101,962	1,365,182	-	147,715	-	1,657,022	1,338,433
Other	920,310	71,955	47,992	28,000	-	97,340	1,165,597	689,810
<b>Total expenditures</b>	<b>4,435,383</b>	<b>2,031,740</b>	<b>1,413,174</b>	<b>107,164</b>	<b>1,310,864</b>	<b>97,340</b>	<b>9,395,665</b>	<b>5,829,593</b>
Excess (deficiency) of revenues over (under) expenditures	(1,504,082)	110,000	(168,871)	-	-	5,334	(1,557,619)	305,665
<b>Other financing sources (uses):</b>								
Transfers/general fund	1,154,573	-	168,871	-	-	-	1,323,444	1,147,427
Transfers out	(500,000)	(110,000)	-	-	-	-	(610,000)	-
Payments of notes payable	(1,154,573)	-	-	-	-	-	(1,154,573)	(1,003,571)
<b>Total other financing sources (uses), net</b>	<b>(500,000)</b>	<b>(110,000)</b>	<b>168,871</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(441,129)</b>	<b>143,856</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,004,082)	-	-	-	-	5,334	(1,998,748)	449,521
Fund balances (deficit) at beginning of year	3,832,719	-	-	(65)	-	66,483	3,899,137	3,422,913
Fund balances (deficit) at end of year	\$ 1,828,637	\$ -	\$ -	\$ (65)	\$ -	\$ 71,817	\$ 1,900,389	\$ 3,872,434

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Year Ended September 30, 1998

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

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Totals	
							1998	1997
<b>Revenues:</b>								
Compact	\$ 2,931,301	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,931,301	\$ 2,904,298
Federal contributions	-	2,141,740	1,244,303	-	-	-	3,386,043	1,839,231
CFSM grants	-	-	-	-	1,310,864	-	1,310,864	1,275,404
Other	-	-	-	107,164	-	102,674	209,838	116,325
<b>Total revenues</b>	<b>2,931,301</b>	<b>2,141,740</b>	<b>1,244,303</b>	<b>107,164</b>	<b>1,310,864</b>	<b>102,674</b>	<b>7,838,046</b>	<b>6,135,258</b>
<b>Expenditures:</b>								
Salaries and wages	881,149	553,107	36,106	-	17,488	-	1,487,850	1,033,950
Travel	132,394	416,088	8,361	1,861	39,307	33,041	631,052	560,549
Freight	23,651	43,516	7,358	162	32,455	391	107,533	95,880
Communications	48,841	32,746	373	167	9,729	625	92,481	71,765
Printing and reproduction	18,528	10,837	350	4,708	6,345	338	41,106	49,385
Professional services	27,376	16,000	-	-	-	-	43,376	61,656
Food stuffs	102,254	154	314	-	37,956	451	141,129	116,995
Medical supplies	159,435	15,248	-	-	27,949	207	202,839	144,870
Supplies and materials	199,539	258,246	542,993	44,869	176,337	34,890	1,256,874	1,019,319
Medical referral	226,456	-	-	-	-	-	226,456	264,336
POL	7,974	5,724	1,264	315	41,415	853	57,545	42,738
Capital outlay	1,409,146	319,364	624,963	44,231	796,936	-	3,194,640	613,734
Contractual services	20,475	238,581	-	340	42,788	331	302,515	134,476
Rentals	18,768	2,295	8,259	5,700	1,810	260	37,092	167,537
Repairs and maintenance	15,843	6,547	126,230	67	21,398	1,308	171,393	49,818
Allowances	-	-	-	-	-	-	-	3,300
Utilities	750,246	-	-	-	-	-	750,246	690,602
Grants and subsidies	170,486	-	53,934	-	25,000	-	249,420	240,702
Scholarship and training	161,320	49,384	-	-	10,455	-	221,159	271,366
Other	61,502	63,903	2,669	4,744	23,496	24,645	180,959	196,615
<b>Total expenditures</b>	<b>4,435,383</b>	<b>2,031,740</b>	<b>1,413,174</b>	<b>107,164</b>	<b>1,310,864</b>	<b>97,340</b>	<b>9,395,665</b>	<b>5,829,593</b>
Excess (deficiency) of revenues over (under) expenditures	(1,504,082)	110,000	(168,871)	-	-	5,334	(1,557,619)	305,665
<b>Other financing sources (uses):</b>								
Transfers/general fund	1,154,573	-	168,871	-	-	-	1,323,444	1,147,427
Transfers out	(500,000)	(110,000)	-	-	-	-	(610,000)	-
Payments of notes payable	(1,154,573)	-	-	-	-	-	(1,154,573)	(1,003,571)
<b>Total other financing sources (uses), net</b>	<b>(500,000)</b>	<b>(110,000)</b>	<b>168,871</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(441,129)</b>	<b>143,856</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,004,082)	-	-	-	-	5,334	(1,998,748)	449,521
Fund balances (deficit) at beginning of year	3,832,719	-	-	(65)	-	66,483	3,899,137	3,422,913
Fund balances (deficit) at end of year	\$ 1,828,637	\$ -	\$ -	\$ (65)	\$ -	\$ 71,817	\$ 1,900,389	\$ 3,872,434

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

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -  
Budget and Actual - Budgetary Basis  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	1998			1997		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Other Compact funds	\$ 2,542,148	\$ 2,931,301	\$ 389,153	\$ 2,529,148	\$ 2,904,298	\$ 375,150
<b>Total revenues</b>	<b>2,542,148</b>	<b>2,931,301</b>	<b>389,153</b>	<b>2,529,148</b>	<b>2,904,298</b>	<b>375,150</b>
<b>Expenditures budgetary basis:</b>						
Health services	891,778	840,962	50,816	402,828	495,625	(92,797)
Education	1,467,820	1,394,860	72,960	1,158,270	1,050,213	108,057
Special Development Programs	1,475,650	1,463,027	12,623	1,541,500	141,564	1,399,936
Public works and utilities	900,000	920,311	(20,311)	600,000	689,745	(89,745)
<b>Total expenditures</b>	<b>4,735,248</b>	<b>4,619,160</b>	<b>116,088</b>	<b>3,702,598</b>	<b>2,377,147</b>	<b>1,325,451</b>
Excess (deficiency) of revenues over (under) expenditures	(2,193,100)	(1,687,859)	505,241	(1,173,450)	527,151	1,700,601
<b>Other financing sources (uses):</b>						
Transfers/general fund	1,154,573	1,154,573	-	-	1,003,571	(1,003,571)
Payments of notes payable	(1,154,573)	(1,154,573)	-	-	(1,003,571)	1,003,571
Transfers out	(500,000)	(500,000)	-	-	-	-
<b>Total other financing     sources (uses), net</b>	<b>(500,000)</b>	<b>(500,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(2,693,100)	(2,187,859)	505,241	(1,173,450)	527,151	1,700,601
Fund balance, unreserved at beginning of year	615,169	2,330,022	1,714,853	1,788,619	3,202,871	1,414,252
Continuing appropriations	-	1,400,000	1,400,000	-	(1,400,000)	(1,400,000)
Fund balance, unreserved at end of year	\$ (2,077,931)	\$ 1,542,163	\$ 3,620,094	\$ 615,169	\$ 2,330,022	\$ 1,714,853

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds  
September 30, 1998

The acquisition and construction of major capital facilities, other than those financed by proprietary funds and trust funds, are accounted for in Capital Projects Funds. A brief discussion of Yap State's Capital Projects Funds as of September 30, 1998, follows:

Compact Capital Projects Fund

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

TTPI - Capital Projects Fund

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

CFSM Capital Projects Fund

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

Public Projects Fund

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

Other U.S. Capital Projects Fund

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

Water Development Projects Revolving Fund

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

See accompanying Independent Auditors' Report.



STATE OF YAP  
 FEDERATED STATES OF MICRONESIA  
 CAPITAL PROJECTS FUNDS  
 Combining Balance Sheet  
 September 30, 1998  
 (With comparative totals as of September 30, 1997)

Assets	Compact	TTPI	CFSM	Water Development Projects Revolving Fund	Public	Other U.S.	Totals	
							1998	1997
Investments	\$ 50,009	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,009	\$ 47,266
Receivables, net:								
Federal agencies	-	-	-	-	-	295,423	295,423	509,868
U.S. Dept. of Interior - TTPI	-	88,115	-	-	-	-	88,115	366,441
CFSM	-	-	268,688	-	-	-	268,688	183,140
Loans	6,500,000	-	-	-	-	-	6,500,000	6,500,000
Due from other funds	7,994,160	-	-	350,000	51,828	-	8,395,988	8,313,437
Advances	1,147	-	-	-	-	-	1,147	7,211
<b>Total assets</b>	<b>\$ 14,545,316</b>	<b>\$ 88,115</b>	<b>\$ 268,688</b>	<b>\$ 350,000</b>	<b>\$ 51,828</b>	<b>\$ 295,423</b>	<b>\$ 15,599,370</b>	<b>\$ 15,927,363</b>
<b>Liabilities and Fund Balances</b>								
Liabilities:								
Accounts payable	\$ 1,268,205	\$ 51,554	\$ 6,663	\$ -	\$ -	\$ -	\$ 1,326,422	\$ 86,833
Due to other funds	-	36,561	258,417	-	-	295,423	590,401	977,301
Deferred revenue	-	-	3,608	-	-	-	3,608	4,088
<b>Total liabilities</b>	<b>1,268,205</b>	<b>88,115</b>	<b>268,688</b>	<b>-</b>	<b>-</b>	<b>295,423</b>	<b>1,920,431</b>	<b>1,068,222</b>
Fund balances:								
Reserved for:								
Loans	6,500,000	-	-	-	-	-	6,500,000	6,500,000
Encumbrances	2,572,856	252,063	409,753	-	42,181	99,638	3,376,491	635,458
Continuing appropriations	1,046,238	-	-	-	34,480	-	1,080,718	8,845,986
Unreserved	3,158,017	(252,063)	(409,753)	350,000	(24,833)	(99,638)	2,721,730	(1,122,303)
<b>Total fund balances</b>	<b>13,277,111</b>	<b>-</b>	<b>-</b>	<b>350,000</b>	<b>51,828</b>	<b>-</b>	<b>13,678,939</b>	<b>14,859,141</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,545,316</b>	<b>\$ 88,115</b>	<b>\$ 268,688</b>	<b>\$ 350,000</b>	<b>\$ 51,828</b>	<b>\$ 295,423</b>	<b>\$ 15,599,370</b>	<b>\$ 15,927,363</b>

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Compact	TTPI	CFSM	Water Development Projects Revolving Fund	Public	Other U.S.	Totals	
							1998	1997
<b>Revenues:</b>								
Compact	\$ 3,618,144	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,618,144	\$ 3,547,200
Federal contributions	-	-	-	-	-	-	-	1,048,688
U.S. Dept. of the Interior-TTPI	-	294,215	-	-	-	-	294,215	136,192
CFSM grants	-	-	4,466,139	-	-	-	4,466,139	534,239
<b>Total revenues</b>	<b>3,618,144</b>	<b>294,215</b>	<b>4,466,139</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,378,498</b>	<b>5,266,319</b>
<b>Expenditures:</b>								
General Government	107,653	-	-	-	-	-	107,653	-
Education	-	-	93,851	-	-	-	93,851	4,739
Economic development	337,749	-	75,000	-	-	-	412,749	1,063,370
Public works and utilities	4,463,499	197,600	4,151,335	-	264,709	-	9,077,143	517,422
Community affairs	297,804	96,615	145,953	-	-	-	540,372	689,396
Other	132	-	-	-	-	-	132	4,061
<b>Total expenditures</b>	<b>5,206,837</b>	<b>294,215</b>	<b>4,466,139</b>	<b>-</b>	<b>264,709</b>	<b>-</b>	<b>10,231,900</b>	<b>2,278,988</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,588,693)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(264,709)</b>	<b>-</b>	<b>(1,853,402)</b>	<b>2,987,331</b>
<b>Other financing sources (uses):</b>								
Transfer out	-	-	-	(100,000)	-	-	(100,000)	-
Bad debt expense	-	-	-	-	-	-	-	(2,000,000)
Transfers/general fund	3,158,584	-	-	450,000	309,800	-	3,918,384	3,145,184
Payments of notes payable	(3,145,184)	-	-	-	-	-	(3,145,184)	(3,145,184)
<b>Total other financing sources (uses), net</b>	<b>13,400</b>	<b>-</b>	<b>-</b>	<b>350,000</b>	<b>309,800</b>	<b>-</b>	<b>673,200</b>	<b>(2,000,000)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>(1,575,293)</b>	<b>-</b>	<b>-</b>	<b>350,000</b>	<b>45,091</b>	<b>-</b>	<b>(1,180,202)</b>	<b>987,331</b>
<b>Fund balances at beginning of year</b>	<b>14,852,404</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,737</b>	<b>-</b>	<b>14,859,141</b>	<b>13,871,810</b>
<b>Fund balances at end of year</b>	<b>\$ 13,277,111</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 350,000</b>	<b>\$ 51,828</b>	<b>\$ -</b>	<b>\$ 13,678,939</b>	<b>\$ 14,859,141</b>

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Compact	TTPI	CFSM	Water Development Projects Revolving Fund	Public	Other U.S.	Totals	
							1998	1997
<b>Revenues:</b>								
Compact	\$ 3,618,144	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,618,144	\$ 3,547,200
Federal contributions	-	-	-	-	-	-	-	1,048,688
U.S. Dept. of the Interior-TTPI	-	294,215	-	-	-	-	294,215	136,192
CFSM grants	-	-	4,466,139	-	-	-	4,466,139	534,239
<b>Total revenues</b>	<b>3,618,144</b>	<b>294,215</b>	<b>4,466,139</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,378,498</b>	<b>5,266,319</b>
<b>Expenditures:</b>								
Salaries and wages	32,504	14	42,865	-	-	-	75,383	46,493
Travel	10,924	-	784	-	-	-	11,708	39,547
Freight	1,934	-	-	-	222	-	2,156	1,230
Communications	987	-	-	-	-	-	987	150
Printing and reproduction	150	-	-	-	-	-	150	4,109
Professional services	-	-	-	-	-	-	-	296,291
Food stuffs	-	-	-	-	-	-	-	560
Supplies and materials	208,003	-	159,346	-	95,501	-	462,850	397,967
POL	1,458	-	-	-	83	-	1,541	926
Capital outlay	4,565,694	294,201	4,244,825	-	92,333	-	9,197,053	1,387,053
Contractual services	107,540	-	18,319	-	-	-	125,859	1,500
Rentals	875	-	-	-	-	-	875	11,355
Repairs and maintenance	-	-	-	-	-	-	-	1,500
Subsidies and grants	5,546	-	-	-	76,570	-	82,116	83,591
Other	271,222	-	-	-	-	-	271,222	6,716
<b>Total expenditures</b>	<b>5,206,837</b>	<b>294,215</b>	<b>4,466,139</b>	<b>-</b>	<b>264,709</b>	<b>-</b>	<b>10,231,900</b>	<b>2,278,988</b>
Excess (deficiency) of revenues over (under) expenditures	(1,588,693)	-	-	-	(264,709)	-	(1,853,402)	2,987,331
<b>Other financing sources (uses):</b>								
Transfer out	-	-	-	(100,000)	-	-	(100,000)	-
Bad debt expense	-	-	-	-	-	-	-	(2,000,000)
Transfers/general fund	3,158,584	-	-	450,000	309,800	-	3,918,384	3,145,184
Payments of notes payable	(3,145,184)	-	-	-	-	-	(3,145,184)	(3,145,184)
<b>Total other financing sources (uses), net</b>	<b>13,400</b>	<b>-</b>	<b>-</b>	<b>350,000</b>	<b>309,800</b>	<b>-</b>	<b>673,200</b>	<b>(2,000,000)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,575,293)	-	-	350,000	45,091	-	(1,180,202)	987,331
<b>Fund balances at beginning of year</b>								
	14,852,404	-	-	-	6,737	-	14,859,141	13,871,810
<b>Fund balances at end of year</b>	<b>\$ 13,277,111</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 350,000</b>	<b>\$ 51,828</b>	<b>\$ -</b>	<b>\$ 13,678,939</b>	<b>\$ 14,859,141</b>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Enterprise Funds  
September 30, 1998

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

Public Transportation System Fund

This fund is used to account for the activities of the Yap State Government's Public Transportation System (PTS) operations. PTS was created in fiscal year 1984 by Yap State Law No. 1-170 to provide reliable and inexpensive transportation for those people living outside of the Colonia area. PTS was not able to produce financial statements in 1998.

Yap Economic Development Authority Fund

This fund is used to account for the activities of the Yap Economic Development Authority (YEDA) (a blended component unit of the Yap State Government). YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 to promote and support economic development in the State of Yap. As of September 30, 1998, the major project undertaken by YEDA has been to establish the Yap Purse Seiner Corporation to lease tuna purse seiners to the Yap Fishing Corporation (YFC) for tuna fishing in the Western Tropical Pacific.

Yap Investment Trust Fund

This fund is used to account for the activities of the Yap Investment Trust (YIT) (a blended component unit of the Yap State Government). YIT was created in fiscal year 1994 by Yap State Law No. 3-84 to act as trustee for Deed of Trust guarantees as provided for under the Yap State Deed of Trust Act and to promote and support economic development in the State of Yap. As of September 30, 1998, the major project undertaken by YIT has been to accept the transfer from YEDA of sole membership in Yap Purse Seiner Owner, Inc. (YPSO) and a related note payable to the State of Yap. YIT is also the sole shareholder of Diving Seagull, Inc. In turn YIT leases a tuna purse seiner to Diving Seagull, Inc. for tuna fishing in the Western Tropical Pacific.

See accompanying Independent Auditors' Report.

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

Combining Balance Sheet  
September 30, 1998  
(With comparative totals as of September 30, 1997)

<u>Assets</u>	Yap Economic Development Authority	Yap Investment Trust	<u>Totals</u>	
			1998	1997
Cash and equivalents	\$ -	\$ 436,917	\$ 436,917	\$ -
Restricted cash	-	500,000	500,000	-
Investments	1,107,043	892,957	2,000,000	8,500,000
General receivables	284	1,090,584	1,090,868	284
Due from other funds	-	500,000	500,000	-
Prepaid expenses	-	39,547	39,547	-
Property and equipment, net	-	5,916,749	5,916,749	-
<b>Total assets</b>	<b>\$ 1,107,327</b>	<b>\$ 9,376,754</b>	<b>\$ 10,484,081</b>	<b>\$ 8,500,284</b>
<u>Liabilities and Fund Equity</u>				
<b>Liabilities:</b>				
Accounts payable	\$ 382	\$ 141,113	\$ 141,495	\$ -
Accrued payroll and others	155	653,415	653,570	469
Notes payable:				
Intergovernmental	2,000,000	-	2,000,000	2,000,000
Yap State	-	6,500,000	6,500,000	6,500,000
Due to other funds	107,912	-	107,912	103,276
<b>Total liabilities</b>	<b>2,108,449</b>	<b>7,294,528</b>	<b>9,402,977</b>	<b>8,603,745</b>
<b>Fund equity:</b>				
Contributed capital	5,682,758	1,392,957	7,075,715	6,575,715
Retained earnings (deficit)	(6,683,880)	689,269	(5,994,611)	(6,679,176)
<b>Total fund equity</b>	<b>(1,001,122)</b>	<b>2,082,226</b>	<b>1,081,104</b>	<b>(103,461)</b>
<b>Total liabilities and fund equity</b>	<b>\$ 1,107,327</b>	<b>\$ 9,376,754</b>	<b>\$ 10,484,081</b>	<b>\$ 8,500,284</b>

See accompanying Independent Auditors' Report.

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

Combining Statement of Revenues, Expenses and Changes in Fund Equity  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Yap	Yap	Totals	
	Economic Development Authority	Investment Trust	1998	1997
Operating revenues:				
Charges for goods and services	\$ -	\$ 5,517,058	\$ 5,517,058	\$ -
Total operating revenues	-	5,517,058	5,517,058	-
Operating expenses:				
Personnel services	-	1,260,838	1,260,838	14,506
Fuel	-	372,607	372,607	-
Equipment lease	-	324,950	324,950	-
Repair and maintenance	-	301,957	301,957	-
Insurance	-	276,071	276,071	-
License, agent and port fees	-	196,655	196,655	-
Provision	-	167,647	167,647	-
Management fee	-	143,200	143,200	-
Depreciation	-	1,561,318	1,561,318	-
Other	4,704	175,007	179,711	2,000,000
Total operating expenses	4,704	4,780,250	4,784,954	2,014,506
Operating income (loss)	(4,704)	736,808	732,104	(2,014,506)
Nonoperating expense:				
Interest expense	-	(65,087)	(65,087)	-
Total nonoperating expense	-	(65,087)	(65,087)	-
Net income (loss)	(4,704)	671,721	667,017	(2,014,506)
Retained earnings (deficit) at beginning of year	(6,679,176)	17,548	(6,661,628)	(4,664,670)
Retained earnings (deficit) at end of year	(6,683,880)	689,269	(5,994,611)	(6,679,176)
Contributed capital at beginning of year	5,682,758	892,957	6,575,715	6,575,715
Additions	-	500,000	500,000	-
Contributed capital at end of year	5,682,758	1,392,957	7,075,715	6,575,715
Fund equity at end of year	\$ (1,001,122)	\$ 2,082,226	\$ 1,081,104	\$ (103,461)

See accompanying Independent Auditors' Report.

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

Combining Statement of Cash Flows  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)

	Yap Economic Development Authority	Yap Investment Trust	Totals	
			1998	1997
Cash flows from operating activities:				
Operating income (loss)	\$ (4,704)	\$ 736,808	\$ 732,104	\$ (2,014,506)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	-	1,561,318	1,561,318	-
Other expense	-	(65,087)	(65,087)	2,000,000
	<u>(4,704)</u>	<u>2,233,039</u>	<u>2,228,335</u>	<u>(14,506)</u>
Change in assets and liabilities:				
Restricted cash	-	(500,000)	(500,000)	-
General receivables	-	(1,051,386)	(1,051,386)	-
Due from other funds	4,704	-	4,704	14,506
Prepaid expense	-	(39,547)	(39,547)	-
Accounts payable	-	74,028	74,028	-
Accrued expenses	-	(21,232)	(21,232)	-
	<u>4,704</u>	<u>(1,538,137)</u>	<u>(1,533,433)</u>	<u>14,506</u>
Net cash provided by operating activities	<u>-</u>	<u>694,902</u>	<u>694,902</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Proceeds from Yap State Government loan		1,000,000	1,000,000	-
Retirement of debt	-	(1,000,000)	(1,000,000)	-
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:				
Acquisition of fixed assets	-	(346,981)	(346,981)	-
Net cash used for investing activities	<u>-</u>	<u>(346,981)</u>	<u>(346,981)</u>	<u>-</u>
Net increase in cash and equivalents	-	347,921	347,921	-
Cash and equivalents at beginning of year	-	88,996	88,996	-
Cash and equivalents at end of year	<u>\$ -</u>	<u>\$ 436,917</u>	<u>\$ 436,917</u>	<u>\$ -</u>
Supplemental disclosure of cash flow information				
Cash paid for interest		<u>\$ 80,000</u>		

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Discretely Presented Component Units  
September 30, 1998

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

Yap Fishing Authority

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

Yap State Public Service Corporation

The Yap State Public Service Corporation (YSPSC) is a public corporation which administers electric and water utilities for Yap State. YSPSC commenced operations on April 1, 1996 with assets and liabilities transferred from the Yap State Department of Public Utilities and Contracts.

Yap Visitors Bureau

The Yap Visitors Bureau (YVB) was created pursuant to YSL No. 4-25 in October 1996. YSL 4-81 dated August 1998, enabled YVB to maintain books and records independent of the Government of the State of Yap. YVB is responsible for promoting tourism, developing the resources of the private sector and other activities related to the tourism industry.

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

Yap Community Action Program

The Yap Community Action Program (Yap CAP) was created in fiscal year 1968 by the Trust Territory Government, is governed by an eight member Board of Directors, two of which are appointed by the Governor and one each appointed by the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. Yap Community Action Program is a nonprofit organization which is determined to be a component unit of the State of Yap, due to the amount of financial control exercisable over YCAP by the State.

See accompanying Independent Auditors' Report.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS  
Combining Balance Sheet  
September 30, 1998**

(With comparative totals as of September 30, 1997)

	Proprietary Fund Types			Total Proprietary Fund Types	Governmental	Totals	
	Yap Visitors Bureau	Yap Fishing Authority	Yap State Public Service Corporation		Fund Type		
					Yap Community Action Program	1998	1997
<b>ASSETS</b>							
Cash and equivalents	\$ 115,392	\$ 31,114	\$ 1,238,668	1,385,174	\$ 136,292	\$ 1,521,466	\$ 1,199,877
Cash, restricted	-	-	-	-	632,331	632,331	-
Time certificates of deposit	-	-	671,599	671,599	-	671,599	-
Investments	-	1,642,833	-	1,642,833	-	1,642,833	1,742,833
Federal and other grants receivable	-	-	115,717	115,717	362,938	478,655	-
General receivables, net	-	2,831	266,745	269,576	-	269,576	327,126
Loans receivable, net	-	-	-	-	334,863	334,863	-
Interest receivable	-	-	-	-	11,074	11,074	-
Advances and prepayments	793	152,022	16,061	168,876	9,555	178,431	152,022
Inventory	6,410	56,082	453,102	515,594	-	515,594	462,634
Fixed assets, net	16,834	3,146,922	7,578,691	10,742,447	403,220	11,145,667	10,643,594
<b>Total assets</b>	<b>\$ 139,429</b>	<b>\$ 5,031,804</b>	<b>\$ 10,340,583</b>	<b>\$ 15,511,816</b>	<b>\$ 1,890,273</b>	<b>\$ 17,402,089</b>	<b>\$ 14,528,086</b>
<b>LIABILITIES AND FUND EQUITY</b>							
Liabilities:							
Accounts payable	\$ 1,880	\$ 83,889	\$ 213,548	\$ 299,317	\$ 32,554	\$ 331,871	\$ 205,041
Accrued payroll and others	2,301	7,705	103,812	113,818	106,339	220,157	114,686
Due to grantor	-	-	-	-	102,639	102,639	-
Deferred revenues-grants	110,670	-	115,909	226,579	-	226,579	-
Other payables	150	-	19,735	19,885	-	19,885	-
<b>Total liabilities</b>	<b>115,001</b>	<b>91,594</b>	<b>453,004</b>	<b>659,599</b>	<b>241,532</b>	<b>901,131</b>	<b>319,727</b>
Fund equity (net assets):							
Contributed capital	23,324	6,315,224	8,934,800	15,273,348	-	15,273,348	14,812,670
Retained earnings (deficit)	1,104	(1,375,014)	952,779	(421,131)	-	(421,131)	(604,311)
Net assets:							
Unrestricted	-	-	-	-	(38,824)	(38,824)	-
Temporarily restricted	-	-	-	-	362,843	362,843	-
Permanently restricted	-	-	-	-	1,324,722	1,324,722	-
<b>Total fund equity</b>	<b>24,428</b>	<b>4,940,210</b>	<b>9,887,579</b>	<b>14,852,217</b>	<b>1,648,741</b>	<b>16,500,958</b>	<b>14,208,359</b>
<b>Total liabilities and fund equity</b>	<b>\$ 139,429</b>	<b>\$ 5,031,804</b>	<b>\$ 10,340,583</b>	<b>\$ 15,511,816</b>	<b>\$ 1,890,273</b>	<b>\$ 17,402,089</b>	<b>\$ 14,528,086</b>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS  
Combining Statement of Revenues, Expenses and Changes in Fund Equity  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)**

	Proprietary Fund Types			Total Proprietary Fund Types	Governmental Fund Type	Totals	
	Yap Visitors Bureau	Yap Fishing Authority	Yap State Public Service Corporation		Yap	1998	1997
					Community Action Program		
<b>Operating revenues:</b>							
Rental income	\$ -	\$ 13,070	\$ -	\$ 13,070	\$ -	\$ 13,070	\$ 94,854
Charges for goods and services	668	120,896	3,182,979	3,304,543	-	3,304,543	2,394,930
Grants and contracts	-	-	-	-	1,459,201	1,459,201	-
Interest	-	-	-	-	93,672	93,672	-
Other	-	46,147	-	46,147	4,252	50,399	-
<b>Total operating revenues</b>	<b>668</b>	<b>180,113</b>	<b>3,182,979</b>	<b>3,363,760</b>	<b>1,557,125</b>	<b>4,920,885</b>	<b>2,489,784</b>
<b>Operating expenses:</b>							
Headstart program	-	-	-	-	994,848	994,848	-
Other federal program	-	-	-	-	114,608	114,608	-
Other nonprofit and local programs	-	-	-	-	30,945	30,945	-
Personnel services	47,704	111,166	642,550	801,420	112,244	913,664	721,649
Travel	4,620	-	-	4,620	1,306	5,926	-
Production fuel	-	-	1,047,347	1,047,347	-	1,047,347	1,063,413
Supplies and materials	-	2,381	-	2,381	4,676	7,057	66,758
Depreciation	6,490	57,105	611,161	674,756	66,854	741,610	592,270
Bad debt expense	-	13,991	-	13,991	47,288	61,279	71,284
Matching funds	34,504	-	-	34,504	-	34,504	71,284
Other	18,886	92,619	903,500	1,015,005	15,668	1,030,673	720,158
<b>Total operating expenses</b>	<b>112,204</b>	<b>277,262</b>	<b>3,204,558</b>	<b>3,594,024</b>	<b>1,388,437</b>	<b>4,982,461</b>	<b>3,306,816</b>
<b>Operating income (loss)</b>	<b>(111,536)</b>	<b>(97,149)</b>	<b>(21,579)</b>	<b>(230,264)</b>	<b>168,688</b>	<b>(61,576)</b>	<b>(817,032)</b>
<b>Nonoperating revenues (expenses) :</b>							
Loss on equity investment	-	-	-	-	-	-	(221,128)
Operating transfers from Yap State	115,125	46,490	-	161,615	-	161,615	79,124
Other income (expense)	515	-	254,314	254,829	-	254,829	358,888
<b>Total nonoperating revenues (expense), net</b>	<b>115,640</b>	<b>46,490</b>	<b>254,314</b>	<b>416,444</b>	<b>-</b>	<b>416,444</b>	<b>216,884</b>
<b>Other changes in net assets :</b>							
Recovery of bad debts	-	-	-	-	316,804	316,804	-
<b>Net income (loss)</b>	<b>4,104</b>	<b>(50,659)</b>	<b>232,735</b>	<b>186,180</b>	<b>485,492</b>	<b>671,672</b>	<b>(600,148)</b>
<b>Retained earnings (deficit)/net assets</b>							
at beginning of year	-	(1,324,355)	720,044	(604,311)	1,163,249	558,938	(75,447)
Prior period adjustment	(3,000)	-	-	(3,000)	-	(3,000)	-
<b>Retained earnings (deficit)/net assets at end of year</b>	<b>1,104</b>	<b>(1,375,014)</b>	<b>952,779</b>	<b>(421,131)</b>	<b>1,648,741</b>	<b>1,227,610</b>	<b>(675,595)</b>
<b>Contributed capital at beginning of year</b>	<b>23,324</b>	<b>6,544,477</b>	<b>8,268,193</b>	<b>14,835,994</b>	<b>-</b>	<b>14,835,994</b>	<b>14,726,283</b>
<b>Contributed capital increase for the year, net of depreciation on fixed assets acquired by capital contributions that reduce contributed capital</b>	<b>-</b>	<b>(229,253)</b>	<b>666,607</b>	<b>437,354</b>	<b>-</b>	<b>437,354</b>	<b>86,387</b>
<b>Contributed capital at end of year</b>	<b>23,324</b>	<b>6,315,224</b>	<b>8,934,800</b>	<b>15,273,348</b>	<b>-</b>	<b>15,273,348</b>	<b>14,812,670</b>
<b>Total fund equity</b>	<b>\$ 24,428</b>	<b>\$ 4,940,210</b>	<b>\$ 9,887,579</b>	<b>\$ 14,852,217</b>	<b>\$ 1,648,741</b>	<b>\$ 16,500,958</b>	<b>\$ 14,137,075</b>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**COMPONENT UNITS  
Combining Statement of Cash Flows  
Year Ended September 30, 1998  
(With comparative totals for the year ended September 30, 1997)**

	Proprietary Fund Types			Total Proprietary Fund Types	Governmental	Totals	
	Yap Visitors Bureau	Yap Fishing Authority	Yap State Public Service Corporation		Fund Type		
					Yap Community Action Program	1998	1997
<b>Cash flows from operating activities:</b>							
Operating income (loss)	\$ (111,536)	\$ (97,149)	\$ (21,579)	\$ (230,264)	\$ 168,688	\$ (61,576)	\$ (745,748)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:							
Depreciation	6,490	57,105	611,161	674,756	66,854	741,610	592,270
Bad debts	-	13,991	-	13,991	47,288	61,279	71,284
Others	-	-	-	-	-	-	46,687
	<u>(105,046)</u>	<u>(26,053)</u>	<u>589,582</u>	<u>458,483</u>	<u>282,830</u>	<u>741,313</u>	<u>(35,507)</u>
<b>Change in assets and liabilities:</b>							
Restricted cash	-	-	-	-	(361,911)	(361,911)	-
General receivables	-	15,313	(87,471)	(72,158)	(31,501)	(103,659)	136,576
Inventory of supplies, at cost	860	10,170	(56,720)	(45,690)	-	(45,690)	(90,472)
Prepayments	(500)	-	(16,061)	(16,561)	-	(16,561)	-
Advances	(293)	-	-	(293)	1,540	1,247	(7,194)
Promotional materials	(4,450)	-	-	(4,450)	-	(4,450)	-
Loans receivable	-	-	-	-	93,285	93,285	-
Interest receivable	-	-	-	-	(25,725)	(25,725)	-
Accounts payable	2,030	(10,813)	103,209	94,426	(104,667)	(10,241)	(44,154)
Accrued payroll and others	(699)	(10,183)	17,654	6,772	(7,522)	(750)	18,989
Other payables	-	-	9,095	9,095	-	9,095	-
	<u>(3,052)</u>	<u>4,487</u>	<u>(30,294)</u>	<u>(28,859)</u>	<u>(436,501)</u>	<u>(465,360)</u>	<u>13,745</u>
<b>Net cash provided by (used for) operating activities</b>	<u>(108,098)</u>	<u>(21,566)</u>	<u>559,288</u>	<u>429,624</u>	<u>(153,671)</u>	<u>275,953</u>	<u>(21,762)</u>
<b>Cash flows from noncapital financing activities:</b>							
Operating transfer in and contributed capital	204,599	46,490	973,952	1,225,041	-	1,225,041	602,378
<b>Net cash provided by noncapital financing activities</b>	<u>204,599</u>	<u>46,490</u>	<u>973,952</u>	<u>1,225,041</u>	<u>-</u>	<u>1,225,041</u>	<u>602,378</u>
<b>Cash flows from capital and related financing activities:</b>							
Capital grants from Yap State and FSM	41,700	-	-	41,700	-	41,700	-
Acquisition of fixed assets	(23,324)	(2,979)	(976,559)	(1,002,862)	-	(1,002,862)	-
Disposals of fixed assets	-	-	-	-	-	-	(642,538)
<b>Net cash provided by (used for) capital and related financing activities</b>	<u>18,376</u>	<u>(2,979)</u>	<u>(976,559)</u>	<u>(961,162)</u>	<u>-</u>	<u>(961,162)</u>	<u>(642,538)</u>
<b>Cash flows from investing activities:</b>							
Interest income	515	-	62,878	63,393	-	63,393	48,893
Acquisition of fixed assets	-	-	-	-	(45,967)	(45,967)	-
Acquisition of time certificate of deposits	-	-	(571,599)	(571,599)	-	(571,599)	(100,000)
<b>Net cash provided by (used for) investing activities</b>	<u>515</u>	<u>-</u>	<u>(508,721)</u>	<u>(508,206)</u>	<u>(45,967)</u>	<u>(554,173)</u>	<u>(51,107)</u>
<b>Net increase (decrease) in cash and equivalents</b>	<u>115,392</u>	<u>21,945</u>	<u>47,960</u>	<u>185,297</u>	<u>(199,638)</u>	<u>(14,341)</u>	<u>(113,029)</u>
<b>Cash and equivalents at beginning of year</b>	<u>-</u>	<u>9,169</u>	<u>1,190,708</u>	<u>1,199,877</u>	<u>335,930</u>	<u>1,535,807</u>	<u>1,312,906</u>
<b>Cash and equivalents at end of year</b>	<u>\$ 115,392</u>	<u>\$ 31,114</u>	<u>\$ 1,238,668</u>	<u>\$ 1,385,174</u>	<u>\$ 136,292</u>	<u>\$ 1,521,466</u>	<u>\$ 1,199,877</u>

See accompanying Independent Auditors' Report.

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

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

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1998, and have issued our report thereon dated March 25, 1999, which was qualified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and audited financial statements to support the carrying value of an investment of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Unit - Enterprise Fund of the Public Transportation System; 4) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 5) our inability to determine the proprietary of supplies inventory. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State of Yap's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Yap's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 81 through 96) as Findings 98-6 through 98-13.



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

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

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1998, and have issued our report thereon dated March 25, 1999, which was qualified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and audited financial statements to support the carrying value of an investment of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Unit - Enterprise Fund of the Public Transportation System; 4) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 5) our inability to determine the proprietary of supplies inventory. Except as discussed in the preceding sentence, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

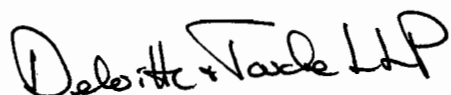
As part of obtaining reasonable assurance about whether the State of Yap's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and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

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State of Yap's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Yap's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 81 through 96) as Findings 98-6 through 98-13.

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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider Findings 98-2, 98-6, 98-7, 98-10 and 98-13 to be material weaknesses.

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

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

March 25, 1999

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

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

**Compliance**

We have audited the compliance of the State of Yap with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1998. The State of Yap's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 81 through 96). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Yap's management. Our responsibility is to express an opinion on the State of Yap's compliance based on our audit.

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

In our opinion, the State of Yap complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 98-1 through 98-5.



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

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

**Compliance**

We have audited the compliance of the State of Yap with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 1998. The State of Yap's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 81 through 96). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Yap's management. Our responsibility is to express an opinion on the State of Yap's compliance based on our audit.

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

In our opinion, the State of Yap complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 98-1 through 98-5.



### Internal Control Over Compliance

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

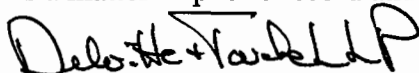
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Yap's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-1 through 98-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above to be a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the State of Yap as of and for the year ended September 30, 1998, and have issued our report thereon dated March 25, 1999, which was qualified due to; 1) the lack of original cost data available to support the carrying value of contributed fixed assets and audited financial statements to support the carrying value of an investment of the Yap Fishing Authority, a Component Unit - Proprietary Fund; 2) the lack of audited financial statements for a greater than 50% investee of the Yap Economic Development Authority, a Proprietary Fund Type - Enterprise Fund; 3) the omission from the Component Unit - Enterprise Fund of the Public Transportation System; 4) our inability to determine the effects of not updating the General Fixed Assets Account Group; and 5) our inability to determine the proprietary of supplies inventory. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 66 through 77) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Yap. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

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



March 25, 1999

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 1998

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1998</u> <u>Fiscal Year</u> <u>Expenditures</u>
<b><u>U.S. Department of Education:</u></b>			
Year 5 Prel Vocational Education	84.994S	3001	\$ 10,333
PREL-Visions & Dreams	84.994S	3002	5,784
Year 6 Prel Vocational Education	84.994S	3012	<u>72,499</u>
Total CFDA #84.994S			<u>88,616</u>
 FY97 Special Education	 84.027A	 3015	 <u>386,926</u>
Total CFDA #84.027A			<u>386,926</u>
 FY94 Yap Star	 84.256A	 3005	 87,853
FY96 Yap Star	84.256A	3009	22,017
FY97 Yap Star	84.256A	3010	480,077
FY98 Yap Star	84.256A	3020	<u>496,688</u>
Total CFDA #84.256A			<u>1,086,635</u>
 FY95 School-To-Work	 84.276A	 3013	 32,780
FY96 Goal 2000 Program	84.276A	3112	2,961
FY97 Goal 2000 Program	84.276A	3029	<u>69,571</u>
Total CFDA #84.276A			<u>105,312</u>
Total U.S. Department of Education			<u>1,667,489</u>
 <b><u>U.S. Department of Labor:</u></b>			
FY96 JTPA Admin	17.250	3225	328
FY96 JTPA Adult Program	17.250	3226	309
FY96 JTPA Youth Program	17.250	3227	11,446
FY96 JTPA Participant Support	17.250	3228	231
FY95 JTPA Admin	17.250	3230	2,432
FY95 JTPA Youth Program	17.250	3232	5,688
FY97 JTPA Admin	17.250	3239	14,603
FY97 JTPA Adult Program	17.250	3240	26,438
FY97 JTPA Youth Program	17.250	3241	21,231
PY97 JTPA Elderly Program	17.250	3242	16,711
FY97 JTPA Participant Support	17.250	3243	1,000
FY98 JTPA Administration	17.250	3244	1,426
FY98 JTPA Adult Program	17.250	3245	77
FY98 JTPA Youth Program	17.250	3246	<u>42</u>
Total U.S. Department of Labor (CFDA #17.250)			<u>101,962</u>
 <b><u>U.S. Department of Agriculture:</u></b>			
FY89 Food Services	10.555	3346	<u>305</u>
Total CFDA #10.555			<u>305</u>
Balance Forward			<u>1,769,451</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, 1998

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1998 Fiscal Year Expenditures</u>
Balance Forwarded			\$ <u>1,769,451</u>
<b><u>U.S. Department of Agriculture, Continued:</u></b>			
FY98 Forestry	10.664	3310	500
FY97 Forestry Urban	10.664	3305	3,150
FY97 Forestry Nursery	10.664	3306	1,470
FY97 Forestry Research Management	10.664	3307	201
FY97 Fire Prevention	10.664	3350	9,031
FY95 Forestry Projects	10.664	3455	<u>1,099</u>
Total CFDA #10.664			<u>15,451</u>
Total U.S. Department of Agriculture			<u>15,756</u>
<b><u>U.S. Department of the Interior:</u></b>			
FY95 Historic Preservation	15.904	3451	158
FY98 Historic Preservation	15.904	3452	359
FY96 Historic Preservation	15.904	3456	2,089
FY97 Historic Preservation	15.904	3463	47,415
FY97 History/Archaeology	15.904	3464	<u>5,066</u>
Total CFDA #15.904			<u>55,087</u>
<b>OMIP Yap 94 Grant-Passed thru to YSPSC:</b>			
Power system improvement	15.875	3457	50,000
Government facilities metering	15.875	3457	<u>60,000</u>
Total CFDA #10.664			<u>110,000</u>
Total U.S. Department of the Interior			<u>165,087</u>
<b><u>U.S. Department of Commerce</u></b>			
Outer Islands Trochus Reseeding	11.427	3405	<u>1,110</u>
<b><u>U.S. Department of Health and Human Services:</u></b>			
FY98 Family Planning	93.217	3786	36,294
FY99 Family Planning	93.217	3798	<u>4,857</u>
Total CFDA #93.217			<u>41,151</u>
FY97 Immunization Program	93.268	3653	3,018
FY98 Immunization Program	93.268	3699	<u>7,459</u>
Total CFDA #93.268			<u>10,477</u>
Balance Forward			<u>1,951,404</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, 1998

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1998 Fiscal Year Expenditures</u>
Balance Forwarded			\$ <u>1,951,404</u>
<b><u>U.S. Department of Health and Human Services, Continued:</u></b>			
FY96 SAPT/Health Services	93.959	3700	7,486
FY96 SAPT/Youth Services	93.959	3701	93
FY97 SAPT/Youth Services	93.959	3775	29,911
FY97 SAPT/Youth Services	93.959	3777	<u>22,909</u>
Total CFDA #93.959			<u>60,399</u>
FY98 Diabetes Program	93.988	3702	906
FY97 Diabetes Program	93.988	3703	<u>3,754</u>
Total CFDA #93.988			<u>4,660</u>
FY96 PH & PH	93.991	3660	<u>995</u>
Total CFDA #93.991			<u>995</u>
FY97 MCH Program	93.994	3705	50,178
FY98 MCH Program	93.994	3730	1,296
FY96 MCH Program	93.994	3730	<u>3,330</u>
Total CFDA #93.994			<u>54,804</u>
FY97 Tuberculosis & AIDS Program	96.116	3698	4,446
FY98 Tuberculosis & AIDS Program		3773	12,579
FY98 AIDS Prevention		3789	<u>825</u>
Total CFDA #96.116			<u>17,850</u>
Total U.S. Department of Health and Human Services			<u>190,336</u>
Total Federal Grants Fund			\$ <u><u>2,141,740</u></u>
<b>Reconciliation to financial statements:</b>			
Balance per above			\$ 2,141,740
Less: Transfer to YSPSC OMIP Grants			<u>(110,000)</u>
Balance per financial statements			\$ <u><u>2,031,740</u></u>

Note: With the exception of the FY94, FY96, FY97 and FY98 Yap Star grants, Yap Org. No. 3005, 3009, 3010 and 3020 (CFDA #84.256A), and the PREL grants, Yap Org. No. 3001, 3002 and 3012 (CFDA #84.994S), which are received directly from U.S. Department of Education, and the Outer Islands Trochus Reseeding, Yap Org. No. 3405 (CFDA #11.427), which is received which is received directly from the U.S. Department of Commerce, the above grants are received in a subrecipient capacity through the FSM National Government.

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Other U.S. Grants Fund  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>Yap Org. No.</u>	<u>1998 Fiscal Year Expenditures</u>
<u>Federal Emergency Management Agency</u>			
<u>(FEMA) grants:</u>			
Hazard Mitigation/Food Crop	83.516	3856	\$ 24,722
Hazard Mitigation Management	83.516	3858	3,465
HMG/Anchor Mooring Buoy	83.516	3859	29,493
HMG/Water Development & Drought	83.516	3860	34,074
FEMA - 886 OI Water Development	83.516	3861	92,897
El Nino Drought/Public Assistance	83.516	3864	504,000
Typhoon Owen "E" Fern/Admin.	83.516	3831	1,046
Typhoon Fern/Admin.	83.516	3881	25,873
Typhoon Fern/Pam Management	83.516	3882	22,119
Typhoon Fern/Public Assistance	83.516	3885	<u>675,485</u>
Total Federal Emergency Management Agency (CFDA #83.516)			<u>1,413,174</u>
Total Other U.S. Grants Fund			<u>\$ 1,413,174</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  
Non U.S. Grants Fund  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1998 Fiscal Year Expenditure</u>
UNICEF: Leprosy Program	3914	\$ 11,749
WHO: Family Education Production/Nutrition	3961	7,152
Australian Grants: Water Projects	3971	24,714
Japanese Grants: Rumung Solar Power	3974	28,000
Other Grants: Woleai Health Center	3973	<u>35,550</u>
Total Non U.S. Grants Fund		<u>\$ 107,164</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
CFSM Grants Fund  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1998 Fiscal Year Expenditures</u>
<b>FSM Congress</b>		
Satawal L. fees	5825	\$ 11,520
FY95 State Court	5827	52,893
FY96 Joint Law Enforcement	5830	57,604
Primary and Secondary School Needs	5831	899
Woleai Health Center	5834	28,756
Nef Women Center	5839	2,500
Rull Suppl.	5842	1,000
Rumuu/Fanif Elementary School	5861	65,943
Dalipbinaw School Renovation	5862	20,137
Yap Water Project	5863	272,074
Outer Islands School Project	5865	26,921
Bechiyal Power Ext.	5867	25,000
Falalop Ulithi Dispensary	5873	47,480
Yap Disaster Relief Fund	5882	49,679
Education OPNS	5890	4,500
Yap Youth Program	5891	11,025
Madrich Development	5892	2,201
Outer Islands Culture/Agriculture	5894	5,663
Yap Rural Development	5898	40,069
Yap State Education	5908	2,732
FY94 Health	5909	59,594
State Tourism Development	5911	1,077
Hospital Equipment and Supply	5914	53,796
St. Mary's School	5920	50,000
Yap Education Needs	5922	670
Yap State Youth Projects	5927	21,088
Faraulap Multipurpose Bldg	5928	8,750
Medical Supplies and Equipment	5930	60,616
Gilman Rec Ret. Wall	5932	35,000
Upgrade Radio Equipment OI	5935	40,750
Upgrade Broadcast Radio Equipment	5936	23,995
Yap SDA School	5937	85,521
Lebnaw Womens Project	5938	4,952
St. Mary School Construction	5939	27,969
Outer Island Schools	5940	57,575
Dugor Water System Impr.	5941	5,000
Yap Outer Island CHC	5942	45,915
<b>Total CFSM Grants Fund</b>		<b>\$ <u>1,310,864</u></b>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
TTPI Capital Projects Fund  
Year Ended September 30, 1998

<u>Grantor</u> <u>Program Title</u>	<u>Yap</u> <u>Org.</u> <u>No.</u>	<u>1998</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>		
Rural Sanitation - Yap Cap	6382	\$ 88,115
Well Development	6385	131,738
Additional Water Sources	6386	65,862
Village Water System	6387	<u>8,500</u>
Total TTPI Capital Projects Fund		<u>\$ 294,215</u>

Note: The above grants are received in a subgrant capacity through the Trust Territory of the Pacific Islands (TTPI) Government and bear CFDA No. 15.875. The Rural Sanitation Program Grant (T316) is passed through to Yap Community Action Program. Expenditures of \$88,115 represent cost-reimbursement to Yap CAP for fiscal year 1998.

See accompanying notes to Schedule of Expenditures of Federal Awards.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
CFSM Capital Projects Fund  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1998 Fiscal Year Expenditures</u>
<u>FSM Congress</u>		
Okaw Bridge	6626	\$ 4,319
Ganelay School	6628	24
Seabee Renovation	6632	13,140
Mathow Bridge	6633	7,587
Runway Repair	6636	834,030
Dabach Retaining Wall	6638	41,265
Dalipbinaw Elementary School	6643	80,687
Yap Aiport Reconstruction	6645	143,889
Yap Aiport Reconstruction	6646	1,305,400
Yap Sports Facilities	6647	104,687
Copra Tree P/C and Agr.	6649	75,000
Yap airport reconstruction	6649	<u>1,856,111</u>
Total CFSM Capital Projects Fund		<u>\$ 4,466,139</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Compact Programs Fund  
Section 221(B) Special Block Grant (CFDA No. 15.875)  
Section 212(A) Special Development Grant (CFDA No. 15.875)  
Section 216(A)(2) Health and Medical Programs (CFDA No. 15.875)  
Section 216(A)(3) Post Secondary Education (CFDA No. 15.875)  
Section 214(B) Energy Programs (CFDA No. 15.875)  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1998 Fiscal Year Expenditures</u>
<b><u>Special Block Grant Programs</u></b>		
Department of Education Budget Supply/Maintenance	2113	\$ 26,790
Education Administration	2114	9,349
Instruction and Curriculum	2115	185,412
Yap Elementary Schools	2116	118,264
Outer Island Elementary Schools	2117	99,697
Yap High School	2118	439,038
Outer Island High School	2119	207,262
Department of Education Staff Development	2123	2,099
Outer Island Middle School	2126	78,557
Schools Feeding Program	2128	24,094
DHS Administration	2129	19,886
Family Health Planning	2130	788
Public Health Care	2131	51,690
Primary Health Care	2132	41,860
Preventive Health Care	2133	1,243
Sanitation program	2134	21,480
Alcohol/Drug Abuse and Mental Health	2136	12,885
Medical Supply and Equipment	2138	189,809
Ancillary Services	2140	39,016
DHS Clinical and Medical Care	2141	12,546
Dental Services Yap	2142	43,498
Dental Services Outer Islands	2143	20,460
Total Compact of Free Association Compact Programs Fund-Section 221(B)		1,645,723
<b><u>Special Development Program</u></b>		
Small Business Center	2210	42,163
Yap International Airport Reconstruction	2211	1,370,300
YIT secure Housing Loan	2212	500,000
Public Safety Fixed Asset	2213	13,500
Total Compact of Free Association Compact Programs Fund-Section 212(A)		1,925,963
<b><u>Health and Medical Programs</u></b>		
Medical Referral Program	2448	273,140
Outer island medical Referral	2450	8,926
Total Compact of Free Association Compact Programs Fund-Section 216(A)(2)		282,066
<b><u>Post Secondary Education</u></b>		
Scholarships and grants	2641	161,320
Total Compact of Free Association Compact Programs Fund-Section 216(A)(3)		161,320

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Compact Programs Fund  
Section 221(B) Special Block Grant (CFDA No. 15.875)  
Section 212(A) Special Development Grant (CFDA No. 15.875)  
Section 216(A)(2) Health and Medical Programs (CFDA No. 15.875)  
Section 216(A)(3) Post Secondary Education (CFDA No. 15.875)  
Section 214(B) Energy Programs (CFDA No. 15.875)  
Year Ended September 30, 1998

<u>Energy Programs</u>		
POL/Power Generation	2853	<u>920,311</u>
Total Compact of Free Association Compact Programs Fund-Section 214(B)		<u>920,311</u>
Total Compact of Free Association Compact Program Fund		\$ <u><u>4,935,383</u></u>
Reconciliation to financial statements:		
Balance per above		\$ 4,935,383
Transfer out to YIT for RSH loan guaranty Special Development Funds		<u>(500,000)</u>
Balance per financial statements		\$ <u><u>4,435,383</u></u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Capital Projects Fund  
Section 211(A) Capital Account (CFDA No. 15.875)  
Year Ended September 30, 1998

Grantor Program Title	Yap Org. No.	1998 Fiscal Year Expenditures
<u>Office of Territorial and International Affairs</u>		
PTS Bus Purchase Y26	6107	\$ 87
FY93 Manpower Development	6127	6,346
Library Bldg - Y 81 Board	6168	44
Yap Intl-Airport Reconstruction	6171	4,189,258
Road Clearing Y88	6173	2,300
FY95 Roads and Equipment	6191	267,366
Slaughter House	6196	42,739
Malay/Thabeth Causeway	6197	100,418
Leb/Riken/Gachpar Water	6198	118,938
Computer Migration - OAS	6199	107,653
Waab Building	6228	78,449
Roads Development Phase VII	6243	2,497
Land Lease and Acquisition	6245	270,421
Trocus Fishery Mngmt and H.M.	6247	15,943
Outer Islands Airfields	6298	4,378
Total Compact of Free Association Capital Projects Fund - Section 211(A)		\$ <u>5,206,837</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association General Fund  
Section 211(A) Current Account (CFDA NO. 15.875)  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>Yap Org. No.</u>	<u>1998 Fiscal Year Expenditures</u>
<u>Office of Territorial and International Affairs</u>		
General Fund:		
Current Account	Various	\$ <u>5,880,096</u>

Note: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association and are disbursed through the Office of Territorial and International Affairs (OTIA), 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, 1998

(1) Scope of Review

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

A. Programs Subject to Single Audit

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

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

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

B. Reporting Entity

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

(3) Component Units

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

<u>Grantor Agency/Program</u>	<u>CFDA#</u>	<u>Fiscal Year 1998 Expenditures</u>
U.S. Department of Health and Human Services:		
Headstart Program – Basic	93.600	\$ 837,804
Headstart Program – Program Improvement	93.600	189,284
Headstart Program – Training and Technical Assistance	93.600	24,539

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 1998

(3) Component Units. Continued

U.S. Department of Agriculture: Housing Preservation Grants	15.875	4,839
U.S. Department of the Interior: Compact of Free Association: Special Development Fund, Section 212A	15.875	<u>101,420</u>
Total expenditures		\$ <u><u>1,157,886</u></u>

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

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Amounts Received</u>	<u>Prior Year Expenditures</u>	<u>1998 Expenditures</u>	<u>Remaining Balance</u>
U.S. Department of the Interior, Direct Award-Operations and Maintenance Improvement Programs (OMIP) Yap State Omnibus Year 2	15.875	\$ 110,000 222,125	\$ - -	\$ 110,000 230,441	\$ - (8,316)
Trust Territory Capital Improvement Project – Yap Water Supply	15.875	206,100	-	90,191	115,909
U.S. Federal Emergency Management Agency:					
Typhoon Fern Damage Survey Reports	83.516	272,625	237,375	35,250	-
Draught Relief Damage Survey Reports		-	-	16,184	(16,184)
Hazard Mitigation: Yap State Water Projects		<u>34,074</u>	<u>-</u>	<u>107,657</u>	<u>(73,583)</u>
		\$ <u><u>844,924</u></u>	\$ <u><u>237,375</u></u>	\$ <u><u>589,723</u></u>	\$ <u><u>17,826</u></u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for  
Audit In Accordance With OMB Circular A-133  
Year Ended September 30, 1998

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>1998 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association, Capital Account, 211(A)	15.875	\$ 5,206,837
Well Development	15.875	<u>131,738</u>
Total U.S. Department of the Interior		<u>5,338,574</u>
<u>U.S. Federal Emergency Management Agency</u>		
Typhoon Fern Administration	83.516	47,992
El Nino Drought Public Assistance	83.516	504,000
Typhoon Owen Hazard Mitigation	83.516	185,697
Typhoon Fern Public Assistance	83.516	<u>675,485</u>
Total U.S. Federal Emergency Agency		<u>1,413,174</u>
<u>U.S. Department of Education</u>		
Yap Star (TFAS Education Grant)	84.256A	1,086,635
Yap Special Education IDEA Part B	84.027A	<u>386,926</u>
Total U.S. Department of Education		<u>1,473,561</u>
<u>U.S. Dept. of Health and Human Services</u>		
Headstart Program – Basic	93.600	837,804
Headstart Program – Program Improvement	93.600	189,284
Headstart Program – Training & Technical Assistance	93.600	<u>24,539</u>
Total U.S. Department of Health and Human Services		<u>1,051,627</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>9,276,936</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>15,042,975</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>61%</u>



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 1998

**Part I - Summary of Auditors' Results**

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

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association Capital Funds	15.875
DOI/TTPI Well Development	15.875
Typhoon Owen/Fern	83.516
Yap STAR (TFAS Education Grant)	84.256A
Special Education IDEA Part B Funds	84.027A
Headstart Program	93.600

8. A threshold of \$451,289 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>
98-2	Equipment and Real Property Management	\$ -
98-6	Cash	\$ -
98-7	Periodic Reconciliations	\$ -
98-8	Encumbrance Files	\$ -
98-9	Special Early Retirement Program Loan	\$ -
98-10	Budgetary Controls	\$ -
98-11	Purchase Order Advances	\$ -
98-12	Travel Advances	\$ -
98-13	Medical Supplies Inventory	\$ -

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
98-1	Equipment and Real Property Management	\$ -
98-2	Equipment and Real Property Management	\$ -
98-3	Matching, Level of Effort, Earmarking	\$ -
98-4	Special Tests and Provision	\$ -
98-5	Procurement and Suspension and Debarment	\$ -

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Federal Findings**

**Equipment and Real Property Management**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
98-1	All	<p>The Common Rule for Uniform Administrative Requirements for Federal Grants, Section 33 (d) (2) requires that a physical inventory of property acquired with federal funds be performed at least every two years and that the inventory be reconciled to property records.</p> <p><u>Condition:</u> A physical inventory of property has not been performed in over two years.</p> <p><u>Cause:</u> The cause of this condition is unknown.</p> <p><u>Effect:</u> The effect is noncompliance with the Administrative Requirements over federal grants.</p> <p><u>Recommendation:</u> We recommend that a physical inventory of property be taken and the results reconciled to the property records at least once every two years.</p> <p><u>Prior Year Status:</u> Noncompliance with the administrative requirements over federal grants was reported in the Single Audit of Yap State Government for fiscal year 1997.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Federal Findings**

**Equipment and Real Property Management**

Item No.    CFDA No.    Criteria:

Questioned  
Costs

98-2            All            An updated property ledger by funding source should be maintained for all of Yap State Government.

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

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

Effect: The effect is noncompliance with the Administrative Requirements over federal grants due to not being able to test the accuracy of fixed asset inventory ledgers.

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

Prior Year Status: Noncompliance with the administrative requirements over federal grants was reported in the Single Audit of Yap State Government for fiscal year 1997.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Federal Findings**

**Matching, Level of Effort, Earmarking**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
98-3	83.516	<p>Certain Federal Emergency Management Agency (FEMA) grants are required to be matched by the recipient local government, either in the form of in-kind contributions or local appropriations. The State is responsible to ensure that local matching contributions are sufficiently documented in the accounting records and project files.</p> <p><u>Condition:</u> During fiscal year 1998, Yap State expended FEMA Hazard Mitigation Grants and Public Assistance grants which were required to be matched by local funds. We tested the State's compliance with the matching requirements and noted that accounting and other information relating to the State's matching contributions towards the FEMA grants were not sufficiently documented in the accounting records and project files. The 25% local matching contribution for Typhoon Fern Public Assistance Grants had not been transferred out to the FEMA Fund. In addition, because of inadequate project files, the State had difficulty providing evidence that the 50% in-kind contribution for the Hazard Mitigation grants had been met. These matters were satisfactorily resolved through audit and other adjustments.</p> <p><u>Cause:</u> The cause of the above condition is that the State did not ensure that records of matching funds were adequately documented in the accounting records.</p> <p><u>Effect:</u> Poor accounting records and project files increases the risk that Yap State may not meet its matching requirements for FEMA grants.</p> <p><u>Recommendation:</u> We recommend that the State ensure compliance with its local matching contribution by specifying in the accounting records the accounts to be used for the 25% local matching contributions of FEMA grants and ensure that every dollar of the FEMA grant expended is matched 25% by local funds. The State should also ensure that project files are adequately maintained to properly show evidence that all required matching contributions have been met.</p>	

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Federal Findings, Continued**

**Special Tests and Provisions**

**Item No.   CFDA No.   Criteria:**

**Questioned  
Costs**

98-4      84.027A      Special Education IDEA Part B Funds cannot be used, except under certain limited circumstances, to reduce the level of funding for the education of children with disabilities by the local education agency (LEA) from local funds below the level of those expenditures for the preceding year.

**Condition:** No local funds were allocated in fiscal year 1998 for the special education program as compared to fiscal year 1997 when \$94,356 from CFSM funds were expended. The Special Education staff believes that although no local funds have been specifically allocated for the Special Education program in fiscal year 1998, the State has made in-kind contributions to the program in terms of the time spent by regular teachers on program students in the classrooms. However, these in-kind contributions have neither been quantified by Yap State, nor has the State clarified whether such contributions can be regarded as the local share of contributions to supplement Federal funds received for the Special Education Program.

**Cause:** The cause of the above condition is that Special Education has not clarified with the FSM National Government and the grantor agency how to document compliance with the nonsupplanting requirement of Special Education Funds.

**Effect:** The result of the above condition is that Yap State Special Education may not be maintaining the same level of local funding to meet the nonsupplanting requirements of the Special Education funds.

**Recommendation:** We recommend that Yap Special Education clarify with the FSM National Government and the grantor agency how it should document that it is meeting the nonsupplanting requirement and ensure that such documentation is maintained.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Federal Findings, Continued**

**Procurement and Suspension and Debarment**

			<b>Questioned Costs</b>
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**Item No.    CFDA No.    Criteria:**

98-5	93.600	Federal Procurement Standards require evidence of price comparison from a number of sources for small purchases below the bidding threshold of \$100,000.	
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**Condition:** Through our testing of disbursements it was found that the Federal requirement for competitive procurement was not met for the Headstart program. The specific items selected that do not reflect evidence of competitive procurement procedures are detailed below (derived from a sample of 25 transactions):

<u>Check #</u>	<u>Check Date</u>	
19393	10/13/97	\$ 2,802
19418	10/21/97	1,500
19481	11/07/97	1,190
19519	11/18/97	1,350
19698	01/09/98	7,448
19962	03/26/98	4,081
19966	03/26/98	3,789
20166	06/11/98	3,823
20173	06/11/98	1,888
20421	08/11/98	3,961
20426	08/11/98	1,419
20524	09/10/98	3,404
20582	09/30/98	1,854
20583	09/30/98	<u>4,520</u>

\$ 43,029

**Cause:** Yap CAP was unaware of the federal procurement standards for small purchases.

**Effect:** The effect of this condition is potential noncompliance with federal regulations that govern the grant and potential questioned costs of \$43,029. No actual questioned costs result from this finding as the State has six months from the issuance of this report to resolve this matter with Yap Community Action Program, its subrecipient.

**Recommendation:** It is recommended that all staff be made aware of the requirement and that formal procedures be adopted to ensure that evidence of compliance with the federal procurement standards be maintained on file.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Yap State - Cash**

**Finding No. 98-6**

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

**Condition:** During the year ended September 30, 1998, Yap State did not reconcile its bank accounts; not only was the general ledger not reconciled to the bank balances, but no one reviewed the bank statements to ensure that all activities thereon were properly recorded in the general ledger and vice versa. At the date of the report, bank reconciliations for October 1998 to February 1999 were still outstanding. Yap Finance has assured us that they will immediately begin to prepare bank reconciliations for fiscal year 1999.

**Cause:** The employee assigned to bank reconciliations did not keep up with that responsibility, and no monitoring occurred to detect and correct the problem in a timely manner.

**Effect:** As a result of the above, the following errors occurred but were not detected until six months after year-end.

1. \$472,376 in grant receipts deposited directly to the General Fund savings account were not identified and recorded in the general ledger until six months after fiscal year 1998 had ended.
2. A payment of revenue sharing taxes for \$315,322 was received through wire transfer to the bank in October 1998, but was not found and recorded in the general ledger until January 1999.
3. \$34,034 in FEMA funds were received in April 1998, but were not identified and recorded in the general ledger until March 1999.
4. An order for payroll checks was not reviewed for accuracy. As a result, printing errors resulted in some numbers being duplicated, and some which were triplicated. The misprinted checks were used for two payroll runs in September 1998. Because of the duplicated check numbers, checks which cleared the bank could not be properly matched to the corresponding numbers on the outstanding check list.
5. The three major bank accounts – general checking, savings, and payroll – remained unreconciled at year-end. The unadjusted variances which are immaterial to the financial statements are shown below:

	<u>Dilog</u>		<u>Adj Bal</u>		<u>Adj per</u>	<u>Total</u>
	<u>101p</u>	<u>Var1</u>	<u>per Books</u>	<u>Var2</u>	<u>Bank</u>	<u>Variance</u>
Payroll BFSM	\$ -	\$ 689	\$ 689	\$ (51,191)	\$ (50,502)	\$ (50,502)
Gen Checking	(496,254)	7,571	(488,683)	(48,306)	(536,989)	(40,735)
Gen Savgs BFSM	823,348	(39)	823,309	57,720	881,029	57,681
<b>Variance</b>	<b><u>\$ 327,094</u></b>	<b><u>\$ 8,221</u></b>	<b><u>\$ 335,315</u></b>	<b><u>\$ (41,777)</u></b>	<b><u>\$ 293,538</u></b>	<b><u>\$ (33,556)</u></b>



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Yap State – Cash, Continued**

**Finding No. 98-6**

In addition to the above errors, neglect of the bank account reconciliation process made the closing and audit processes unnecessarily difficult, but more importantly, it increased the risk that misappropriation of cash could occur and not be detected.

**Recommendation:** We recommend that the State take appropriate action to rectify the above situation. A dependable employee should be given the responsibility to reconcile the bank accounts and management should ensure that reconciliations are being accurately performed on a monthly basis.

**Prior Year Status:** This condition was reported as a finding in the Single Audit of Yap State Government for fiscal years 1995 and 1996 and 1997.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Periodic Reconciliations**

**Finding No. 98-7**

**Criteria:** A proper system of internal control requires periodic reconciliation of general ledger balances and independent review of accounting data before and after posting to the general ledger.

**Condition:** During fiscal year 1998, the following errors occurred but were not detected until the closing and audit processes, four to six months after year end:

1. The payroll check run for June 12, 1998 did not post accurately to the outstanding checklist. This error was not discovered until February 1999.
2. A manual check for \$160 was posted as \$499. The error was not revealed until after it had posted to the general ledger.
3. \$1.8 million in CFSM CIP receipts were credited against expenditures instead of revenues.
4. Receipts for the CFSM Special Revenue Fund and CFSM CIP Funds were not properly identified and recorded leading to material misstatements in the receivables of each fund at the end of the year.
5. An input error of \$27,500 in the Special Travel Advance account posted in February 1998 was not detected and corrected until September 1998.
6. Detailed schedules supporting travel advances for certain funds and receivables from other governments were not prepared until after year-end. No schedules were provided to support immaterial travel advance amounts in a number of funds.

**Cause:** An updated schedule of monthly reconciliations has not been prepared for the Finance and Treasury personnel remaining after the ERS program. In addition, there appears to be a breakdown of the transaction edit review process where a person independent of the preparer reviews data entry for errors before posting to Dilog.

**Effect:** Errors in the recording of financial statement balances were not detected on a timely basis, thus leading to an unnecessarily difficult year-end closing process.

**Recommendation:** We recommend that management review the duties and responsibilities of existing personnel, taking into account segregation of duties concerns and devise a monthly reconciliation schedule which assigns areas of responsibilities to each Finance and Treasury employee. Such a schedule should specify deadlines by which reconciliations should be completed, and management from time to time should check to ensure adherence to the schedule. Management must also implement an independent review process where a person independent of the preparer of journal and data entry reviews the work before the data is entered into Dilog and again before posting the entries into the General Ledger.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Encumbrance Files**

**Finding No. 98-8**

**Criteria:** Encumbrance files should be maintained to provide a complete history of payments and remaining balances to allow reconciliation with the general ledger.

**Condition:** Of 36 encumbrance transactions tested, files for 14 selections (39%) were incomplete. Yap State Finance personnel eventually updated the files for our review.

**Cause:** The above condition is due to Finance not requiring review and reconciliation of encumbrances on a periodic basis.

**Effect:** The result of the above condition was that Finance was relying solely on the general ledger system for encumbrance history. This increases the risk of errors in the reserves for encumbrances in the various funds.

**Recommendation:** We recommend that the Chief of Finance require monthly updates of encumbrance files to provide a complete payment history and current balance remaining.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Special Early Retirement Program Loan**

**Finding No. 98-9**

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

**Condition:** In March 1998, Yap State eliminated 85 positions in the first phase of implementation of the Early Retirement program. Unused salaries and wages for those positions from April to September 1998 approximated \$391,960. The State had not transferred these funds to the Trust Account as of March 1999.

**Cause:** The cause of this condition is set forth in the above condition.

**Effect:** Yap State may not be in compliance with the terms of its Financial Agreement with the FSM National Government. In addition, personnel funds for positions eliminated under the ERS Program intended to be used for repayment of the loan may be used for other purposes by the State.

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Budgetary Controls**

**Finding No. 98-10**

**Criteria:** The Yap State Financial Management Regulations prohibit the State from incurring expenditures in excess of authorized spending limits set by appropriation laws.

**Condition:** During the year ended September 30, 1998, it appeared that budgetary controls were virtually nonexistent:

1. Although \$900,000 was appropriated for the Utilities subsidies program, only \$700,000 was allotted. Expenditures exceeded \$900,000.
2. Although only \$174,050 was appropriated to the Yap Community Action Program, \$239,251 was disbursed. The amount included \$65,201 of reimbursements claimed by the Program for its fiscal year 1997 operating subsidy grant. The fiscal year 1997 funds lapsed at September 30, 1997 and no extension was granted by the Legislature to authorize the disbursement in fiscal year 1998.
3. Although \$50,000 in expenditures were also incurred for the Vegetable and Rootcrop Project, no authorized budget was recorded in the general ledger.
4. The spending authority for the Typhoon Fern Matching Fund was incorrectly entered in the general ledger so that no funds were considered available when \$410,228 had been allotted.
5. The Early Retirement Program expenditures were originally recorded as a Special Revenue Fund. The State subsequently transferred the expenditures to a General Fund account, without transferring the budget authority.
6. \$55,000 was appropriated in fiscal year 1997 pursuant to YSL 4-57 for the Yap State Public Service Corporation. The funds were not allotted in fiscal year 1997 and the appropriation lapsed at September 30, 1997. Although the spending authority was not extended into fiscal year 1998, the \$55,000 was transferred out to YSPSC in fiscal year 1998.

**Cause:** Budgetary controls did not appear to be operating as intended. The Finance Division was able to override the general ledger budgetary controls and process disbursements despite the lack of spending authority. In addition, it appears that the Budget Office was not adequately reviewing the spending authority in the general ledger for accuracy.

**Effect:** The budgetary and accounting controls previously established to ensure compliance with the State Financial Management Act appears to have been abandoned thereby leaving the State at a greater risk of violating its Financial Management Regulations.

**Recommendation:** We recommend that the Division of Finance and the Budget Office reevaluate their policies and procedures for overriding insufficient funds transactions in the general ledger to ensure that such are limited only to cases of extreme emergency. Finance should refuse to process transactions with insufficient funds until the Budget Office has changed the budgetary allotment status of funds in the general ledger.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Purchase Order Advances**

**Finding No. 98-11**

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

**Condition:** At September 30, 1998, there were \$305,642 in purchase order advances outstanding, compared to \$191,792 and \$5,986 for fiscal year 1997 and 1996, respectively. \$143,956 of the amount outstanding as of September 30, 1998 relates to advances made in fiscal years 1996 and 1997.

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

**Effect:** Not requiring departments and agencies to submit vendor invoices to Finance increases the risk that advance payments may be used for unauthorized purposes. The above condition also increases the risk of budget overruns and misstatements of expenditures.

**Recommendation:** We recommend that the State review its current policies and procedures to curtail the use of purchase order advances. To ensure that advances are cleared on a timely basis, the State should establish procedures which will allow Finance to obtain invoices immediately after receipt of goods.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Travel Advances**

**Finding No. 98-12**

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

**Condition:** Listed below were the travel advances outstanding for various funds as of September 30, 1998:

General Fund (Regular)	\$ 126,069
General Fund (Special)	38,045
Compact Special Revenue Fund	10,841
U.S. Grant Fun	116,928
Other U.S. Grants Fund	5,176
CFSM Special Revenue Fund	10,406
Compact Capital Projects	1,147
CFSM Capital Projects	<u>11,479</u>
	\$ <u>320,091</u>

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

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

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

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 1998

**Medical Supply Inventory**

**Finding No. 98-13**

**Criteria:** A properly costed inventory listing should be available to support the value of inventory in the General Ledger.

**Condition:** Yap State did not provide an inventory list to support the \$198,607 in medical and pharmaceutical inventory on September 30, 1998.

**Cause:** An incorrectly costed inventory listing was initially submitted to the auditors. The list to be corrected was returned but the final inventory listing was not returned.

**Effect:** We were unable to determine whether the medical supplies inventory at September 30, 1998 was fairly stated.

**Recommendation:** We recommend that Yap State ensure that a physical count of inventory be performed at year end for medical supplies inventory. A listing should be prepared based on the results of the count and the value of the inventory determined using vendor invoices to determine the cost of items on hand.

**Prior Year Status:** This condition was reported as a finding in the Yap State Single Audit for fiscal year 1997.



**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 1998

**QUESTIONED COSTS**

For the year ended September 30, 1998, the following questioned costs were noted and prior year questioned costs resolved:

	Questioned Costs Set Forth in Prior Audit Report <u>1997</u>	Questioned Costs Resolved in Fiscal Year <u>1998</u>	Questioned Costs at <u>September 30, 1998</u>
Unresolved Questioned Costs FY 96	\$ 259,146	\$ 33,168 (1)	\$ 225,978
Unresolved Questioned Costs FY 98	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 259,146</u>	<u>\$ 33,168</u>	<u>\$ 225,978</u>

- (1) \$13,400 of questioned costs were resolved in fiscal year 1998 due to reimbursement of federal funds from the General Fund. In addition, \$19,768 in prior year questioned costs related to the Yap STAR program were resolved in fiscal year 1998 upon Yap State providing evidence that the transactions questioned for noncompliance with federal small purchases requirements were in essence "sole-source" purchases.
- (2) \$68,619 of questioned costs for a subrecipient were unresolved as of September 30, 1998 and are not included in the above total. Yap State is to resolve the findings in fiscal year 1999 or it will report these as questioned costs in its 1999 presentation.



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**Response to Audit Findings**  
**Year Ended September 30, 1998**

**Federal Findings**

**1. Finding No. 98-1 (Equipment Management)**

**CFDA #: ALL**

Along with the new financial management system in place for fiscal year 2000, the Office of Administrative Services has reviewed and reevaluated duties and responsibilities of its employees to be responsible for maintaining each module in the new system. The Fixed Asset system module has been assigned to the Procurement and Supply. It is targeted that at the end of the fiscal year 2000, an inventory of fixed assets will have been completed and the data entered into the fixed asset program. The Chief of Supply will ensure that the task is completed on time.

**2. Finding No. 98-2 (Equipment Management, (cont.))**

**CFDA #: ALL**

As explained in our response to Finding No. 98-1, the Office of Administrative Services is targeting completion of inventory and full utilization of the fixed asset module in the financial management system by the end of fiscal year 2000 which should effectively resolve the concerns raised in the above findings.

**3. Finding No. 98-3 (FEMA Matching Funds)**

**CFDA #: 83.516**

The Chief of Budget will ensure that all the local 25% matching for FEMA funded Projects are recorded correctly and filed properly for Fiscal Year 1999 and beyond. Budget Office will further insure that the local match is transferred into the FEMA project accounts when they are set up. Likewise, the Chief of Budget will also make sure that the soft matches are well recorded in the project files when this form of match is used.

**4. Finding No. 98-4 (Special Education – NonSupplanting)**

**CFDA#: 84.027A**

The attached copy of the communication from the FSM National Government dated November 16, 1998 is the request for local contribution for special education. The worksheet provided with the attachment is a result of the communication above, which shows Yap's local in-kind contribution to Special Education Program from various key personnel, programs, and activities for support of the local Special Education Program.

## **FEDERAL FINDINGS, (CONT.)**

In a meeting with the auditor on 10/8/99, Yap State Department of Education was advised to contact FSM Department of Education as being the grantee to clarify how Yap State should document its compliance with the nonsupplanting requirements. The Yap Education Department contacted the FSM Department of Education in the afternoon of the same day and were advised that the FSM Special Education Executive Director was in the Phillipines on medical treatment. Yap Education was informed by the other staff members available in the FSM Education Office then that the needed assistance and information could not be provided. As such, Yap Education has decided to await the return of the FSM Special Education Executive Director from Manila to obtain the information.

5. **Finding No. 98-5 (Headstart Procurement)**

**CFDA #: 93.600**

During the review of the audit findings, Yap CAP and the Head Start staff were made aware of the federal procurement standards for purchases. As a result, changes have been made which include the development of a form for seeking price quotes for analysis from at least three vendors. This document is to be attached to all procurement transactions and must be reviewed by the Head Start Director, Fiscal Officer and Executive Director prior to actually making the purchase. The form is herewith attached as evidence of this development.

The Head Start Director and Executive Director will make sure that the set procedures are followed and well documented. This will initiate the necessary activities to ensure compliance with the federal regulations. Further, a training on proper procurement procedures as mandated by the federal regulations has been conducted for the staff to ensure continued compliance.

## **LOCAL FINDINGS**

6. **Finding No. 98-6 (Yap State – Cash)**

Yap State Office of the Administrative Services is undergoing a rearrangement of duties and responsibilities for all of its employees. The bank reconciliation is now assigned to the Accounting Supervisor. The Chief of Finance will ensure that monthly reconciliation is done on a timely basis. The target date for the completion of the bank reconciliation is at the end of January 2000.

## LOCAL FINDINGS (CONT.)

### 7. Finding No. 98-7 (Periodic Reconciliation)

In the new restructure, there is a schedule attached to each task specified for Finance and Treasury employees to follow for monthly reconciliation associated with the new financial management system. Manual check processing is completely eliminated. Journal vouchers will be prepared by other staff members and approved by the Chief of Finance. Accounting Supervisor will review the result of all the journal entries after being posted the general ledger. Adjusting journal entries for the general ledger accounts other than the AR Travel Advance, the Accounting Supervisor will prepare and enter them after being reviewed and approved by the Chief of Finance. The accounting supervisor will ensure that all the required entries for each month are prepared and correctly entered on a monthly basis.

### 8. Finding No. 98-8 (Encumbrance Files)

The accounting supervisor is now charged with the responsibility of ensuring that the purchase orders, contracts, and other encumbrance files are reconciled on a monthly basis with the system generated encumbrance ledger reports.

### 9. Finding No. 98-9 (Special Early Retirement Program Loan)

The Chief of the Division of Finance and the Chief of the Division of Personnel are responsible to review the agreement between the State of Yap and the FSM National Government and appropriately take corrective actions to insure that the conditions of the agreement are satisfied. End of November 1999 is targeted for the appropriate action to be taken.

### 10. Finding No. 98-10 (Budgetary Controls)

With the new reorganization, the Chief of Finance is required to review and approve all obligations and expenditures. The override of transactions with insufficient funds is currently being reviewed for a change on the new system. A procedure and policy has been discussed between Finance and Budget Office and will be instituted by mid November 1999. The policy and procedure will be provide the basis for which override will be used on the new financial management system.

**LOCAL FINDINGS (CONT.)**

**11. Finding No. 98-11 (Purchase Order Advances)**

With the new restructure, the Accounting Supervisor will reconcile the purchase order advance account and the Chief of Finance will ensure that it is done on a monthly basis. For the FY98 outstanding balance of the account, the Accounting Supervisor will work with the responsible Agencies to determine if the goods have been received and adjust the balance accordingly. This task is targeted to be done by the end of December 1999. For the new system, all advances charged to the account will be under close scrutiny by the Chief of Finance to ensure they are limited only to emergency cases.

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**12. Finding No. 98-12 (Travel Advances)**

A new staff (Robert Fathal) has been hired to perform all the duties associated with travel advance, which includes reconciling the general ledger travel advance account. The Accounting Supervisor will also include the account in the general ledger account balance review and analysis. The Chief of Finance will ensure that the account is reconciled on a monthly basis. On the new system, a policy will be in place by the end of October 1999 to effectuate deductions from employees' paychecks to clear the outstanding balance.

**Finding No. 98-13 (Medical Supply Inventory)**

The finding is correct. The inventory listing was returned to the Medical Storeroom for correction. The corrections were made, but the listing was not sent. The Medical Supply Supervisor is solely responsible for forwarding the document as well as making the appropriate corrections.

The inventory program located in the Medical Store Room is accessed by two individuals, the supervisor and the storeroom specialist. The incorrect pricing sometimes occurred when they record new shipments and mistakenly put prices of a case or package instead of per bottle or ampoule.

The Medical Supply Supervisor will insure that year-end inventory report is done and submitted on time after a thorough check.

  
Al Fong  
Director, OAS

Cc: Governor, State of Yap  
Speaker, Yap State Legislature  
Director, Yap Education  
Director, Health Services