

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

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

YEAR ENDED SEPTEMBER 30, 2001

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2001

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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, 2001**



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, 2001, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Yap. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Public Transportation System (PTS), a Proprietary Fund Type - Enterprise Fund, and Diving Seagull Inc., a material investee of the Yap Investment Trust Fund (YIT), a Proprietary Fund Type - Enterprise Fund, which represent 7% and 74% of the assets and 4% and 96% of the operating revenues of the Proprietary Fund Type - Enterprise Fund, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion on the general purpose financial statements, insofar as it relates to the amounts included for PTS 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Yap State has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 2001, 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.

The general purpose financial statements referred to above do not include financial data of the Yap Fishing Authority (YFA), a Component Unit - Proprietary Fund, which should be included in order to conform with accounting principles generally accepted in the United States of America.

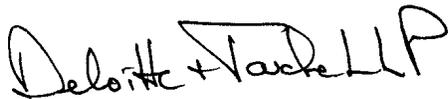
We were unable to obtain audited financial statements supporting the financial activities of the Yap Visitors Bureau, a Component Unit - Proprietary Fund, nor were we able to satisfy ourselves as to those financial activities by other auditing procedures. Those financial activities are included in the Component Units - Proprietary Fund and represent 2% and 0.1% of the assets and revenues, respectively, of the Component Units - Proprietary Funds.

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) the General Fixed Assets Account Group been updated, 2) the effects of the omission of YFA been known and 3) had we been able to obtain audited financial statements of YVB, the accompanying general purpose financial statements, as set forth in Section II of the table of contents, with the exception of the General Fixed Assets Account Group, upon which we are unable to express an opinion because of the matters specified in the third paragraph, present fairly, in all material respects, the financial position of the State of Yap, as of September 30, 2001, and the results of its operations and the cash flows of its Proprietary Fund Types for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 19 to the general purpose financial statements, the State changed its method of accounting for nonexchange transactions to conform with Governmental Accounting Standards Board Statement No. 33.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2002 on our consideration of the State of Yap's (Primary Government and Yap Community Action Program) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

October 31, 2002

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Uni
September 30, 2001
(With comparative totals as of September 30, 2000)

	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			2001	2000
Assets												
Cash and equivalents (note 3)	\$ 977,140	\$ -	\$ -	\$ 1,218,697	\$ -	\$ 22,480	\$ -	\$ -	\$ 2,218,317	\$ 1,233,231	\$ 3,451,548	\$ 3,568,366
Restricted cash (note 4)	1,296,130	-	-	-	-	-	-	-	1,296,130	-	1,296,130	2,606,643
Time certificates of deposit	-	-	-	-	-	165,584	-	-	165,584	-	165,584	848,543
Investments (note 5)	26,554,215	3,226,092	9,210,448	2,001,300	-	-	-	-	40,992,055	-	40,992,055	56,611,357
Receivables, net (note 6):												
Other governments	-	875,828	-	-	-	-	-	-	875,828	-	875,828	667,122
U.S. Department of the Interior-TTP!	-	-	482,987	-	-	-	-	-	482,987	-	482,987	165,142
Federal and other-FSM governmen	195,227	2,453,112	624,678	-	-	-	-	-	3,273,017	-	3,273,017	2,854,834
General	560,434	-	-	178,579	4,484	-	-	-	743,497	592,711	1,336,208	986,478
Loans	-	-	6,500,000	-	-	-	-	-	6,500,000	-	6,500,000	6,666,083
Accrued interest on investment:												
Due from other funds (note 10)	1,381,359	-	3,963,200	506,250	200,819	10,430	-	-	6,062,058	-	6,062,058	4,459,870
Advances and prepayments (note 6)	494,303	240,205	8,109	60,472	-	2,916	-	-	806,005	1,625	807,630	664,818
Inventory of supplies, at cost (note 7)	198,607	-	-	212,567	-	-	-	-	411,174	286,788	697,962	913,497
Fixed assets, net (note 8)	-	-	-	1,672,739	-	-	64,620,758	-	66,293,497	9,979,599	76,273,096	79,895,788
Amount to be provided for retiremen of long-term debt	-	-	-	-	-	-	-	4,137,852	4,137,852	-	4,137,852	12,937,852
	<u>\$ 31,657,415</u>	<u>\$ 6,795,237</u>	<u>\$ 20,789,422</u>	<u>\$ 5,850,604</u>	<u>\$ 205,303</u>	<u>\$ 201,410</u>	<u>\$ 64,620,758</u>	<u>\$ 4,137,852</u>	<u>\$ 134,258,001</u>	<u>\$ 12,093,954</u>	<u>\$ 146,351,955</u>	<u>\$ 173,850,170</u>

See accompanying notes to financial statements

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Unit
September 30, 2001
(With comparative totals as of September 30, 2000)

	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			2001	2000
Liabilities and Fund Equity												
Liabilities:												
Accounts payable	\$ 1,748,671	\$ 19,332	\$ -	\$ 148,580	\$ -	\$ -	\$ -	\$ -	\$ 1,916,583	\$ 93,076	\$ 2,009,659	\$ 1,435,321
Accrued payroll and others:	293,813	13,026	-	316,651	4,454	-	-	440,571	1,068,515	102,562	1,171,077	1,026,365
Intergovernmental note payable (note 9)	-	-	-	2,000,000	-	-	-	-	2,000,000	-	2,000,000	2,000,000
Loans payable - Yap State (note 9)	-	-	-	7,000,000	-	-	-	-	7,000,000	-	7,000,000	7,000,000
Due to other funds (note 10):	-	4,274,701	1,028,507	758,850	-	-	-	-	6,062,058	-	6,062,058	4,459,870
Due to grantor	-	-	-	-	-	-	-	-	-	-	-	137,964
Deferred revenue	-	392,342	-	-	-	-	-	-	392,342	142,590	534,932	747,037
Notes payable (note 9)	-	-	-	-	-	-	-	3,500,000	3,500,000	1,776,338	5,276,338	13,309,729
Other payables	-	-	-	-	-	-	-	-	-	509,737	509,737	293,208
Land acquisition claims payable (note 9)	-	-	-	-	-	-	-	197,281	197,281	-	197,281	197,281
Total liabilities	2,042,484	4,699,401	1,028,507	10,224,081	4,454	-	-	4,137,852	22,136,779	2,624,303	24,761,082	30,606,775
Fund equity (deficit):												
Investment in general fixed assets	-	-	-	-	-	-	64,620,758	-	64,620,758	-	64,620,758	64,620,758
Retained earnings (deficit)												
Unreserved	-	-	-	(4,373,477)	200,849	-	-	-	(4,172,628)	9,469,651	5,297,023	11,174,720
Net assets:												
Unrestricted	-	-	-	-	-	-	-	-	-	-	-	(146,539)
Temporarily restricted	-	-	-	-	-	-	-	-	-	-	-	816,677
Permanently restricted	-	-	-	-	-	-	-	-	-	-	-	1,095,380
Fund balances:												
Reserved for:												
Related assets	9,190,063	-	-	-	-	-	-	-	9,190,063	-	9,190,063	15,047,890
Loans	-	-	6,500,000	-	-	-	-	-	6,500,000	-	6,500,000	6,500,000
Encumbrances	384,028	464,705	288,216	-	6,658	-	-	-	1,143,607	-	1,143,607	5,995,592
Continuing appropriations (note 12):	567,211	150,000	1,396,903	-	-	-	-	-	2,114,114	-	2,114,114	399,785
Unreserved	19,473,629	1,481,131	11,575,796	-	(6,658)	201,410	-	-	32,725,308	-	32,725,308	37,739,132
Total fund equity (deficit); contingent liabilities and commitments (notes 13 and 15)	29,614,931	2,095,836	19,760,915	(4,373,477)	200,849	201,410	64,620,758	-	112,121,222	9,469,651	121,590,873	143,243,395
	\$ 31,657,415	\$ 6,795,237	\$ 20,789,422	\$ 5,850,604	\$ 205,303	\$ 201,410	\$ 64,620,758	\$ 4,137,852	\$ 134,258,001	\$ 12,093,954	\$ 146,351,955	\$ 173,850,170

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, 2001
(With comparative totals for the year ended September 30, 2000)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	2001	2000
Revenues:						
Compact of Free Association	\$ 5,995,392	\$ 2,796,984	\$ 3,689,122	\$ -	\$ 12,481,498	\$ 12,017,857
Federal contributions	-	2,512,761	-	-	2,512,761	2,510,018
U.S. Dept. of the Interior-TTPI	-	-	185,971	-	185,971	1,132,945
Revenue sharing (FSM)	2,896,903	-	-	-	2,896,903	3,680,456
CFSM grants	-	2,408,894	99,158	-	2,508,052	2,193,502
Taxes and licenses	1,054,683	-	-	-	1,054,683	1,773,009
Departmental charges	431,680	-	-	-	431,680	497,597
Interest income	21,422	-	-	-	21,422	34,201
Other	41,448	97,303	-	13,011	151,762	791,948
Total revenues	10,441,528	7,815,942	3,974,251	13,011	22,244,732	24,631,533
Expenditures:						
General government	1,161,672	-	-	-	1,161,672	1,200,479
Health services	1,190,563	541,377	-	-	1,731,940	1,832,076
Education	1,308,370	1,245,650	-	-	2,554,020	2,597,284
Economic development	547,660	132,250	82,598	-	762,508	695,482
Public safety	545,771	95,462	-	-	641,233	615,494
Public works and transportation	1,356,571	1,887,682	4,005,081	-	7,249,334	7,753,698
Community affairs	244,358	828,331	74,423	-	1,147,112	406,606
Boards and commissions	260,379	-	-	-	260,379	248,320
Other	826,679	2,848,797	91,098	7,300	3,773,874	3,457,865
Total expenditures	7,442,023	7,579,549	4,253,200	7,300	19,282,072	18,807,304
Excess (deficiency) of revenues over (under) expenditures	2,999,505	236,393	(278,949)	5,711	2,962,660	5,824,229
Other financing sources (uses):						
Investment (loss) income (notes 5 and 9)	(6,305,758)	-	-	-	(6,305,758)	6,846,663
Bad debt expense	(153,098)	-	-	-	(153,098)	-
Operating transfers in (note 11)	-	83,878	2,492,640	-	2,576,518	383,510
Operating transfers out (note 11)	(2,760,778)	(295,649)	(492,640)	-	(3,549,067)	(1,135,330)
Payments of notes payable and interest (note 9)	(9,437,030)	-	-	-	(9,437,030)	(9,183,562)
Early retirement program	-	-	-	-	-	(13,200)
Total other financing sources (uses), net	(18,656,664)	(211,771)	2,000,000	-	(16,868,435)	(3,101,919)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(15,657,159)	24,622	1,721,051	5,711	(13,905,775)	2,722,310
Fund balances at beginning of year (notes 18 and 19)	45,272,090	2,071,214	18,039,864	195,699	65,578,867	62,940,089
Fund balances at end of year	\$ 29,614,931	\$ 2,095,836	\$ 19,760,915	\$ 201,410	\$ 51,673,092	\$ 65,662,399

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, 2001
(With comparative totals for the year ended September 30, 2000)

	2001 General Fund			2000 General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Current account Compact funds	\$ 6,105,120	\$ 5,995,392	\$ (109,728)	\$ 5,816,140	\$ 5,918,528	\$ 102,388
FSM revenue sharing	2,631,080	2,896,903	265,823	2,347,950	3,680,456	1,332,506
Taxes and licenses	1,552,960	1,054,683	(498,277)	1,582,600	2,270,606	688,006
Interest income	250,000	21,422	(228,578)	-	34,201	34,201
Other	-	473,128	473,128	-	358,044	358,044
Total revenues	10,539,160	10,441,528	(97,632)	9,746,690	12,261,835	2,515,145
Expenditures-budgetary basis:						
General government	1,155,340	961,861	193,479	1,418,679	1,323,133	95,546
Health services	1,245,329	964,761	280,568	1,708,998	1,371,379	337,619
Education	1,385,941	1,301,696	84,245	1,333,214	1,264,371	68,843
Economic development	635,430	466,540	168,890	664,228	592,351	71,877
Public safety	595,000	539,445	55,555	550,933	510,883	40,050
Public works and transportation	1,448,848	1,215,095	233,753	2,386,601	1,975,820	410,781
Community affairs	257,700	226,724	30,976	216,680	194,197	22,483
Boards and commissions	272,580	252,133	20,447	282,065	250,405	31,660
Other	645,120	844,305	(199,185)	680,604	382,047	298,557
Total expenditures	7,641,288	6,772,560	868,728	9,242,002	7,864,586	1,377,416
Excess of revenues over expenditures	2,897,872	3,668,968	771,096	504,688	4,397,249	3,892,561
Other financing sources (uses):						
Investment income	-	-	-	-	7,017,238	7,017,238
Investment loss (notes 5 and 9)	-	(6,305,758)	(6,305,758)	-	(140,304)	(140,304)
Bad debt expense	-	(153,098)	(153,098)	-	-	-
Operating transfers out (note 11)	(2,676,900)	(2,760,778)	(83,878)	(336,020)	(655,535)	(319,515)
Payments of notes payable (note 9)	(9,437,030)	(9,437,030)	-	-	(9,183,562)	(9,183,562)
Early retirement program	-	-	-	(824,612)	29,021	853,633
Total other financing sources (uses), net	(12,113,930)	(18,656,664)	(6,542,734)	(1,160,632)	(2,933,142)	(1,772,510)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(9,216,058)	(14,987,696)	(5,771,638)	(655,944)	1,464,107	2,120,051
Fund balance, unreserved, at beginning of year (note 19)	29,120,924	29,120,924	-	19,112,721	19,112,721	-
Other changes in unreserved fund balance:						
Related assets	-	5,857,827	5,857,827	-	8,545,024	8,545,024
Continuing appropriations	-	(517,426)	(517,426)	-	(928)	(928)
Fund balance, unreserved, at end of year	\$ 19,904,866	\$ 19,473,629	\$ (431,237)	\$ 18,456,777	\$ 29,120,924	\$ 10,664,147

See accompanying notes to financial statements.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenses and Changes in Fund Equity (Deficiency) -
All Proprietary Fund Types and Discretely Presented Component Unit
Year Ended September 30, 2001
(With Comparative Totals for the Year Ended September 30, 2000)

	Proprietary Fund Types		Totals	Component Units	Totals	
	Enterprise	Internal Service	Primary		Reporting	
			(Memorandum Only)		Entity (Memorandum Only)	
					2001	2000
Operating revenues:						
Rental income	\$ -	\$ 28,157	\$ 28,157	\$ -	\$ 28,157	\$ 34,170
Charges for goods and services	4,015,911	-	4,015,911	3,292,141	7,308,052	5,656,376
Grants and contracts	-	-	-	-	-	873,498
Stock issues	-	-	-	-	-	-
Interest	-	-	-	-	-	72,040
Other	-	596	596	-	596	28,618
Total operating revenues	4,015,911	28,753	4,044,664	3,292,141	7,336,805	6,664,702
Operating expenses:						
Headstart program	-	-	-	-	-	826,613
Other federal programs	-	-	-	-	-	37,802
Other nonprofit and local programs	-	-	-	-	-	18,441
Personnel services	1,292,178	-	1,292,178	757,307	2,049,485	1,936,951
Travel	-	-	-	49,832	49,832	88,426
Supplies and materials	37,463	18,180	55,643	6,176	61,819	1,521,134
Production fuel	870,522	-	870,522	1,736,711	2,607,233	566,572
Contractual services	-	2,000	2,000	20,193	22,193	10,561
Depreciation	1,714,782	-	1,714,782	712,651	2,427,433	2,512,271
Bad debts expense	5,628	-	5,628	-	5,628	48,846
Utilities and communication	24,557	294	24,851	9,614	34,465	28,378
Repair and maintenance	357,654	4,110	361,764	-	361,764	164,065
Equipment lease	-	-	-	-	-	12,236
Insurance	171,189	-	171,189	-	171,189	214,860
License, agent and port fees	244,072	-	244,072	-	244,072	257,796
Provision	93,811	-	93,811	-	93,811	115,322
Management fee	172,000	-	172,000	-	172,000	131,365
Other	322,008	88,698	410,706	1,103,029	1,513,735	2,026,380
Total operating expenses	5,305,864	113,282	5,419,146	4,395,513	9,814,659	10,518,019
Operating loss	(1,289,953)	(84,529)	(1,374,482)	(1,103,372)	(2,477,854)	(3,853,317)
Nonoperating revenues (expenses):						
Operating transfers in (note 11)	143,126	-	143,126	507,680	650,806	748,144
Loss on extraordinary item - fire loss	-	-	-	(504,313)	(504,313)	-
Loss on investment in unconsolidated subsidiary	-	-	-	-	-	(264,193)
Inventory loss	-	-	-	-	-	(164,315)
Interest income	20,121	-	20,121	-	20,121	28,207
Capital contributions	144,582	-	144,582	219,474	364,056	729,343
Other income	-	-	-	197,192	197,192	151,606
Loss on disposal of assets	(1,097)	-	(1,097)	-	(1,097)	(381,716)
Recovery of bad debt	-	-	-	-	-	136,463
Total nonoperating revenues (expenses), net	306,732	-	306,732	420,033	726,765	983,539
Net loss	(983,221)	(84,529)	(1,067,750)	(683,339)	(1,751,089)	(2,869,778)
Retained earnings/net assets (deficit) at beginning of year (note 18)	(3,390,256)	285,378	(3,104,878)	10,152,990	7,048,112	16,043,016
Prior period adjustment	-	-	-	-	-	(213,000)
Retained earnings/net assets (deficit) at end of year	\$ (4,373,477)	\$ 200,849	\$ (4,172,628)	\$ 9,469,651	\$ 5,297,023	\$ 12,960,238

See accompanying notes to financial statements

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows
All Proprietary Fund Types and Discretely Presented Component Unit
Year Ended September 30, 2001
(With Comparative Totals for the Year Ended September 30, 2000)

	Proprietary Fund Types		Totals Primary Government (Memorandum Only)	Component Units	Totals Reporting Entity (Memorandum Only)	
	Enterprise	Internal Service			2001	2000
Cash flows from operating activities:						
Operating loss	\$ (1,289,953)	\$ (84,529)	\$ (1,374,482)	\$ (1,103,372)	\$ (2,477,854)	\$ (3,853,317)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities						
Depreciation	1,714,782	-	1,714,782	701,023	2,415,805	2,486,680
Bad debt	-	-	-	-	-	9,314
Recovery of bad debt	-	-	-	-	-	(136,463)
Other	20,121	-	20,121	(9,502)	10,619	326,229
	<u>444,950</u>	<u>(84,529)</u>	<u>360,421</u>	<u>(411,851)</u>	<u>(51,430)</u>	<u>(1,167,557)</u>
Change in assets and liabilities:						
Restricted cash	-	-	-	-	-	9,070
Investment	1,300	-	1,300	-	1,300	-
General receivables	(169,617)	-	(169,617)	(132,364)	(301,981)	148,818
Due from other funds	-	27,692	27,692	-	27,692	692,830
Prepayments	(12,768)	-	(12,768)	28,262	15,494	(24,444)
Inventory of supplies, at cost	(164,951)	56,837	(108,114)	3,245	(104,869)	1,603
Advances	-	-	-	7,567	7,567	(28,273)
Loans receivable	-	-	-	-	-	40,353
Interest receivable	-	-	-	-	-	6,556
Accounts payable	97,295	-	97,295	(30,062)	67,233	30,930
Accrued payroll and others	234,909	-	234,909	(6,189)	228,720	(93,664)
Other payables	-	-	-	(150,844)	(150,844)	298,291
	<u>(13,832)</u>	<u>84,529</u>	<u>70,697</u>	<u>(280,385)</u>	<u>(209,688)</u>	<u>1,082,070</u>
Net cash provided by (used for) operating activities:	<u>431,118</u>	<u>-</u>	<u>431,118</u>	<u>(692,236)</u>	<u>(261,118)</u>	<u>(85,487)</u>
Cash flows from noncapital financing activities:						
Operating transfers in and capital contributions	-	-	-	900,636	900,636	1,020,874
Operating grant from Yap State Government	109,220	-	109,220	-	109,220	165,800
Operating grant from FSM National Government	33,906	-	33,906	-	33,906	-
Grant from Federal Emergency Management Act	-	-	-	-	-	6,973
Net cash provided by noncapital financing activities:	<u>143,126</u>	<u>-</u>	<u>143,126</u>	<u>900,636</u>	<u>1,043,762</u>	<u>1,193,647</u>
Cash flows from capital and related financing activities:						
Acquisition of fixed assets	(245,868)	-	(245,868)	(2,016,622)	(2,262,490)	(2,231,240)
Proceeds from Yap State Government loan	-	-	-	766,609	766,609	1,009,729
Contract retention	-	-	-	227,112	227,112	-
Capital grant from Yap State Government	144,582	-	144,582	-	144,582	-
Net cash used for capital and related financing activities:	<u>(101,286)</u>	<u>-</u>	<u>(101,286)</u>	<u>(1,022,901)</u>	<u>(1,124,187)</u>	<u>(1,221,511)</u>
Cash flows from investing activities:						
Interest income	-	-	-	53,244	53,244	91,549
Acquisition of fixed assets	-	-	-	-	-	(17,721)
Proceeds from time certificates of deposit	-	-	-	848,543	848,543	89,695
Net cash provided by investing activities:	<u>-</u>	<u>-</u>	<u>-</u>	<u>901,787</u>	<u>901,787</u>	<u>163,523</u>
Net increase in cash and equivalents	472,958	-	472,958	87,286	560,244	50,172
Cash and equivalents at beginning of year	<u>745,739</u>	<u>-</u>	<u>745,739</u>	<u>1,145,945</u>	<u>1,891,684</u>	<u>2,512,649</u>
Cash and equivalents at end of year	<u>\$ 1,218,697</u>	<u>\$ -</u>	<u>\$ 1,218,697</u>	<u>\$ 1,233,231</u>	<u>\$ 2,451,928</u>	<u>\$ 2,562,821</u>

See accompanying notes to financial statements

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies

The general purpose financial statements of the State of Yap have been prepared in conformity with accounting principles generally accepted in the United States of America (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 GAAP as applied to government units. 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, 1989. 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 GAAP, 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 2001 presentation for YIT is consolidated with the results of its 100% owned investee, Diving Seagull Inc. (DSI).

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

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

2. Discretely Presented Component Units

- a) 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 advice and consent of the Legislature of the State of Yap.
- b) 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.

3. Omitted Component Units

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Omitted Component Units, Continued

- c) The Southern Yap Water Authority (SYWA) is responsible to operate and maintain the Southern Yap Water System. SYWA was created in fiscal year 1987 by Yap State Law No. 1-221, serves all citizens of the Southern Yap Water System, and is governed by a five member Board of Directors, one of which is appointed by the Governor with the remaining four appointed by the municipal chiefs of the four related municipalities represented in the Council of Pilung. SYWA would be reported as a discretely presented component unit-proprietary fund.
- d) The Yap Sports Council is a Special Revenue Fund that independently accounts for its operations. Funds expended are dedicated to sports development in the State of Yap.

With the exception of YFA, the financial activities of the omitted component units are not material to the general purpose financial statements.

4. Previously Included Component Units

The Yap Community Action Program (Yap CAP) was previously included as a component unit due to its administration of the State's Headstart program in a subrecipient capacity. Yap CAP no longer administers that program and accordingly is no longer classified as a component unit of the State of Yap.

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, 2001

(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. 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.

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.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

C. Basis of Presentation, Continued

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

D. Budgets

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

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 a initial maturities of ninety days or less.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

F. Investments

Investments are reported at fair value in the accompanying general purpose financial statements. 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.

K. Fixed Assets

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

K. Fixed Assets, Continued

Depreciation is not charged on assets in the General Fixed Assets Account Group. However, depreciation is charged on proprietary fund fixed assets and is provided over the estimated useful lives of the assets through use of the straight line method. (See note 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, 2001 is \$440,571. 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, 2001, for all governmental funds, is estimated to be \$370,482.

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

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.

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

Inventory of supplies	\$ 198,607
Interfund receivables and travel advances and others which may require in excess of one year to affect collection	3,775,000
ERS debt service (See note 9)	3,500,000
20% Restricted National tax revenue	<u>1,716,456</u>
	\$ <u>9,190,063</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(1) Summary of Significant Accounting Policies, Continued

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 GAAP. 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 general purpose financial statements in order to provide an understanding of the changes in the State of Yap's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

R. Management Estimates

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

(2) Budgetary Information

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

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(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.

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

Of the component units cash balances, \$300,000 is subject to FDIC coverage with the remaining balances being noninsured and 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).

\$ 1,296,130

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

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

102%.

(5) Investments, Continued

- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the Secretary of Finance.
- C. No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

At September 30, 2001, the market value of the State's investments was \$38,990,755. These investments have been reported at fair value in accordance with GASB 31 and are classified in the financial statements as follows:

General Fund Investments	\$ 26,554,215
Compact Capital Fund	9,210,448
Special Compact Funds	<u>3,226,092</u>
	<u>\$ 38,990,755</u>

The State's investment income for the year ended September 30, 2001, is summarized below:

Interest	\$ 1,236,263
Dividends	508,116
Realized losses	(2,325,778)
Management fees	(471,791)
Other income	<u>81,599</u>
	(971,591)
Unrealized losses (inclusive of loss at note 9)	<u>(5,334,167)</u>
	<u>\$ (6,305,758)</u>

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

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

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

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

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

**STATE OF YAP
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(5) Investments, Continued

Additionally, as of September 30, 2001, 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. These investments in stock have 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 (See notes 9 and 17).

(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, 2001 (with comparative totals as of September 30, 2000) is presented below:

<u>Source Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>2001</u>	<u>2000</u>
FSM Government and other reimbursable	\$ <u>202,317</u>	\$ <u>(7,090)</u>	\$ <u>195,227</u>	\$ <u>375,269</u>
General:				
Taxes	\$ 843,175	\$ (354,437)	\$ 488,738	\$ 76,511
Leases	125,829	(125,829)	-	4,860
Airport operation	89,610	(17,914)	71,696	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>1,058,614</u>	\$ <u>(498,180)</u>	\$ <u>560,434</u>	\$ <u>81,371</u>
Advances:				
Travel/payroll	\$ 419,396	\$ (65,000)	\$ 354,396	\$ 315,806
Purchases	<u>139,907</u>	<u>-</u>	<u>139,907</u>	<u>169,623</u>
	\$ <u>559,303</u>	\$ <u>(65,000)</u>	\$ <u>494,303</u>	\$ <u>485,429</u>

**STATE OF YAP
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September 30, 2001

(6) Receivables, Advances and Loans, Continued

A. General Fund, Continued

Loans:			
Yap Fishing Corporation	\$ 7,400,000		\$ 7,400,000
Accrued interest-YFC	324,101		324,101
YIT OPIC debt service loan	<u>500,000</u>		<u>500,000</u>
	8,224,101		8,224,101
Allowance for doubtful accounts	<u>(8,224,101)</u>		<u>(8,224,101)</u>
	\$ <u> -</u>		\$ <u> -</u>

A \$6,400,000 note from Yap Fishing Corporation (YFC) was originally appropriated under Yap State Law No. 2-96, and is due and payable on or before June 11, 2004; however, it is subordinated to the Overseas Private Investment Corporation (OPIC), a U.S. Corporation, debt held by YFC. (Refer note 13). Yap State Government also appropriated \$1,000,000 as a revolving line of credit under Yap State Law No. 3-8 for the use of YFC. In a subsequent agreement dated August 21, 1992, the terms of the original line of credit agreement were changed to an interest rate of 6% and a termination date of September 30, 2004. As of September 30, 2001, \$1,000,000 has been utilized by YFC. All amounts receivable from YFC have been reserved as uncollectible as of September 30, 2001.

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

B. Special Revenue Funds

A summary of loans receivable, advances and the corresponding allowance for doubtful accounts for the Special Revenue Funds as of September 30, 2001 follows (with comparative totals as of September 30, 2000):

<u>Source/Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>2001</u>	<u>2000</u>
Other governments	\$ <u>875,828</u>	\$ <u> -</u>	\$ <u>875,828</u>	\$ <u>667,122</u>
Federal agencies and CFSM	\$ <u>2,575,112</u>	\$ <u>(122,000)</u>	\$ <u>2,453,112</u>	\$ <u>1,802,172</u>
Advances - travel/ payroll	\$ <u>285,705</u>	\$ <u>(45,500)</u>	\$ <u>240,205</u>	\$ <u>102,929</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(6) Receivables, Advances and Loans, Continued

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 2001 (with comparative totals as of September 30, 2000):

<u>Source Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>2001</u>	<u>2000</u>
U.S. Department of the Interior - TTPI	\$ <u>482,987</u>	\$ <u>-</u>	\$ <u>482,987</u>	\$ <u>165,142</u>
CFMSM Grants	\$ <u>645,678</u>	\$ <u>(21,000)</u>	\$ <u>624,678</u>	\$ <u>677,393</u>
Advances - travel	\$ <u>8,109</u>	\$ <u>-</u>	\$ <u>8,109</u>	\$ <u>7,620</u>
Loan - YIT	\$ <u>6,500,000</u>	\$ <u>-</u>	\$ <u>6,500,000</u>	\$ <u>6,500,000</u>

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

D. Enterprise Funds

Receivables of the Public Transportation System are net of an allowance for doubtful accounts of \$55,617.

E. Discretely Presented Component Units

Receivables of the Yap State Public Service Corporation are net of an allowance for doubtful accounts of \$209,815.

(7) Inventory of Supplies

General Fund inventory consists of medical lab and pharmaceutical supplies of \$198,607 at September 30, 2001. The Internal Service Fund's inventory consists of general stores supplies of which have been fully reserved for.

Inventory of \$286,788 for the Yap State Public Services Corporation (a discretely presented component unit) as of September 30, 2001 consists of fuel and power distribution hardware and parts and water treatment plant chemical supplies.

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(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, 2001 (with comparative totals as of September 30, 2000), follows:

	<u>Estimated Useful Life</u>	<u>2001</u>	<u>2000</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

Details of fixed assets of the Yap State Public Service Corporation, a discretely presented component unit as of September 30, 2001 (with comparative totals as of September 30, 2000) are as follows:

	<u>Estimated Useful Life</u>	<u>2001</u>	<u>2000</u>
Production plant	5 - 40 years	\$ 8,869,782	\$ 8,438,030
Distribution plant	3 - 20 years	3,874,139	3,172,558
General plant	3 - 25 years	<u>698,118</u>	<u>1,033,860</u>
Utility plant in service		13,442,039	12,644,448
Construction in progress		<u>2,769,776</u>	<u>2,261,192</u>
		16,211,815	14,905,640
Less: accumulated depreciation		<u>(6,252,463)</u>	<u>(5,969,542)</u>
Fixed asset, net		<u>\$ 9,959,352</u>	<u>\$ 8,936,098</u>

Utility plant is comprised of the following components:

Electric plant	\$ 9,647,519	\$ 9,673,357
Water plant	<u>3,794,520</u>	<u>2,971,091</u>
	<u>\$ 13,442,039</u>	<u>\$ 12,644,448</u>

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September 30, 2001

(8) Investment in Fixed Assets, Continued

B. Discretely Presented Component Units, Continued

A summary of fixed assets accounted for the Yap Visitors Bureau, a discretely presented component unit as of September 30, 2001, follows (with comparative totals as of September 30, 2000):

	<u>Estimated Useful Life</u>	<u>2001</u>	<u>2000</u>
Furniture and fittings	2 years	\$ 8,149	\$ 9,214
Office equipment	3 years	42,539	24,822
Automobile	3 years	<u>14,800</u>	<u>14,800</u>
Utility plant in service		65,488	48,836
Less: accumulated depreciation		<u>(45,241)</u>	<u>(29,959)</u>
Fixed asset, net		\$ <u>20,247</u>	\$ <u>18,877</u>

C. Enterprise Funds

Property and equipment of the Yap Investment Trust (with comparative totals for the year ended September 30, 2000), consists of the following:

	<u>Estimated Useful Life</u>	<u>2001</u>	<u>2000</u>
Leased fishing vessel	5 years	\$ 6,341,635	\$ 6,341,635
Leasehold improvement	up to 5 years	1,457,011	1,371,285
Computerized office equipment	3 years	21,540	17,737
Vehicle	3 years	<u>34,804</u>	<u>34,804</u>
		7,854,990	7,765,461
Less accumulated depreciation		<u>(6,530,930)</u>	<u>(4,891,893)</u>
		\$ <u>1,324,060</u>	\$ <u>2,873,568</u>

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

	<u>Estimated Useful Life</u>	<u>2001</u>	<u>2000</u>
Buildings	10 to 25 years	\$ 92,659	\$ 92,659
Vehicles	3 to 7 years	712,311	568,467
Shop equipment	2 to 7 years	35,997	30,761
Office furniture	2 to 10 years	<u>28,572</u>	<u>29,307</u>
		869,539	721,194
Less accumulated depreciation		<u>(520,860)</u>	<u>(452,010)</u>
		\$ <u>348,679</u>	\$ <u>269,184</u>

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Notes to Financial Statements
September 30, 2001

(9) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 2001 (with comparative totals for the year ended September 30, 2000), follow:

	<u>2001</u>	<u>2000</u>
Balance at beginning of year	\$ 12,937,852	\$ 20,837,852
Payments made on medium-term notes	<u>(8,800,000)</u>	<u>(7,900,000)</u>
Balance at end of year	\$ <u>4,137,852</u>	\$ <u>12,937,852</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 was made through a pledge of applicable Compact of Free Association revenues to be recognized as revenues in subsequent years. The notes were 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 invested the note proceeds for purposes of arbitrage. Payments of principal and interest were entrusted to Banker's Trust, as Trustee. The FSM 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 was responsible for withdrawal of amounts necessary for payments of principal and interest. Various other restrictive covenants existed and were detailed in the Trust Agreement dated January 4, 1991. Management is of the opinion that it complied with such covenants through its final payment made in 2001. Interest paid on the bonds amounted to \$637,030 for the year ended September 30, 2001 (\$1,283,562 for the year ended September 30, 2000).

Asian Development Bank Early Retirement Program Loan

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

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. These funds had not been deposited to the Trust Account as of September 30, 2001. \$3,500,000 identified for future debt service payments is included in the General Fund reserve for related assets of which \$1,296,130 is actually deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt. The State recognized an unrealized loss of \$220,983 on this account during the year ended September 30, 2001.

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Notes to Financial Statements
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(9) Long-Term Debt, Continued

Land Purchase and Indefinite Land Use Payments

As of September 30, 2001, \$197,281 in long-term payments due under land purchase agreements was identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes (see note 15).

Enterprise Funds

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

The \$7,000,000 loan to the Yap Investment Trust (YIT) is comprised of \$6,500,000 appropriated under YSL 3-67 which is non-interest bearing and payable on demand and \$500,000 appropriated under YSL 4-85 which is due September 30, 2000 at 1% per annum. The amount has not been repaid at that date and the balance is reserved as a related asset in the affected fund balance.

Component Units – Proprietary Funds

As of September 30, 2001, Yap State Public Service Corporation (YSPSC) borrowed \$1,776,338 from the Asia Development Bank through the Federated States of Micronesia (FSM) and Yap State, for construction of certain water projects. YSPSC was to be liable to Yap State for interest at 6.82% on the outstanding balance; however, Yap State has waived the interest payment requirement. The loan is repayable in Special Drawing Rights commencing August 2007 with the final payment due in August 2036. The loan is collateralized by the guarantee of the FSM National Government.

(10) Interfund Receivables and Payables

As of September 30, 2001, 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	\$ 1,381,359	\$ -
Special Revenue Funds:		
Compact Programs	-	1,055,085
Federal Grants	-	1,203,748
Other U.S. Grants	-	482,214
Non U.S. Grants	-	7,983
CFSM Grants	-	1,421,639
Sports Development Fund	-	44,427
Disaster Fund	-	59,605

**STATE OF YAP
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Notes to Financial Statements
September 30, 2001

(10) Interfund Receivables and Payables, Continued

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Capital Projects Funds:		
Compact Capital Projects	3,697,180	-
TTPI Capital Projects	-	351,113
CFSM Capital Project	-	545,520
Public Projects	49,720	-
Other U.S. Capital Projects	-	131,874
Water Development Fund	216,300	-
Enterprise Funds:		
YEDA	-	758,850
YIT	506,250	-
Expendable Trust Fund	10,430	-
Internal Service Fund	<u>200,819</u>	<u>-</u>
	<u>\$ 6,062,058</u>	<u>\$ 6,062,058</u>

(11) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 2001, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer to Enterprise Funds:		
Public Transportation System	\$ 109,220	\$ -
Transfer to Special Revenue Fund:		
FEMA matching share	83,878	-
Transfer to Component Units:		
Yap Visitor's Bureau	507,680	-
Yap State Public Service Corporation	60,000	-
Transfer to Capital Projects Fund:		
Yap State Public Project	<u>2,000,000</u>	<u>-</u>
	<u>\$ 2,760,778</u>	<u>\$ -</u>

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 2001, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer in for FEMA match	\$ -	\$ 83,878
Transfer within Special Revenue Funds:		
Yap Sports Development	106,519	-
Transfers to Component Units:		
Yap Community Action Program (YCAP)	150,000	-
Yap Visitors Authority	<u>39,130</u>	<u>-</u>
	<u>\$ 295,649</u>	<u>\$ 83,878</u>

**STATE OF YAP
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Notes to Financial Statements
September 30, 2001

(11) Transfers In/Out, Continued

C. Enterprise Funds

Material Enterprise Funds transfers in/out for the year ended September 30, 2001, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Subsidy for operations of Public Transportation System	\$ <u> -</u>	\$ <u>143,126</u>

D. Capital Projects Funds

Material Capital Project Fund transfers in/out for the year ended September 30, 2001 are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from General Fund:		
Yap State Public Project	\$ -	\$ 2,000,000
Transfers within Capital Project Funds:		
Compact Capital Projects Fund	492,640	-
Yap State Public Project	<u> -</u>	<u>492,640</u>
	\$ <u>492,640</u>	\$ <u>2,492,640</u>

(12) Continuing Appropriations

Continuing appropriations as of September 30, 2001, are as follows:

General Fund:

Projects under YSL 5-47	\$ 20,000
Projects under YSL 5-46	46,753
Projects under YSL 5-62	500,000
Other projects	<u> 458</u>
	\$ <u>567,211</u>

Compact Capital Projects Fund:

Various programs	\$ <u>1,396,903</u>
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Special Revenue Fund:

Compact programs	\$ <u>150,000</u>
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**STATE OF YAP
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Notes to Financial Statements
September 30, 2001

(13) Yap Economic Development Authority

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

(14) Segment Information - Enterprise Funds

The following presents key data extracted from the financial statements of the Enterprise Funds of the State of Yap as of September 30, 2001, and for the year then ended.

	Yap Economic Development Authority	Yap Investment Trust	Public Transportation System
Operating loss	\$ <u> -</u>	\$ <u>(1,034,374)</u>	\$ <u>(255,579)</u>
Net income (loss)	\$ <u> -</u>	\$ <u>(1,014,253)</u>	\$ <u> 31,032</u>
Total assets	\$ <u>1,107,327</u>	\$ <u>4,338,868</u>	\$ <u> 404,409</u>
Total retained earnings (deficit)	\$ <u>(1,653,107)</u>	\$ <u>(3,078,589)</u>	\$ <u>(358,219)</u>

Contributed capital of \$500,000 during the year ended September 30, 1998, was provided to the Yap Investment Trust (YIT) from the General Fund of the State of Yap, for an Escrow Account to be created for the United States Department of Agriculture Rural Housing Service Loan Program. The Escrow Account has not been established as of September 30, 2001.

(15) Contingent Liabilities

Federal and Other Grants

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Currently, \$323,998 in cumulative questioned costs exist for the operation of fiscal year 1984-2000 grants. If these costs are ultimately disallowed, the General Fund will be charged for the necessary reimbursement to the grantor agencies.

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Notes to Financial Statements
September 30, 2001

(15) Contingent Liabilities, Continued

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, 2001, 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.

Risk Management

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

(16) Fund Deficit

The following funds have material fund deficits as of September 30, 2001:
Enterprise Funds:

Yap Economic Development Authority Fund	\$ (1,653,107)
Yap Investment Trust	\$ (3,078,589)

(17) Loss on Equity Investment

The Yap Investment Trust, an enterprise fund, holds a 100% investment in Diving Seagull Inc. (DSI). Condensed financial information for DSI for the year ended September 30, 2001, with comparative totals for the year ended September 30, 2000, is as follows:

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Notes to Financial Statements
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(17) Loss on Equity Investment, Continued

	<u>2001</u>	<u>2000</u>
Balance sheet:		
Current assets	\$ 1,614,017	\$ 774,041
Property, plant and equipment	<u>1,324,060</u>	<u>2,873,568</u>
	\$ <u>2,938,077</u>	\$ <u>3,647,609</u>
Current liabilities	\$ 415,873	\$ 111,152
Stockholders' equity	<u>2,522,205</u>	<u>3,536,457</u>
	\$ <u>2,938,078</u>	\$ <u>3,647,609</u>
Statement of revenues and expenses:		
Sales	\$ 3,869,500	\$ 2,584,613
Operating expenses	(4,903,874)	(4,163,344)
Nonoperating revenues (expense), net	<u>20,121</u>	<u>26,928</u>
Net income (loss)	\$ <u>(1,014,253)</u>	\$ <u>(1,551,803)</u>

(18) Beginning Fund Balance and Beginning Fund Retained Deficit

Component Units

The beginning deficit for 2001 does not agree with the 2000 ending deficit due to the non-inclusion of Yap Community Action Program and Yap Fishing Authority balances of \$1,765,518 and \$4,115,231, respectively.

Additionally, the Yap Visitors Bureau 2001 beginning deficit has the following unlocated difference:

2000 retained earnings, end of year, as previously reported	\$ 14,441
Unlocated difference	<u>(31,377)</u>
2001 deficit, beginning of year	\$ <u>(16,936)</u>

Special Revenue

The beginning fund balance for 2001 is not in balance with the 2000 ending fund balance due to the non-inclusion of the Sports Council 2000 fund balance of \$83,532.

(19) Adoption of New Accounting Principle

Effective October 1, 2000, Yap State Government adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." GASB No. 33 establishes uniform revenue recognition criteria and financial reporting standards regarding the timing of recognition of the results of nonexchange transactions involving cash and other financial and capital resources. The provisions of GASB No. 33 were applied to all periods presented.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2001

(19) Adoption of New Accounting Principle, Continued

Implementation of GASB No. 33 impacted the 2000 financial statements of the General Fund as follows:

General fund balance at September 30, 2000, as previously reported	\$ 44,905,355
Increase in revenue sharing:	
Unrestricted	261,954
Restricted for 20%	<u>104,781</u>
General fund balance at September 30, 2000, as set forth in the accompanying general purpose financial statements	\$ <u>45,272,090</u>

For component units, as a result of GASB 33, total fund equity has not been changed. However, contributed capital has been combined with retained earnings as follows:

2000 deficit, beginning of year, as previously reported	\$ (605,722)
Add contributed capital as adjusted for GASB 33 application	16,670,838
Less note 18:	
Yap Community Action Program	(1,765,518)
Yap Fishing Authority	(4,115,231)
Yap Visitors Bureau	<u>(31,377)</u>
2000 retained earnings, beginning of year, as restated	\$ <u>10,152,990</u>

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -
All Governmental Fund Types
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	Governmental Fund Types			Totals	
	General	Special Revenue	Capital Projects	2001	2000
Expenditures:					
Salaries and wages	\$ 4,157,867	\$ 1,462,735	\$ 75,021	\$ 5,695,623	\$ 5,335,577
Travel	294,153	761,486	3,363	1,059,002	914,154
Freight	65,717	61,457	1,232	128,406	191,027
Communications	124,303	122,917	1,868	249,088	210,059
Printing and reproduction	23,948	23,525	-	47,473	85,811
Professional services	269,926	362,058	240	632,224	186,069
Food stuffs	86,499	48,060	-	134,559	140,576
Medical supplies	283,791	26,062	-	309,853	385,366
Supplies and materials	198,056	756,182	45,951	1,000,189	628,384
Medical referral	630	191,657	-	192,287	292,995
Capital outlay	190,032	1,438,354	3,754,873	5,383,259	1,858,910
Contractual services	337,013	617,867	98,108	1,052,988	4,715,562
Rentals	21,426	146,743	83,600	251,769	868,872
Repairs and maintenance	68,935	67,296	2,573	138,804	100,696
Allowances	135,454	-	-	135,454	137,653
Utilities	1,240	793,946	-	795,186	764,401
Grants and subsidies	333,707	150,670	185,971	670,348	633,610
Scholarships and training	98,160	226,148	-	324,308	336,280
Drydocking	14,615	-	-	14,615	605,449
Other	736,551	322,386	400	1,059,337	415,853
	<u>7,442,023</u>	<u>7,579,549</u>	<u>4,253,200</u>	<u>19,274,772</u>	<u>18,807,304</u>
Total expenditures	\$ <u>7,442,023</u>	\$ <u>7,579,549</u>	\$ <u>4,253,200</u>	\$ <u>19,274,772</u>	\$ <u>18,807,304</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

General Fund
September 30, 2001

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, 2001
(With comparative totals for the year ended September 30, 2000)

	2001	2000
Revenues:		
Compact funds:		
Current 211A base grant	\$ 3,843,200	\$ 3,843,200
Inflation adjustment 217	2,152,192	2,075,328
	5,995,392	5,918,528
Revenue sharing:		
Import tax	1,052,225	1,158,128
Fuel tax	49,641	37,423
Income tax	275,012	884,542
Business gross revenue tax	1,474,533	1,233,628
Unallocated	45,492	366,735
	2,896,903	3,680,456
Excise taxes:		
Alcoholic beverages	445,155	658,997
Gasoline and diesel	2,505	22,915
Tobacco	94,206	131,759
Other excise taxes	350,491	562,929
	892,357	1,376,600
Licenses and permits	62,162	72,010
Fines/sale of confiscated property	25,882	54,364
Leases and other rentals	74,282	270,035
	162,326	396,409
Departmental charges:		
Sea transportation	189,081	183,926
Hospital services	163,129	221,945
Utilities	9,211	7,357
Other	70,259	84,369
	431,680	497,597
Interest income	21,422	34,201
Other income	41,448	358,044
Total revenues	10,441,528	12,261,835

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, 2001
(With comparative totals for the year ended September 30, 2000)

	2001	2000
Expenditures:		
General Government:		
Office of the Governor	\$ 166,431	\$ 184,816
State Legislature	421,449	434,510
Office of Administrative Services	387,113	392,644
Office of Planning, Budget and Statistics	128,370	121,176
Division of Revenue and Taxation	31,048	26,521
Disaster relief programs	15,320	19,155
Utilities programs	11,941	21,657
	1,161,672	1,200,479
Health Services:		
Department of Health Services	1,190,563	1,257,529
Education:		
Department of Education	1,308,370	1,273,199
Economic Development:		
Department of Resources and Development	547,660	518,700
Public Safety:		
Department of Public Safety/Attorney General	545,771	503,464
Public Works and Transportation:		
Department of Public Works and Transportation	1,356,571	2,008,511
Community Affairs:		
Department of Public Affairs	244,358	180,184
Boards and Commissions:		
Council of Pilung	84,166	85,235
Council of Tamol	123,571	106,175
EPA administration board	52,642	56,910
	260,379	248,320

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, 2001
(With comparative totals for the year ended September 30, 2000)

	2001	2000
Other:		
Judiciary	156,553	154,487
Public Auditor	41,175	15,219
Legislative projects	628,951	254,940
	826,679	424,646
Total expenditures	7,442,023	7,615,032
Excess of revenues over expenditures	2,999,505	4,646,803
Other financing (uses) sources:		
Investment income	-	7,017,238
Investment loss	(6,305,758)	(140,304)
Bad debt expense	(153,098)	-
Operating transfers out	(2,760,778)	(655,535)
Payments of notes payable and interest	(9,437,030)	(9,183,562)
Early retirement program	-	(13,200)
Total other financing uses, net	(18,656,664)	(2,975,363)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(15,657,159)	1,671,440
Fund balance at beginning of year	45,272,090	43,600,650
Fund balance at end of year	\$ 29,614,931	\$ 45,272,090

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, 2001
(With comparative totals for the year ended September 30, 2000)

	2001			2000		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Current account Compact funds	\$ 6,105,120	\$ 5,995,392	\$ (109,728)	\$ 5,816,140	\$ 5,918,528	\$ 102,388
FSM revenue sharing	2,631,080	2,896,903	265,823	2,347,950	3,680,456	1,332,506
Taxes and licenses	1,552,960	1,054,683	(498,277)	1,582,600	2,270,606	688,006
Interest income	250,000	21,422	(228,578)	-	34,201	34,201
Other	-	473,128	473,128	-	358,044	358,044
Total revenues	10,539,160	10,441,528	(97,632)	9,746,690	12,261,835	2,515,145
Expenditures budgetary basis:						
General Government:						
Office of the Governor	169,310	127,763	41,547	236,088	204,154	31,934
State Legislature	468,550	355,190	113,360	542,952	475,557	67,395
Office of Administrative Service:	412,550	348,191	64,359	399,280	419,654	(20,374)
Office of Planning, Budget and Statistics	72,580	73,031	(451)	211,435	153,510	57,925
Division of Revenue and Taxation	32,350	30,425	1,925	38,910	29,445	9,465
Utilities program	-	11,941	(11,941)	(16,536)	21,658	(38,194)
Disaster relief programs	-	15,320	(15,320)	6,550	19,155	(12,605)
	1,155,340	961,861	193,479	1,418,679	1,323,133	95,546
Health Services:						
Department of Health Services	1,245,329	964,761	280,568	1,708,998	1,371,379	337,619
Education:						
Department of Education	1,385,941	1,301,696	84,245	1,333,214	1,264,371	68,843
Economic development:						
Department of Resources and Development	635,430	466,540	168,890	664,228	592,351	71,877
Public safety:						
Department of Public Safety and Attorney General	595,000	539,445	55,555	550,933	510,883	40,050
Public Works and Transportation:						
Department of Public Works and Transportation	1,448,848	1,215,095	233,753	2,386,601	1,975,820	410,781
Community affairs:						
Department of Public Affairs	257,700	226,724	30,976	216,680	194,197	22,483
Boards and commissions:						
Council of Pilung	86,340	82,410	3,930	94,022	86,099	7,923
Council of Tamol	121,570	120,456	1,114	116,174	103,955	12,219
EPA administration board	64,670	49,267	15,403	71,869	60,351	11,518
	272,580	252,133	20,447	282,065	250,405	31,660

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, 2001
(With comparative totals for the year ended September 30, 2000)

	2001			2000		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Other:						
Judiciary	\$ 160,770	\$ 156,566	\$ 4,204	\$ 163,429	\$ 151,507	\$ 11,922
Public Auditor	44,740	39,029	5,711	49,468	18,944	30,524
Legislative projects	439,610	648,710	(209,100)	467,707	292,178	175,529
Other	-	-	-	-	(80,582)	80,582
	<u>645,120</u>	<u>844,305</u>	<u>(199,185)</u>	<u>680,604</u>	<u>382,047</u>	<u>298,557</u>
Total expenditures	<u>7,641,288</u>	<u>6,772,560</u>	<u>868,728</u>	<u>9,242,002</u>	<u>7,864,586</u>	<u>1,377,416</u>
Excess of revenues over expenditures	<u>2,897,872</u>	<u>3,668,968</u>	<u>771,096</u>	<u>504,688</u>	<u>4,397,249</u>	<u>3,892,561</u>
Other financing sources (uses):						
Investment income	-	-	-	-	7,017,238	7,017,238
Investment loss	-	(6,305,758)	(6,305,758)	-	(140,304)	(140,304)
Bad debt expense	-	(153,098)	(153,098)	-	-	-
Operating transfers out	(2,676,900)	(2,760,778)	(83,878)	(336,020)	(655,535)	(319,515)
Payment of notes payable	(9,437,030)	(9,437,030)	-	-	(9,183,562)	(9,183,562)
Early retirement program	-	-	-	(824,612)	29,021	853,633
Total other financing sources (uses), net	<u>(12,113,930)</u>	<u>(18,656,664)</u>	<u>(6,542,734)</u>	<u>(1,160,632)</u>	<u>(2,933,142)</u>	<u>(1,772,510)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(9,216,058)</u>	<u>(14,987,696)</u>	<u>(5,771,638)</u>	<u>(655,944)</u>	<u>1,464,107</u>	<u>2,120,051</u>
Fund balance, unreserved at beginning of year	29,120,924	29,120,924	-	19,112,721	19,112,721	-
Other changes in unreserved fund balance						
Related assets	-	5,857,827	5,857,827	-	8,545,024	8,545,024
Continuing appropriations	-	(517,426)	(517,426)	-	(928)	(928)
Fund balance, unreserved at end of year	<u>\$ 19,904,866</u>	<u>\$ 19,473,629</u>	<u>\$ (431,237)</u>	<u>\$ 18,456,777</u>	<u>\$ 29,120,924</u>	<u>\$ 10,664,147</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds
September 30, 2001

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, 2001, 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.

Disaster Fund

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

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

SPECIAL REVENUE FUNDS

Combining Balance Sheet
September 30, 2001

(With comparative totals as of September 30, 2000)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Disaster Fund	Totals	
								2001	2000
Assets									
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,801
Investments	3,226,092	-	-	-	-	-	-	3,226,092	3,226,092
Receivables, net:									
Other governments	-	-	851,521	-	24,307	-	-	875,828	667,122
FSM National Government	-	1,041,911	-	-	1,411,201	-	-	2,453,112	1,802,172
Due from other funds	-	-	-	-	-	-	-	-	29,030
Advances	29,870	188,507	3,351	-	18,477	-	-	240,205	102,929
Total assets	\$ 3,255,962	\$ 1,230,418	\$ 854,872	\$ -	\$ 1,453,985	\$ -	\$ -	\$ 6,795,237	\$ 5,878,146
Liabilities and Fund Balances (Deficit)									
Liabilities:									
Accounts payable	\$ -	\$ 17,164	\$ -	\$ -	\$ 2,168	\$ -	\$ -	\$ 19,332	\$ 434,703
Accrued payroll	12,711	-	315	-	-	-	-	13,026	13,036
Due to other funds	1,055,085	1,203,748	482,214	7,983	1,421,639	44,427	59,605	4,274,701	2,862,093
Deferred revenue	-	20,033	372,309	-	-	-	-	392,342	413,568
Total liabilities	1,067,796	1,240,945	854,838	7,983	1,423,807	44,427	59,605	4,699,401	3,723,400
Fund balances (deficit)									
Reserved for:									
Encumbrances	67,751	128,544	1,250	-	266,307	-	853	464,705	1,860,647
Continuing appropriations	150,000	-	-	-	-	-	-	150,000	150,000
Unreserved	1,970,415	(139,071)	(1,216)	(7,983)	(236,129)	(44,427)	(60,458)	1,481,131	144,099
Total fund balances (deficit)	2,188,166	(10,527)	34	(7,983)	30,178	(44,427)	(59,605)	2,095,836	2,154,746
Total liabilities and fund balances (deficit)	\$ 3,255,962	\$ 1,230,418	\$ 854,872	\$ -	\$ 1,453,985	\$ -	\$ -	\$ 6,795,237	\$ 5,878,146

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, 2001

(With comparative totals for the year ended September 30, 2000)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Disaster Fund	Totals	
								2001	2000
Revenues:									
Compact	\$ 2,796,984	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,796,984	\$ 2,447,012
Federal contributions	-	2,257,317	255,444	-	-	-	-	2,512,761	2,510,018
CFSM grants	-	-	-	-	2,408,894	-	-	2,408,894	1,318,853
Other	-	-	-	3,213	-	94,090	-	97,303	444,429
Total revenues	2,796,984	2,257,317	255,444	3,213	2,408,894	94,090	-	7,815,942	6,720,312
Expenditures:									
Health services	449,466	-	-	-	91,911	-	-	541,377	574,547
Education	1,021,219	-	-	-	224,431	-	-	1,245,650	1,140,198
Economic developmen	-	-	-	-	132,250	-	-	132,250	150,799
Public safety	-	-	-	-	95,462	-	-	95,462	112,030
Public works and transportation	1,016,381	-	-	-	871,301	-	-	1,887,682	1,452,103
Community affairs	-	-	-	-	828,331	-	-	828,331	183,284
Other	35,834	2,267,844	339,288	11,196	135,030	-	59,605	2,848,797	2,914,868
Total expenditures	2,522,900	2,267,844	339,288	11,196	2,378,716	-	59,605	7,579,549	6,527,829
Excess (deficiency) of revenue over (under) expenditures	274,084	(10,527)	(83,844)	(7,983)	30,178	94,090	(59,605)	236,393	192,483
Other financing sources (uses)									
Transfers in	-	-	83,878	-	-	-	-	83,878	383,510
Transfers out	(189,130)	-	-	-	-	(106,519)	-	(295,649)	(479,795)
Total other financing sources (uses), net	(189,130)	-	83,878	-	-	(106,519)	-	(211,771)	(96,285)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	84,954	(10,527)	34	(7,983)	30,178	(12,429)	(59,605)	24,622	96,198
Fund balances (deficit) at beginning of year	2,103,212	-	-	-	-	(31,998)	-	2,071,214	2,058,548
Fund balances (deficit) at end of year	\$ 2,188,166	\$ (10,527)	\$ 34	\$ (7,983)	\$ 30,178	\$ (44,427)	\$ (59,605)	\$ 2,095,836	\$ 2,154,746

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, 2001

(With comparative totals for the year ended September 30, 2000)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Disaster Fund	Totals	
								2001	2000
Revenues:									
Compact	\$ 2,796,984	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,796,984	\$ 2,447,012
Federal contributions	-	2,257,317	255,444	-	-	-	-	2,512,761	2,510,018
CFSM grants	-	-	-	-	2,408,894	-	-	2,408,894	1,318,853
Other	-	-	-	3,213	-	94,090	-	97,303	444,429
Total revenues	2,796,984	2,257,317	255,444	3,213	2,408,894	94,090	-	7,815,942	6,720,312
Expenditures:									
Salaries and wages	576,986	864,677	15,816	-	(10,522)	-	15,778	1,462,735	1,429,860
Travel	46,630	383,568	6,672	-	324,616	-	-	761,486	631,172
Freight	33,076	17,531	118	14	10,718	-	-	61,457	46,777
Communications	38,707	56,804	5,151	-	22,255	-	-	122,917	75,934
Printing and reproduction	6,177	10,691	-	-	6,657	-	-	23,525	36,919
Professional services	28,337	219,733	-	-	113,988	-	-	362,058	117,588
Food stuffs	17,727	3,383	338	-	20,156	-	6,456	48,060	47,205
Medical supplies	13,533	6,627	-	-	5,902	-	-	26,062	7,758
Supplies and materials	282,716	223,346	3,545	2,684	239,530	-	4,361	756,182	394,278
Medical referral	191,657	-	-	-	-	-	-	191,657	260,444
Capital outlay	93,674	260,216	213,686	8,498	862,280	-	-	1,438,354	666,386
Contractual services	37,949	71,613	93,240	-	415,065	-	-	617,867	1,744,749
Rentals	59,957	51,236	590	-	25,926	-	9,034	146,743	72,492
Repairs and maintenance	23,834	12,876	79	-	28,037	-	2,470	67,296	19,393
Utilities	793,188	-	-	-	758	-	-	793,946	762,877
Grants and subsidies	27,670	-	-	-	123,000	-	-	150,670	-
Scholarship and training	156,320	39,828	-	-	30,000	-	-	226,148	237,519
Other	94,762	45,715	53	-	160,350	-	21,506	322,386	(23,522)
Total expenditures	2,522,900	2,267,844	339,288	11,196	2,378,716	-	59,605	7,579,549	6,527,829
Excess (deficiency) of revenue over (under) expenditures	274,084	(10,527)	(83,844)	(7,983)	30,178	94,090	(59,605)	236,393	192,483
Other financing sources (uses)									
Transfers in	-	-	83,878	-	-	-	-	83,878	383,510
Transfers out	(189,130)	-	-	-	-	(106,519)	-	(295,649)	(479,795)
Total other financing sources (uses), net	(189,130)	-	83,878	-	-	(106,519)	-	(211,771)	(96,285)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	84,954	(10,527)	34	(7,983)	30,178	(12,429)	(59,605)	24,622	96,198
Fund balances at beginning of year	2,103,212	-	-	-	-	(31,998)	-	2,071,214	2,058,548
Fund balances (deficit) at end of year	\$ 2,188,166	\$ (10,527)	\$ 34	\$ (7,983)	\$ 30,178	\$ (44,427)	\$ (59,605)	\$ 2,095,836	\$ 2,154,746

See accompanying Independent Auditors' Report

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

COMPACT PROGRAM FUND

Statement of Revenues, Expenditures by Function and Changes in Fund Balance -
Budget and Actual - Budgetary Basis
Year Ended September 30, 2001
(With comparative totals for the year ended September 30, 2000)

	2001			2000		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Other Compact funds	\$ 4,035,739	\$ 2,796,984	\$ (1,238,755)	\$ 2,778,982	\$ 2,778,982	\$ -
Total revenues	<u>4,035,739</u>	<u>2,796,984</u>	<u>(1,238,755)</u>	<u>2,778,982</u>	<u>2,778,982</u>	<u>-</u>
Expenditures budgetary basis:						
Health services	467,428	368,631	98,797	520,428	464,708	55,720
Education	966,910	987,777	(20,867)	1,252,094	960,853	291,241
Special Development Programs	75,250	17,918	57,332	180,105	13,748	166,357
Public works and transportation	1,009,420	893,404	116,016	1,137,373	1,003,957	133,416
Total expenditures	<u>2,519,008</u>	<u>2,267,730</u>	<u>251,278</u>	<u>3,090,000</u>	<u>2,443,266</u>	<u>646,734</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,516,731</u>	<u>529,254</u>	<u>(987,477)</u>	<u>(311,018)</u>	<u>335,716</u>	<u>646,734</u>
Other financing sources (uses):						
Transfers out	(190,000)	(189,130)	870	(200,000)	(200,000)	-
Total other financing sources (uses), net	<u>(190,000)</u>	<u>(189,130)</u>	<u>870</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	1,326,731	340,124	(986,607)	(511,018)	135,716	646,734
Fund balance, unreserved at beginning of year	(3,056,840)	1,630,291	4,687,131	(2,545,822)	1,644,575	4,190,397
Continuing appropriations	-	-	-	-	(150,000)	(150,000)
Fund balance, unreserved at end of year	<u>\$ (1,730,109)</u>	<u>\$ 1,970,415</u>	<u>\$ 3,700,524</u>	<u>\$ (3,056,840)</u>	<u>\$ 1,630,291</u>	<u>\$ 4,687,131</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds
September 30, 2001

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, 2001, 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 constructed using grant awards from the Trust Territory of the Pacific Islands (TTPI) Government.

CFSM Capital Projects Fund

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

Water Development Projects Revolving Fund

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

Public Projects Fund

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

Other U.S. Capital Projects Fund

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

See accompanying Independent Auditors' Report.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

CAPITAL PROJECTS FUNDS
Combining Balance Sheet
September 30, 2001
(With comparative totals as of September 30, 2000)

Assets	Compact	TTPI	CFSM	Water			Totals	
				Development Projects Revolving Fund	Public	Other U.S.	2001	2000
Investments	\$ 9,210,448	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,210,448	\$ 9,210,448
Receivables, net:								
U.S. Dept. of Interior - TTPI and other	-	351,113	-	-	-	131,874	482,987	165,142
CFSM	-	-	624,678	-	-	-	624,678	677,393
Loans	6,500,000	-	-	-	-	-	6,500,000	6,500,000
Due from other funds	3,697,180	-	-	216,300	49,720	-	3,963,200	2,321,796
Advances	8,109	-	-	-	-	-	8,109	7,620
Total assets	\$ 19,415,737	\$ 351,113	\$ 624,678	\$ 216,300	\$ 49,720	\$ 131,874	\$ 20,789,422	\$ 18,882,399
Liabilities and Fund Balances								
Liabilities:								
Due to other funds	\$ -	\$ 351,113	\$ 545,520	\$ -	\$ -	\$ 131,874	\$ 1,028,507	\$ 838,927
Deferred revenue	-	-	-	-	-	-	-	3,608
Total liabilities	-	351,113	545,520	-	-	131,874	1,028,507	842,535
Fund balances:								
Reserved for:								
Loans	6,500,000	-	-	-	-	-	6,500,000	6,500,000
Encumbrances	166,885	-	21,331	-	100,000	-	288,216	3,081,454
Continuing appropriations	1,396,903	-	-	-	-	-	1,396,903	200,000
Unreserved	11,351,949	-	57,827	216,300	(50,280)	-	11,575,796	8,258,410
Total fund balances	19,415,737	-	79,158	216,300	49,720	-	19,760,915	18,039,864
Total liabilities and fund balances	\$ 19,415,737	\$ 351,113	\$ 624,678	\$ 216,300	\$ 49,720	\$ 131,874	\$ 20,789,422	\$ 18,882,399

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, 2001
(With comparative totals for the year ended September 30, 2000)

	Compact	TTPI	CFSM	Water		Other U.S.	Totals	
				Development Projects Revolving Fund	Public		2001	2000
Revenues:								
Compact	\$ 3,689,122	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,689,122	\$ 3,641,792
U.S. Dept. of the Interior-TTPI	-	185,971	-	-	-	-	185,971	1,132,945
CFSM grants	-	-	99,158	-	-	-	99,158	874,649
Total revenues	3,689,122	185,971	99,158	-	-	-	3,974,251	5,649,386
Expenditures:								
Education	-	-	-	-	-	-	-	183,887
Economic development	82,598	-	-	-	-	-	82,598	25,983
Public works and transportation	156,182	185,971	20,000	-	3,642,928	-	4,005,081	4,293,084
Community affairs	74,423	-	-	-	-	-	74,423	43,138
Other	91,098	-	-	-	-	-	91,098	118,351
Total expenditures	404,301	185,971	20,000	-	3,642,928	-	4,253,200	4,664,443
Excess (deficiency) of revenues over (under) expenditures	3,284,821	-	79,158	-	(3,642,928)	-	(278,949)	984,943
Other financing sources (uses):								
Transfers in	-	-	-	-	2,492,640	-	2,492,640	-
Transfer out	(492,640)	-	-	-	-	-	(492,640)	-
Total other financing sources (uses), net	(492,640)	-	-	-	2,492,640	-	2,000,000	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,792,181	-	79,158	-	(1,150,288)	-	1,721,051	984,943
Fund balances at beginning of year								
	16,623,556	-	-	216,300	1,200,008	-	18,039,864	17,054,921
Fund balances at end of year	\$ 19,415,737	\$ -	\$ 79,158	\$ 216,300	\$ 49,720	\$ -	\$ 19,760,915	\$ 18,039,864

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, 2001
(With comparative totals for the year ended September 30, 2000)

	Compact	TTPI	CFSM	Water			Totals	
				Development Projects Revolving Fund	Public	Other U.S.	2001	2000
Revenues:								
Compact	\$ 3,689,122	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,689,122	\$ 3,641,792
U.S. Dept. of the Interior-TTPI	-	185,971	-	-	-	-	185,971	1,132,945
CFSM grants	-	-	99,158	-	-	-	99,158	874,649
Total revenues	3,689,122	185,971	99,158	-	-	-	3,974,251	5,649,386
Expenditures:								
Salaries and wages	75,021	-	-	-	-	-	75,021	49,708
Travel	3,363	-	-	-	-	-	3,363	20,144
Freight	1,232	-	-	-	-	-	1,232	2,600
Communications	1,868	-	-	-	-	-	1,868	3,704
Printing and reproduction	-	-	-	-	-	-	-	(509)
Professional services	-	-	240	-	-	-	240	2,854
Supplies and materials	10,551	-	35,400	-	-	-	45,951	10,483
Capital outlay	205,503	-	46,278	-	3,503,092	-	3,754,873	1,012,991
Contractual services	22,150	-	(61,918)	-	137,876	-	98,108	2,450,119
Rentals	83,600	-	-	-	-	-	83,600	775,043
Repairs and maintenance	613	-	-	-	1,960	-	2,573	4,469
Subsidies and grants	-	185,971	-	-	-	-	185,971	123,065
Other	400	-	-	-	-	-	400	209,772
Total expenditures	404,301	185,971	20,000	-	3,642,928	-	4,253,200	4,664,443
Excess (deficiency) of revenues over (under) expenditures	3,284,821	-	79,158	-	(3,642,928)	-	(278,949)	984,943
Other financing sources (uses):								
Transfers in	-	-	-	-	2,492,640	-	2,492,640	-
Transfer out	(492,640)	-	-	-	-	-	(492,640)	-
Total other financing sources (uses), net	(492,640)	-	-	-	2,492,640	-	2,000,000	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	2,792,181	-	79,158	-	(1,150,288)	-	1,721,051	984,943
Fund balances at beginning of year								
	16,623,556	-	-	216,300	1,200,008	-	18,039,864	17,054,921
Fund balances at end of year	\$ 19,415,737	\$ -	\$ 79,158	\$ 216,300	\$ 49,720	\$ -	\$ 19,760,915	\$ 18,039,864

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Enterprise Funds
September 30, 2001

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

Public Transportation System Fund

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

Yap Economic Development Authority Fund

This fund is used to account for the activities of the Yap Economic Development Authority (YEDA) (a blended component unit of the Yap State Government). YEDA was created in fiscal year 1990 by Yap State Law No. 2-97 to promote and support economic development in the State of Yap. As of September 30, 2001, 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, 2001, 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, 2001

(With comparative totals as of September 30, 2000)

<u>ASSETS</u>	Public Transportation System	Yap Economic Development Authority	Yap Investment Trust	Totals	
				2001	2000
Cash and equivalents	\$ 5,465	\$ -	\$ 1,213,232	\$ 1,218,697	\$ 745,739
Investments	-	1,107,043	894,257	2,001,300	2,007,678
General receivables	10,967	284	167,328	178,579	17,034
Due from other funds	-	-	506,250	506,250	506,250
Prepaid expenses and advances	-	-	60,472	60,472	31,386
Inventory	39,298	-	173,269	212,567	47,615
Property and equipment, net	348,679	-	1,324,060	1,672,739	3,142,752
Total assets	\$ 404,409	\$ 1,107,327	\$ 4,338,868	\$ 5,850,604	\$ 6,498,454
 <u>LIABILITIES AND FUND EQUITY</u> 					
Liabilities:					
Accounts payable	\$ 26,678	\$ -	\$ 121,902	\$ 148,580	\$ 49,700
Accrued payroll and others	19,512	1,584	295,555	316,651	80,160
Notes payable:					
Intergovernmental	-	2,000,000	-	2,000,000	2,000,000
Yap State	-	-	7,000,000	7,000,000	7,000,000
Due to other funds	-	758,850	-	758,850	758,850
Total liabilities	46,190	2,760,434	7,417,457	10,224,081	9,888,710
Retained earnings (deficit)	358,219	(1,653,107)	(3,078,589)	(4,373,477)	(3,390,256)
	\$ 404,409	\$ 1,107,327	\$ 4,338,868	\$ 5,850,604	\$ 6,498,454

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

ENTERPRISE FUNDS

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

Year Ended September 30, 2001

(With comparative totals for the year ended September 30, 2000)

	Public Transportation System	Yap Economic Development Authority	Yap Investment Trust	Totals	
				2001	2000
Operating revenues:					
Charges for goods and services	\$ 146,411	\$ -	\$ 3,869,500	\$ 4,015,911	\$ 2,687,611
Grants from private sources	-	-	-	-	16,000
Total operating revenues	<u>146,411</u>	<u>-</u>	<u>3,869,500</u>	<u>4,015,911</u>	<u>2,703,611</u>
Operating expenses:					
Personnel services	149,879	-	1,142,299	1,292,178	1,049,067
Supplies and materials	37,463	-	-	37,463	57,483
Fuel	-	-	870,522	870,522	566,572
Contractual services	-	-	-	-	2,459
Depreciation	75,747	-	1,639,035	1,714,782	1,687,847
Bad debts expense	5,628	-	-	5,628	6,532
Utilities and communications	14,144	-	10,413	24,557	11,121
Repair and maintenance	34,206	-	323,448	357,654	164,065
Equipment lease	-	-	-	-	12,236
Insurance	11,846	-	159,343	171,189	214,860
License, agent and port fees	-	-	244,072	244,072	257,796
Provision	-	-	93,811	93,811	115,322
Management fee	-	-	172,000	172,000	131,365
Other	73,077	-	248,931	322,008	896,694
Total operating expenses	<u>401,990</u>	<u>-</u>	<u>4,903,874</u>	<u>5,305,864</u>	<u>5,173,419</u>
Operating income (loss)	<u>(255,579)</u>	<u>-</u>	<u>(1,034,374)</u>	<u>(1,289,953)</u>	<u>(2,469,808)</u>
Nonoperating income (expense):					
Operating transfers in	143,126	-	-	143,126	165,800
Capital contributions	144,582	-	-	144,582	-
Interest income	-	-	20,121	20,121	26,928
Loss on disposal of assets	(1,097)	-	-	(1,097)	(2,392)
Total nonoperating income (expense), net	<u>286,611</u>	<u>-</u>	<u>20,121</u>	<u>306,732</u>	<u>190,336</u>
Net income (loss)	<u>31,032</u>	<u>-</u>	<u>(1,014,253)</u>	<u>(983,221)</u>	<u>(2,279,472)</u>
Retained earnings (deficit) at beginning of year	<u>327,187</u>	<u>(1,653,107)</u>	<u>(2,064,336)</u>	<u>(3,390,256)</u>	<u>(1,110,784)</u>
Retained earnings (deficit) at end of year	<u>\$ 358,219</u>	<u>\$ (1,653,107)</u>	<u>\$ (3,078,589)</u>	<u>\$ (4,373,477)</u>	<u>\$ (3,390,256)</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

ENTERPRISE FUNDS

Combining Statement of Cash Flows

Year Ended September 30, 2001

(With comparative totals for the year ended September 30, 2000)

	Public Transportation System	Yap Economic Development Authority	Yap Investment Trust	Totals	
				2001	2000
Cash flows from operating activities:					
Operating income (loss)	\$ (255,579)	\$ -	\$ (1,034,374)	\$ (1,289,953)	\$ (2,469,808)
Adjustments to reconcile operating income (loss) to net cash (used for) provided by operating activities:			-		
Depreciation	75,747	-	1,639,035	1,714,782	1,687,847
Other	-	-	20,121	20,121	26,928
	<u>(179,832)</u>	<u>-</u>	<u>624,782</u>	<u>444,950</u>	<u>(755,033)</u>
Change in assets and liabilities:					
Restricted cash	-	-	-	-	9,070
Investment	-	-	1,300	1,300	-
General receivables	(3,289)	-	(166,328)	(169,617)	3,972
Due from other funds	-	-	-	-	658,028
Prepaid expense	7,573	-	(20,341)	(12,768)	440
Inventory	8,318	-	(173,269)	(164,951)	(13,260)
Accounts payable	23,430	-	73,865	97,295	38,159
Accrued expenses	5,637	-	229,272	234,909	(52,549)
	<u>41,669</u>	<u>-</u>	<u>(55,501)</u>	<u>(13,832)</u>	<u>643,860</u>
Net cash (used for) provided by operating activities	<u>(138,163)</u>	<u>-</u>	<u>569,281</u>	<u>431,118</u>	<u>(111,173)</u>
Cash flows from noncapital financing activities:					
Operating grant from Yap State government	109,220	-	-	109,220	165,800
Operating grant from FSM National Gov't	33,906	-	-	33,906	-
Net cash provided by noncapital financing activities	<u>143,126</u>	<u>-</u>	<u>-</u>	<u>143,126</u>	<u>165,800</u>
Cash flows from capital and related financing activities:					
Acquisition of fixed assets	(156,341)	-	(89,527)	(245,868)	(100,455)
Capital grant from Yap State government	144,582	-	-	144,582	-
Net cash used for capital and related financing activities	<u>(11,759)</u>	<u>-</u>	<u>(89,527)</u>	<u>(101,286)</u>	<u>(100,455)</u>
Net increase (decrease) in cash and equivalents	(6,796)	-	479,754	472,958	(45,828)
Cash and equivalents at beginning of year	12,261	-	733,478	745,739	791,567
Cash and equivalents at end of year	<u>\$ 5,465</u>	<u>\$ -</u>	<u>\$ 1,213,232</u>	<u>\$ 1,218,697</u>	<u>\$ 745,739</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Discretely Presented Component Units
September 30, 2001

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

Yap Visitors Bureau

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

Yap 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.

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS
Combining Balance Sheet
September 30, 2001

<u>ASSETS</u>	Proprietary Fund Types		2001 Totals
	Yap Visitors Bureau	Yap State Public Service Corporation	
Cash and equivalents	\$ 164,378	\$ 1,068,853	\$ 1,233,231
General receivables, net	32,168	560,543	592,711
Advances and prepayments	-	1,625	1,625
Inventory	-	286,788	286,788
Fixed assets, net	20,247	9,959,352	9,979,599
 Total assets	 \$ 216,793	 \$ 11,877,161	 \$ 12,093,954
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts payable	\$ 91,879	\$ 1,197	\$ 93,076
Accrued payroll and others	4,188	98,374	102,562
Deferred revenues-grants	3,781	138,809	142,590
Other payables	-	129,111	129,111
Construction payable	-	380,626	380,626
Notes payable	-	1,776,338	1,776,338
 Total liabilities	 99,848	 2,524,455	 2,624,303
 Fund equity :			
Retained earnings	116,945	9,352,706	9,469,651
 Total fund equity	 116,945	 9,352,706	 9,469,651
 Total liabilities and fund equity	 \$ 216,793	 \$ 11,877,161	 \$ 12,093,954

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, 2001

	Proprietary Fund Types		2001 Totals
	Yap Visitors Bureau	Yap State Public Service Corporation	
Operating revenues:			
Charges for goods and services	\$ 2,535	\$ 3,289,606	\$ 3,292,141
Total operating revenues	<u>2,535</u>	<u>3,289,606</u>	<u>3,292,141</u>
Operating expenses:			
Personnel services	61,573	695,734	757,307
Travel	49,832	-	49,832
Supplies and materials	6,176	-	6,176
Production fuel	-	1,736,711	1,736,711
Contractual services	20,193	-	20,193
Depreciation	11,628	701,023	712,651
Communications	9,614	-	9,614
Other	217,318	885,711	1,103,029
Total operating expenses	<u>376,334</u>	<u>4,019,179</u>	<u>4,395,513</u>
Operating loss	<u>(373,799)</u>	<u>(729,573)</u>	<u>(1,103,372)</u>
Nonoperating revenues (expenses):			
Operating transfers from Yap State	507,680	-	507,680
Capital contributions	-	219,474	219,474
Loss on extraordinary item - fire loss	-	(504,313)	(504,313)
Other income	-	197,192	197,192
Total nonoperating revenues (expense), net	<u>507,680</u>	<u>(87,647)</u>	<u>420,033</u>
Net income (loss)	133,881	(817,220)	(683,339)
Retained earnings (deficit) at beginning of year	<u>(16,936)</u>	<u>10,169,926</u>	<u>10,152,990</u>
Retained earnings (deficit) at end of year	<u>\$ 116,945</u>	<u>\$ 9,352,706</u>	<u>\$ 9,469,651</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS
Combining Statement of Cash Flows
Year Ended September 30, 2001

	Proprietary Fund Types		2001 Totals
	Yap Visitors Bureau	Yap State Public Service Corporation	
Cash flows from operating activities:			
Operating loss	\$ (373,799)	\$ (729,573)	\$ (1,103,372)
Other income	(15,130)	5,628	(9,502)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	-	701,023	701,023
	<u>(388,929)</u>	<u>(22,922)</u>	<u>(411,851)</u>
Change in assets and liabilities:			
General receivables	(32,168)	(100,196)	(132,364)
Prepayments	-	28,262	28,262
Inventory of supplies, at cost	25,410	(22,165)	3,245
Advances	7,567	-	7,567
Accounts payable	(1,681)	(28,381)	(30,062)
Accrued payroll and others	(3,146)	(3,043)	(6,189)
Other payables	3,631	(154,475)	(150,844)
	<u>(387)</u>	<u>(279,998)</u>	<u>(280,385)</u>
Net cash provided by (used for) operating activities	<u>(389,316)</u>	<u>(302,920)</u>	<u>(692,236)</u>
Cash flows from noncapital financing activities:			
Operating transfer in and capital contributions	<u>507,680</u>	<u>392,956</u>	<u>900,636</u>
Net cash provided by noncapital financing activities	<u>507,680</u>	<u>392,956</u>	<u>900,636</u>
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(17,717)	(1,998,905)	(2,016,622)
Contract retention	-	227,112	227,112
Proceeds from loan	-	766,609	766,609
Net cash used for capital and related financing activities	<u>(17,717)</u>	<u>(1,005,184)</u>	<u>(1,022,901)</u>
Cash flows from investing activities:			
Interest income	-	53,244	53,244
Proceeds from time certificates of deposit	-	848,543	848,543
Net cash provided by investing activities	<u>-</u>	<u>901,787</u>	<u>901,787</u>
Net increase (decrease) in cash and equivalents	100,647	(13,361)	87,286
Cash and equivalents at beginning of year	<u>63,731</u>	<u>1,082,214</u>	<u>1,145,945</u>
Cash and equivalents at end of year	<u>\$ 164,378</u>	<u>\$ 1,068,853</u>	<u>\$ 1,233,231</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, 2001, and have issued our report thereon dated October 31, 2002, which was qualified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group, 2) the omission of the Yap Fishing Authority, a Component Unit – Proprietary Fund and (3) our inability to obtain audited financial statements of the Yap Visitors Bureau, a Component Unit – Proprietary Fund. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

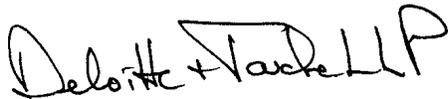
As part of obtaining reasonable assurance about whether the State of Yap's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 72 through 100) as items 01-01 and 01-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Yap's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Yap's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 01-01 and 01-15 through 01-21.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding 01-01 to be a material weakness.

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

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

October 31, 2002



**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, 2001. 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 72 through 100). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Yap's management. Our responsibility is to express an opinion on the State of Yap's compliance based on our audit.

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

As described in Findings 01-01 through 01-14 in the accompanying Schedule of Findings and Questioned Costs, the State of Yap did not comply with requirements regarding equipment and real property management, allowable costs/principles, procurement and suspension and debarment and reporting that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Yap to comply with requirements applicable to its major federal programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Yap complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2001.

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.

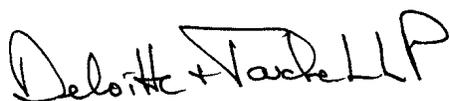
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 01-01 through 01-14.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider finding 01-01 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, 2001, and have issued our report thereon dated October 31, 2002, which was qualified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group, 2) the omission of the Yap Fishing Authority, a Component Unit – Proprietary Fund and 3) our inability to obtain audited financial statements of Yap Visitors Bureau, a Component Unit – Proprietary Fund. 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 60 through 68) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. This schedule is the responsibility of the management of the State of Yap. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

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



October 31, 2002

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2001

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2001 Fiscal Year Expenditures
<u>U.S. Department of Education:</u>		
PREL-YR6 Vocational Education	84.994S	\$ 12,846
PREL-YR8 Vocational Education	84.994S	4,382
2001 - PVIEP	84.994S	<u>90,229</u>
Total CFDA #84.994S		<u>107,457</u>
00-01 Special Education	84.027B	579,364
FY99 Special Education	84.027B	113,927
02-03 Special Education	84.027B	<u>741</u>
Total CFDA #84.027B		<u>694,032</u>
FY99 Yap Star	84.256A	455,674
FY01 Yap Star	84.256A	<u>323,642</u>
Total CFDA #84.256A		<u>779,316</u>
FY01 Goal 2000 Program	84.276A	39,431
FY00 Goal 2000 Program	84.276A	<u>14,081</u>
Total CFDA #84.276A		<u>53,512</u>
Total U.S. Department of Education		<u>1,634,317</u>
<u>U.S. Department of Labor:</u>		
2000 WIA Title I - Administration	17.250	9,546
2000 WIA Title I - Adult	17.250	9,081
2000 WIA Title I - Youth	17.250	21,268
2000 WIA Title I - DIS.WO	17.250	5,787
98 JTPA Adult Program	17.250	436
98 JTPA Youth Program	17.250	213
98 JTPA Participant Support	17.250	800
99 JTPA Administration	17.250	2,048
99 JTPA Adult Program	17.250	19,900
99 JTPA Youth Program	17.250	10,695
01 WIA Title I - Administration	17.250	711
01 WIA Title I - Youth	17.250	<u>3,423</u>
Total CFDA #17.250		<u>83,908</u>
95 School-Work / Implement	17.249	<u>66,719</u>
Total CFDA #17.249		<u>66,719</u>
Total U.S. Department of Labor		<u>150,627</u>
Balance Forwarded		<u>1,784,944</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, 2001

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2001 <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded		<u>1,784,944</u>
<u>U.S. Department of Agriculture:</u>		
00 Yap FRM/RGNR	10.664	3,334
FY00 Forestry Urban Community	10.664	5,780
FY98 Forestry/SNIT 1	10.664	3,452
FY99 Forestry Urban Community	10.664	8,504
FY99 Forestry Resources Mgmt.	10.664	1,144
FY99 Forestry / SN & TI	10.664	<u>748</u>
Total CFDA #10.664		<u>22,962</u>
Total U.S. Department of Agriculture		<u>22,962</u>
<u>U.S. Department of the Interior:</u>		
2000 - HPO Historic	15.904	55,694
99 OMIP Caption N/W	15.904	1,109
FY99 HPO - Historic Operation	15.904	5,642
FY99 Historic Special Program	15.904	8,725
Y2K Remediation Project	15.904	<u>94,829</u>
Total CFDA #15.904		<u>165,999</u>
Total U.S. Department of the Interior		<u>165,999</u>
<u>U.S. Department of Health and Human Services:</u>		
FY00/01/02 Family Planning	93.217	<u>40,395</u>
Total CFDA #93.217		<u>40,395</u>
Immunization Program	93.268	<u>15,841</u>
Total CFDA #93.268		<u>15,841</u>
FY99 SAPT/Health Services	93.959	4,304
FY00 SAPT/Youth Services	93.959	56,088
99 Youth Services	93.959	233
00 SAPT - DOE	93.959	11,348
02 SAPT - DOE	93.959	<u>3,524</u>
Total CFDA #93.959		<u>75,497</u>
FY99 Diabetes Programs	93.988	<u>5,096</u>
Total CFDA #93.988		<u>5,096</u>
Balance Forward		<u>1,973,905</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, 2001

Grantor <u>Program Title</u>	<u>CFDA No.</u>	2001 Fiscal Year <u>Expenditures</u>
<u>U.S. Department of Health and Human Services. Continued:</u>		
Balance Forwarded		\$ <u>1,973,905</u>
FY99 MCH Program	93.994	1,815
FY00 MCH	93.994	<u>38,188</u>
Total CFDA #93.994		<u>40,003</u>
FY01 Tuberculosis & AIDS Program	93.116	14,844
FY00 Tuberculosis & AIDS Program	93.116	<u>9,879</u>
Total CFDA #96.116		<u>24,723</u>
FY00 Yap PHHS	93.991	<u>5,140</u>
2001 Aids Prevention	93.940	<u>2,523</u>
Headstart	93.600	<u>1,172,448</u>
Other:		
EDA Grant (181-0002-30-98.0)	11.307	32,400
USDA Rural Health (182-001-80-98-0)	93.116	<u>39,099</u>
Total Other		<u>71,499</u>
Total U.S. Department of Health and Human Services		<u>1,453,165</u>
Total Federal Grants Fund		\$ <u><u>3,427,070</u></u>
Reconciliation to financial statements:		
Expenditures per Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit) (page 41)		\$ 2,267,844
Headstart funds accounted for outside of Yap State Finance		1,172,448
Unlocated difference		<u>13,222</u>
Schedule of Expenditures of Federal Awards balance		\$ <u><u>3,427,070</u></u>

Note: With the exception of the FY01 and FY99 Yap Star grants, (CFDA #84.256A), and the PREL grants (CFDA #84.994S), which are received directly from U.S. Department of Education, the above grants are received in a subrecipient capacity through the FSM National Government.

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, 2001

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>2001</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Federal Emergency Management Agency</u>		
<u>(FEMA) grants:</u>		
Hazard & Mitigation Administration	83.516	\$ 8,131
El Nino Drought/ 98 Sub-Grant	83.516	2,457
El Nino HMGP/Sub-Grantee	83.516	994
HMPG/FALALOP Ulithi Water	83.516	86,375
Public Assistance Management	83.516	13,374
Euglidurey-Raeng Road	83.516	91,878
Qaylrech Gargey Road	83.516	55,071
Incinderator Hospital	83.516	6,865
Repair Building Pike Road	83.516	39,500
Building Rep Rec	83.516	24,069
FEMA HMGP Management Cos	83.516	<u>6,796</u>
Total Federal Emergency Management Agency (CFDA #83.516)		<u>335,510</u>
Total Other U.S. Grants Fund		<u>\$ 335,510</u>
Reconciliation to financial statements:		
Balance per above		\$ 335,510
Unlocated difference		<u>3,778</u>
Balance per financial statements		<u>\$ 339,288</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
TTPI Capital Projects Fund
Year Ended September 30, 2001

<u>Grantor</u> <u>Program Title</u>	<u>2001</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Trust Territory of the Pacific Islands</u>	
Rural Sanitation	\$ 90,092
Well Development	<u>95,879</u>
Total TTPI Capital Projects Fund	\$ <u><u>185,971</u></u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF YAP
FEDERATED STATES OF MICRONESIA

Schedule of Expenditures of Federal Awards, Continued
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, 2001

<u>Grantor</u> <u>Program Title</u>	2001 Fiscal Year <u>Expenditures</u>
<u>Special Block Grant Programs</u>	
Administration	\$ 10,361
Budget & Supply Division	13,942
Curriculum & Instruction	79,036
Various	1,170
Yap Proper Elementary SC	125,503
O.I. Elementary Schools	118,885
YAP Proper High SC	366,411
Outer Islands High SC	109,621
Outer Islands Middle SCH	64,273
Health Services Adminis	28,481
Public Health Care Division	34,919
Primary Health Care Division	29,493
Sanitation/Environmental	20,989
Mental and Substance Abuse	8,184
Medical Supply & Equipment	43,272
Ancillary Services Division	30,496
Clinical Care Division	15,840
Dental Services - YAP PROP	34,280
Dental Services - Outer Is	15,027
FY2000 Coastal Management	16,750
Various	4,933
PWT-Vehicle & Equipment MA	112,578
Total Compact of Free Association Compact Programs Fund-Section 221(B)	1,284,444
<u>Special Development Program</u>	
Community Development Program Matching	150,000
Yap Visitors Bureau	39,130
Satawal Solar Project	2,703
YFA Slipway Repair	66,800
Total Compact of Free Association Compact Programs Fund-Section 212(A)	258,633
<u>Health and Medical Programs</u>	
Medical Referral Program	209,473
Total Compact of Free Association Compact Programs Fund-Section 216(A)(2)	209,473

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, 2001

<u>Post Secondary Education</u>	
Scholarships and grants	156,320
Total Compact of Free Association Compact Programs Fund-Section 216(A)(3)	156,320
 <u>Energy Programs</u>	
State Utilities Program	791,628
Total Compact of Free Association Compact Programs Fund-Section 214(B)	791,628
Total Compact of Free Association Compact Program Fund	\$ 2,700,498
 Reconciliation to financial statements:	
Balance per above	\$ 2,700,498
Transfer out to Yap Community Action Program	(150,000)
Transfer out to Yap Visitors Bureau	(39,130)
Unlocated difference	(11,532)
Balance per financial statements	\$ 2,901,160

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Compact of Free Association Capital Projects Fund
Section 211(A) Capital Account (CFDA No. 15.875)
Year Ended September 30, 2001

<u>Grantor</u> <u>Program Title</u>	2001 Fiscal Year Expenditures
<u>Office of Insular Affairs</u>	
Leb/Riken/Gachpar Water	\$ 5,072
Computer Migration - OAS	1,232
Land Lease & Acquisition	82,598
V6AI/TV New Building	2,524
Leb/Riken/Gachpar Water Pr	33,598
Road Clearing/VII	25,570
Outer Island Airfields	1,450
Nims Vocational Building	47,500
Family Food Production & Nutrition	20,420
Road Phase VII (3RD)	45,521
Colonia Bridges Reconstruction	43,738
Colonia Community Center Project	54,002
V6AI Tower Project	<u>1,530</u>
Total Compact of Free Association Capital Projects Fund - Section 211(A)	\$ <u><u>364,755</u></u>
Reconciliation to financial statements:	
Balance per above	\$ 364,755
Unlocated difference	<u>39,546</u>
Balance per financial statements	<u><u>\$ 404,301</u></u>

Note: These funds are made available by Title Two, Article I, Section 211(A) of the Compact of Free Association and are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallocates 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, 2001

<u>Grantor</u> <u>Program Title</u>	<u>2001</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Insular Affairs</u> General Fund: Current Account	\$ <u>5,995,392</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2001

(1) Scope of Review

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

A. Programs Subject to Single Audit

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

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

B. Reporting Entity

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

(3) Component Units

In prior years, the Yap Community Action Program (YAPCAP) was classified as a component unit. In 2001, due to the State operating the Headstart Program, YAPCAP is no longer classified as a component unit.

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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2001

(3) Component Units. Continued

The Yap State Public Service Corporation (YSPSC) 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>2001 Expenditures</u>	<u>Remaining Balance</u>
U.S. Department of the Interior, Pass through from the FSM National Government and through the State of Yap:	15.875				
Compact of Free Association Section 211(a) Capital Account		\$ 467,497	\$ 376,070	\$ 28,323	\$ 63,104
U.S. Department of the Interior, Direct Award-Operations and Maintenance Improvement Programs (OMIP)	15.875				
Yap State Omnibus Maintenance Assistance		245,230 172,259	176,063 126,842	69,167 57,908	- (12,491)
Trust Territory Capital Improvement Projects:	15.875				
Yap Water Supply Yap Rural Sanitation		229,000 170,365	90,191 -	- 260,457	138,809 (90,092)
U.S. Federal Emergency Management Agency:	83.516				
Hazard Mitigation: Yap State Water Projects		<u>211,040</u>	<u>158,665</u>	<u>-</u>	<u>52,375</u>
		\$ <u>1,495,391</u>	\$ <u>927,831</u>	\$ <u>415,855</u>	\$ <u>151,705</u>

The YSPSC report contained no questioned costs or reportable conditions associated with its administration of federal programs.

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Schedule of Programs Selected for
Audit In Accordance With OMB Circular A-133
Year Ended September 30, 2001

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>2001 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association, Capital Projects Fund, 211(A)	15.875	\$ 364,755
Compact of Free Association, Special Block Grant Programs Fund, 221(B)	15.875	1,284,444
Compact of Free Association, Post Secondary Education, 216(A)(3)	15.875	<u>156,320</u>
Total U.S. Department of the Interior		\$ <u>1,805,519</u>
<u>U.S. Department of Education</u>		
Yap Star (TFAS Education Grant)	84.256A	\$ 779,316
Yap Special Education (SEPPIE Grant)	84.027A	<u>694,032</u>
Total U.S. Department of Education		\$ <u>1,473,348</u>
<u>U.S. Dept. of Health and Human Services</u>		
Headstart Program	93.600	\$ <u>1,167,498</u>
Total U.S. Department of Health and Human Services		\$ <u>1,167,498</u>
<u>U.S. Federal Emergency Management Agency (FEMA)</u>		
FEMA Grant	83.516	\$ <u>335,510</u>
Total U.S. Department of Health and Human Services		\$ <u>335,510</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>4,781,875</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>7,013,804</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>68%</u>

**STATE OF YAP
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

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

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association Capital Projects Funds	15.875
Compact of Free Association Special Block Grant Programs	15.875
Compact of Free Association Post Secondary Education	15.875
Yap STAR (TFAS Education Grant)	84.256A
Special Education SEPIIE	84.027A
Headstart Program	93.600
FEMA Grant	83.516

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

Part II - Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
01-01	Prior Year Compliance	\$ -
01-10	Headstart - Payroll	\$ -
01-15	Purchase Advances	\$ -
01-16	Procurement	\$ -
01-17	Document Maintenance	\$ -
01-18	Scholarship Awards	\$ -
01-19	Accrued Annual and Sick Leave Schedule	\$ -
01-20	Timely Deposit of Cash	\$ -
01-21	Vendor Invoices	\$ -

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
01-01	All	Prior Year Compliance	\$ -
01-02	93.600	Head Start – Prior Year Compliance	\$ -
01-03	93.600	Head Start – Procurement and Suspension and Debarment	\$ 41,529
01-04	84.256A	Procurement and Suspension and Debarment	\$114,320
01-05	84.027A/ 83.516/ 84.056A	Procurement and Suspension and Debarment	\$ 11,084
01-06	84.056A	Travel Costs – Allowable Costs/Cost Principles	\$ 4,173
01-07	84.027A	Allowable Costs/Cost Principles	\$ 5,366
01-08	84.256A	Procurement and Suspension and Debarment	\$ 48,897
01-09	93.600	Head Start – Allowable Costs/Cost Principles	\$ -
01-10	93.600	Head Start – Payroll – Allowable Costs/ Cost Principles	\$ -
01-11	93.600	Head Start - Reporting	\$ -
01-12	93.600	Head Start – Administrative Costs - Reporting	\$ -
01-13	83.516	Telephone Charges – Allowable Costs/Cost Principles	\$ -
01-14	84.256A	Allowable Costs/Cost Principles	\$ -

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Prior Year Compliance Findings that Remain Outstanding

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
01-01	All	<p>Prior year findings should be addressed and resolved in a timely manner.</p> <p><u>Condition:</u> Finding 99-1 and 99-2 related to Equipment and Real Property Management remain unresolved.</p> <p><u>Cause:</u> The cause of this condition is the State of Yap's failure to address the prior year findings.</p> <p><u>Effect:</u> The effect of this condition is noncompliance with federal rules and regulations.</p> <p><u>Recommendation:</u> The State should formulate and implement a plan of action. This plan is especially critical with respect to fixed assets due to the pending implementation of GASB 34.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The implementation of GASB 34 requires resolution of this matter. We are working with the FSM National Government to obtain an inventory of infrastructure assets and are considering implementation of a task force to address other fixed assets.</p>	\$ -

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Head Start – Prior Year Compliance Findings Subsequently Resolved

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
01-02	93.600	<p>Prior year findings should be addressed and resolved in a timely manner.</p> <p><u>Condition:</u> Finding 00-01 Headstart – Sufficiency of Service Provider remained outstanding during fiscal year 2001; however, it was subsequently resolved by the establishment of a separate nonprofit organization to administer the Head Start Program effective April 1, 2002.</p> <p><u>Cause:</u> The cause of this condition appears to be the lengthy process in establishing another nonprofit organization to administer the program.</p> <p><u>Effect:</u> No effect results from this condition, as it has been resolved.</p> <p><u>Recommendation:</u> None</p>	\$ -

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Head Start – Procurement and Suspension and Debarment (CFDA # 93.600)

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
01-03	93.600	<p>Per federal procurement policy, for small purchases (less than \$25,000) a cost comparison must be performed to reflect a representative number of price quotations. If an item is to be purchased from a sole source, explanation must be given and documented on the comparison sheet. Furthermore, if the purchase is not made from the vendor with the lowest quoted price, explanation should be documented on price quotation sheet to substantiate the reasons for this action.</p> <p><u>Condition:</u> Of twenty-two disbursements tested, we noted the following deviations from standard procurement policy:</p> <p>a. Check No. 1919 in the amount of \$41,528.55 as a 75% down payment of a contract in the amount of \$55,371 for the Gagil Center renovation project.</p> <p><u>Condition:</u> Seven bids were received on the project with the proposed price and estimated completion from \$43,775 to \$55,371 and 90 days to 135 days. Out of the seven bids received, four contractors estimated a 90-day completion period with a proposed price of \$46,100 to \$55,371. The winning bid, however, was for a price of \$55,371 and 90-day completion. No written documentation is in file to substantiate this procurement decision.</p> <p>b. Check No. 1514 in the amount of \$1,296.79 for the purchase of gasoline.</p> <p><u>Condition:</u> The Program purchases all of its gasoline (non-diesel) from this vendor because it believes that its price is the lowest. Therefore, no cost comparison is performed for purchase of gasoline.</p> <p>c. Check No. 1819 in the amount of \$4,975.56 for the purchase of computers and related equipment.</p> <p><u>Condition:</u> This is a joint purchase with the Yap State Education Enterprising Department where the Technology Coordinator performed informal price checks on several internet vendors. However, procedures performed were not documented.</p>	\$ 41,529

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

**Head Start – Procurement and Suspension and Debarment (CFDA # 93.600),
Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Condition:</u>	<u>Questioned Costs</u>
01-03	93.600	d. Check No. 1888 in the amount of \$4,540.80 for the purchase of food items.	\$ 41,529

Condition: A price comparison was performed and approved by the Program Director. However, two of the four items purchased were not listed in the price comparison. Moreover, a lower unit price on one item was quoted by another vendor.

Cause: The cause of the condition is unknown.

Effect:

- a. No material effect on the financial statements results from this condition; however, noncompliance with the criteria result in questioned costs of \$41,528.55.
- b. No material effect on the financial statements results from this condition; however, noncompliance with the criteria could result in questioned costs.
- c. No material effect on the financial statements results from this condition; however, noncompliance with the criteria could result in questioned costs.
- d. No material effect on the financial statements results from this condition; however, noncompliance with the criteria could result in questioned costs.

Recommendation: We recommend that management strictly adhere to federal procurement and documentation standards. Comparative pricing should be completed and dated for items that can be purchased from several different vendors. If the vendor from whom the purchase is made is the sole provider, explanation for the reasons therefore should be annotated on the purchase orders. If considerations other than product prices are used to select a vendor, an explanation must be given.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

**Head Start – Procurement and Suspension and Debarment (CFDA # 93.600),
Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Auditee Response and Corrective Action Plan dated November 8, 2002:</u>	<u>Questioned Costs</u>
01-03	93.600	We will continue in our attempts to fully comply with the U.S. Federal procurement policies. There are, however, extenuating circumstances in the market areas of the Yap Head Start Program that make price quotations and lowest price procurement in cases difficult, if not impossible, to acquire in daily operations. As example, on island supply availability dictates where the needed items are procured. Items that must be supplied from off island sources, especially through the Internet, are predicated on just who is willing to sell and ship to Yap, FSM. We also, in many cases must rely on the grantee, Yap Education Department, to assist in our procurement efforts.	\$ 41,529

We do agree however that better documentation can be accomplished in our files, to explain when deviations from the Federal procurement policy are required. In the future, the responsible administrative staff will be committed to ensuring that this documentation is maintained.

Condition # 1 -Gagil Center renovation

This project was, in actuality, conducted in compliance with procurement policy with the assistance of a grantee specialist. Bids were reviewed and discussed at great length. The factors of bidders' prior workmanship quality, grantee experience with bidders' meeting the bid award without cost overruns, and the estimated completion time were all relevant factors in awarding the bid to the highest bidder. The failure of the grantee specialist to draft the required explanation for file documentation was an oversight that has now been corrected.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

**Head Start – Procurement and Suspension and Debarment (CFDA # 93.600),
Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Auditee Response and Corrective Action Plan dated November 8, 2002:</u>	<u>Questioned Costs</u>
01-03	93.600	Condition # 2 -Gasoline purchases from T & T Services Station	\$ 41,529

Price quotations were conducted at the beginning of the fiscal year. A single source wholesale supplier provides Yap's source of supply in this area. It is a known fact on Yap that T &T Services Station (retail outlet) is owned and operated by the General Manager of the wholesale operation and that his pump price for gasoline is always \$.050 to \$0.10 cheaper than the other retail outlets, even those that are closer to Colonia. We feel that we have complied with the "cheapest" price directive in this area. We will however set into place to have this explanation attached to all future gasoline purchases to comply with the audit documentation requirements.

Condition # 3- No response was submitted from the grantee.

Condition # 4- Food purchases from Yap Cooperative Association

Price quotes were taken from various retailers on program needs based upon preplanned menus. Our records should have indicated that the supplier with the low price quote on a single item did not give a price quote on the two unquoted items due to an unavailability of the product. All items were purchased from the supplier that could supply the total needs at the time.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Procurement and Suspension and Debarment (CFDA # 84.256A – Yap Star)

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
01-04	84.256A	Adequate competition in procurement should occur.	\$ 114,320

Condition: The State Department of Education procured computers and related equipments in the amount of \$114,319.92 from a vendor; the Department also procured similar equipment in excess of \$100,000 from this vendor during fiscal year 2000. The Department sent out Invitation to Bid to four on-line vendors (two of which appear to be related businesses merged subsequent to the bid invitation) and received responses only from the merged vendor. No documentation such as fax transmittal sheet or registered mail receipt was in file to substantiate actual delivery of the invitation. Due to these conditions, we were unable to determine why only these three vendors were selected to receive the invitations and whether the other two vendors were indeed in receipt of the bid invitation.

Cause: Inadequate documentation exists on file to resolve this issue.

Effect: No financial statement effect results from this condition; however, noncompliance with the criteria results in questioned costs.

Prior Year Status: Noncompliance with the criteria as result of procurement from the same vendor in excess of \$100,000 was also cited in the 2000 Single Audit Report.

Recommendation: We recommend that the grantor agency review this transaction and determine whether the underlying costs are allowable.

Auditee Response and Corrective Action Plan dated November 29, 2002:

(1) We have on-file documents showing copies of the same documents sent to all vendors. How can we be held responsible that a vendor chooses not to respond to our request for bid (most technology vendors will not do business out in the FSM so it is wonderful when some or any do respond).

(2) This is not correct information, there was not just 3 vendors selected for this invitation, Mac Online, Mac Warehouse, Club Mac, Planet Mac were sent bid invitations off-island as well as posting of the bid request at several locations on-island for local vendors including YCA.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

**Procurement and Suspension and Debarment (CFDA # 84.256A – Yap Star),
Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Auditee Response and Corrective Action Plan dated November 29, 2002:</u>	<u>Questioned Costs</u>
01-04	84.256A	Even though two vendors looked like the same vendor (by your description only), Apple computers recognize them as two separate and unaffiliated companies. We randomly selected one off the web and the other was a past winner of a previous bid, which would automatically put them on the list.	\$ 114,320
		<u>Auditor Response:</u> Although it is clearly beyond the grantee's control whether a vendor chooses to respond to a bid invitation, proper audit trail that demonstrates adherence to competitive procurement procedures should still be maintained. In this case, the auditor is not questioning why there is only response from one vendor; rather, we question the propriety of the transaction because the auditee cannot provide evidence that the invitation to bid, which is supposedly sent to 4 off-island vendors, is indeed received by the intended. Proper evidence would include registered mail receipts with verifiable vendor address and facsimile transmittal receipts with verifiable vendor facsimile numbers.	

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Procurement and Suspension and Debarment (CFDA # 84.027A – Special Education CFDA # 84.056A – Yap Star CFDA # 83.516 - FEMA)

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
01-05	84.027A	Small procurement procedures should be informally documented to ensure compliance with federal procedures.	\$ 11,084

Condition: No informal procedures could be ascertained to ensure compliance with federal procurement procedures for the following transactions:

<u>Check number</u>	<u>Amount</u>	<u>Purpose</u>
5993	\$ 4,245	Purchase of copier paper
6398	3,990	Purchase of paper
10743	1,250	Purchase of computer supplies
10695	<u>1,599</u>	Purchase of a printer
 Total	 \$ <u>11,084</u>	

Cause: The cause of this condition appears to be that no informal procedures have been documented to ensure compliance with the criteria.

Effect: No financial statement effect results from this condition; however, noncompliance with the criteria results in questioned costs.

Prior Year Status: Noncompliance with the criteria was cited in the 2000 Single Audit Report.

Recommendation: The State should ensure compliance with the specified criteria.

Auditee Response and Corrective Action Plan dated November 29, 2002: All equipment purchases even at these low cost uses the same system of price quotations, we search out multiple vendors that supply the equipment and identify them. We then choose the lowest cost vendor that will ship to us. If this one original document with the vendors' names on it is gone, then take into account all the other purchases that we always follow your prescribed procedure as evidence of a systematic way we do purchases.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Travel Costs - Allowable Costs/Cost Principles (CFDA # 84.256A – Yap Star)

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
01-06	84.256A	Employees who travel off-island to attend conferences and training courses should submit either certificates of completion or trip reports to support actual attendance.	\$ 4,173

Condition:

- a. On two separate trips, a teacher traveled with two students selected by the Department of Education to attend workshops. Neither a trip report nor certificate of attendance are available to substantiate actual participation in the workshops.
- b. Travel Authorization # 10207 - A trip report has not been filed by a State Department of Education employee for attendance at a workshop in California.
- c. Travel Authorization # 00416 – Travel authorization and trip report cannot be located for a State Department of Education staff for an unknown purpose. Furthermore, the trip resulted in a \$314.89 overage in advance to the employee; no evidence as to how and whether this overage has been paid back to the Department was available for review.

Cause:

The cause of Condition a is the lack of requirement of trip reports when student travelers are accompanied by teachers.

The cause of Condition b is explained by the auditee in the Auditee's Response section below.

The cause of condition c is unknown.

Effect: The effect of the condition is that inadequate information exists to support the eligibility of program expenditures. Questioned costs result from condition c because other questioned costs exist for this program and for this requirement.

Recommendation: We recommend that the State Department of Education revise its policy to require all travelers to attend off-island conferences or workshops to submit either a trip report or certificate of attendance. We also recommend that travel advances not supported by invoices be paid back to the Department and be properly documented.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

**Travel Costs - Allowable Costs/Cost Principles (CFDA # 84.256A – Yap Star),
Continued**

<u>Item No.</u>	<u>CFDA No.</u>	<u>Auditee Response and Corrective Action Plan dated November 29, 2002:</u>	<u>Questioned Costs</u>
01-06	84.256A	<p>Employees who travel off-island to attend conferences and training courses should submit either certificates of completion or trip reports to support actual attendance.</p> <p>a. No response was received.</p> <p>b. The performance budget workshop was in Sunnyvale, California. Participants in this workshop was the Director of Education, the Lt. Governor and the Director of Budget. The Special Ed. Coordinator thinks that it would be for the benefit of the program and the whole department if Pius participate. Since the Director of Education was also a participant, there was no reason for a trip report to be prepared since he knows that Pius participated in all the sessions.</p> <p>c. No response was received.</p> <p><u>Auditor Response:</u> We disagree. We believe that everybody in the Department should be held to the criteria. In this case, the Director’s attendance in the workshop does not preclude the accompanying staff from filing a trip report; instead, the Director also needs to file a trip report to demonstrate that he indeed attended all sessions of the workshop to justify such expense.</p>	\$ 4,173

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Allowable Costs/Cost Principles (CFDA # 84.027A – Special Education)

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
01-07	84.027A	Expenditures charged to federal programs should be properly justified.	\$ 5,366

Condition: A State Department of Education employee received an additional pay of \$5,366.40 for “additional services” rendered to the program. We were not provided any documents regarding this additional compensation and therefore were unable to verify how and why this additional compensation was justified as a program expenditure.

Cause: The cause of the condition is unknown.

Effect: The effect of the condition is that inadequate information exists to support the eligibility of program expenditures.

Recommendation: We recommend that the State Department of Education review this payment to ensure that it satisfies the program requirements.

Auditee Response and Corrective Action Plan dated November 29, 2002: The employee is assigned additional responsibility aside from his normal duty to maintain special education program account including preparation of the program’s annual budget. It was agreed with the Program Coordinator to get the additional salary from special education, however, the State Personnel Office was not able to pay one employee from two different accounts. Therefore, with the permission of the grantee (FSM), the additional compensation was drawn from contractual which it has been budgeted and approved in the last fiscal budget.

Auditors’ Response: The auditee response indicates that the contract specified in the condition is an allocation of the employee’s salary to the program. Federal regulations require that this allocation be supported by contemporaneous records of time worked (such as daily time sheet) as a basis for this allocation. We were not able to discover support for this allocation of time charges to the program nor are we aware of an approved cost allocation plan in use by the Department of Education. Therefore, the amount still results in a questioned cost. The cost is questioned as it appears that the Department of Education’s policy relative to inadequately supported time allocations was made to the grant in prior years. Therefore, the aggregate potential questioned cost is likely to exceed \$10,000.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Procurement and Suspension and Debarment – Professional Contracts (CFDA # 84.256A – Yap Star)

<u>Item No.</u>	<u>CFDA No.</u>	<u>Criteria:</u>	<u>Questioned Costs</u>
01-08	84.256A	Adequate competition in procurement should occur. Sole source procurement of professional contracts should be documented and justified. Furthermore, a performance contract that specify terms such as scope of work and compensation should be in place for all consultants.	\$ 48,897

Condition: The following conditions exist:

- a. No documentation of competitive procurement in place for a professional contract of \$18,000 paid to a consultant to work on the scholarship loan program.
- b. No contract in place for a consultant to assist in the development of the New Baseline Curriculum. The consultant is paid on a “travel authorization” basis, which means the department covers all travel costs plus an “honorarium” in addition to standard per-diem. No documentation of competitive procurement was located. Two travel authorization (TA no 10007 and 10014) resulted in total payment of \$7,984 to this consultant.
- c. No contract in place for a consultant to work on the FASEG grant proposal. The consultant is paid on a “travel authorization” basis, which means the department covers all travel costs plus an “honorarium” in addition to standard per-diem. No documentation of competitive procurement was located. A travel authorization (TA no 10178) resulted in payment of \$6,533 to this consultant.
- d. No documentation of competitive procurement as well as a contract in place for a consulting firm to conduct training courses for Department of Education staff. Cost of this contract amounted to \$13,300.
- e. No documentation of compensation amount in the service contract with an outside consultant. Check no 10565, covers service period from July 9, 2001 to September 21, 2001, amounted to \$3,080.

Cause:

The cause of this condition appears to be a failure to properly document procurement decisions as required by federal procurement guidelines.

Effect:

No financial statement effect results from this condition; however, noncompliance with the criteria results in questioned costs.

**STATE OF YAP
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Procurement and Suspension and Debarment – Professional Contracts (CFDA # 84.256A – Yap Star), Continued

<u>Item No.</u>	<u>CFDA No.</u>	<u>Recommendation:</u>	<u>Questioned Costs</u>
01-08	84.256A	The State Department of Education should ensure that all consultants hired should have a valid contract, including standard terms such as performance period, compensation and scope of work, that is reviewed and concurred by the Attorney General. Furthermore, sole source procurement of consulting services should be properly documented and justified.	\$ 48,897

Auditee Response and Corrective Action Plan dated November 29, 2002:

- a. Mr. Kluver was selected because of his knowledge of how a local bank can assist in monitoring the scholarship fund if and when it turns into a scholarship loan program. We feel that the activity is within the grant guidelines and will improve the services we provide our students and maximize utilization of available resources of eligible post secondary students.
- b. There was no contract between Education and Dr. Hidalgo. He was invited to Yap some years back and presented some ideas on how to develop the new base line curriculum (NBC). It was decided then that he should be the one to work closely with our Curriculum Division to start the NBC. He has been a sole source for the Department since the creation of NBC which is now in its seventh stage level. The compensation is by honorarium which was decided and agreed upon by the curriculum writer staff and the Director at the beginning and during the working progress of the NBC.
- c. The person was brought in from Palau to work on the grant proposal for the program (FASEG). The person has worked with Yap Education a while back and has some knowledge on what the departments wants to accomplish, therefore, he was chosen to be the one to do the grant proposal for FASEG.
- d. There was no RFP for this item. The Director met the consultant in one of his PREL meetings and asked his assistance in providing a training for Education staff. The consultant is known for his knowledge of the regent and has worked with the entities in the areas of education administration.
- e. This person was compensated based on \$44.00/day rate as agreed to during a meeting between the Director and Mr. Charles Chieng while helping with the reorganization for Yap Proper Schools.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Head Start – Allowable Costs/Cost Principles (CFDA # 93.600)

Finding Number 01-09

Criteria: Employees should be reimbursed for use of personal vehicles to conduct official program business based on actual mileage incurred at a standard rate per mile. A member of the Board of Policy Council, not the director himself, should approve transactions involving the director.

Condition: We noted a gasoline authorization, approved by the program director, for purchase of gasoline on credit for his personal car. The transaction amounted to \$26.94. It appears that the director was reimbursed for using his personal car for official business. However, no record of such usage was maintained.

Cause: The cause of this condition appears to be the lack of a policy regarding reimbursements.

Effect: No material effect on the financial statements results from this condition; however, noncompliance with the criteria could result in questioned costs.

Recommendation: We recommend that management develop a policy where employees are reimbursed for actual mileage incurred when conducting official business using personal vehicles at a standard rate (U.S. standard rate is currently at 36.5 cents per mile). A log should be maintained to include information such as date, destination, # of mileage, purpose of trip etc. We also recommend that the Board authorize all transactions involving the Program Director.

Auditee Response and Corrective Action Plan dated November 8, 2002: This incident was an emergency circumstance and oversight on the part of the Director. There are policies in place related to Director expense reimbursements. We agree with the audit finding that program use of personal vehicles is something that should be reimbursed, but the management has made such reimbursements on an exception basis in the past. U.S. standards should not apply to Yap, however. Based on fuel and repair costs here the standard in Yap should be closer to \$0.50 per mile. Procedures and document requirements for such reimbursements are currently in development.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Head Start – Payroll – Allowable Costs/Cost Principles (CFDA # 93.600)

Finding Number 01-10

Criteria: Payroll should be accurately calculated and be reviewed and approved as to accuracy.

Condition: Of twenty-four payroll disbursements tested, we noted the following:

- a. For one item (check no. 014), 11 hours of sick leave hours taken by the employee were not deducted from total sick leave hours available in the cumulative earnings records.
- b. For one item (check no. 2858), the employee was paid 80 regular hours while the timesheet showed 72 regular hours and 8 hours of leave-without-pay.

Cause: The cause of the above is lack of an independent review of the payroll processing procedure.

Effect: The impact of the above is an immaterial misstatement of payroll expenses.

Recommendation: We recommend that fiscal staff exercise greater care when processing payroll transactions and that another person outside of the payroll function review payroll calculations prior to disbursement.

Auditee Response and Corrective Action Plan dated November 8, 2002: The program has made several changes in the payroll procedures and techniques that management feels will lessen the possibility of the exceptions that were found. Both exceptions found were oversights and corrective actions are being initiated.

Condition # 1- Unposted sick leave hours on an employee.

We feel that this condition is an exception and not the norm. The records for the employee are being corrected.

Condition # 2 -Overpayment of documented hours on an employee

It was explained to the auditor that hours are taken from the outer islands by voice radio message for each pay period. Formal documentation (time sheets) come in several weeks later. The voice radio message reported a full 80 hours worked, but the formal documentation came in different. We feel that this was an oversight exception and not the norm. However, procedures are being instituted to check all documentation that comes in after the fact to actual time paid records in order to catch such occurrences and ensure that they are corrected in a more timely fashion. The employee is being informed of the error and the overpayment will be recouped.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Head Start – Reporting (CFDA # 93.600)

Finding Number 01-11

Criteria: Required federal financial reports should be submitted in a timely manner. In addition, the general ledger or other reliable records should be the basis for the reports.

Condition:

- a. PMS 269 reports are required to be submitted semi-annually 30 days after the end of the reporting period. The PMS 269 reports for the six-month period ended March 31, 2001 and September 30, 2001 were submitted 92 days and 23 days late, respectively.
- b. PMS 272 reports are required to be submitted 45 days after quarter end. The PMS 272 reports for quarter ended December 31, 2000 and March 31, 2001 were submitted 66 days and 22 days late, respectively.
- c. Total expenses reported on the PMS 269 reports for the program year ended March 31, 2001 differs from total expenses reported on the PMS 272 reports in the amount of \$76,167. Management is unable to provide a reconciliation between the two amounts reported.

Cause: The cause of the condition is inadequacies in the accounting records and inadequate audit trails maintained by the former fiscal officer.

Effect: Noncompliance with federal financial reporting requirements occurs at a result of the condition.

Recommendation: We recommend that management research the difference and file an amended report and, in the future, ensure the required financial reports are submitted on a timely basis and are adequately supported by the accounting records.

Auditee Response and Corrective Action Plan dated November 8, 2002: We concur with the audit finding that either SF 269 and/or SF 272 may not be correct as reported. An analysis is currently underway to attempt to determine what if any corrections need to be made on any restatement of those forms. We accept the "late" exception, but would like to point out that changes have been made in operation procedures and personnel since the period under audit that have rectified this problem. Management is also more cognizant of the reporting time and is working more closely with the accounting and finance function to ensure more timely reporting.

It is suspected that the 4th quarter SF -272 reporting does not include the year end, encumbrances which might explain the difference between the SF-272 and SF-269 reports for the fiscal year ended 3/31/2001. We will advise you (the auditor) with our findings when they are completed.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Head Start – Administrative Costs – Reporting (CFDA # 93.600)

Finding Number 01-12

Criteria: Federal rules state that the cost of developing and administering a Head Start program shall not exceed 15 percent of the total program costs unless a waiver has been granted. Development and administrative costs include, but are not limited to, the cost of organization-wide planning, coordination and general purpose direction, accounting and auditing, purchasing and personnel functions, and the cost of operating and maintaining space for these purposes.

Condition: For the program year ended March 31, 2001, total administrative costs reported in the PMS report 269 amount to \$88,471. The Program's accountant is unable to provide us a breakdown of this amount due to insufficient audit trails maintained by the former fiscal officer. Our estimate of total administrative costs for the fiscal year ended September 30, 2001, based on the general ledger and our experience in the percentage allocation, approximated \$170,000, which is below the maximum cap of \$176,000.

Cause: The cause of the condition is inadequacies in the accounting records and audit trails maintained by the former fiscal officer.

Effect: No financial statement effect results from this condition; however, future noncompliance with the criteria could result in questioned costs.

Recommendation: We recommend that management closely monitor the amount it spends on development and administration and report such costs in its semi-annual PMS 269 reports.

Auditee Response and Corrective Action Plan dated November 8, 2002: The amount of administrative costs reported on the year end Form 269 was calculated primarily from 100% of personnel related costs for specifically identified administrative employees. In the period following the audit period specific guidelines have been developed and are being used to allocate and calculate administrative costs of the program. Management does not understand why the calculations could not be located, but will ensure that the administrative calculations are properly filed and available in the future.

**STATE OF YAP
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Telephone Charges - Allowable Costs/Cost Principles (CFDA # 83.516 – FEMA)

Finding Number 01-13

Criteria: Program charges should be identified as being specific to the program. Otherwise, an allocation method should be reasonable and be approved by the grantor agency.

Condition: The Office of Planning and Budget does not maintain a telephone log for the purpose of determining the specific relationship of the charges to the program. Specifically, the Office could not provide support on a September billing of \$1,339.75 charged to the program.

Cause: The telephone log was not designed to provide support for program charges.

Effect: The effect of this condition is that inadequate information exists to support the eligibility of program expenditures.

Prior Year Status: Noncompliance with the criteria by the State Department of Education was cited in the 2000 Single Audit Report.

Recommendation: Office of Planning and Budget should revise its phone log and ensure that adequate information exists to substantiate the direct relationship between the telephone charge and program benefit received.

Auditee Response: The auditee has not responded.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Allowable Costs/Cost Principles (CFDA # 84.256A – Yap Star)

Finding Number 01-14

Criteria: Expenditures charged to the federal program should only be those budgeted and awarded. Significant deviations from the original budget should be approved by the grantor agency.

Condition:

- a. The State Department of Education procured computers and related equipment in excess of \$110,000 while the approved grant budget amounted to \$72,000.
- b. The State Department of Education prepaid, in January 2001, for six months of internet access charges in the amount of \$24,000 while the total annual budget for the communication category amounts to only \$6,300. Furthermore, we noted no documented cost savings resulting from the prepayment.
- c. The State Department of Education reimbursed an employee in excess of \$18,000 for costs associated with attendance at two training courses prior to employment with the Department. The reimbursement was approved by the Director and noted that such was for pre-service training, which was included in the approved budget. Furthermore, one reimbursement in the amount of \$9,452.49 is improperly recorded as “General Office Supplies.”

Cause: The cause of the condition is unknown.

Effect: The effect of this condition is that inadequate information exists to support the eligibility of program expenditures.

Recommendation: We recommend that the State Department of Education follow its approved budgets and obtain grantor approval for significant re-programming of amounts.

Auditee Response and Corrective Action Plan dated November 29, 2002:

- a. This item is well within the intent and goals stated in the original approved grant and did not surpass the total grant amount, which according to the U.S. Department of Education expanded authority documents there is no need for a separate approval for adjustment of funds from the grantee.
- b. For additional cost, this item is well within the intent and goals stated in the original approved grant and did not surpass the total grant amount, which according to the U.S. Department of Education's expanded authority documents there is no need for a separate approval for adjustment of funds from the grantee.
- c. The reimbursement was requested to be made from the program approved budget under pre-service training which is a line item under Out-of-State-Travel. The memo signed by Director was not specific as to what line item it should be charged to. Although the amount exceeded the amount stated for pre-service, we feel that the training of this person is essential to the overall plan of improving services to the children of Yap.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Purchase Advances

Finding Number 01-15

Criteria: When advance payments are made to facilitate a purchase, adequate follow-up should occur to ensure that the goods or services are actually received. When items are received by the procuring Department, a receiving report should be furnished to the Finance division immediately so that advances could be reversed and expenses properly recorded.

Condition: During our testing of expenditures, we noted advance payments to facilitate five purchase orders issued in fiscal year 1999. The related goods and services had been received in fiscal year 1999; however, the expenditures were not recorded until fiscal year 2001.

Cause: The cause of this condition is receiving reports untimely submitted to Finance.

Effect: The effect of this condition results in a lack of control by the State to ensure that goods and services for which advance payments are made are received timely, thus increase the risk of paying for items not received.

Recommendation: We recommend that the departments ensure the timely submission of copies of receiving reports to Finance so that all receipts are properly accounted for and timely recorded.

Auditee Response and Corrective Action Plan dated January 30, 2003:

The following has been drafted and has been forwarded to the various Departments for input. We expect to have a finalized policy within ninety days.

Memorandum: To ALL Department Heads

Please be advised that the Audit Exit Report for the fiscal year ended 30th September 2001 (page 96) noted inadequate management controls over the accountability and timing of transaction accounting following delivery of goods that were subject to an advance in payment.

The Department head that requested the advance and the Finance Department must share the management of this area of accountability. The following procedures are to be put in place immediately:

- Departmental heads are responsible to advise the receipt of the goods or services, subject of an Advance Payment, within 7 days of delivery by the vendor. Notice of receipt must be given to Procurement and Supply section in the format currently in use.
- Any Purchase Advances that are not notified as received within the '90day rule' period [being 90 days from the date of the advance], will require Department heads to give notice in writing requesting an extension of the period for receipt. /OR
- Failure to comply will preclude that Department from receiving any further Purchase Advances until clearance of all outstanding issues.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Procurement

Finding Number 01-16

Criteria: The State of Yap procurement policy indicates that waiver of bidding requirement be approved by the Governor prior to entering into contracts or issuing of purchase orders.

Condition: The Department of Youth and Civic Affairs approved a contractor's invoice in the amount of \$28,000 prior to the waiver of bidding requirement was approved. The invoice indicated completion of work occurred on June 13, 2001, while a request was submitted to the Governor's office on June 14, 2001, which the Governor approved on June 15, 2001.

Cause: The cause of this condition is explained in the attached letter from Grantee dated October 21, 2002.

Effect: The effect of this condition is noncompliance with the State's procurement regulations.

Recommendation: We recommend that the department strictly adhere to the State's procurement regulations and policies to prevent future noncompliance.

Auditee Response and Corrective Action Plan dated October 21, 2002: The funds were appropriated for the renovation and extension of the structure itself but had nothing to do with the existing floor. Before the actual renovation and extension work was started, FSM Sports System was completing its project at the Yap Sport Complex. The time was about one week before the company was to leave Yap at the end of their contract.

Lt. Governor Andrew Yatilman found out that FSM Sports System had the material on hand that the Colonia Community Center needed to upgrade the facility since it is also being used as a Volleyball/Basketball Court. He instructed us that we work it out with FSM Sports System to have them install the rubber floor before they left the island. We found out the need to bid the work or waive the requirement. We took the latter route, knowing that funds were available and no amount had been expended, and submitted the bidding waiver to Governor Vincent Figir and he approved it within a couple of days. At the same time we informed FSM Sports System to proceed since time was running short.

Work on the project started immediately since the company was packing up to leave Yap and they wanted to take the left over material with them and that no one else on the island knew how the material is used. The work was completed within two weeks and the company got paid before they left.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Document Maintenance

Finding Number 01-17

Criteria: Documents supporting transactions should be filed systematically in an orderly fashion to allow easy retrieval.

Condition: The following documents could not be located for review:

<u>Encumbrance #</u>	<u>Amount</u>	<u>Missing documents</u>
14302	\$1,707	Accounts payable voucher, invoice, purchase requisition, purchase order
14302	\$1,133	Accounts payable voucher, invoice, purchase requisition, purchase order
21116	\$1,500	Original purchase order with receiving signature
16227	\$2,960	Purchase requisition
16317	\$3,179	Purchase requisition
JV#112016	\$2,924	Approved journal voucher and supporting documents

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is unsupported disbursements and recorded expenditures.

Recommendation: We recommend that all program records be maintained through the audit process. We also recommend that all accounting records be properly filed and organized to facilitate timely retrieval.

Auditee Response and Corrective Action Plan dated January 30, 2003:

Memorandum: To Paul Gapith, Chief of Finance.
'cc Josephine Rungun, Accounting Supervisor

Re Yap State Payments Records and Storage; Availability; Security; Sequencing

Please be advised that the Audit Exit Report for the fiscal year ended 30th September 2001 showed that the financial records of the State were in an inadequate audit state.

Please address the following matters immediately to ensure that our records and support data are presented in an appropriate manner for subsequent audit procedures.

- A person be assigned the responsibility of securing records (locked cabinets), with a means of identifying persons borrowing records and ensuring the return of documents.
- That same person is instructed to ensure the sequence of AND the complete data documentation, of all State payment records on a regular basis.
- To consult with the Auditor on the preferred means of storage, the specific sequencing of records and to ensure that all subsequent records presented for audit are in accordance with the auditors recommendations.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Scholarship Awards

Finding Number 01-18

Criteria: As stated in the award letters, the State's post secondary scholarship awards are restricted to payments of tuition, fees and books.

Condition: The scholarship award checks are payable only to the students themselves, not jointly to the students and the attending schools.

Cause: The cause of this condition is that existing policy does not require joint payees.

Effect: The effect of this condition is increased risk of money spent not in accordance to the award conditions.

Recommendation: We recommend that all future scholarship checks be made out jointly to the students and the schools.

Auditee Response: The Scholarship Office discussed this matter with the auditors and will consider implementing this policy in the current year.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Accrued Annual and Sick Leave Schedule

Finding Number 01-19

Criteria: Schedules supporting accrued annual and sick leave balances should be maintained.

Condition: Accrued annual and sick leave report contained inaccurate cutoff information. Pay rates listed were not the rates effective at September 30, 2001. In addition, not all active employees as of September 30, 2001 were listed.

Cause: The cause of this condition appears to be due to historical employee data not being maintained in the Fundware accounting software.

Effect: No known financial statement effect. However, we are unable to determine employees' accrued annual and sick leave balances as of September 30, 2001.

Recommendation: We recommend that historical employee data be maintained in the Fundware accounting software, and that accrued annual and sick leave schedules reflect appropriate historical employee data.

Auditee Response and Corrective Action Plan dated January 30, 2003:

Memorandum: To Manager, Personnel Section

Re: Accrued Annual Leave and Sick Leave -Historical Records

Please refer to the Auditors Exit report fiscal year ended 30th Sept 2001, page 100 regarding the inaccuracy found with some employees historical records for the above leave provisions.

Fundware Payroll System currently fails to maintain historical records.

I would ask that you consult with Mr. Gabriel Rarnoloilug and/or Fundware systems advisors to ensure that the systems control switch for historical records are made to retain all records.

This action should make available reliable audit 'cut off reports for purpose of accrual verification at the time of audit attendance.

For your immediate application.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Timely Deposit of Cash

Finding Number 01-20

Criteria: Cash received at the Treasury office should be deposited in a timely manner.

Condition: For 41 out of 45 cash receipt transactions tested, cash was not deposited in a timely manner. The lag in time from the date a receipt was issued to the date of deposit ranged from 2 days to 43 days.

Cause: There appears to be a lack of effective internal controls over assuring that all cash receipts are timely deposited. Such lack of internal controls over the handling of cash in the Treasury office are described in a report dated June 7, 2002, which was issued by the Yap State Public Auditor.

Effect: No known financial statement effect results from this condition. However, the lack of internal controls over the timely deposit of cash could result in unauthorized use or theft of cash.

Recommendation: We recommend that all cash received by the Treasury office be deposited no later than the following business date.

Auditee Response and Corrective Action Plan dated January 30, 2003:

The Treasury Office operating procedures were changed on recommendations and guidance from the State Public Auditor.

Procedures in place today require all monies receipted today to be deposited to the bank this day. This is achieved by reducing the operating hours by closing earlier in the day allowing sufficient time to balance the cash draws and make deposits to the bank.

We have continued to carry out irregular cash counts as well as regular reconciliation of the computer receipt records to the bank deposit records. These management changes have indicated that the delay and irregularity in deposit sums has been overcome. We attach a copy of the instructional memorandums involved with this cash procedure management.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Vendor Invoices

Finding Number 01-21

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

Condition: No invoices were provided for the following check disbursements:

<u>Date</u>	<u>Check #</u>	<u>Amount</u>
5/7/2002	13704	\$ 6,192
6/11/2002	14271	5,732
6/11/2002	14281	6,884
8/15/2002	15367	5,485
8/23/2002	15543	6,449
9/10/2002	15781	12,173
9/20/2002	15974	8,725
10/31/01	11161	8,200
1/3/02	12047	7,676
4/29/02	13570	5,347
5/16/02	13905	5,311
8/13/02	15308	<u>12,334</u>
		\$ <u>90,508</u>

Cause: The cause of this condition is unknown.

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

Recommendation: We recommend that all payments to vendors be supported by invoices, and such invoices be maintained on file.

Auditee Response and Corrective Action Plan dated January 30, 2003:

Memorandum: To ALL Department Heads Accounts Payable Staff, Finance section
Re: Invoice Support Documentation

The Audit Exit Report page 102 has noted that a significant number of invoices that should have been available in support of check payments were missing or not on file within the Finance section.

This action is in breach of the Finance Management Regulations.

I remind my staff and all Department Heads that the issue of State funds by way of check must comply with the procedures laid down within the Finance Regulations. This includes the filing within the records of the finance section the original invoice (not a photocopy or duplication) showing clearly the details of the goods and services supplied, the date on which those goods and services were supplied and the cost of all related charges. This Invoice must be part of the total documentation retained on our files for purpose of audit.

No payments should be made without this full and complete record on file.

Please ensure that these instructions are followed exactly.

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Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2001

QUESTIONED COSTS

For the year ended September 30, 2001, the following questioned costs were noted and prior year questioned costs resolved:

	Questioned Costs Set Forth in Prior Audit Report <u>2000</u>	Questioned Costs Resolved in Fiscal Year <u>2001</u>	Questioned Costs at <u>September 30, 2001</u>
Unresolved Questioned Costs FY 96	\$ 195,105	\$ (195,105)	\$ -
Unresolved Questioned Costs FY 99	68,619	-	68,619
Unresolved Questioned Costs FY 00	30,010	-	30,010
Unresolved Questioned Costs FY 01	<u>-</u>	<u>-</u>	<u>225,369</u>
	\$ <u>293,374</u>	\$ (<u>195,105</u>)	\$ <u>323,998</u>

Auditee Response dated January 30, 2003:

- Unresolved Questioned Costs FY96 \$195,105: The accountability of this amount is not possible to the extent desirable and we request that this issue be struck out based on our understanding of the two year rule.
- Unresolved Questioned Costs FY99 \$68,619: This matter refers to transactions 1997 and 1998 and relates to implementation of the Headstart Program originally managed by the Yap Cap Division. Staff has changed and records have been lost or not correctly maintained. We continue to pursue a clear answer to this problem.
- Unresolved Questioned Costs FY00 \$30,010: The State purchased a new Assets Register system and implemented this on the computer network. The recording of all State assets remains incomplete on this register. On advice of external technical staff, the State has purchased a second Assets Register module that is more advanced and compatible to the updated version 1 of Fundware Software. The application of this software is scheduled for April 2003. Every effort will be made to have the Assets Register fully compliant by 31st March 2004.