

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

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

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**YEAR ENDED SEPTEMBER 30, 2002**

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2002

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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, 2002**

## **INDEPENDENT AUDITORS' REPORT**

Honorable Robert Ruecho  
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, 2002, and for the year then ended. These general purpose financial statements are the responsibility of the management of the State of Yap. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Yap Visitors Bureau (YVB), a Proprietary Fund Type – Component Unit, and Diving Seagull, Inc., a material investee of the Yap Investment Trust Fund (YIT), a Proprietary Fund Type - Enterprise Fund, which represent 2% and 79.5% of the assets and 0% and 100% of the operating revenues of the Proprietary Fund Type Component Units and Enterprise Fund, respectively. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the Proprietary Fund Type – Component Units and Enterprise Fund, 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 provides a reasonable basis for our opinion.

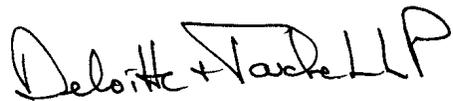
The State of Yap has not adequately updated its General Fixed Assets Account Group during the year ended September 30, 2002, and we were not able to apply sufficient alternative procedures to assure ourselves as to the correctness of the balances set forth in the accompanying general purpose financial 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, or the Public Transportation System (PTS), an Enterprise Fund - Proprietary Fund Type, which should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, except for the effects on the 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, and 2) the effects of the omission of YFA and PTS been known, 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, 2002, 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.

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 September 11, 2003 on our consideration of the State of Yap's (Primary Government) 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.

September 11, 2003

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Un  
September 30, 2002  
(With comparative totals as of September 30, 2001)

	Governmental Fund Type:			Proprietary Fund Type:		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			2002	2001
<b>Assets</b>												
Cash and cash equivalents	\$ 204,940	\$ 241,482	\$ -	\$ 1,445,946	\$ -	\$ 154,841	\$ -	\$ -	\$ 2,047,209	\$ 1,172,702	\$ 3,219,911	\$ 3,451,548
Restricted cash	1,132,534	-	-	-	-	-	-	-	1,132,534	-	1,132,534	1,296,130
Time certificates of deposit	-	-	-	-	-	-	-	-	-	680,000	680,000	165,584
Investments	28,926,953	3,226,092	9,210,448	1,999,300	-	-	-	-	43,362,793	-	43,362,793	40,992,055
Receivables, net:												
Other governments:												
U.S. Department of the Interior-TTP	-	1,507,690	-	-	-	-	-	-	1,507,690	-	1,507,690	875,828
Federal and other-FSM governments	-	-	482,987	-	-	-	-	-	482,987	-	482,987	482,987
General	534,777	2,509,966	624,677	-	-	-	-	-	3,669,420	-	3,669,420	3,273,017
Loans	84,061	-	-	765,600	4,484	2,916	-	-	857,061	501,001	1,358,062	1,336,208
Due from other funds:												
Advances and prepayment:	2,327,420	-	6,500,000	-	-	-	-	-	8,827,420	-	8,827,420	6,500,000
Inventory of supplies, at cost	-	1,871,457	7,835,931	-	154,277	16,628	-	-	9,878,293	-	9,878,293	6,062,058
Fixed assets, net	382,049	-	19,581	52,654	-	-	-	-	454,284	-	454,284	807,630
Amount to be provided for retirement of long-term debt	122,169	-	-	-	-	-	-	-	122,169	306,647	428,816	697,962
	-	-	-	1,137,071	-	-	64,620,758	-	65,757,829	10,220,875	75,978,704	76,273,096
	-	-	-	-	-	-	-	4,265,028	4,265,028	-	4,265,028	4,137,852
	<u>\$ 33,714,903</u>	<u>\$ 9,356,687</u>	<u>\$ 24,673,624</u>	<u>\$ 5,400,571</u>	<u>\$ 158,761</u>	<u>\$ 174,385</u>	<u>\$ 64,620,758</u>	<u>\$ 4,265,028</u>	<u>\$ 142,364,717</u>	<u>\$ 12,881,225</u>	<u>\$ 155,245,942</u>	<u>\$ 146,351,955</u>

See accompanying notes to financial statements

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Units, Contin  
September 30, 2002  
(With comparative totals as of September 30, 2001)

	Governmental Fund Type:			Proprietary Fund Type:		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			2002	2001
<b>Liabilities and Fund Equity</b>												
<b>Liabilities:</b>												
Bank overdraft	\$ 677,163	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 677,163	\$ -	\$ 677,163	\$ -
Accounts payable	324,837	92,120	214,031	204,557	325	3,931	-	-	839,801	44,581	884,382	2,009,659
Accrued payroll and others	188,881	46,237	-	331,764	4,455	-	-	527,445	1,098,782	116,333	1,215,115	1,171,077
Intergovernmental note payable	-	-	-	9,000,000	-	-	-	-	9,000,000	-	9,000,000	2,000,000
Loans payable - Yap State	-	-	-	1,710,974	-	-	-	-	1,710,974	-	1,710,974	7,000,000
Due to other funds:	2,022,693	6,300,004	1,260,417	261,462	27	-	-	-	9,844,603	-	9,844,603	6,062,058
Deferred revenue	-	372,308	-	-	-	-	-	-	372,308	348,869	721,177	534,932
Notes payable	-	-	-	-	-	-	-	3,500,000	3,500,000	3,098,257	6,598,257	5,276,338
Other payables	-	-	-	-	-	-	-	-	-	81,359	81,359	509,737
Land acquisition claims payable	-	-	-	-	-	-	-	237,583	237,583	-	237,583	197,281
<b>Total liabilities</b>	<b>3,213,574</b>	<b>6,810,669</b>	<b>1,474,448</b>	<b>11,508,757</b>	<b>4,807</b>	<b>3,931</b>	<b>-</b>	<b>4,265,028</b>	<b>27,281,214</b>	<b>3,689,399</b>	<b>30,970,613</b>	<b>24,761,082</b>
Contingent liabilities and commitment												
<b>Fund equity (deficit)</b>												
Investment in general fixed asset	-	-	-	-	-	-	64,620,758	-	64,620,758	-	64,620,758	64,620,758
Retained earnings (deficit)												
Unreserved	-	-	-	(6,108,186)	153,954	-	-	-	(5,954,232)	9,191,826	3,237,594	5,297,023
<b>Fund balances:</b>												
Reserved for:												
Related assets	9,469,400	-	-	-	-	-	-	-	9,469,400	-	9,469,400	9,190,063
Loans	827,420	-	6,500,000	-	-	-	-	-	7,327,420	-	7,327,420	6,500,000
Encumbrances	742,714	558,628	974,745	-	-	-	-	-	2,276,087	-	2,276,087	1,143,607
Continuing appropriation:	1,268,694	150,000	554,602	-	-	-	-	-	1,973,296	-	1,973,296	2,114,114
Unreserved	18,193,101	1,837,390	15,169,829	-	-	170,454	-	-	35,370,774	-	35,370,774	32,725,308
<b>Total fund equity (deficit)</b>	<b>30,501,329</b>	<b>2,546,018</b>	<b>23,199,176</b>	<b>(6,108,186)</b>	<b>153,954</b>	<b>170,454</b>	<b>64,620,758</b>	<b>-</b>	<b>115,083,503</b>	<b>9,191,826</b>	<b>124,275,329</b>	<b>121,590,873</b>
	<b>\$ 33,714,903</b>	<b>\$ 9,356,687</b>	<b>\$ 24,673,624</b>	<b>\$ 5,400,571</b>	<b>\$ 158,761</b>	<b>\$ 174,385</b>	<b>\$ 64,620,758</b>	<b>\$ 4,265,028</b>	<b>\$ 142,364,717</b>	<b>\$ 12,881,225</b>	<b>\$ 155,245,942</b>	<b>\$ 146,351,955</b>

See accompanying notes to financial statements

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -  
All Governmental Fund Types and Expendable Trust Fund  
Year Ended September 30, 2002  
(With comparative totals for the year ended September 30, 2001)

	Governmental Fund Types			Fiduciary Fund Type	Totals Reporting Entity (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	2002	2001
<b>Revenues:</b>						
Compact of Free Association	\$ 7,640,922	\$ 2,763,877	\$ 4,701,617	\$ -	\$ 15,106,416	\$ 12,481,498
Federal contributions	-	2,309,699	-	-	2,309,699	2,512,761
U.S. Dept. of the Interior-TTPI	-	-	-	-	-	185,971
Revenue sharing (FSM)	2,352,117	-	-	-	2,352,117	2,896,903
CFSM grants	-	716,525	20	-	716,545	2,508,052
Taxes and licenses	1,091,466	-	-	-	1,091,466	1,054,683
Departmental charges	473,672	-	-	-	473,672	431,680
Interest income	52,049	-	-	-	52,049	21,422
Other	1,530,083	102,942	-	18,538	1,651,563	151,762
Net decrease in the fair value of investments	(2,086,377)	-	-	(33,475)	(2,119,852)	(6,305,758)
<b>Total revenues</b>	<b>11,053,932</b>	<b>5,893,043</b>	<b>4,701,637</b>	<b>(14,937)</b>	<b>21,633,675</b>	<b>15,938,974</b>
<b>Expenditures:</b>						
General government	1,757,009	-	-	-	1,757,009	1,161,672
Health services	1,428,188	781,342	-	-	2,209,530	1,731,940
Education	2,088,170	2,716,537	-	-	4,804,707	2,554,020
Economic development	559,049	218,541	17,973	16,019	811,582	762,508
Public safety	512,448	39,334	-	-	551,782	641,233
Public works and transportation	1,390,705	247,063	834,009	-	2,471,777	7,249,334
Community affairs	261,248	2,273	181,753	-	445,274	1,147,112
Boards and commissions	305,308	-	-	-	305,308	260,379
Other	1,086,710	1,345,829	89,641	-	2,522,180	13,364,002
<b>Total expenditures</b>	<b>9,388,835</b>	<b>5,350,919</b>	<b>1,123,376</b>	<b>16,019</b>	<b>15,879,149</b>	<b>28,872,200</b>
Excess (deficiency) of revenues over (under) expenditures	1,665,097	542,124	3,578,261	(30,956)	5,754,526	(12,933,226)
<b>Other financing sources (uses):</b>						
Operating transfers in	-	-	-	-	-	2,576,518
Operating transfers out	(778,699)	(91,942)	(140,000)	-	(1,010,641)	(3,549,067)
<b>Total other financing sources (uses), net</b>	<b>(778,699)</b>	<b>(91,942)</b>	<b>(140,000)</b>	<b>-</b>	<b>(1,010,641)</b>	<b>(972,549)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	886,398	450,182	3,438,261	(30,956)	4,743,885	(13,905,775)
Fund balances at beginning of year	29,614,931	2,095,836	19,760,915	201,410	51,673,092	65,578,867
Fund balances at end of year	\$ 30,501,329	\$ 2,546,018	\$ 23,199,176	\$ 170,454	\$ 56,416,977	\$ 51,673,092

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, 2002  
(With comparative totals for the year ended September 30, 2001)

	2002			2001		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Current account Compact funds	\$ 7,608,582	\$ 7,640,922	\$ 32,340	\$ 6,105,120	\$ 5,995,392	\$ (109,728)
FSM revenue sharing	1,512,680	2,352,117	839,437	2,631,080	2,896,903	265,823
Taxes and licenses	1,975,490	1,091,466	(884,024)	1,552,960	1,054,683	(498,277)
Interest income	250,000	52,049	(197,951)	250,000	21,422	(228,578)
Net decrease in fair value of investments	-	(2,086,377)	(2,086,377)	-	(6,305,758)	(6,305,758)
Other	604,960	2,003,755	1,398,795	-	473,128	473,128
<b>Total revenues</b>	<b>11,951,712</b>	<b>11,053,932</b>	<b>(897,780)</b>	<b>10,539,160</b>	<b>4,135,770</b>	<b>(6,403,390)</b>
<b>Expenditures-budgetary basis:</b>						
General government	1,565,440	1,788,343	(222,903)	1,155,340	961,861	193,479
Health services	1,347,537	1,235,062	112,475	1,245,329	964,761	280,568
Education	2,123,246	2,258,551	(135,305)	1,385,941	1,301,696	84,245
Economic development	668,540	531,421	137,119	635,430	466,540	168,890
Public safety	540,380	505,328	35,052	595,000	539,445	55,555
Public works and transportation	1,979,390	1,883,972	95,418	1,448,848	1,215,095	233,753
Community affairs	300,220	253,423	46,797	257,700	226,724	30,976
Boards and commissions	307,290	308,084	(794)	272,580	252,133	20,447
Other	1,056,044	983,355	72,689	10,082,150	10,434,433	(352,283)
<b>Total expenditures</b>	<b>9,888,087</b>	<b>9,747,539</b>	<b>140,548</b>	<b>17,078,318</b>	<b>16,362,688</b>	<b>715,630</b>
<b>Excess of revenues over expenditures</b>	<b>2,063,625</b>	<b>1,306,393</b>	<b>(757,232)</b>	<b>(6,539,158)</b>	<b>(12,226,918)</b>	<b>(5,687,760)</b>
<b>Other financing sources (uses):</b>						
Operating transfers out	(778,240)	(778,699)	(459)	(2,676,900)	(2,760,778)	(83,878)
<b>Total other financing sources (uses), net</b>	<b>(778,240)</b>	<b>(778,699)</b>	<b>(459)</b>	<b>(2,676,900)</b>	<b>(2,760,778)</b>	<b>(83,878)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>1,285,385</b>	<b>527,694</b>	<b>(757,691)</b>	<b>(9,216,058)</b>	<b>(14,987,696)</b>	<b>(5,771,638)</b>
<b>Fund balance, unreserved, at beginning of year</b>	<b>19,473,629</b>	<b>19,473,629</b>	<b>-</b>	<b>29,120,924</b>	<b>29,120,924</b>	<b>-</b>
<b>Other changes in unreserved fund balance:</b>						
Related assets, including loans	-	(1,106,757)	(1,106,757)	-	5,857,827	5,857,827
Continuing appropriations	-	(701,465)	(701,465)	-	(517,426)	(517,426)
<b>Fund balance, unreserved, at end of year</b>	<b>\$ 20,759,014</b>	<b>\$ 18,193,101</b>	<b>\$ (2,565,913)</b>	<b>\$ 19,904,866</b>	<b>\$ 19,473,629</b>	<b>\$ (431,237)</b>

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, 2002  
(With Comparative Totals for the Year Ended September 30, 2001)

	Proprietary Fund Types		Totals	Component Units	Totals	
	Enterprise	Internal Service	Primary		Reporting	
			Government (Memorandum Only)		Entity (Memorandum Only)	
				2002	2001	
Operating revenues:						
Rental income	\$ 3,357,219	\$ -	\$ 3,357,219	\$ -	\$ 3,357,219	\$ 28,157
Charges for goods and services	-	-	-	3,303,032	3,303,032	7,308,052
Other	-	25,126	25,126	-	25,126	596
<b>Total operating revenues</b>	<b>3,357,219</b>	<b>25,126</b>	<b>3,382,345</b>	<b>3,303,032</b>	<b>6,685,377</b>	<b>7,336,805</b>
Operating expenses:						
Personnel services	896,738	-	896,738	780,673	1,677,411	2,049,485
Travel	-	-	-	77,874	77,874	49,832
Supplies and materials	-	72,021	72,021	-	72,021	61,819
Production fuel	795,609	-	795,609	1,588,889	2,384,498	2,607,233
Contractual services	-	-	-	62,562	62,562	22,193
Depreciation	282,288	-	282,288	685,327	967,615	2,427,433
Bad debts expense	63,472	-	63,472	-	63,472	5,628
Utilities and communication	9,339	-	9,339	-	9,339	34,465
Repair and maintenance	1,820,080	-	1,820,080	-	1,820,080	361,764
Insurance	206,423	-	206,423	-	206,423	171,189
License, agent and port fees	194,238	-	194,238	-	194,238	244,072
Provision	71,155	-	71,155	-	71,155	93,811
Management fee	129,800	-	129,800	-	129,800	172,000
Other	320,092	-	320,092	1,278,593	1,598,685	1,513,735
<b>Total operating expenses</b>	<b>4,789,234</b>	<b>72,021</b>	<b>4,861,255</b>	<b>4,473,918</b>	<b>9,335,173</b>	<b>9,814,659</b>
<b>Operating loss</b>	<b>(1,432,015)</b>	<b>(46,895)</b>	<b>(1,478,910)</b>	<b>(1,170,886)</b>	<b>(2,649,796)</b>	<b>(2,477,854)</b>
Nonoperating revenues (expenses):						
Operating subsidies from general fund	-	-	-	558,990	558,990	650,806
Loss on extraordinary item - fire loss	-	-	-	-	-	(504,313)
Interest income	-	-	-	-	-	20,121
Capital contributions	57,437	-	57,437	398,997	456,434	364,056
Other income (expense)	(1,912)	-	(1,912)	24,452	22,540	197,192
Loss on disposal of assets	-	-	-	-	-	(1,097)
<b>Total nonoperating revenues (expenses), net</b>	<b>55,525</b>	<b>-</b>	<b>55,525</b>	<b>982,439</b>	<b>1,037,964</b>	<b>726,765</b>
<b>Net loss</b>	<b>(1,376,490)</b>	<b>(46,895)</b>	<b>(1,423,385)</b>	<b>(188,447)</b>	<b>(1,611,832)</b>	<b>(1,751,089)</b>
Retained earnings/net assets (deficit) at beginning of year	(4,731,696)	200,849	(4,530,847)	9,380,273	4,849,426	7,048,112
<b>Retained earnings/net assets (deficit) at end of year</b>	<b>\$ (6,108,186)</b>	<b>\$ 153,954</b>	<b>\$ (5,954,232)</b>	<b>\$ 9,191,826</b>	<b>\$ 3,237,594</b>	<b>\$ 5,297,023</b>

See accompanying notes to financial statements

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Combined Statement of Cash Flows  
All Proprietary Fund Types and Discretely Presented Component Unit  
Year Ended September 30, 2002  
(With Comparative Totals for the Year Ended September 30, 2001)

	Proprietary Fund Types		Totals	Component Units	Totals	
	Enterprise	Internal Service	Primary		Reporting	
			Government (Memorandum Only)		Entity (Memorandum Only)	
				2002	2001	
Cash flows from operating activities:						
Operating loss	\$ (1,432,015)	\$ (46,895)	\$ (1,478,910)	\$ (1,170,886)	\$ (2,649,796)	\$ (2,477,854)
Adjustments to reconcile operating loss to net cash used for operating activities:						
Depreciation	282,288	-	282,288	685,327	967,615	2,415,805
Bad debts	63,472	-	63,472	-	63,472	-
Other	69,350	-	69,350	32,947	102,297	10,619
	<u>(1,016,905)</u>	<u>(46,895)</u>	<u>(1,063,800)</u>	<u>(452,612)</u>	<u>(1,516,412)</u>	<u>(51,430)</u>
Change in assets and liabilities:						
Investment	-	-	-	-	-	1,300
General receivables	(661,680)	-	(661,680)	20,055	(641,625)	(301,981)
Due from other funds	(4,216)	46,542	42,326	-	42,326	27,692
Prepayments	7,250	-	7,250	1,625	8,875	15,494
Inventory of supplies	173,269	-	173,269	1,100	174,369	(104,869)
Advances	-	-	-	(1,297)	(1,297)	7,567
Accounts payable	83,175	353	83,528	40,658	124,186	67,233
Accrued payroll and others	36,209	-	36,209	11,539	47,748	228,720
Other payables/deferred income	-	-	-	(27,912)	(27,912)	(150,844)
	<u>(365,993)</u>	<u>46,895</u>	<u>(319,098)</u>	<u>45,768</u>	<u>(273,330)</u>	<u>(209,688)</u>
Net cash provided by (used for) operating activities:	<u>(1,382,898)</u>	<u>-</u>	<u>(1,382,898)</u>	<u>(406,844)</u>	<u>(1,789,742)</u>	<u>(261,118)</u>
Cash flows from noncapital financing activities:						
Operating transfers in and capital contributions	-	-	-	985,365	985,365	1,043,762
Operating grant from Yap State Government	-	-	-	-	-	109,220
Operating grant from FSM National Government	-	-	-	-	-	33,906
Net cash provided by noncapital financing activities:	<u>-</u>	<u>-</u>	<u>-</u>	<u>985,365</u>	<u>985,365</u>	<u>1,043,762</u>
Cash flows from capital and related financing activities:						
Acquisition of fixed assets	(95,362)	-	(95,362)	(1,299,233)	(1,394,595)	(2,262,490)
Proceeds from loans	1,710,974	-	1,710,974	1,317,782	3,028,756	766,609
Contract retention	-	-	-	-	-	227,112
Capital grant from Yap State Government	-	-	-	-	-	144,582
Net cash provided by capital and related financing activities:	<u>1,615,612</u>	<u>-</u>	<u>1,615,612</u>	<u>18,549</u>	<u>1,634,161</u>	<u>(1,124,187)</u>
Cash flows from investing activities:						
Interest income	-	-	-	22,401	22,401	53,244
Proceeds from (purchase of) time certificates of deposit	-	-	-	(680,000)	(680,000)	848,543
Net cash (used for) provided by investing activities:	<u>-</u>	<u>-</u>	<u>-</u>	<u>(657,599)</u>	<u>(657,599)</u>	<u>901,787</u>
Net increase (decrease) in cash and cash equivalents	232,714	-	232,714	(60,529)	172,185	560,244
Cash and cash equivalents at beginning of year	1,213,232	-	1,213,232	1,233,231	2,446,463	1,891,684
Cash and cash equivalents at end of year	<u>\$ 1,445,946</u>	<u>\$ -</u>	<u>\$ 1,445,946</u>	<u>\$ 1,172,702</u>	<u>\$ 2,618,648</u>	<u>\$ 2,451,928</u>

See accompanying notes to financial statements

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(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 2002 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, 2002

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

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.
- 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

3. Omitted Component Units, Continued

- d) 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.
- e) 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 and PTS, the financial activities of the omitted component units are not material to the general purpose financial statements.

B. Fund Accounting

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

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

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

Governmental funds are used to account for all or most of government's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and the acquisition or construction of general fixed assets (capital projects funds).

The general fund is used to account for all activities of the general government not accounted for in some other fund.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(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, 2002

(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 Cash Equivalents

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

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(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.

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, 2002

(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.

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. 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, 2002 is \$527,445. 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, 2002, 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	\$ 122,169
Interfund receivables and travel advances and others which may require in excess of one year to affect collection	5,001,658
ERS debt service (See note 9)	3,500,000
20% Restricted National tax revenue	<u>1,672,993</u>
	\$ <u>10,296,820</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(2) Budgetary Information, Continued

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

(3) Cash and Cash 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. \$100,000 of the Expendable Trust Fund cash is also subject to FDIC coverage. The State does not require collateralization of its deposits by its banks. Therefore, the amounts which exceed 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. \$100,000 of the Enterprise Fund cash balances are subject to FDIC coverage.

(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).

\$ 1,132,534

(5) Investments

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

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

- A. Investment managers may invest in stocks, bonds and cash equivalents. Minimum standards of quality for investments at the time of purchase shall be:
  - 1. Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
  - 2. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or Agency Securities which are not rated.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(5) Investments, Continued

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 & Pooors Corporation and Moody's Investor Services.
- b. Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of two billion dollars. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury Securities at 102%.

- B. The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Pooors 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, 2002, the market value of the Governmental Fund Type investments was \$41,363,493. 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	\$ 28,926,953
Compact Capital Fund	9,210,448
Special Compact Funds	<u>3,226,092</u>
	<u>\$ 41,363,493</u>

The State's investment income for the year ended September 30, 2002, is summarized below:

Interest	\$ 995,785
Dividends	150,539
Realized losses	(3,115,825)
Management fees	(304,437)
Other income	<u>(11,159)</u>
	(2,285,097)
Unrealized gains	<u>198,720</u>
	<u>\$ (2,086,377)</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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(5) Investments, Continued

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

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

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

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

Additionally, as of September 30, 2002, 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, 2002 (with comparative totals as of September 30, 2001) is presented below:

<u>Source Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>2002</u>	<u>2001</u>
FSM Government and other reimbursable	\$ <u>534,777</u>	\$ <u>-</u>	\$ <u>534,777</u>	\$ <u>195,227</u>
General:				
Taxes	\$ 430,544	\$ (354,437)	\$ 76,107	\$ 488,738
Airport operation	<u>151,698</u>	<u>(143,744)</u>	<u>7,954</u>	<u>71,696</u>
	\$ <u>582,242</u>	\$ <u>(498,181)</u>	\$ <u>84,061</u>	\$ <u>560,434</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(6) Receivables, Advances and Loans, Continued

A. General Fund, Continued

<u>Source Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>2002</u>	<u>2001</u>
Advances:				
Travel/payroll	\$ 328,952	\$ (54,734)	\$ 274,218	\$ 354,396
Purchases	<u>107,831</u>	<u>-</u>	<u>107,831</u>	<u>139,907</u>
	\$ <u>436,783</u>	\$ <u>(54,734)</u>	\$ <u>382,049</u>	\$ <u>494,303</u>
Loans:				
Yap Fishing Corporation			\$ 7,400,000	\$ 7,400,000
Accrued interest-YFC			324,101	324,101
YIT OPIC debt service loan			500,000	500,000
Diving Seagull, Inc.			1,500,000	-
Yap State Public Service Corporation			<u>827,420</u>	<u>-</u>
			10,551,521	8,224,101
Allowance for doubtful accounts			<u>(8,224,101)</u>	<u>(8,224,101)</u>
			\$ <u>2,327,420</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. 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, 2002, \$1,000,000 has been utilized by YFC. All amounts receivable from YFC have been reserved as uncollectible as of September 30, 2002.

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, 2002. The loan accrues interest at 1% and is fully reserved for as of September 30, 2002.

On June 10, 2002, Yap State appropriated \$1,500,000 under YSL 5-77 to Diving Seagull, Inc. (DSI), to finance the F/V Mathawmaifach Dry-docking Project. DSI will repay the loan over 3 years with interest at 2% per annum. The loan was repaid in full after year end.

During 2002, the General Fund loaned Yap State Public Service Corporation funds to construct facilities. Monthly principal and interest payments of \$5,651 commenced on June 1, 2003, with interest at 2%, maturing in May 2017. The amount outstanding as of September 30, 2002 is \$827,420.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(6) Receivables, Advances and Loans, Continued

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, 2002 follows (with comparative totals as of September 30, 2001):

<u>Source/Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>2002</u>	<u>2001</u>
Other governments	\$ <u>1,573,690</u>	\$ <u>(66,000)</u>	\$ <u>1,507,690</u>	\$ <u>875,828</u>
Federal agencies and CFSM	\$ <u>2,571,966</u>	\$ <u>(62,000)</u>	\$ <u>2,509,966</u>	\$ <u>2,453,112</u>
Advances - travel/ payroll	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>240,205</u>

C. Capital Project Funds

A summary follows of receivables, advances and the corresponding allowance for doubtful accounts for the Capital Projects Funds as of September 30, 2002 (with comparative totals as of September 30, 2001):

<u>Source/Amount</u>	<u>Gross</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Balance</u>	
			<u>2002</u>	<u>2001</u>
U.S. Department of the Interior - TTPI	\$ <u>482,987</u>	\$ <u>-</u>	\$ <u>482,987</u>	\$ <u>482,987</u>
CFSM Grants	\$ <u>645,677</u>	\$ <u>(21,000)</u>	\$ <u>624,677</u>	\$ <u>624,678</u>
Advances - travel	\$ <u>19,581</u>	\$ <u>-</u>	\$ <u>19,581</u>	\$ <u>8,109</u>
Loan - YIT	\$ <u>8,500,000</u>	\$ <u>(2,000,000)</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. Discretely Presented Component Units

Receivables of the Yap State Public Service Corporation amount to \$710,816, less an allowance for doubtful accounts of \$209,815.

**STATE OF YAP  
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Notes to Financial Statements  
September 30, 2002

(7) Inventory of Supplies

General Fund inventory consists of medical lab and pharmaceutical supplies of \$122,169 at September 30, 2002.

Inventory of \$293,942 for the Yap State Public Services Corporation (a discretely presented component unit) as of September 30, 2002 consists of fuel and power distribution hardware and parts and water treatment plant chemical supplies.

(8) Investment in Fixed Assets

A. General Fixed Assets Account Group

A summary of general fixed assets accounted for in the General Fixed Assets Account Group as of September 30, 2002 (with comparative totals as of September 30, 2001), follows:

	<u>Estimated Useful Life</u>	<u>2002</u>	<u>2001</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 as of September 30, 2002 (with comparative totals as of September 30, 2001) are as follows:

	<u>Estimated Useful Life</u>	<u>2002</u>	<u>2001</u>
Production plant	5 - 40 years	\$ 9,105,270	\$ 8,438,030
Distribution plant	3 - 20 years	6,913,101	3,874,139
General plant	3 - 25 years	<u>714,606</u>	<u>698,118</u>
Utility plant in service		16,732,977	13,442,039
Construction in progress		<u>340,450</u>	<u>2,769,776</u>
		17,073,427	16,211,815
Less: accumulated depreciation		<u>(6,878,917)</u>	<u>(6,252,463)</u>
Fixed asset, net		<u>\$ 10,194,510</u>	<u>\$ 9,959,352</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(8) Investment in Fixed Assets, Continued

B. Discretely Presented Component Units, Continued

Utility plant is comprised of the following components:

Electric plant	\$ 10,299,358	\$ 9,647,519
Water plant	<u>6,433,619</u>	<u>3,794,520</u>
	<u>\$ 16,732,977</u>	<u>\$ 13,442,039</u>

A summary of fixed assets accounted for by the Yap Visitors Bureau as of September 30, 2002, follows (with comparative totals as of September 30, 2001):

	<u>Estimated Useful Life</u>	<u>2002</u>	<u>2001</u>
Furniture and fittings	2 years	\$ 10,116	\$ 8,149
Office equipment	3 years	58,329	42,539
Automobile	3 years	<u>14,800</u>	<u>14,800</u>
		83,245	65,488
Less: accumulated depreciation		<u>(56,880)</u>	<u>(45,241)</u>
Fixed asset, net		<u>\$ 26,365</u>	<u>\$ 20,247</u>

C. Enterprise Funds

Property and equipment of the Yap Investment Trust as of September 30, 2002 (with comparative totals for the year ended September 30, 2001), consist of the following:

	<u>Estimated Useful Life</u>	<u>2002</u>	<u>2001</u>
Leased fishing vessel	5 years	\$ 6,341,635	\$ 6,341,635
Leasehold improvement	up to 5 years	1,552,373	1,457,011
Computerized office equipment	3 years	18,224	21,540
Vehicle	3 years	<u>34,804</u>	<u>34,804</u>
		7,947,035	7,854,990
Less accumulated depreciation		<u>(6,809,964)</u>	<u>(6,530,930)</u>
		<u>\$ 1,137,071</u>	<u>\$ 1,324,060</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(9) Long-Term Debt

Changes in long-term debt for the fiscal year ended September 30, 2002 follows:

Balance at beginning of year	\$ 4,137,852
Increase in liabilities for accrued annual leave and for land acquisition claims payable	<u>127,176</u>
Balance at end of year	\$ <u>4,265,028</u>

Asian Development Bank Early Retirement Program Loan

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

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, 2002.

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. \$3,500,000 identified for future debt service payments is included in the General Fund reserve for related assets of which \$1,132,534 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 \$128,596 on this account during the year ended September 30, 2002.

Land Purchase and Indefinite Land Use Payments

As of September 30, 2002, \$237,583 in long-term payments due under land purchase agreements were identified by the State. This total comprises indefinite land use payments and other lease payments for which payment dates cannot be determined due to heirship disputes.

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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(9) Long-Term Debt, Continued

Enterprise Funds, Continued

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, 2002, Yap State Public Service Corporation (YSPSC) borrowed \$2,270,837 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.

Additionally, YSPSC has a \$827,420 uncollateralized note payable to Yap State in quarterly interest and payments through March 2003; monthly payment of \$5,651 starting June 1, 2003, 2%, matures in 2017.

Future maturities of these notes are as follows:

	<u>Principal</u>	<u>Interest</u>
2003	\$ 17,130	\$ 22,022
2004	52,080	15,730
2005	53,131	14,679
2006	54,204	13,607
2007	78,006	59,921
Thereafter	<u>2,843,706</u>	<u>68,048</u>
	<u>\$ 3,098,257</u>	<u>\$ 194,007</u>

(10) Interfund Receivables and Payables

As of September 30, 2002, 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	\$ -	\$ 2,022,693
Special Revenue Funds:		
Compact Programs	1,155,415	1,704,321
Federal Grants	716,042	2,558,021
Other U.S. Grants	-	481,942
Non U.S. Grants	-	14,323
CFSM Grants	-	1,462,473
Sports Development Fund	-	19,294
Disaster Fund	-	59,630

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(10) Interfund Receivables and Payables, Continued

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Capital Projects Funds:		
Compact Capital Projects	7,572,100	153,862
TTPI Capital Projects	-	351,113
CFSM Capital Project	-	618,913
Public Projects	47,531	4,655
Other U.S. Capital Projects	-	131,874
Water Development Fund	216,300	-
Enterprise Funds:		
YEDA	-	-
YIT	-	261,462
Expendable Trust Fund	16,628	-
Internal Service Fund	<u>154,277</u>	<u>27</u>
	<u>\$ 9,878,293</u>	<u>\$ 9,844,603</u>

(11) Transfers In/Out

A. General Fund

Material General Fund transfers in/out for the year ended September 30, 2002, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer to Enterprise Funds:		
Public Transportation System	\$ 161,220	\$ -
Transfer to Component Units:		
Yap Visitor's Bureau	579,020	-
Southern Yap Water System	459	-
Yap Fishing Authority	<u>38,000</u>	<u>-</u>
	<u>\$ 778,699</u>	<u>\$ -</u>

B. Special Revenue Funds

Material Special Revenue Funds transfers in/out for the year ended September 30, 2002, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfer in for FEMA match		
Transfer within Special Revenue Funds:		
Yap Sports Council	\$ <u>91,942</u>	<u>\$ -</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(11) Transfers In/Out, Continued

C. Capital Projects Funds

Material Capital Project Fund transfers in/out for the year ended September 30, 2002 are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
Transfers from Capital Project Funds:		
Capital asset contribution to Public Transportation System (an Enterprise Fund)	\$ <u>140,000</u>	\$ <u>      -</u>

D. Component Units

The Yap Visitors Bureau recorded operating subsidies from the general fund of \$558,990.

(12) Continuing Appropriations

Continuing appropriations as of September 30, 2002, are as follows:

General Fund:

Projects under YSL 5-47	\$ 19,096
Projects under YSL 5-46	46,753
Projects under YSL 5-62	499,435
Other projects (YSL 5-84, 85 and 86)	<u>703,412</u>
	<u>\$ 1,268,694</u>

Compact Capital Projects Fund:

Various programs	\$ <u>554,602</u>
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Special Revenue Fund:

Compact programs	\$ <u>150,000</u>
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(13) Yap Economic Development Authority

The Yap Economic Development Authority (YEDA) statutorily owns 100% of the Yap Purse Seiner Corporation (YPSC) and controlling interest of the Yap Fishing Corporation (YFC) common stock. YPSC's sole function is to own the fishing vessels and assume the associated debt for the joint venture. Based on the ownership circumstances described above, YEDA's financial statements are prepared by consolidating statements of YEDA, YPSC, and YFC with the primary elimination being YEDA's investment in YFC. YFC filed for bankruptcy in 1995 and was dissolved in 1997. Since its inception and through its dissolution, an audit of YFC's financial statement was never finalized. Therefore, YEDA's financial statements which should be included within the State of Yap's general purpose financial statements to conform with accounting principles generally accepted in the United States of America 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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(14) 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, \$743,252 in cumulative questioned costs exist for the operation of fiscal year 1999-2002 grants. If these costs are ultimately disallowed, the General Fund will be charged for the necessary reimbursement to the grantor agencies.

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, 2002, 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.

(15) Fund Deficit

The following funds have material fund deficits as of September 30, 2002:

Enterprise Funds:

Yap Economic Development Authority Fund	\$ (1,160,503)
Yap Investment Trust	\$ (4,947,683)

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

(16) 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, 2002, with comparative totals for the year ended September 30, 2001, is as follows:

	<u>2002</u>	<u>2001</u>
Balance sheet:		
Current assets	\$ 2,264,200	\$ 1,614,017
Property, plant and equipment	<u>1,137,071</u>	<u>1,324,060</u>
	\$ <u>3,401,271</u>	\$ <u>2,938,077</u>
Current liabilities	\$ 621,521	\$ 415,873
Long-term debt	1,620,210	-
Stockholders' equity	<u>1,159,540</u>	<u>2,522,205</u>
	\$ <u>3,401,271</u>	\$ <u>2,938,078</u>
Statement of revenues and expenses:		
Sales	\$ 3,357,219	\$ 3,869,500
Operating expenses	(4,777,321)	(4,903,874)
Nonoperating revenues (expense), net	<u>57,437</u>	<u>20,121</u>
Net loss	\$ <u>(1,362,665)</u>	\$ <u>(1,014,253)</u>

(17) Effect on Beginning Fund Balances of Omitted Entities

Certain proprietary funds were not included in the 2002 presentation but were included in the 2001 presentation.

2001 ending retained earnings, per the 2001 presentation	\$ 5,297,023
Effect of omission of:	
Public Transportation System	(358,219)
Decrease in reported equity of:	
Yap Visitors Bureau	<u>(89,378)</u>
2001 retained earnings, beginning of year, in the 2002 presentation	\$ <u>4,849,426</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements  
September 30, 2002

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FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account -  
All Governmental Fund Types  
Year Ended September 30, 2002  
(With comparative totals for the year ended September 30, 2001)

	Governmental Fund Types			Totals	
	General	Special Revenue	Capital Projects	2002	2001
Expenditures:					
Salaries and wages	\$ 4,355,809	\$ 1,637,732	\$ 34,044	\$ 6,027,585	\$ 5,695,623
Travel	838,536	569,424	5,627	1,413,587	1,059,002
Freight	66,447	25,801	7,384	99,632	128,406
Communications	126,140	84,948	3,632	214,720	249,088
Printing and reproduction	41,821	39,322	-	81,143	47,473
Professional services	310,786	110,512	-	421,298	632,224
Food stuffs	118,443	22,927	-	141,370	134,559
Medical supplies	347,332	10,124	-	357,456	309,853
Supplies and materials	929,622	413,564	-	1,343,186	1,000,189
Medical referral	28,072	217,074	-	245,146	192,287
Capital outlay	387,021	328,141	805,368	1,520,530	5,383,259
Contractual services	510,688	482,144	185,240	1,178,072	1,052,988
Rentals	14,220	263,238	-	277,458	251,769
Repairs and maintenance	86,491	41,296	-	127,787	138,804
Allowances	119,206	-	-	119,206	135,454
Utilities	1,516	735,845	-	737,361	795,186
Grants and subsidies	335,210	2,000	-	337,210	670,348
Scholarships and training	92,267	223,887	-	316,154	324,308
Drydocking	21,578	-	-	21,578	14,615
Bad debts	69,681	-	-	69,681	-
Payments of notes payable and interest	35,000	-	-	35,000	9,437,030
Other	552,949	142,940	82,081	777,970	1,059,337
<b>Total expenditures</b>	<b>\$ 9,388,835</b>	<b>\$ 5,350,919</b>	<b>\$ 1,123,376</b>	<b>\$ 15,863,130</b>	<b>\$ 28,711,802</b>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

General Fund  
September 30, 2002

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, 2002

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

	2002	2001
Revenues:		
Compact funds:		
Current 211A base grant	\$ 4,836,027	\$ 3,843,200
Inflation adjustment 217	2,804,895	2,152,192
	7,640,922	5,995,392
Revenue sharing:		
Import tax	856,547	1,052,225
Fuel tax	87,626	49,641
Income tax	690,505	275,012
Business gross revenue tax	717,439	1,474,533
Unallocated	-	45,492
	2,352,117	2,896,903
Excise taxes:		
Alcoholic beverages	434,287	445,155
Gasoline and diesel	10,222	2,505
Tobacco	76,213	94,206
Other excise taxes	258,990	350,491
	779,712	892,357
Licenses and permits	159,866	62,162
Fines/sale of confiscated property	28,991	25,882
Leases and other rentals	122,897	74,282
	311,754	162,326
Departmental charges:		
Sea transportation	163,887	189,081
Hospital services	176,755	163,129
Utilities	-	9,211
Other	133,030	70,259
	473,672	431,680
Interest income	52,049	21,422
Net decrease in the fair value of investments	(2,086,377)	(6,305,758)
Other income	1,530,083	41,448
Total revenues	11,053,932	4,135,770

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, 2002

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

	2002	2001
Expenditures:		
General Government:		
Office of the Governor	\$ 222,472	\$ 166,431
State Legislature	421,751	421,449
Office of Administrative Services	749,057	387,113
Office of Planning, Budget and Statistics	329,642	128,370
Division of Revenue and Taxation	34,087	31,048
Disaster relief programs	-	15,320
Utilities programs	-	11,941
	1,757,009	1,161,672
Health Services:		
Department of Health Services	1,428,188	1,190,563
Education:		
Department of Education	2,088,170	1,308,370
Economic Development:		
Department of Resources and Development	559,049	547,660
Public Safety:		
Department of Public Safety/Attorney General	512,448	545,771
Public Works and Transportation:		
Department of Public Works and Transportation	1,390,705	1,356,571
Community Affairs:		
Department of Public Affairs	261,248	244,358
Boards and Commissions:		
Council of Pilung	109,903	84,166
Council of Tamol	128,399	123,571
EPA administration board	67,006	52,642
	305,308	260,379

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, 2002  
(With comparative totals for the year ended September 30, 2001)

	2002	2001
Other:		
Judiciary	161,191	156,553
Public Auditor	49,880	41,175
Legislative projects	770,958	628,951
Bad debts	69,681	153,098
Payments of notes payable and interest	35,000	9,437,030
	1,086,710	10,416,807
 Total expenditures	 9,388,835	 17,032,151
 Excess (deficiency) of revenues over (under) expenditures	 1,665,097	 (12,896,381)
Other financing uses:		
Operating transfers out	(778,699)	(2,760,778)
 Total other financing uses	 (778,699)	 (2,760,778)
 Excess (deficiency) of revenues over (under) expenditures and other financing uses	 886,398	 (15,657,159)
 Fund balance at beginning of year	 29,614,931	 45,272,090
 Fund balance at end of year	 \$ 30,501,329	 \$ 29,614,931

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, 2002

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

	2002			2001		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Current account Compact funds	\$ 7,608,582	\$ 7,640,922	\$ 32,340	\$ 6,105,120	\$ 5,995,392	\$ (109,728)
FSM revenue sharing	1,512,680	2,352,117	839,437	2,631,080	2,896,903	265,823
Taxes and licenses	1,975,490	1,091,466	(884,024)	1,552,960	1,054,683	(498,277)
Interest income	250,000	52,049	(197,951)	250,000	21,422	(228,578)
Net decrease in the fair value of investments	-	(2,086,377)	(2,086,377)	-	(6,305,758)	(6,305,758)
Other	604,960	2,003,755	1,398,795	-	473,128	473,128
<b>Total revenues</b>	<b>11,951,712</b>	<b>11,053,932</b>	<b>(897,780)</b>	<b>10,539,160</b>	<b>4,135,770</b>	<b>(6,403,390)</b>
<b>Expenditures budgetary basis:</b>						
<b>General Government:</b>						
Office of the Governor	187,300	221,027	(33,727)	169,310	127,763	41,547
State Legislature	488,520	414,386	74,134	468,550	355,190	113,360
Office of Administrative Services	555,040	794,956	(239,916)	444,900	378,616	66,284
Office of Planning, Budget and Statistics	152,450	158,636	(6,186)	72,580	73,031	(451)
Division of Revenue and Taxation	32,130	31,786	344	-	-	-
Utilities program	-	-	-	-	11,941	(11,941)
Disaster relief programs	150,000	167,552	(17,552)	-	15,320	(15,320)
	1,565,440	1,788,343	(222,903)	1,155,340	961,861	193,479
<b>Health Services:</b>						
Department of Health Services	1,347,537	1,235,062	112,475	1,245,329	964,761	280,568
<b>Education:</b>						
Department of Education	2,123,246	2,258,551	(135,305)	1,385,941	1,301,696	84,245
<b>Economic development:</b>						
Department of Resources and Development	668,540	531,421	137,119	635,430	466,540	168,890
<b>Public safety:</b>						
Department of Public Safety and Attorney General	540,380	505,328	35,052	595,000	539,445	55,555
<b>Public Works and Transportation:</b>						
Department of Public Works and Transportation	1,979,390	1,883,972	95,418	1,448,848	1,215,095	233,753
<b>Community affairs:</b>						
Department of Public Affairs	300,220	253,423	46,797	257,700	226,724	30,976
<b>Boards and commissions:</b>						
Council of Piling	112,240	114,406	(2,166)	86,340	82,410	3,930
Council of Tamol	128,380	128,399	(19)	121,570	120,456	1,114
EPA administration board	66,670	65,279	1,391	64,670	49,267	15,403
	307,290	308,084	(794)	272,580	252,133	20,447

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, 2002

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

	2002			2001		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Other:						
Judiciary	\$ 160,070	\$ 165,283	\$ (5,213)	\$ 160,770	\$ 156,566	\$ 4,204
Public Auditor	59,070	48,139	10,931	44,740	39,029	5,711
Legislative projects	836,904	734,933	101,971	439,610	648,710	(209,100)
Bad debts	-	-	-	-	153,098	153,098
Payment of notes payable and interest	-	35,000	35,000	9,437,030	9,437,030	-
	<u>1,056,044</u>	<u>983,355</u>	<u>142,689</u>	<u>10,082,150</u>	<u>10,434,433</u>	<u>(46,087)</u>
Total expenditures	<u>9,888,087</u>	<u>9,747,539</u>	<u>210,548</u>	<u>17,078,318</u>	<u>16,362,688</u>	<u>1,021,826</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,063,625</u>	<u>1,306,393</u>	<u>(757,232)</u>	<u>(6,539,158)</u>	<u>(12,226,918)</u>	<u>(5,687,760)</u>
Other financing sources (uses):						
Operating transfers out	<u>(778,240)</u>	<u>(778,699)</u>	<u>(459)</u>	<u>(2,676,900)</u>	<u>(2,760,778)</u>	<u>(83,878)</u>
Total other financing sources (uses), net	<u>(778,240)</u>	<u>(778,699)</u>	<u>(459)</u>	<u>(2,676,900)</u>	<u>(2,760,778)</u>	<u>(83,878)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>1,285,385</u>	<u>527,694</u>	<u>(757,691)</u>	<u>(9,216,058)</u>	<u>(14,987,696)</u>	<u>(5,771,638)</u>
Fund balance, unreserved at beginning of year	19,473,629	19,473,629	-	29,120,924	29,120,924	-
Other changes in unreserved fund balance:						
Related assets, including loans	-	(1,106,757)	(1,106,757)	-	5,857,827	5,857,827
Continuing appropriations	-	(701,465)	(701,465)	-	(517,426)	(517,426)
Fund balance, unreserved at end of year	<u>\$ 20,759,014</u>	<u>\$ 18,193,101</u>	<u>\$ (2,565,913)</u>	<u>\$ 19,904,866</u>	<u>\$ 19,473,629</u>	<u>\$ (431,237)</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Special Revenue Funds  
September 30, 2002

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, 2002, 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, 2002  
(With comparative totals as of September 30, 2001)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Disaster Fund	Totals	
								2002	2001
<b>Assets</b>									
Cash	\$ -	\$ 241,482	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 241,482	\$ -
Investments	3,226,092	-	-	-	-	-	-	3,226,092	3,226,092
Receivables, net:									
Other governments	(3,000)	-	-	-	1,510,690	-	-	1,507,690	875,828
FSM National Government	-	1,655,412	854,554	-	-	-	-	2,509,966	2,453,112
Due from other funds	1,155,415	716,042	-	-	-	-	-	1,871,457	-
Advances	-	-	-	-	-	-	-	-	240,205
<b>Total assets</b>	<b>\$ 4,378,507</b>	<b>\$ 2,612,936</b>	<b>\$ 854,554</b>	<b>\$ -</b>	<b>\$ 1,510,690</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,356,687</b>	<b>\$ 6,795,237</b>
<b>Liabilities and Fund Balances (Deficit)</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 16,200	\$ 34,561	\$ -	\$ -	\$ 16,226	\$ 25,133	\$ -	\$ 92,120	\$ 19,332
Accrued payroll	12,635	31,473	316	-	1,813	-	-	46,237	13,026
Due to other funds	1,704,321	2,558,021	481,942	14,323	1,462,473	19,294	59,630	6,300,004	4,274,701
Deferred revenue	-	-	372,308	-	-	-	-	372,308	392,342
<b>Total liabilities</b>	<b>1,733,156</b>	<b>2,624,055</b>	<b>854,566</b>	<b>14,323</b>	<b>1,480,512</b>	<b>44,427</b>	<b>59,630</b>	<b>6,810,669</b>	<b>4,699,401</b>
<b>Fund balances (deficit)</b>									
Reserved for:									
Encumbrances	88,156	366,274	1,139	402	102,657	-	-	558,628	464,705
Continuing appropriations	150,000	-	-	-	-	-	-	150,000	150,000
Unreserved	2,407,195	(377,393)	(1,151)	(14,725)	(72,479)	(44,427)	(59,630)	1,837,390	1,481,131
<b>Total fund balances (deficit)</b>	<b>2,645,351</b>	<b>(11,119)</b>	<b>(12)</b>	<b>(14,323)</b>	<b>30,178</b>	<b>(44,427)</b>	<b>(59,630)</b>	<b>2,546,018</b>	<b>2,095,836</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 4,378,507</b>	<b>\$ 2,612,936</b>	<b>\$ 854,554</b>	<b>\$ -</b>	<b>\$ 1,510,690</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,356,687</b>	<b>\$ 6,795,237</b>

See accompanying Independent Auditors' Report

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2002

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

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Disaster Fund	Totals	
								2002	2001
<b>Revenues:</b>									
Compact	\$ 2,763,877	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,763,877	\$ 2,796,984
Federal contributions	-	2,306,666	3,033	-	-	-	-	2,309,699	2,512,761
CFSM grants	-	-	-	-	716,525	-	-	716,525	2,408,894
Other	-	-	-	11,000	-	91,942	-	102,942	97,303
<b>Total revenues</b>	<b>2,763,877</b>	<b>2,306,666</b>	<b>3,033</b>	<b>11,000</b>	<b>716,525</b>	<b>91,942</b>	<b>-</b>	<b>5,893,043</b>	<b>7,815,942</b>
<b>Expenditures:</b>									
Health services	514,461	247,640	-	-	19,241	-	-	781,342	541,377
Education	1,037,509	1,642,528	-	-	36,500	-	-	2,716,537	1,245,650
Economic developmen	-	201,201	-	17,340	-	-	-	218,541	132,250
Public safety	-	-	-	-	39,334	-	-	39,334	95,462
Public works and transportation	12,130	-	-	-	234,933	-	-	247,063	1,887,682
Community affairs	-	592	-	-	1,681	-	-	2,273	828,331
Other	742,592	215,297	3,079	-	384,836	-	25	1,345,829	2,848,797
<b>Total expenditures</b>	<b>2,306,692</b>	<b>2,307,258</b>	<b>3,079</b>	<b>17,340</b>	<b>716,525</b>	<b>-</b>	<b>25</b>	<b>5,350,919</b>	<b>7,579,549</b>
Excess (deficiency) of revenue over (under) expenditures	457,185	(592)	(46)	(6,340)	-	91,942	(25)	542,124	236,393
<b>Other financing sources (uses)</b>									
Transfers in	-	-	-	-	-	-	-	-	83,878
Transfers out	-	-	-	-	-	(91,942)	-	(91,942)	(295,649)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(91,942)</b>	<b>-</b>	<b>(91,942)</b>	<b>(211,771)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	457,185	(592)	(46)	(6,340)	-	-	(25)	450,182	24,622
Fund balances (deficit) at beginning of year	2,188,166	(10,527)	34	(7,983)	30,178	(44,427)	(59,605)	2,095,836	2,071,214
Fund balances (deficit) at end of year	\$ 2,645,351	\$ (11,119)	\$ (12)	\$ (14,323)	\$ 30,178	\$ (44,427)	\$ (59,630)	\$ 2,546,018	\$ 2,095,836

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, 2002  
(With comparative totals for the year ended September 30, 2001)

	Compact Programs	Federal Grants	Other U.S. Grants	Non U.S. Grants	CFSM Grants	Sports Development	Disaster Fund	Totals	
								2002	2001
<b>Revenues:</b>									
Compact	\$ 2,763,877	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,763,877	\$ 2,796,984
Federal contributions	-	2,306,666	3,033	-	-	-	-	2,309,699	2,512,761
CFSM grants	-	-	-	-	716,525	-	-	716,525	2,408,894
Other	-	-	-	11,000	-	91,942	-	102,942	97,303
<b>Total revenues</b>	<b>2,763,877</b>	<b>2,306,666</b>	<b>3,033</b>	<b>11,000</b>	<b>716,525</b>	<b>91,942</b>	<b>-</b>	<b>5,893,043</b>	<b>7,815,942</b>
<b>Expenditures:</b>									
Salaries and wages	565,250	1,009,345	22,136	3,615	37,386	-	-	1,637,732	1,462,735
Travel	86,714	467,067	-	1,598	14,045	-	-	569,424	761,486
Freight	12,939	11,317	-	-	1,545	-	-	25,801	61,457
Communications	20,428	55,184	-	554	8,782	-	-	84,948	122,917
Printing and reproduction	19,635	17,463	470	-	1,754	-	470	39,322	23,525
Professional services	7,676	62,486	-	-	40,350	-	-	110,512	362,058
Food stuffs	18,884	1,671	-	1,336	1,036	-	-	22,927	48,060
Medical supplies	5,907	4,217	-	-	-	-	-	10,124	26,062
Supplies and materials	214,025	156,168	-	3,959	39,412	-	-	413,564	756,182
Medical referral	217,049	-	-	-	-	-	25	217,074	191,657
Capital outlay	104,608	224,012	(19,750)	-	19,271	-	-	328,141	1,438,354
Contractual services	16,482	124,485	-	3,530	337,647	-	-	482,144	617,867
Rentals	65,188	32,797	-	-	165,253	-	-	263,238	146,743
Repairs and maintenance	21,003	10,946	-	694	8,653	-	-	41,296	67,296
Utilities	735,845	-	-	-	-	-	-	735,845	793,946
Grants and subsidies	-	-	-	-	2,000	-	-	2,000	150,670
Scholarship and training	161,320	47,567	-	-	15,000	-	-	223,887	226,148
Other	33,739	82,533	223	2,054	24,391	-	-	142,940	322,386
<b>Total expenditures</b>	<b>2,306,692</b>	<b>2,307,258</b>	<b>3,079</b>	<b>17,340</b>	<b>716,525</b>	<b>-</b>	<b>25</b>	<b>5,350,919</b>	<b>7,579,549</b>
<b>Excess (deficiency) of revenue over (under) expenditures</b>	<b>457,185</b>	<b>(592)</b>	<b>(46)</b>	<b>(6,340)</b>	<b>-</b>	<b>91,942</b>	<b>(25)</b>	<b>542,124</b>	<b>236,393</b>
<b>Other financing sources (uses)</b>									
Transfers in	-	-	-	-	-	-	-	-	83,878
Transfers out	-	-	-	-	-	(91,942)	-	(91,942)	(295,649)
<b>Total other financing sources (uses), net</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(91,942)</b>	<b>-</b>	<b>(91,942)</b>	<b>(211,771)</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>457,185</b>	<b>(592)</b>	<b>(46)</b>	<b>(6,340)</b>	<b>-</b>	<b>-</b>	<b>(25)</b>	<b>450,182</b>	<b>24,622</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>2,188,166</b>	<b>(10,527)</b>	<b>34</b>	<b>(7,983)</b>	<b>30,178</b>	<b>(44,427)</b>	<b>(59,605)</b>	<b>2,095,836</b>	<b>2,071,214</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 2,645,351</b>	<b>\$ (11,119)</b>	<b>\$ (12)</b>	<b>\$ (14,323)</b>	<b>\$ 30,178</b>	<b>\$ (44,427)</b>	<b>\$ (59,630)</b>	<b>\$ 2,546,018</b>	<b>\$ 2,095,836</b>

See accompanying Independent Auditors' Report

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Capital Projects Funds  
September 30, 2002

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, 2002, 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, 2002  
(With comparative totals as of September 30, 2001)

Assets	Compact	TTPI	CFSM	Water			Totals	
				Development Projects Revolving Fund	Public	Other U.S.	2002	2001
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	482,987
CFSM	-	-	624,677	-	-	-	624,677	624,678
Loans	6,500,000	-	-	-	-	-	6,500,000	6,500,000
Due from other funds	7,572,100	-	-	216,300	47,531	-	7,835,931	3,963,200
Advances	-	-	-	-	19,581	-	19,581	8,109
<b>Total assets</b>	<b>\$ 23,282,548</b>	<b>\$ 351,113</b>	<b>\$ 624,677</b>	<b>\$ 216,300</b>	<b>\$ 67,112</b>	<b>\$ 131,874</b>	<b>\$ 24,673,624</b>	<b>\$ 20,789,422</b>
<b>Liabilities and Fund Balances</b>								
Liabilities:								
Accounts payable	\$ 197,784	\$ -	\$ 16,247	\$ -	\$ -	\$ -	\$ 214,031	\$ 1,028,507
Due to other funds	153,862	351,113	618,913	-	4,655	131,874	1,260,417	-
<b>Total liabilities</b>	<b>351,646</b>	<b>351,113</b>	<b>635,160</b>	<b>-</b>	<b>4,655</b>	<b>131,874</b>	<b>1,474,448</b>	<b>1,028,507</b>
Fund balances (deficit):								
Reserved for:								
Loans	6,500,000	-	-	-	-	-	6,500,000	6,500,000
Encumbrances	966,690	-	5,928	-	2,127	-	974,745	288,216
Continuing appropriations	554,602	-	-	-	-	-	554,602	1,396,903
Unreserved	14,909,610	-	(16,411)	216,300	60,330	-	15,169,829	11,575,796
<b>Total fund balances (deficit)</b>	<b>22,930,902</b>	<b>-</b>	<b>(10,483)</b>	<b>216,300</b>	<b>62,457</b>	<b>-</b>	<b>23,199,176</b>	<b>19,760,915</b>
<b>Total liabilities and fund balances</b>	<b>\$ 23,282,548</b>	<b>\$ 351,113</b>	<b>\$ 624,677</b>	<b>\$ 216,300</b>	<b>\$ 67,112</b>	<b>\$ 131,874</b>	<b>\$ 24,673,624</b>	<b>\$ 20,789,422</b>

See accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

**CAPITAL PROJECTS FUNDS**  
Combining Statement of Revenues, Expenditures by Function and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2002  
(With comparative totals for the year ended September 30, 2001)

	Compact	TTPI	CFSM	Water		Other U.S.	Totals	
				Development Projects Revolving Fund	Public		2002	2001
<b>Revenues:</b>								
Compact	\$ 4,701,617	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,701,617	\$ 3,689,122
U.S. Dept. of the Interior-TTPI	-	-	-	-	-	-	-	185,971
CFSM grants	20	-	-	-	-	-	20	99,158
<b>Total revenues</b>	<b>4,701,637</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,701,637</b>	<b>3,974,251</b>
<b>Expenditures:</b>								
Economic development	17,973	-	-	-	-	-	17,973	82,598
Public works and transportation	846,746	-	-	-	(12,737)	-	834,009	4,005,081
Community affairs	181,753	-	-	-	-	-	181,753	74,423
Other	-	-	89,641	-	-	-	89,641	91,098
<b>Total expenditures</b>	<b>1,046,472</b>	<b>-</b>	<b>89,641</b>	<b>-</b>	<b>(12,737)</b>	<b>-</b>	<b>1,123,376</b>	<b>4,253,200</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>3,655,165</b>	<b>-</b>	<b>(89,641)</b>	<b>-</b>	<b>12,737</b>	<b>-</b>	<b>3,578,261</b>	<b>(278,949)</b>
<b>Other financing sources (uses):</b>								
Transfers in	-	-	-	-	-	-	-	2,492,640
Transfers out	(140,000)	-	-	-	-	-	(140,000)	(492,640)
<b>Total other financing sources (uses), net</b>	<b>(140,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(140,000)</b>	<b>2,000,000</b>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses</b>	<b>3,515,165</b>	<b>-</b>	<b>(89,641)</b>	<b>-</b>	<b>12,737</b>	<b>-</b>	<b>3,438,261</b>	<b>1,721,051</b>
<b>Fund balances at beginning of year</b>	<b>19,415,737</b>	<b>-</b>	<b>79,158</b>	<b>216,300</b>	<b>49,720</b>	<b>-</b>	<b>19,760,915</b>	<b>18,039,864</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ 22,930,902</b>	<b>\$ -</b>	<b>\$ (10,483)</b>	<b>\$ 216,300</b>	<b>\$ 62,457</b>	<b>\$ -</b>	<b>\$ 23,199,176</b>	<b>\$ 19,760,915</b>

See accompanying Independent Auditors' Report.

STATE OF YAP  
FEDERATED STATES OF MICRONESIA

**CAPITAL PROJECTS FUNDS**

Combining Statement of Revenues, Expenditures by Account and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2002  
(With comparative totals for the year ended September 30, 2001)

	Compact	TTPI	CFSM	Water			Totals	
				Development Projects Revolving Fund	Public	Other U.S.	2002	2001
<b>Revenues:</b>								
Compact	\$ 4,701,617	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,701,617	\$ 3,689,122
U.S. Dept. of the Interior-TTPI	-	-	-	-	-	-	-	185,971
CFSM grants	20	-	-	-	-	-	20	99,158
<b>Total revenues</b>	<b>4,701,637</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,701,637</b>	<b>3,974,251</b>
<b>Expenditures:</b>								
Salaries and wages	34,044	-	-	-	-	-	34,044	75,021
Travel	5,627	-	-	-	-	-	5,627	3,363
Freight	7,384	-	-	-	-	-	7,384	1,232
Communications	3,632	-	-	-	-	-	3,632	1,868
Printing and reproduction	-	-	-	-	-	-	-	-
Professional services	-	-	-	-	-	-	-	240
Supplies and materials	-	-	-	-	-	-	-	45,951
Capital outlay	805,368	-	-	-	-	-	805,368	3,754,873
Contractual services	185,240	-	-	-	-	-	185,240	98,108
Rentals	-	-	-	-	-	-	-	83,600
Repairs and maintenance	-	-	-	-	-	-	-	2,573
Subsidies and grants	-	-	-	-	-	-	-	185,971
Other	5,177	-	89,641	-	(12,737)	-	82,081	400
<b>Total expenditures</b>	<b>1,046,472</b>	<b>-</b>	<b>89,641</b>	<b>-</b>	<b>(12,737)</b>	<b>-</b>	<b>1,123,376</b>	<b>4,253,200</b>
Excess (deficiency) of revenues over (under) expenditures	3,655,165	-	(89,641)	-	12,737	-	3,578,261	(278,949)
<b>Other financing sources (uses):</b>								
Transfers in	-	-	-	-	-	-	-	2,492,640
Transfers out	(140,000)	-	-	-	-	-	(140,000)	(492,640)
<b>Total other financing sources (uses), net</b>	<b>(140,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(140,000)</b>	<b>2,000,000</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	3,515,165	-	(89,641)	-	12,737	-	3,438,261	1,721,051
<b>Fund balances at beginning of year</b>								
	19,415,737	-	79,158	216,300	49,720	-	19,760,915	18,039,864
<b>Fund balances (deficit) at end of year</b>	<b>\$ 22,930,902</b>	<b>\$ -</b>	<b>\$ (10,483)</b>	<b>\$ 216,300</b>	<b>\$ 62,457</b>	<b>\$ -</b>	<b>\$ 23,199,176</b>	<b>\$ 19,760,915</b>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Enterprise Funds  
September 30, 2002

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.

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, 2002, 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, 2002, 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, 2002

(With comparative totals as of September 30, 2001)

<u>ASSETS</u>	Yap Economic Development Authority	Yap Investment Trust	<u>Totals</u>	
			2002	2001
Cash and cash equivalents	\$ -	\$ 1,445,946	\$ 1,445,946	\$ 1,218,697
Investments	1,107,043	892,257	1,999,300	2,001,300
General receivables	-	765,600	765,600	178,579
Due from other funds	-	-	-	506,250
Prepaid expenses and advances	-	52,654	52,654	60,472
Inventory	-	-	-	212,567
Property and equipment, net	-	1,137,071	1,137,071	1,672,739
	<u>-</u>	<u>1,137,071</u>	<u>1,137,071</u>	<u>1,672,739</u>
Total assets	<u>\$ 1,107,043</u>	<u>\$ 4,293,528</u>	<u>\$ 5,400,571</u>	<u>\$ 5,850,604</u>
 <u>LIABILITIES AND FUND DEFICIENCY</u> 				
Liabilities:				
Accounts payable	\$ 4,500	\$ 200,057	\$ 204,557	\$ 148,580
Accrued payroll and others	1,584	330,180	331,764	316,651
Notes payable:				
Intergovernmental	2,000,000	7,000,000	9,000,000	2,000,000
Yap State	-	1,710,974	1,710,974	7,000,000
Due to other funds	261,462	-	261,462	758,850
	<u>2,267,546</u>	<u>9,241,211</u>	<u>11,508,757</u>	<u>10,224,081</u>
Total liabilities	<u>2,267,546</u>	<u>9,241,211</u>	<u>11,508,757</u>	<u>10,224,081</u>
Deficit	<u>(1,160,503)</u>	<u>(4,947,683)</u>	<u>(6,108,186)</u>	<u>(4,373,477)</u>
	<u>\$ 1,107,043</u>	<u>\$ 4,293,528</u>	<u>\$ 5,400,571</u>	<u>\$ 5,850,604</u>

See accompanying Independent Auditors' Report

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**ENTERPRISE FUNDS**

Combining Statement of Revenues, Expenses and Changes in Fund Deficiency  
Year Ended September 30, 2002  
(With comparative totals for the year ended September 30, 2001)

	Yap Economic Development Authority	Yap Investment Trust	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
Operating revenues:				
Charges for goods and services	\$ -	\$ 3,357,219	\$ 3,357,219	\$ 4,015,911
Total operating revenues	<u>-</u>	<u>3,357,219</u>	<u>3,357,219</u>	<u>4,015,911</u>
Operating expenses:				
Personnel services	-	896,738	896,738	1,292,178
Supplies and materials	-	-	-	37,463
Fuel	-	795,609	795,609	870,522
Depreciation	-	282,288	282,288	1,714,782
Bad debts	-	63,472	63,472	5,628
Utilities and communications	-	9,339	9,339	24,557
Repair and maintenance	-	1,820,080	1,820,080	357,654
Insurance	-	206,423	206,423	171,189
License, agent and port fees	-	194,238	194,238	244,072
Provision	-	71,155	71,155	93,811
Management fee	-	129,800	129,800	172,000
Other	11,913	308,179	320,092	322,008
Total operating expenses	<u>11,913</u>	<u>4,777,321</u>	<u>4,789,234</u>	<u>5,305,864</u>
Operating loss	<u>(11,913)</u>	<u>(1,420,102)</u>	<u>(1,432,015)</u>	<u>(1,289,953)</u>
Nonoperating revenues (expense)				
Operating transfers in	-	-	-	143,126
Capital contributions	-	-	-	144,582
Interest income	-	57,437	57,437	20,121
Other	504,517	(506,429)	(1,912)	(1,097)
Total nonoperating revenues (expense), net	<u>504,517</u>	<u>(448,992)</u>	<u>55,525</u>	<u>306,732</u>
Net income (loss)	492,604	(1,869,094)	(1,376,490)	(983,221)
Deficit at beginning of year	<u>(1,653,107)</u>	<u>(3,078,589)</u>	<u>(4,731,696)</u>	<u>(3,390,256)</u>
Deficit at end of year	<u>\$ (1,160,503)</u>	<u>\$ (4,947,683)</u>	<u>\$ (6,108,186)</u>	<u>\$ (4,373,477)</u>

See accompanying Independent Auditors' Report

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

**ENTERPRISE FUNDS**

Combining Statement of Cash Flows

Year Ended September 30, 2002

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

	<u>Yap Economic Development Authority</u>	<u>Yap Investment Trust</u>	<u>Totals</u>	
			<u>2002</u>	<u>2001</u>
Cash flows from operating activities:				
Operating loss	\$ (11,913)	\$ (1,420,102)	\$ (1,432,015)	\$ (1,289,953)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities				
Depreciation	-	282,288	282,288	1,714,782
Bad debt	-	63,472	63,472	20,121
Other	-	69,350	69,350	-
	<u>(11,913)</u>	<u>(1,004,992)</u>	<u>(1,016,905)</u>	<u>444,950</u>
Change in assets and liabilities:				
Investment	-	-	-	1,300
General receivables	-	(661,680)	(661,680)	(169,617)
Due from other funds	11,913	(16,129)	(4,216)	-
Prepaid expenses	-	7,250	7,250	(12,768)
Inventory	-	173,269	173,269	(164,951)
Accounts payable	-	83,175	83,175	97,295
Accrued payroll and other	-	36,209	36,209	234,909
	<u>11,913</u>	<u>(377,906)</u>	<u>(365,993)</u>	<u>(13,832)</u>
Net cash (used for) provided by operating activities	<u>-</u>	<u>(1,382,898)</u>	<u>(1,382,898)</u>	<u>431,118</u>
Cash flows from noncapital financing activities:				
Operating grant from Yap State government	-	-	-	109,220
Operating grant from FSM National Gov't	-	-	-	33,906
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,126</u>
Cash flows from capital and related financing activities:				
Acquisition of fixed assets	-	(95,362)	(95,362)	(245,868)
Proceeds from notes payable from Yap State government	-	1,710,974	1,710,974	144,582
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>1,615,612</u>	<u>1,615,612</u>	<u>(101,286)</u>
Net increase in cash and cash equivalents	-	232,714	232,714	472,958
Cash and cash equivalents at beginning of year	<u>-</u>	<u>1,213,232</u>	<u>1,213,232</u>	<u>745,739</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 1,445,946</u>	<u>\$ 1,445,946</u>	<u>\$ 1,218,697</u>

See accompanying Independent Auditors' Report

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Discretely Presented Component Units  
September 30, 2002

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'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, 2002

<u>ASSETS</u>	Proprietary Fund Types		Total
	Yap Visitors Bureau	Yap State Public Service Corporation	
Cash and cash equivalents	\$ 215,766	\$ 956,936	\$ 1,172,702
Time certificates of deposit	-	680,000	680,000
General receivables, net	15,591	485,410	501,001
Inventory of supplies	12,705	293,942	306,647
Fixed assets, net	26,365	10,194,510	10,220,875
 Total assets	 \$ 270,427	 \$ 12,610,798	 \$ 12,881,225
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts payable	\$ 26,742	\$ 17,839	\$ 44,581
Accrued payroll and others	8,914	107,419	116,333
Deferred revenue	210,060	138,809	348,869
Other payables	190	81,169	81,359
Notes payable	-	3,098,257	3,098,257
 Total liabilities	 245,906	 3,443,493	 3,689,399
 Fund equity :			
Retained earnings	24,521	9,167,305	9,191,826
 Total liabilities and fund equity	 \$ 270,427	 \$ 12,610,798	 \$ 12,881,225

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, 2002**

	Proprietary Fund Types		Total
	Yap Visitors Bureau	Yap State Public Service Corporation	
Operating revenues:			
Charges for goods and services	\$ 1,065	\$ 3,301,967	\$ 3,303,032
Total operating revenues	<u>1,065</u>	<u>3,301,967</u>	<u>3,303,032</u>
Operating expenses:			
Personnel services	69,004	711,669	780,673
Travel	77,874	-	77,874
Production fuel	-	1,588,889	1,588,889
Contractual services	62,562	-	62,562
Depreciation	17,714	667,613	685,327
Promotions and advertising	213,430	-	213,430
Other	124,523	940,640	1,065,163
Total operating expenses	<u>565,107</u>	<u>3,908,811</u>	<u>4,473,918</u>
Operating loss	<u>(564,042)</u>	<u>(606,844)</u>	<u>(1,170,886)</u>
Nonoperating revenues (expenses):			
Operating subsidies from General Fund	558,990	-	558,990
Capital contributions	-	398,997	398,997
Other income (expense), net	2,006	22,446	24,452
Total nonoperating revenues (expense), net	<u>560,996</u>	<u>421,443</u>	<u>982,439</u>
Net loss	<u>(3,046)</u>	<u>(185,401)</u>	<u>(188,447)</u>
Retained earnings at beginning of year	<u>27,567</u>	<u>9,352,706</u>	<u>9,380,273</u>
Retained earnings at end of year	<u>\$ 24,521</u>	<u>\$ 9,167,305</u>	<u>\$ 9,191,826</u>

See accompanying Independent Auditors' Report.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

COMPONENT UNITS  
Combining Statement of Cash Flows  
Year Ended September 30, 2002

	Proprietary Fund Types		Total
	Yap Visitors Bureau	Yap State Public Service Corporation	
Cash flows from operating activities:			
Operating loss	\$ (564,042)	\$ (606,844)	\$ (1,170,886)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	17,714	667,613	685,327
Other income	28,765	4,182	32,947
	<u>(517,563)</u>	<u>64,951</u>	<u>(452,612)</u>
Change in assets and liabilities:			
General receivables	(29,006)	49,061	20,055
Prepayments	-	1,625	1,625
Inventory of supplies	8,254	(7,154)	1,100
Advances	-	(1,297)	(1,297)
Accounts payable	24,025	16,633	40,658
Accrued payroll and others	2,494	9,045	11,539
Other payables/deferred revenue	20,030	(47,942)	(27,912)
	<u>25,797</u>	<u>19,971</u>	<u>45,768</u>
Net cash provided by (used for) operating activities	<u>(491,766)</u>	<u>84,922</u>	<u>(406,844)</u>
Cash flows from noncapital financing activities:			
Operating transfers in and capital contributions	558,990	426,375	985,365
Net cash provided by noncapital financing activities	<u>558,990</u>	<u>426,375</u>	<u>985,365</u>
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(15,836)	(1,283,397)	(1,299,233)
Proceeds from loans	-	1,317,782	1,317,782
Net cash provided by (used for) capital and related financing activities	<u>(15,836)</u>	<u>34,385</u>	<u>18,549</u>
Cash flows from investing activities:			
Interest income	-	22,401	22,401
Purchase of time certificates of deposit	-	(680,000)	(680,000)
Net cash used for investing activities	<u>-</u>	<u>(657,599)</u>	<u>(657,599)</u>
Net increase (decrease) in cash and cash equivalents	51,388	(111,917)	(60,529)
Cash and cash equivalents at beginning of year	164,378	1,068,853	1,233,231
Cash and cash equivalents at end of year	<u>\$ 215,766</u>	<u>\$ 956,936</u>	<u>\$ 1,172,702</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 Robert Ruecho  
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, 2002, and have issued our report thereon dated September 11, 2003, which was qualified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group, and 2) the omission of the Yap Fishing Authority, a Component Unit – Proprietary Fund and the Public Transportation System, Proprietary Fund Type – Enterprise 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

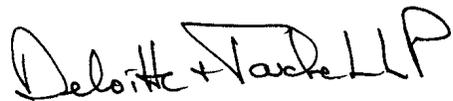
As part of obtaining reasonable assurance about whether the State of Yap's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and 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 69 through 92) as items 02-02 through 02-15.

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 02-01 and 02-16 through 02-21.

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 02-01 to be a material weakness.

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

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

September 11, 2003



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

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

Compliance

We have audited the compliance of the State of Yap with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2002. 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 69 through 92). 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 02-01 through 02-15 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, matching, level of effort or earmarking, 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, 2002.

### 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.

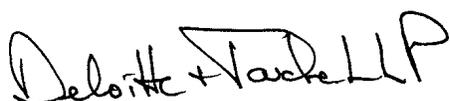
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 02-01 through 02-15.

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 02-01 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, 2002, and have issued our report thereon dated September 11, 2003, which was qualified due to; 1) our inability to determine the effects of not updating the General Fixed Assets Account Group, and 2) the omission of the Yap Fishing Authority, a Component Unit – Proprietary Fund and the Public Transportation System, Proprietary Fund Type – Enterprise 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 58 through 65) 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 and use of the management of the State of Yap, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

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

September 11, 2003

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2002

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2002 <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of Education:</u>		
PREL-YR6 Vocational Education	84.048B	\$ 1,457
PREL-YR8 Vocational Education	84.048B	1,097
2001 - PVIEP	84.048B	9,485
2002 - PVIEP	84.048B	<u>111,659</u>
Total CFDA #84.048B		<u>123,698</u>
00-01 Special Education	84.027B	30,592
FY99 Special Education	84.027B	169
02-03 Special Education	84.027B	<u>571,520</u>
Total CFDA #84.027B		<u>602,281</u>
FY01 Yap Star	84.256A	<u>761,947</u>
Total CFDA #84.256A		<u>761,947</u>
FY01 Goal 2000 Program	84.276A	<u>10,368</u>
Total CFDA #84.276A		<u>10,368</u>
Bilingual Education	84.288S	<u>124,825</u>
Total CFDA #84.288S		<u>124,825</u>
Total U.S. Department of Education		<u>1,623,119</u>
<u>U.S. Department of Labor:</u>		
2000 WIA Title I - Administration	17.250	824
2000 WIA Title I - Adult	17.250	17,280
2000 WIA Title I - Youth	17.250	207
2000 WIA Title I - DIS.WO	17.250	28,747
99 JTPA Administration	17.250	1,030
99 JTPA Adult Program	17.250	23,376
99 JTPA Youth Program	17.250	4,186
01 WIA Title I - Administration	17.250	11,252
01 WIA Title I - Youth	17.250	15,251
01 FMI/DIS Worker	17.250	31,898
01 WIA Title I - Adult	17.250	12,150
01 WIA Title I - Worker	17.250	<u>4,167</u>
Total CFDA #17.250		<u>150,368</u>
95 School-Work / Implement	17.249	<u>349</u>
Total CFDA #17.249		<u>349</u>
Total U.S. Department of Labor		<u>150,717</u>
Balance Forwarded		<u>1,773,836</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, 2002

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2002 <u>Fiscal Year</u> <u>Expenditures</u>
Balance Forwarded		<u>1,773,836</u>
<u>U.S. Department of Agriculture:</u>		
00 Yap FRM/RGNR	10.664	18,824
FY00 Forestry Urban Community	10.664	7,342
FY01 Forestry Urban Community	10.664	15,147
Yap Forest Stewardship Program	10.664	<u>4,387</u>
Total CFDA #10.664		<u>45,700</u>
Total U.S. Department of Agriculture		<u>45,700</u>
<u>U.S. Department of the Interior:</u>		
FY99 HPO - Historic Operation	15.904	283
FY00 HPO Operation	15.904	54,204
FY01-02 HPO Administration	15.904	44,448
FY01-02 HPO Special	15.904	14,093
FY01-02 HPO Archaeology	15.904	46,953
Y2K Remediation Project	15.904	<u>55,317</u>
Total CFDA #15.904		<u>215,298</u>
Total U.S. Department of the Interior		<u>215,298</u>
<u>U.S. Department of Health and Human Services:</u>		
FY01/02/03 Family Planning	93.217	<u>36,598</u>
Total CFDA #93.217		<u>36,598</u>
2001 Immunization Program	93.268	15,859
2002 Immunization Program	93.268	<u>8,585</u>
Total CFDA #93.268		<u>24,444</u>
2001 Tobacco Prevention	93.283	<u>10,357</u>
Total CFDA #93.283		<u>10,357</u>
FY99 SAPT/Health Services	93.959	710
FY00 SAPT/Youth Services	93.959	12,696
FY02 SAPT/Youth Services	93.959	32,647
00 SAPT - DOE	93.959	1,825
02 SAPT - DOE	93.959	<u>17,234</u>
Total CFDA #93.959		<u>65,112</u>
FY01 Diabetes Programs	93.988	4,323
FY03 Diabetes Programs	93.988	<u>554</u>
Total CFDA #93.988		<u>4,877</u>
Balance Forward		<u>2,034,834</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, 2002

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	2002 <u>Fiscal Year</u> <u>Expenditures</u>
<u>U.S. Department of Health and Human Services, Continued:</u>		
Balance Forwarded		\$ 2,034,834
FY00 MCH	93.994	2,472
FY01 MCH	93.994	<u>45,999</u>
Total CFDA #93.994		<u>48,471</u>
FY01 Tuberculosis & AIDS Program	93.116	7,366
FY02 Tuberculosis & AIDS Program	93.116	<u>14,531</u>
Total CFDA #93.116		<u>21,897</u>
FY00 Yap PHHS	93.991	1,066
FY02 Yap PHHS	93.991	<u>764</u>
Total CFDA #93.991		<u>1,830</u>
1999 Aids Prevention	93.940	91
2001 Aids Prevention	93.940	5,880
2002 Aids Prevention	93.940	<u>6,285</u>
Total CFDA #93.940		<u>12,256</u>
2002 Yap CHC Planning	93.224	<u>36,821</u>
Total CFDA #93.224		<u>36,821</u>
Other:		
2002 Yap SSDI Program	93.110W	<u>4,036</u>
Total Other		<u>4,036</u>
Total U.S. Department of Health and Human Services		<u>266,699</u>
<u>U.S. Department of Commerce:</u>		
Anadromous Fish Conservation Act Program	11.405	<u>5,133</u>
Total CFDA #11.405		<u>5,133</u>
Total U.S. Department of Commerce		<u>5,133</u>
Total Federal Grants Fund		<u>\$ 2,306,666</u>
Reconciliation to financial statements:		
Balance per above		\$ 2,306,666
Headstart funds (CFDA #93.600) accounted for outside of Yap State Finance		958,835
Unlocated difference		<u>592</u>
Schedule of Expenditures of Federal Awards balance		<u>\$ 3,266,093</u>

Note: With the exception of the Yap Star grants, (CFDA #84.256A), and the PREL grants (CFDA #84.048B), which are received directly from U.S. Department of Education, and the Headstart grant, which is received direct from the U.S. Department of Health and Human Services, 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, 2002

<u>Grantor</u> <u>Program Title</u>	<u>CFDA No.</u>	<u>2002</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Federal Emergency Management Agency</u>		
<u>(FEMA) grants:</u>		
Hazard & Mitigation Administration and others	83.516	\$ <u>3,033</u>
Reconciliation to financial statements:		
Balance per above		\$ 3,033
Unlocated difference		<u>46</u>
Balance per financial statements		\$ <u>3,079</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Compact 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, 2002

<u>Grantor</u> <u>Program Title</u>	2002 Fiscal Year <u>Expenditures</u>
<u>Special Block Grant Programs</u>	
Clinical Care Division	\$ 8,688
Budget and Supply Division	14,555
Curriculum and Instruction	77,920
Various	68,079
Yap Proper Elementary School	102,146
O.I. Elementary Schools	116,263
Ulithi YAP Proper High School	449,332
High School	27,832
Primary Health Care Division	75,539
Sanitation/Environmental	26,428
Mental and Substance Abuse	7,606
Medical Supply & Equipment	18,425
Ancillary Services Division	6,706
Woleia High School	25,722
Dental Services - YAP PROP	33,627
Dental Services - Outer Islands	27,097
Various Education Projects	<u>62,418</u>
Total Compact of Free Association Compact Programs Fund-Section 221(B)	<u>1,148,383</u>
<u>Special Development Program</u>	
PWT-Vehicle and Equipment	12,130
PWT-Vehicle and Equipment	7,297
Coastal Management Plan	<u>60</u>
Total Compact of Free Association Compact Programs Fund-Section 212(A)	<u>19,487</u>
<u>Health and Medical Programs</u>	
Medical Referral Program	<u>250,954</u>
Total Compact of Free Association Compact Programs Fund-Section 216(A)(2)	<u>250,954</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association Compact Programs Fund  
Section 221(B) Special Block Grant (CFDA No. 15.875)  
Section 212(A) Special Development Grant (CFDA No. 15.875)  
Section 216(A)(2) Health and Medical Programs (CFDA No. 15.875)  
Section 216(A)(3) Post Secondary Education (CFDA No. 15.875)  
Section 214(B) Energy Programs (CFDA No. 15.875)  
Year Ended September 30, 2002

Post Secondary Education

Scholarships and grants	161,320
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Total Compact of Free Association Compact Programs Fund-Section 216(A)(3)	161,320
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Energy Programs

State Utilities Program	735,236
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Total Compact of Free Association Compact Programs Fund-Section 214(B)	735,236
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Total Compact of Free Association Compact Program Fund	\$ 2,315,380
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Note: These funds are made by available by Title Two, Article I, Sections 221(B), 212(A), 216(A)(2), 216(A)(3) and 214(B) of the Compact of Free Association and are disbursed through the Office of Insular Affairs (OIA), U.S. Department of the Interior and bear CFDA No. 15.875. The FSM National Government receives all grant awards on behalf of the FSM and then reallots such to the component States.

Reconciliation to financial statements:

Balance per above	\$ 2,315,380
Amount inaccurately mapped to another fund	(8,688)

Balance per financial statements	\$ 2,306,692
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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, 2002

<u>Grantor</u> <u>Program Title</u>	2002 Fiscal Year Expenditures
<u>Office of Insular Affairs</u>	
Public Works and Transportation	\$ 846,746
Youth and Civic Affairs	181,753
Resources and Development	17,973
Transfer Out - Public Transportation System	<u>140,000</u>
Total Compact of Free Association Capital Projects Fund - Section 211(A)	<u>\$ 1,186,472</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued  
Compact of Free Association General Fund  
Section 211(A) Current Account (CFDA No. 15.875)  
Year Ended September 30, 2002

<u>Grantor</u> <u>Program Title</u>	<u>2002</u> <u>Fiscal Year</u> <u>Expenditures</u>
<u>Office of Insular Affairs</u> General Fund: Current Account	\$ <u>7,640,922</u>

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

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2002

(1) Scope of Review

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

A. Programs Subject to Single Audit

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

(2) Summary of Significant Accounting Policies

A. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the expenditures of the individual programs. All expenses and capital outlays are reported as expenditures. 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. The State operated the Program until March 31, 2002 and then transferred responsibility thereafter, to a non-profit corporation.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2002

(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.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Programs Selected for  
Audit In Accordance With OMB Circular A-133  
Year Ended September 30, 2002

<u>Grantor Program Title</u>	<u>CFDA No.</u>	<u>2002 Fiscal Year Expenditures</u>
<u>U.S. Department of the Interior</u>		
Compact of Free Association, Capital Projects Fund, 211(A)	15.875	\$ 1,186,472
Compact of Free Association, Health and Education Programs	15.875	<u>250,954</u>
Total U.S. Department of the Interior		\$ <u>1,437,426</u>
<u>U.S. Department of Education</u>		
Yap Star (TFAS Education Grant)	84.256A	\$ 761,947
Yap Special Education (SEPPIE Grant)	84.027A	606,281
Bilingual Education	84.288S	<u>124,825</u>
Total U.S. Department of Education		\$ <u>1,493,053</u>
<u>U.S. Dept. of Health and Human Services</u>		
Headstart Program	93.600	\$ <u>958,835</u>
Total U.S. Department of Health and Human Services		\$ <u>958,835</u>
Total U.S. Federal program expenditures selected excluding Compact Section 211 (A) Current Account expenditures		\$ <u>3,889,314</u>
Total U.S. Federal program expenditures excluding Compact Section 211 (A) Current Account expenditures		\$ <u>6,770,386</u>
% of total U.S. Federal expenditures covered by major programs excluding Compact Section 211 (A) Current Account expenditures		<u>57%</u>

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

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

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, one of which is considered to be a material weakness.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The State's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Compact of Free Association Capital Projects Funds	15.875
Compact of Free Association Health and Education Programs	15.875
Yap STAR (TFAS Education Grant)	84.256A
Special Education (SEPPIE)	84.027A
Headstart Program	93.600
Bilingual Education	84.288S

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>
02-01	Prior Year Compliance Findings that Remain Outstanding	\$ -
02-16	Cash	\$ -
02-17	Bank Deposits	\$ -
02-18	Receivables	\$ -
02-19	Inventory	\$ -
02-20	Accounts Payable and Other Liabilities	\$ -
02-21	Encumbrances	\$ -

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
02-01	All	Prior Year Compliance Findings that Remain Outstanding	\$ -
02-02	93.600	Procurement and Suspension and Debarment	\$ 41,529
02-03	84.256A	Yap Star - Procurement and Suspension and Debarment	\$114,320
02-04	84.256A	Yap Star - Special Education – Allowable Costs/Cost Principles	\$ 5,366
02-05	84.256A	Yap Star - Allowable Costs/Cost Principles	\$ -
02-06	84.256A	Yap Star - Allowable Costs/Cost Principles – Travel Expenses, Bilingual Program	\$ -
02-07	84.256A	Yap Star – Procurement and Suspension and Debarment	\$ 11,999
02-08	84.256A	Yap Star – Procurement and Suspension and Debarment	\$ 50,409
02-09	84.256A	Yap Star - Allowable Costs/Cost Principles	\$ -
02-10	84.256A	Yap Star - Allowable Costs/Cost Principles	\$150,143
02-11	All	Travel Costs	\$ -
02-12	84.256A	Yap Star - Health Insurance Premiums	\$ -
02-13	93.600	Headstart - Reporting	\$ -
02-14	93.600	Headstart – Earmarking – Calculation of 15% Administrative Ceiling	\$ -
02-15	93.600	Headstart – Procurement and Suspension and Debarment	\$ 45,488

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-01  
CFDA No. All  
Program/Area: Prior Year Compliance Findings that Remain Outstanding  
Questioned Costs: \$0

Criteria:

Prior year findings should be addressed and resolved in a timely manner.

Condition: Findings 99-1 and 99-2 related to Equipment and Real Property Management remain unresolved.

Cause: The cause of this condition is the State of Yap's failure to address the prior year findings.

Effect: The effect of this condition is noncompliance with federal rules and regulations.

Recommendation: 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.

Auditee Response and Corrective Action Plan: 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.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-02  
CFDA No. 93.600 - Headstart  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$41,529

Criteria: Per federal procurement policy, for small purchases, 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 the price quotation sheet to substantiate the reasons for this action.

Condition: Of twenty-two disbursements tested, aggregating \$427,724, we noted the following deviations from standard procurement policy:

- 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.

Condition: 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.

- b. Check No. 1514 in the amount of \$1,296.79 for the purchase of gasoline.

Condition: 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.

- c. Check No. 1819 in the amount of \$4,975.56 for the purchase of computers and related equipment.

Condition: 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.

- d. Check No. 1888 in the amount of \$4,540.80 for the purchase of food items.

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.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-02, Continued  
CFDA No. 93.600 – Head Start  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$41,529

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 should be documented.

Auditee Response and Corrective Action Plan dated March 5, 2004: This is exactly the same finding in which the program responded to in FY 2000/2001. Please refer to finding no. 01-03 and the program's response on pages 76-79 of the Yap State Single Audit report for year ending September 30, 2001

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-03  
CFDA No. 84.256A – Yap Star  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$114,320

Criteria: Adequate competition in procurement should occur.

Condition: The State Department of Education procured computers and related equipment in the amount of \$114,320 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 March 5, 2004: The former Director of the Program did all the bidding via Internet and mail. The bids we received and awarded were based on the information we had at the time not knowing that two of the vendors were related. The auditors informed us of the fact.

We are now documenting every transaction we have with all the vendors we deal with.

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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-04  
CFDA No. 84.256A – Yap Star  
Area: Special Education – Allowable Costs/Cost Principles  
Questioned Costs: \$5,366

Criteria: Expenditures should conform to applicable federal rules and regulations.

Condition: An employee of the State's Department of Education received compensation of \$5,366.40 for additional services rendered to the program. We were not provided any documents justifying this charge to the program. No contemporaneous records of time spent on the program were maintained and we could not determine the manner in which this charge benefited the program. Additionally, it appears that salary expenditures may be charged to this program that are more appropriately chargeable to other federal programs or to local funds. These charges were incurred by an employee of the Yap State Department of Education Business Office.

Cause: The cause of this condition appears to be noncompliance with the criteria.

Effect: The effect of this condition is questioned costs in the amount of \$5,366. These costs are questioned as due to the matters in the condition, the potential exists for questioned costs to exceed \$10,000.

Prior Year Status: Noncompliance with the criteria was cited in the 2001 Single Audit Report.

Recommendation: The auditee should comply with requisite federal rules and regulations relative to documenting the propriety of cost allocations.

Auditee Response and Corrective Action Plan dated March 5, 2004: The personnel was asked by the Director of Education and the Program Coordinator to maintain the ledger including preparation of the Program's annual budget. The Special Education Coordinator is responsible for keeping the time spent on the Program.

Based on the auditors finding, we have decided to hire personnel to maintain the program ledgers and prepare the program annual budget to avoid such questioned cost in the future.

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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-05  
CFDA No. 84.256A – Yap Star  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria: Program charges should be specific to the program and should be supported by the approved budget.

Condition: It appears that the YapStar Program pays for internet services for the entire Department of Education. There are no logs maintained of usage to demonstrate program benefit and it appears that actual expenditures incurred are in excess of budgeted amounts.

Cause: We were not able to discern the reason that the entire Department's internet usage is charged to this program. Additionally, we were not able to determine the difference between the budgeted amount and the actual expenditures incurred.

Effect: The effect of this condition is potential unsubstantiated charges and potential noncompliance with approved budgets. However, no questioned costs result as we are not able to determine the amount, if any, that should be questioned.

Prior Year Status: Similar findings with respect to documenting the propriety of communication charges was noted with respect to other programs in the 2001 and 2000 Single Audit reports.

Recommendation: The Department of Education should explain why the entire Department's internet cost is being absorbed by this program and how the approved program budget relates to actual costs incurred.

Auditee Response and Corrective Action Plan dated March 5, 2004: The Program is doing all the training related to technology and other on-line courses. All of Yap State school children including the community are welcome to use the laboratories when the labs are not busy with training and other classroom related activities.

We are proposing a new set up and schedule for the usage of the Internet and the lab so education does not pay for everything.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-06  
CFDA No. 84.256A – Yap Star and Special Education  
Area: Allowable Costs/Cost Principles – Travel Expenses, Bilingual Program,  
Questioned Costs: \$0

Criteria: Travel expenditures should be reasonable and be pertinent to the program. Furthermore, documentation should be retained to support that such travel actually occurred.

Condition: In eleven instances (six for Bilingual, one for Yap Star and four for Special Education), no trip report was on file to substantiate travel undertaken. Additionally, it was not policy in 2002 to require boarding passes to ensure that travel was actually undertaken.

Cause: The cause of this condition is that Yap State did not require trip reports and boarding passes as a basis of ensuring that travel was actually undertaken and that the program received benefit.

Effect: The effect of this condition is an absence of documentation to ensure that travel was undertaken and that the Program received benefit.

Prior Year Status: Noncompliance with the criteria was cited in the 2001 Single Audit Report.

Recommendation: We understand that Yap State is amending its travel documentation requirements in fiscal year 2003/2004 to require boarding passes and trip reports in support of final travel claims. We agree with these requirements and hope that full implementation occurs.

Auditee Response and Corrective Action Plan dated March 5, 2004: The staffs that travel under these programs were selected by the former Director based on content of the training they were to participate which was to benefit the programs. These were assessment and evaluation training which the DOE at the time thinks beneficial to the operation of the programs and the whole department.

We now require all travelers to prepare trip reports or present evidence that they did actually participate in the training they were to attend.

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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-07  
CFDA No. 84.256A – Yap Star  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$11,999

Criteria: Federal expenditures should comply with applicable federal procurement requirements.

Condition: Yap State procured \$3,661 of computer supplies without any evidence of competitive procurement procedures occurring. Additionally, paper was purchased from a California based vendor in the amount of \$8,338. Two other bids were solicited in California with neither responding. We do not believe that this constitutes adequate competition given the number of vendors based in jurisdictions substantially nearer to Yap State who could provide the aforementioned items.

Cause: The cause of this condition is noncompliance with federal rules and regulations.

Effect: The effect of this condition is questioned costs of \$11,999 since it is more likely than not that expenditures have been incurred without benefit of competitive procurement.

Prior Year Status: Noncompliance with the criteria was cited in the 2000 and 2001 Single Audit Reports.

Recommendation: The Department of Education should ensure that compliance with the criteria occurs.

Auditee Response and Corrective Action Plan dated March 5, 2004: Because we submitted request for quotation to three vendors, we thought that was sufficient even when the other two didn't respond. It is a fault on our part. There was no vendor on island to our knowledge and from our experience that can match the only off-island vendor that provided us the requested quotation.

We are now documenting every phone calls and quotation we receive to comply with all the federal criteria.

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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-08  
CFDA No. 84.256A – Yap Star and Bilingual  
Area: Procurement and Suspension and Debarment – Consultant Costs  
Questioned Costs: \$50,409

Criteria: Adequate competitive procurement should occur. Sole source procurement of professional contracts should be documented and justified. Furthermore, a performance contract that specifies terms and conditions and a scope of work and compensation should be documented, in writing, for all consultant contracts.

Condition: We could not locate documentation in support of competitive procurement for professional services and attendant costs covered by the following payments:

A10273	\$5,293.21	Bilingual
A10357	\$4,041.50	Bilingual
A2002308	\$1,337.50	Bilingual
A2002309	\$4,991.26	Bilingual
A2002386	\$4,893.50	Bilingual
A2002387	\$5,604.72	Bilingual
A2002387	\$1,060.00	Bilingual
A20002188	\$5,343.78	Bilingual
TA10272	\$6,272.10	Bilingual
TA2002308	\$5,730.04	Bilingual
A20002189	\$4,641.50	Yap Star
A10272	\$1,200.00	Yap Star

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.

Prior Year Status: Noncompliance with the criteria was cited in the 2001 Single Audit Report.

Recommendation: The State of Yap should ensure that adequate contract review occurs to ensure that compliance with US federal competitive procurement requirements exists.

Auditee Response and Corrective Action Plan dated March 5, 2004: The Consultants were involved from the beginning of our work on our New Baseline Curriculum (NBC). They started helping us from level one to level seven. Because they are more aware and familiar with the NBC, we decided to continue working with them.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-09  
CFDA No. 84.256A – Yap Star  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria: Allowable costs are those that are reasonable and allowable as a charge against the applicable program.

Condition: The program funded travel costs of \$6,447 for the Yap State Education Assistant Administrative Officer to attend a GFOA conference. This employee is a full-time employee compensated under the Special Education program. Since this employee works on all Department of Education programs, it appears that the cost of this travel would be more appropriately allocated by a systematic and rational method over all programs benefiting.

Cause: The cause of this condition is that no allocation method has been approved for or addressed by the Department of Education.

Effect: The effect of this condition is that, combined with findings previously stated above, federal awards may bear a disproportionate share of the Department's costs.

Recommendation: The Department of Education should ensure that it complies with allowable costs/cost principles and should ensure that these matters are specifically addressed with the grantor agency.

Auditee Response and Corrective Action Plan dated March 5, 2004: We thought at the time that since Special Education compensate the employee for maintaining the program's account, it would be appropriate that Special Education pay for the employee to attend the GFOA conference. We will be more systematic and rational in the future.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-10  
CFDA No. 84.256A – Yap Star  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$150,143

Criteria: Adequate competition, as required by federal regulations, should occur.

Condition: The State Department of Education procured computers and related equipment in the amount of \$143,892 from a vendor. Similar equipment purchases from the same vendor occurred, and were questioned for the same reasons, in the two prior fiscal years. These prior year questioned costs were in excess of \$214,000. The Department sent out Invitations to Bid to several California based stores and it appears that bids from only the one vendor were received. No documentation was on file to substantiate the adequacy of the competitive process. The Department was not able to provide us with their on-line search of vendors or their attempts to engage additional vendors who are situated closer to Yap State in the competitive bidding process.

The 2002 specific payments to the vendor are as follows:

<u>Check number</u>	<u>(\$)</u> Amount
14392	\$6,296
13173	\$108,024
10823	\$29,572

Additionally, computer supplies were obtained from a different vendor and we were unable to determine if any competitive procurement activities occurred. The payment is as follows:

<u>Check number</u>	<u>(\$)</u> Amount
12636	\$6,251

Cause: The cause of this condition is that inadequate competitive procurement activities occurred.

Effect: The effect of this condition is that questioned costs of \$150,143 result.

Prior Year Status: Noncompliance with the criteria was cited in the 2000 and 2001 Single Audit Reports.

Recommendation: The Department of Education should ensure that adequate competitive procurement activities occur. Additionally, based on the results of this and the prior two audit years, we recommend review of these transactions by the grantor agency.

Auditee Response and Corrective Action Plan dated March 5, 2004: There was a bid that was sent to off-island vendors and posted locally. Unfortunately, not all the vendors we sent to responded, except for one that has supplied us in the past. Every bid we are working on now is well documented to comply with federal regulations.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-11  
CFDA No. All Federal Programs  
Area: Travel Costs  
Questioned Costs: \$0

Criteria: If stop-overs occur during official travel, the reason therefore should be clearly documented and the program benefit should be reduced to writing.

Condition: Several instances were noted where travelers stayed in a locale during travel status that did not appear consistent with the most direct and fastest route to and from the originating point of travel.

Cause: The cause of this condition is that the reasons that a stop-over are required are not reduced to writing and subject to independent verification.

Effect: The effect of this condition is that programs could be charged with excessive per diem and other travel related costs. However, no specific questioned costs result from this finding due to such items being less than the \$10,000 threshold.

Recommendation: If stop-overs are required, the reasons therefore should be retained, in writing, supporting the original travel request, in the event that costs such as per diem are charged to the program for these excess days.

Auditee Response and Corrective Action Plan dated March 5, 2004: It is mandatory now that anybody traveling to participate in any training must provide a written report of his or her trip. We will comply with the criteria.

Finance Office had also put in measures to help address this finding. Documents supporting per diem and other expenses shown travel authorization requests are required before travel authorizations are processed by Finance.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-12  
CFDA No. 84.256A – Yap Star  
Area: Health Insurance Premiums  
Questioned Costs: \$0

Criteria: Costs charged to a program should be direct or allocable to that program.

Condition: The Yap Star Program is charged for health insurance premiums for its employees. Review of the details charged to the program per check number 15617 indicated the presence of people not on the roster of employees chargeable to the program.

Cause: We could not determine the cause of this condition.

Effect: The effect of this condition is that costs could be incorrectly charged to the program. However, given that the items in question are less than the threshold of \$10,000, no specific items are questioned.

Recommendation – Program personnel should review the list of employees whose health insurance was charged to the program and ensure that only authorized employees are so charged.

Auditee Response and Corrective Action Plan dated March 5, 2004: There was a mistake in including a former staff of the program on the list of people receiving health insurance under the program. The staff was moved to a different section of DOE. The other one was placed on the list, as she was to be next coordinator of the program. We were awaiting confirmation from the granting agency and later was hired into the program as the coordinator.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-13  
CFDA No. 93.600 - Headstart  
Area: Reporting  
Questioned Costs: \$0

Criteria: Federal financial reports should be filed in a timely manner.

Condition: The semi annual reports for the six months ended March 31, 2002 were not submitted to the grantor agency in a timely manner. The PMS 269 report was filed 29 days late and the 272 report was filed fifteen days late.

Cause: The cause of this condition is that management did not have sufficient controls in place to ensure that timely reporting occurred.

Effect: The effect of this condition is noncompliance with program reporting requirements.

Recommendation: Required federal financial reports should be timely filed.

Auditee Response and Corrective Action Plan dated March 5, 2004: At that time, the former fiscal officer had just resigned, and the acting fiscal officer was still familiarizing herself with myriads of federal regulations and reporting deadlines. Since then, a tracking form has been developed to ensure that all reporting deadline are met.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-14  
CFDA No. 93.600 - Headstart  
Area: Earmarking – Calculation of 15% Administrative Ceiling  
Questioned Costs: \$0

Criteria: The Program should maintain sufficient records throughout the year to demonstrate its compliance with the 15% administrative ceiling requirement.

Condition: The Program did not maintain any records during the year to monitor its compliance with the 15% administrative ceiling requirement. Records were accumulated during the audit period to ensure that compliance with this requirement was met.

Cause: The Program did not routinely monitor its compliance with the criteria.

Effect: The effect of this condition is that noncompliance with the criteria could occur. However, records were prepared after year end, at the auditors' request, indicating compliance with the criteria.

Recommendation: The Program should routinely track its compliance, throughout the year, with the criteria.

Auditee Response and Corrective Action Plan dated March 5, 2004: Similar to our previous respond, unfamiliarity with federal regulations resulted in this finding. Again, since the audit, a tool for tracking administrative costs was developed and is tracked regularly. The program is currently looking for accounting software that can automatically track administrative costs.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-15  
CFDA No. 93.600 - Headstart  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$45,488

Criteria: The grantee should document on file the basis for all competitive procurement decisions.

Condition: No evidence on file was present to explain the procurement rationale, selection method, and the manner that competitive procurement was achieved for the following transactions:

Check No. 2529	\$4,318	Reimbursement for acquisition of office supplies.
Check No. 32202	\$27,327	Contract for early childhood education course instructor and instructional assistant
Check No. 2208 -	\$13,843	The highest of seven bidders was selected without documented rationale.

Cause: The cause of these conditions appears to be the absence of compliance with informal procurement procedures.

Effect: The effect of this condition is questioned costs of \$45,488.

Recommendation: The Program should ensure that its procurement actions conform to the federal requirements.

Auditee Response and Corrective Action Plan dated March 5, 2004: Check No.2529 – The program was trying to purchase classroom supplies which most are unavailable on island. A grantee staff who orders most DOE supplies off-island was asked to assist place the order using his credit card and reimbursed at no additional cost. Although we neglect to obtain cost from other sources, at the time it was felt that it would be understandable that Quill prices are lower than most suppliers, especially local vendors. We know better now. A procurement procedures manual was recently adopted and approved in which all appropriate staff have received training on and other procurement forms developed to ensure compliance. (Note: This transaction occurs in a fiscal period already audited under ACE, the delegate agency from April 1, 2002 to present.)

Check No. 32202 – We couldn't locate a check with this No. nor one that amount. Based on the description and amount provided, we're assuming 6 months contract period for Dr. Paler and Gilbert Cantula. Both of these individuals were contracted when the program was still administered by Yap CAP and their contracts were extended for the period mentioned. Since a contractual relationship was already established, we didn't foresee a problem extending their contract.

Check No. 2208 – This was the last payment for the contract for Gagil center renovation that's cited in finding no. 2002-02 (a) and our response contain therein.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-16  
Area: Cash

Criteria: Bank reconciliations should be performed on a monthly basis and all reconciling items should be corrected in a timely manner.

Condition: Bank reconciliations were not prepared monthly. Reconciliations were prepared at year end for the major accounts. However, such did not agree with year end book balances.

Cause: The preparation of bank reconciliations on a monthly basis has not been performed.

Effect: The effect of this condition is that material misstatements have been present in the interim financial statements.

Recommendation: The preparation of monthly bank reconciliations should be a priority and it should be ensured that the reconciliation reconciles with the book balances.

Auditee Response and Corrective Action Plan dated March 5, 2004: A new Chief Accountant has been brought on board who will be responsible to ensure that monthly bank reconciliations are done.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-17  
Area: Bank Deposits

Criteria: Cash receipts should be prepared for all cash deposited to the Treasury. Additionally, all cash receipts should be deposited intact, daily, as a means of reducing potential fraud or abuse.

Condition: During the year ended September 30, 2002, cash receipts do not appear to have been issued for receipts taken at Treasury and deposits of receipts were not deposited intact. Additionally, it appears that not all cash was deposited to the bank and that instances of defalcations occurred.

Cause: The cause of this condition is that cash receipts were not issued for all collections, that deposits were not made intact, and that no review of Treasury activities occurred on a daily basis to ensure that required procedures were performed.

Effect: The effect of this condition is that defalcations appear to have occurred.

Prior Year Status: Noncompliance with the criteria was cited in the 2001 Single Audit Report.

Recommendation: Cash receipts should be issued for all deposits. Cash should be deposited intact and on a daily basis. Furthermore, management should review and verify the veracity of the deposits and daily receipts on a daily basis.

Auditee Response and Corrective Action Plan dated March 5, 2004: Finance Office has established a daily procedure where an individual in Finance, other than those assigned to accept payments and write receipts at the Treasury window, counts collections and matches amount to daily receipt shown on system. A separate log is kept outside of Treasury that may be verified against deposit slips made for each day.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-18  
Area: Receivables

Criteria: Receivables should be timely billed and adequate collection attempts should occur to ensure that the receivable is liquidated in a timely manner.

Condition: Receivables do not appear to undergo sufficient follow up to ensure their timely collection. Examples are as follows:

- Receivables from the Credit Union have not experienced any collections during the past several years.
- No automatic deductions are made for failure to liquidate travel advances
- Periodic reports for housing and other receivables do not appear to be prepared and payroll deductions do not appear to occur when non-payment transpires.

Cause: The cause of this condition is that periodic receivable listings of all accounts do not appear to be required by management and follow-up to ensure that collection occurs has not transpired.

Recommendation: Receivable listings should be prepared on a monthly basis and management should develop and execute a collection plan.

Auditee Response and Corrective Action Plan dated March 5, 2004: Finance Office has recently filled vacant positions including that of the Chief Accountant. Efforts are currently ongoing to update receivables and update delinquent accounts.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-19  
Area: Inventory

Criteria: Inventory should be carried at the lower of cost or market. Inventory that is doubtful of sale should be carried at net realizable value while management determines the best and most appropriate disposal method.

Condition: In fiscal year 2001, inventory of the stock supply fund was reduced to a carrying value of \$0 as management was of the opinion that no sales would occur. However, there does not appear to be a plan developed to attempt to gain any sales proceeds at all by offering this merchandise for sale.

Cause: The cause of this condition appears to be the absence of management review.

Effect: The effect of this condition is that the inventory, over time, will be more difficult to sell and will net a lower cash realization.

Recommendation: The inventory should be disposed of in the most efficient means possible.

Auditee Response and Corrective Action Plan dated March 5, 2004: The Division of Supply & Property Management recently completed another inventory of stock supply on hand. Some of the items had already been sold to a local private business and the rest will be disposed of soon through public bids or similar process.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-20  
Area: Accounts Payable and Other Liabilities

Criteria: The accounts payable subsidiary ledger should be periodically generated and reconciled with the general ledger control account. The same should occur for other material liability accounts, such as payroll related liabilities.

Condition: It does not appear as if an accounts payable or other accrued liability account reconciliations occurred during the year ended September 30, 2002.

Cause: The cause of this condition is that reconciliations do not appear to have occurred during the year.

Effect: The effect of this condition is that material misstatements were present in the interim financial statements.

Recommendation: Reconciliations of accounts payable and other material liability accounts should occur on a periodic basis throughout the year.

Auditee Response and Corrective Action Plan dated March 5, 2004: Finance Office recently filled vacant positions and brought on board a new Chief Accountant who will be directly responsible to make sure process of reconciling and updating accounts and ledgers is done and maintained in the future.

**STATE OF YAP  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Finding No.: 2002-21  
Area: Encumbrances

Criteria: Encumbrances should represent actual commitments for goods and services that will be realized in the near term. Additionally, the general ledger balance of encumbrances should be reconcilable to detail schedules.

Condition: Encumbrances include many items that are greater than nine months old. Additionally, a periodic reconciliation of the general ledger to the subsidiary ledger has not occurred.

Cause: The cause of this condition is that periodic reconciliations have not occurred and that older, dated encumbrances are not deleted.

Effect: The effect of this condition is that budgetary statements may be incorrect and governmental resources may be committed for non-current priorities.

Recommendation: Reconciliations should be performed on a periodic basis, and the Legislature should be provided detail documentation substantiating the need to carry old, dated encumbrances or such encumbrances should be deleted.

Auditee Response and Corrective Action Plan dated March 5, 2004: Finance Office recently filled vacant positions and brought on board a new Chief Accountant who will be directly responsible to make sure that the process of reconciling accounts, inclusive of updating encumbrance ledgers, is done and maintained in the future.

**STATE OF YAP  
FEDERATED STATES OF MICRONESIA**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2002

QUESTIONED COSTS

For the year ended September 30, 2002, the following questioned costs remain unresolved.

	Questioned Costs Set Forth in Prior Audit Report <u>2001</u>	Questioned Costs Resolved in Fiscal Year <u>2002</u>	Questioned Costs at <u>September 30, 2002</u>
Unresolved Questioned Costs FY 99	\$ 68,619	\$ -	\$ 68,619
Unresolved Questioned Costs FY 00	30,010	-	30,010
Unresolved Questioned Costs FY 01	225,369	-	225,369
Unresolved Questioned Costs FY 02	<u>-</u>	<u>-</u>	<u>419,254</u>
	\$ <u>323,998</u>	\$ <u>-</u>	\$ <u>743,252</u>

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