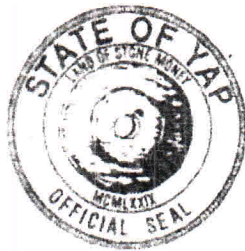


# **Public Transportation System**

**Financial Statements and  
Independent Auditor's Report**

**September 30, 2012 and 2011**



**Office of the Public Auditor  
State of Yap**

**Public Transportation System**  
September 30, 2012 and 2011

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# OFFICE OF THE STATE PUBLIC AUDITOR

YAP STATE GOVERNMENT

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Public Transportation System:

We have audited the accompanying statements of net assets of the Public Transportation System (PTS) as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of PTS. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of PTS as of September 30, 2012 and 2011, and the results of its operations, changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

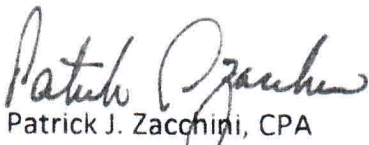
In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2013 on our consideration of PTS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial



reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the results of the limited procedures have raised doubts whether material modifications should be made to management's discussion and analysis for it to be presented in accordance with the guidelines established by the GASB.

Our audit was conducted for the purpose of forming opinions on the financial statements of PTS taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Patrick J. Zacchini, CPA  
Acting Public Auditor

May 24, 2013

**PUBLIC TRANSPORTATION SYSTEM**  
Management Discussion and Analysis  
Years Ended September 30, 2012 and 2011

Yap State Public Transportation System is the only public bus transportation operation that provides transportation to the public and private school students as well as the general public. The system was established in 1984 under Yap State Law No. 1-170 as a component unit, an entity which the government is financially accountable and was tasked to provide reliable and affordable transportation for people living within and outside the Colonia area.

This section of the Public Transportation System annual financial statement report presents our discussion and analysis of the System's financial performance for the year ended September 30, 2012. Financial statement for PTS is attached hereto.

In addition to the financial difficulties that Public Transportation System faces annually, global fuel cost increase has greatly impacted and created financial difficulties for the system. Fuel cost has again risen.

Half of the bus fleet has been replaced with new buses, however, the remaining fully depreciated half remains costly to operate. There are significant figures noticed in our financial statement. Due to unfunded replacement buses, there are no purchases this year as well as decreased fuel subsidy obligated to PTS. Others were related to adjustment on received parts under FY2011 funding and received within the first quarter of FY2012. The revenue generating component within PTS has increased a bit in its revenue compared to FY2011 as PTS has continued to seek ways to maintain its operation by diversifying.

PTS is currently working on plans to corporatize the operation of the system. Included in the plans will be a five year development plan that would entail diversifying of PTS operation. Opening other revenue generating services to subsidize the operation and hopefully having PTS be self-sustainable and gradually reduce the depleting government subsidy.

The accompanying financial statements present the financial condition and operation of the Public Transportation System for the fiscal year 2012.

**PUBLIC TRANSPORTATION SYSTEM**

Statements of Net Assets

September 30, 2012 and 2011

	<u>2012</u>	2011 (As restated) note 8
<b><u>ASSETS</u></b>		
Current Assets		
Cash	\$ 11,814	\$ 25,194
Accounts receivable, net	2,616	8,199
Purchase order advance	-	109,429
Prepaid expenses	12,802	15,561
Inventory	115,660	100,804
	<u>142,892</u>	<u>259,187</u>
Total current assets	142,892	259,187
Property and equipment, net	<u>641,332</u>	<u>630,850</u>
	<u>\$ 784,224</u>	<u>\$ 890,037</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Accounts payable - trade	\$ 11,909	\$ 6,080
Deferred revenue	-	109,429
Customer deposits	1,548	4,884
Accrued payroll and others	7,025	6,478
	<u>20,482</u>	<u>126,871</u>
Total current liabilities	20,482	126,871
Net Assets		
Invested in capital assets	641,332	630,850
Unrestricted	122,410	132,316
	<u>763,742</u>	<u>763,166</u>
Total net assets	<u>\$ 784,224</u>	<u>\$ 890,037</u>

See accompanying notes to financial statements

**PUBLIC TRANSPORTATION SYSTEM**  
 Statements of Revenues, Expenses and Changes in Net Assets  
 Years Ended September 30, 2012 and 2011

	2012	2011 (As restated) note 8
Operating revenues		
Charges for transportation services	\$ 122,892	\$ 133,249
Auto shop service income	111,345	93,211
Fuel, parts & accessories sales	81,272	19,419
Other sales	6,427	22,558
	<u>321,936</u>	<u>268,437</u>
Cost of sales	<u>342,488</u>	<u>278,826</u>
Gross margin	<u>(20,552)</u>	<u>(10,389)</u>
Selling, General and Administrative expenses		
Personnel services	151,253	148,139
Depreciation	16,402	20,711
Insurance	15,486	15,511
Utilities	10,124	5,818
Repair & maintenance	7,753	6,400
Office expense	7,564	5,891
Travel	6,955	1,575
Miscellaneous	4,433	3,238
	<u>219,970</u>	<u>207,283</u>
Loss from operations	<u>(240,522)</u>	<u>(217,672)</u>
Non-operating revenues:		
Yap State operating subsidy	241,048	339,373
Interest	50	39
	<u>241,098</u>	<u>339,412</u>
Changes in net assets	576	121,740
Net assets at beginning of year	763,166	611,693
Prior period adjustments	-	29,733
	<u>763,166</u>	<u>641,426</u>
Net assets at beginning of year, restated	763,166	641,426
Net assets at end of year	<u>\$ 763,742</u>	<u>\$ 763,166</u>

See accompanying notes to financial statements

**PUBLIC TRANSPORTATION SYSTEM**

Statements of Cash Flows

As of September 30, 2012 and 2011

	2012	2011 (As Restated) note 8
Cash flows from operating activities:		
Receipts from customers	\$ 433,612	\$ 362,667
Cash payments for goods and services	(286,803)	(248,865)
Cash payment to employees	(150,706)	(146,237)
Net cash used for operating activities	<u>(3,897)</u>	<u>(32,435)</u>
Cash flow from noncapital financing activities:		
Operating subsidy from Yap State Government	241,048	339,373
Other income/(expense)	109	-
Decrease in deferred revenue	(109,429)	(94,267)
Net cash from non-capital financing activities	<u>131,728</u>	<u>245,106</u>
Cash flow used for investing activities:		
Other Income	50	39
Acquisition of fixed assets	(141,261)	(214,175)
Net cash used for investing activities	<u>(141,211)</u>	<u>(214,136)</u>
Net decrease in cash	(13,380)	(1,465)
Cash, at beginning of the year	25,194	26,659
Cash, at the end of year	<u>\$ 11,814</u>	<u>\$ 25,194</u>
Reconciliation of operating loss to net cash used		
by operating activities		
Operating Loss	\$ (240,522)	\$ (217,672)
Adjustments to reconcile loss from operations to net		
cash used by operating activities		
Depreciation	130,670	118,872
Changes in assets and liabilities:		
Accounts receivable	5,583	(3,194)
Purchase order advance	109,429	95,109
Prepaid insurance	2,759	(2,635)
Inventory	(14,856)	(26,442)
Accounts payable	5,829	(690)
Customer deposits	(3,336)	2,315
Accrued expenses	547	1,902
Net cash used in operating activities	<u>\$ (3,897)</u>	<u>\$ (32,435)</u>

See accompanying notes to financial statements



# PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2012 and 2011

## (1) Organization

Public Transportation System (PTS), a component unit of the State of Yap, was created by Yap State Law (YSL) No. 1-170 and is responsible for providing reliable and inexpensive transportation to the general public based on established routes and fares. Other services provided by PTS include charter transportation by way of commercial leasing of PTS equipment and auto repair sales and services to individuals and organizations. PTS is governed by a five member Board of Directors appointed by the Governor, subject to the advice and consent of the Legislature. The State provides financial support to PTS through legislative appropriations.

## (2) Summary of Significant Accounting Policies

### Basis of Accounting

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

PTS adopted the provisions of GASB Statement No. 34 (*Basic Financial Statements – Management's Discussion and Analysis for State and Local Governments*). GASB 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting into four net asset categories:

(a) *Invested in capital assets, net of related debt* - Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

(b) *Nonexpendable* – Net assets subject to externally imposed stipulations that require PTS to maintain them permanently.

(c) *Expendable* – Net assets whose use by PTS is subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire by the passage of time.

## PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2012 and 2011

(d) *Unrestricted* – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

### New Accounting Standards

During the years ended September 30, 2012, PTS implemented the following pronouncements:

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Other Than Pension Plans*, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments increasingly enter into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012.

## PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2012 and 2011

Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PTS.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PTS.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PTS.

In April 2012, GASB issued Statement No. 66, *Technical Corrections – 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PTS.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions of Statement 67 are effective for periods beginning after June 15, 2013. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of PTS.

# PUBLIC TRANSPORTATION SYSTEM

Notes to Financial Statements

September 30, 2012 and 2011

## Cash

Cash includes cash on hand and cash on deposit in a bank account. All of the balances at September 30, 2012 and 2011 are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

## Inventory

Inventory is stated based on average cost and consists principally of spare parts for buses and the auto shop.

## Depreciation

Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Depreciation is recorded in the financial statements under the straight line method based on the estimated useful lives of the assets as follows:

Buildings	10 - 25	Years
Vehicles	4 - 7	Years
Shop Equipment	2 - 10	Years
Office Furniture and Equipment	3 - 10	Years

## Reclassification

Certain amounts from the prior year have been reclassified to conform to the 2012 presentation.

## Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 expenses during the reporting period. Actual results could differ from those estimates.

## Allowance for Doubtful Accounts

PTS establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends, and other information. Bad debts are written off against the allowance based on the direct identification method.

**PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements

September 30, 2012 and 2011

(3) Accounts Receivable

Outstanding balances from amounts due to PTS from various parties are detailed below:

	2012	2011
Current and former employees	\$ 145	\$ 546
Current and former board members	5,507	5,507
State departments and agencies	5,209	8,096
Other trade customers	<u>10,444</u>	<u>15,185</u>
	\$ 21,305	\$ 29,334
Less: Allowance for doubtful accounts	<u>(18,689)</u>	<u>(21,135)</u>
	<u>\$ 2,616</u>	<u>\$ 8,199</u>

(4) Property, Plant and Equipment

Property and equipment consist of the following at September 30, 2012 and 2011:

	Beginning balance Oct. 1, 2011	Transfers and Additions	Transfers and Disposals	Ending balance Sept. 30, 2012
Buildings	\$ 111,292	\$ 600	\$ --	\$ 111,892
Vehicles	1,382,402	139,465	--	1,521,867
Shop equipment	58,402	--	--	58,402
Office equipment	<u>90,296</u>	<u>1,196</u>	<u>(109)</u>	<u>91,383</u>
	1,642,392	141,261	(109)	1,783,544
Less: accumulated depreciation	<u>(1,011,542)</u>	<u>(130,670)</u>	<u>--</u>	<u>(1,142,212)</u>
	<u>\$ 630,850</u>	<u>\$ 10,591</u>	<u>\$ (109)</u>	<u>\$ 641,332</u>

**PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements

September 30, 2012 and 2011

(4) Property, Plant and Equipment (Cont'd)

	Beginning balance Oct. 1, 2010	Transfers and Additions	Transfers and Disposals	Ending balance Sept. 30, 2011
Buildings	\$ 109,805	\$ 1,487	\$ --	\$ 111,292
Vehicles	1,167,401	266,278	(51,277)	1,382,402
Shop equipment	55,130	3,272	--	58,402
Office equipment	88,541	1,755	--	90,296
	<u>1,420,877</u>	<u>272,792</u>	<u>(51,277)</u>	<u>1,642,392</u>
Less: accumulated depreciation	<u>(893,854)</u>	<u>(123,384)</u>	<u>5,696</u>	<u>(1,011,542)</u>
	<u>\$ 527,023</u>	<u>\$ 149,408</u>	<u>\$ (45,581)</u>	<u>\$ 630,850</u>

(5) Cost of sales

Details of cost of sales for the years ended September 30, 2012 and 2011 are as follows:

	2012	2011
Purchases	\$ 123,124	\$ 86,479
Depreciation	114,268	98,161
Fuel	84,962	77,807
Repairs	12,343	14,352
Inventory adjustments	<u>7,791</u>	<u>2,027</u>
	<u>\$ 342,488</u>	<u>\$ 278,826</u>

(6) Yap State Operating Subsidies

PTS received operating subsidies for the years ended September 30, 2012 and 2011 in the amount of \$103,347 and \$216,175, respectively, from the Yap State Government under which eligible expenditures could be reimbursed. The operating subsidies were funded by Compact Infrastructure Project and Education Sector grants.

Expenditures that were eligible for reimbursement for the years ended September 30, 2012 and 2011 were \$241,048 and \$339,373, respectively.

## **PUBLIC TRANSPORTATION SYSTEM**

Notes to Financial Statements

September 30, 2012 and 2011

### (7) Deferred Revenue

As of September 30, 2011, executed but unperformed purchase orders were \$109,429. This reflects an amount advanced to a supplier in connection with the acquisition of two buses which were not delivered until 2012. Accordingly, this was recorded in 2011 under purchase order advances. Deferred revenue reflects the corresponding amount of the future eligible expenditures which could be reimbursed through Yap State operating subsidies for the purchase of the buses.

### (8) Prior Period Adjustments

The accompanying financial statements for 2011 have been restated to correct a series of errors, which include \$51,277 of inventory improperly reflected as capitalized costs, \$5,695 of excess depreciation, and \$22,980 of liabilities recorded in 2010. The effect of the restatement on 2011 operations was to increase the loss by \$1,057.

### (9) Related Parties

In the ordinary course of business, PTS enters into transactions with private businesses and State agencies in which certain Board members and officers hold positions and other positions of influence with the State. Related party transactions for the years ended September 30, 2012 and 2011 were \$6,052 and \$6,053, respectively.

### (10) Risk management

PTS carries general liability insurance on its bus fleet and its passengers, but is self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

**PUBLIC TRANSPORTATION SYSTEM**

Schedule of Expenditures of Federal Awards

September 30, 2012 and 2011

	CFDA No./	Authorized	Beginning	Expenses	Cash	Ending			
	Grant No.		Deferred		Receipt	Deferred			
			Revenue			Balance			
Passed- Through:									
Education Sector Grant	15.875	\$ 75,173	\$ 5,441	\$ 5,441	\$ 0	\$ 0			
Compact Infrastructure Project	15.875	244,349	<u>103,988</u>	<u>235,607</u>	<u>131,619</u>	<u>0</u>			
All Federal Funding			\$ 109,429	\$ 241,048	\$ 131,619	\$ 0			

Note 1 The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.





# OFFICE OF THE STATE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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

To the Board of Directors of the  
Public Transportation System:

We have audited the financial statements of the Public Transportation System (PTS) for the years ended September 30, 2012 and 2011 and have issued our report thereon dated May 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the PTS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PTS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PTS's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct material misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of PTS's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

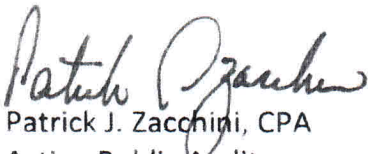
A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *Schedule of Findings and Responses* as Findings No. 1 and 2 to be significant deficiencies.



Compliance and Other Matters

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

This report is intended for the information of the Board of Directors and management of the Public Transportation System and others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Patrick J. Zacchini, CPA  
Acting Public Auditor

May 24, 2013

**PUBLIC TRANSPORTATION SYSTEM**

Schedule of Findings

Year Ended September 30, 2012

Finding No. 2012-1 – Collections of Accounts Receivable

Criteria: Accounts receivable represent amounts owed that arise from providing goods and services and are the legal rights of an entity for claims against customers. Accounts receivable balances are stated at net realizable value.

Condition: Adequate efforts to collect outstanding account balances are lacking. Nearly 80% of the Accounts Receivable balance is 90 days or more past due. Moreover, some \$14,000 of receivables has been outstanding for more than 5 years, including \$1,480 for a customer who passed away two years ago. Notwithstanding this, an allowance for doubtful accounts is recorded to reserve as uncollectible substantially all of these old balances.

Cause: PTS does not have formal written policies and procedures governing receivables collection and the presentation in the financial statements of accounts receivable.

Effect: Uncollected customer accounts with little or no activity for long periods of time are susceptible to misappropriation and financial statement manipulation.

Recommendation: To reduce the risk of fraud and improve cash flow, collection efforts should be intensified. If collection efforts prove ineffective, accounts should be written off.

Prior Years Status: The collectability and timely collection of receivables are issues we have continually called attention to, but have not been adequately addressed. These issues were raised nearly every year since 2006, to which that year management responded that this *“has been discussed with management and his staff and will be carried out as recommended.”*

Management responses to our subsequent audit reports for fiscal years ended 2007 through 2011 have been similarly worded:

*“This has been discussed with management. The Board is seeking ways to implement as recommended.”* (2007)

*“This has been discussed with management and his staff and will be carried out as recommended.”* (2008 & 2009)

*“Board has reviewed the issues, discussed with management and will be carried out as recommended.”* (2010)

*“Discussed with management and will be carried out as recommended.”* (2011)

## PUBLIC TRANSPORTATION SYSTEM

### Schedule of Findings

Year Ended September 30, 2012

#### Finding no. 2012-2 – Management Discussion and Analysis

Criteria: Generally accepted accounting principles (GAAP) require that Management's Discussion and Analysis (MD&A) be presented to supplement the basic financial statements. Though not a part of the basic financial statements, it is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Condition: PTS has failed to provide even the minimum information that is required for MD&A by the accounting principles and is, accordingly, not in compliance. The MD&A material provided has not contained sufficient information that could give the readers some idea concerning whether PTS is financially sound.

Cause: Because MD&A is considered to be supplemental information that is not part of the basic financial statements, management may not have considered this to be a high priority.

Effect: Accountability is the principal objective of governmental financial reporting. The failure to provide or a lack of adequate supplemental information fails to fulfill this responsibility of accountability. The financial statements by themselves may not provide a complete picture of the activities of PTS and could affect the decisions of stakeholders, including the Board of Directors and the leadership of the State Government, which presently subsidizes PTS' operations.

Recommendation: PTS' duty as a component unit of the State to be accountable requires that they provide financial information that is relevant to users and reliable. The information provided should also be understandable to reasonably knowledgeable users. Efforts to fulfill this responsibility should include more than one kind of financial information when a significant number of users legitimately need different kinds for different purposes. Accordingly, PTS should prepare the required MD&A that at a minimum includes the following:

1. A brief discussion of the basic financial statements, including the relationship of the statements to each other and the significant differences in the information they provide.
2. A brief write-up with regards to the comparison between the current year financial statements compared to the prior year.
3. An analysis of PTS' overall financial position and results of operations to assist users in assessing whether financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations.



## Public Transportation System

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### RESPONSES TO AUDITORS REPORT (Findings)

#### **Finding No. 1- Collections of Accounts Receivable.**

##### **Responses:**

As discussed in the exit meeting, these are the aged receivable that was recommended for write off. The management held on to the list due to several issues and attempt to collect. However, the Board has reviewed the issues, discussed with management and will be carried out as recommended.

#### **Finding No. 2- Management Discussion and Analysis**

##### **Responses:**

Board has reviewed the issues, discussed with management and will be carried out as recommended