

Public Transportation System

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

**Fiscal Years Ended
September 30, 2011 and 2010**



**Office of the Public Auditor
State of Yap
Federated States of Micronesia**

Public Transportation System

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Public Transportation System:

We have audited the accompanying statements of net assets of the Public Transportation System (PTS) as of September 30, 2011 and 2010, 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 PTS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit 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 provide 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, 2011 and 2010, and the respective 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 a report dated May 15, 2012, on our consideration of PTS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's discussion and analysis on page 3 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

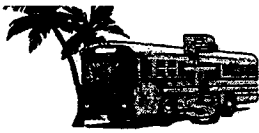
accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. As a result of such limited procedures, we believe that Management's Discussion and Analysis stipulated by Government Accounting Standards Board Statement No. 34 are not provided. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an assurance.

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.



Ronald C. Yow
Yap State Public Auditor

May 15, 2012



Public Transportation System

Yap State Government

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Management's Discussion and Analysis

September 30, 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, 2011. 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 and costly to operate.

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 service 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 2011.

PUBLIC TRANSPORTATION SYSTEM

Statements of Net Assets
For the Years Ended September 30, 2011 and 2010

ASSETS :	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 25,194	\$ 26,659
Trade receivables, net (note 2)	8,199	4,955
Purchase order advance	109,429	204,538
Prepaid expenses	15,561	12,926
Employee Cash Advance	-	50
Inventory	<u>49,527</u>	<u>74,362</u>
Total current assets	207,910	323,490
Property and equipment, net (note 3)	<u>676,431</u>	<u>527,023</u>
TOTAL ASSETS	\$ <u>884,341</u>	\$ <u>850,513</u>
LIABILITIES AND NET ASSETS :		
Current liabilities:		
Accounts payable - trade	\$ 7,851	\$ 6,770
Due to the State Government (note 4)	21,209	21,209
Deferred revenue	109,429	203,696
Customer deposits	4,884	2,569
Accrued payroll and others	<u>6,478</u>	<u>4,576</u>
Total current liabilities	149,851	238,820
Contingencies		
Net Assets		
Invested in capital assets	676,431	527,023
Unrestricted	<u>58,059</u>	<u>84,670</u>
Total net assets	<u>734,490</u>	<u>611,693</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>884,341</u>	\$ <u>850,513</u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues		
Charges for transportation services	\$ 131,685	\$ 135,473
Auto shop service income	93,211	70,510
Fuel, parts & accessories sales	35,077	21,060
Other sales	<u>10,583</u>	<u>11,416</u>
	270,556	238,459
Cost of sales	<u>80,725</u>	<u>62,199</u>
Gross margin	<u>189,831</u>	<u>176,260</u>
Operating expenses		
Personnel services	148,139	124,799
Fuel, oil and lubricants	82,182	62,826
Depreciation	123,384	72,662
Parts, supplies & materials	8,706	5,213
Repair and maintenance	16,377	18,532
Insurance	15,511	15,357
Miscellaneous	4,754	6,626
Utilities	5,818	8,198
Travel	<u>1,575</u>	<u>1,306</u>
	<u>406,446</u>	<u>315,519</u>
Loss from operations	(216,615)	(139,259)
Nonoperating revenues		
Yap State operating subsidy (note 6)	339,373	304,081
Interest	<u>39</u>	<u>101</u>
	<u>339,412</u>	<u>304,182</u>
Changes in net assets	122,797	164,923
Net assets at beginning of year	<u>611,693</u>	<u>446,770</u>
Net assets - end of year	\$ <u><u>734,490</u></u>	\$ <u><u>611,693</u></u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

Statements of Cash Flows
For the Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Receipts from customers	\$ 364,786	\$ 178,759
Cash payments for goods and services	(192,367)	(203,736)
Cash payments to employees	<u>(146,237)</u>	<u>(124,484)</u>
Net cash used for operating activities	26,182	(149,461)
Cash flows from noncapital financing activities		
Operating subsidy from Yap State Government	339,373	304,081
Recovery from bad debts		
Other Income	22	0
Increase/(decrease) in Due to State Government	0	12,150
Increase/(decrease) in Deferred Revenue	<u>(94,267)</u>	<u>53,424</u>
Net cash from non-capital financing activities	245,128	369,655
Cash flows used for investing activities		
Other Income	39	101
Acquisition of fixed assets	<u>(272,814)</u>	<u>(253,577)</u>
Net cash used for investing activities	(272,775)	(253,476)
Net increase/(decrease) in cash	(1,465)	(33,282)
Cash, beginning of year	<u>26,659</u>	<u>59,941</u>
Cash, end of year	<u>\$ 25,194</u>	<u>26,659</u>
Reconciliation of operating loss to net cash used for operating activities		
Operating Loss:	\$ (216,615)	(139,259)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	123,384	72,662
(Increase)/Decrease in assets		
Trade receivables, net	(3,244)	(2,374)
Purchase order advance	95,109	(54,265)
Employees receivables, net	50	(50)
Prepaid insurance	(2,635)	(154)
Inventory	24,835	(23,982)
Increase/(Decrease) in liabilities		
Accounts payable	1,081	656
Customer deposits	2,315	665
Accrued expenses	<u>1,902</u>	<u>(3,360)</u>
Net cash used in operating activities	<u>\$ 26,182</u>	<u>\$ (149,461)</u>

See accompanying notes to financial statements

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Prior to 1981, the Transportation and Construction Authority operated a transportation system with the assistance of the Yap Community Action Program. On October 29, 1981, a contract was executed by and between the Contractor, the Yap State governor and the Chairman of the Bus System Board of Directors whereby the Yap State government (State), through transfers from the General Fund, subsidized the operations. In fiscal year 1984, Yap State Law no. 1-170 established the Public Transportation System (PTS) as a component unit, an entity for which the government is financially accountable, to provide reliable and inexpensive transportation for those people living outside the Colonia area. PTS is not a legally separate entity from the State.

Basis of Accounting - PTS utilizes accounting principles generally accepted in the United States of America as is applicable to proprietary funds of governmental entities. Such funds are accounted for using the flow of economic resources measurement focus. Thus, revenues are recorded when earned and liabilities at the time expenses are incurred.

Accounting Standards – Government Accounting Standards Board (GASB) Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*” requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board 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.

Government Accounting Standards Board (GASB) Statement No.34 (*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*) established standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes 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.
- (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.

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

New Accounting Standards – During the years ended September 30, 2011 and 2010, PTS implemented the following pronouncements:

GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

GASB Statement No. 50, "*Pension Disclosures on Amendments of GASB Statement No. 25 and 27*". GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

GASB issued Statement No.51, "*Accounting and Financial Reporting for Intangible Assets*". GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB issued Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*". GASB Statement No.53 is intended to improve how the state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB issued Statement No. 59, "*Financial Instruments Omnibus*". GASB Statement No. 59 is intended to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this statement are effective for periods beginning after June 15, 2010.

Management does not believe that the adoption of these pronouncements had a material effect on the accompanying 2011 and 2010 financial statements.

Cash – For purposes of the balance sheet and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All of the balances at September 30, 2011 and 2010 are fully collateralized as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

Accounts Receivables – Over half of PTS's accounts receivables are with current and former employees and board members.

Inventory - Inventory is stated at specifically identified costs and consists primarily of spare parts for the buses and mechanics auto shop.

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Depreciation – Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. PTS capitalizes assets with an original cost value of more than \$300 and an estimated useful life of more than two years.

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

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.

2. TRADE RECEIVABLES

A summary of trade receivables at September 30, 2011 and 2010 is presented below:

	<u>2011</u>	<u>2010</u>
Current and former employees	\$ 546	\$ 32
Current and former board members	5,507	3,179
State departments and agencies	8,096	4,925
Other trade customers	15,185	16,859
	29,334	24,995
Less: Allowance for doubtful accounts	(21,135)	(20,040)
	\$ 8,199	\$ 4,955

3. PROPERTY & EQUIPMENT

A summary of property and equipment as of September 30, 2011 and 2010 follows:

	<u>Beginning balance October 1, 2010</u>	<u>Transfers And Additions</u>	<u>Transfers And Disposals</u>	<u>Ending balance September 30, 2011</u>
Buildings	\$ 109,805	\$ 1,487	--	\$ 111,292
Vehicles	1,167,401	266,278	--	1,433,679
Shop equipment	55,130	3,272	--	58,402
Office equipment	88,541	1,755	--	90,296
	1,420,877	272,792	--	1,693,669
Less accumulated depreciation	(893,854)	(123,384)	--	(1,017,238)
	\$ 527,023	\$ 149,408	\$ --	\$ 676,431

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2011 and 2010

3. PROPERTY & EQUIPMENT (cont.)

	<u>Beginning balance October 1, 2009</u>	<u>Transfers And Additions</u>	<u>Transfers And Disposals</u>	<u>Ending balance September 30, 2010</u>
Buildings	\$ 107,678	\$ 2,127	--	\$ 109,805
Vehicles	924,885	242,516	--	1,167,401
Shop equipment	53,843	1,287	--	55,130
Office equipment	80,894	7,647	--	88,541
	<u>1,167,300</u>	<u>253,577</u>	--	<u>1,420,877</u>
Less accumulated depreciation	<u>(821,193)</u>	<u>(72,661)</u>	--	<u>(893,854)</u>
	<u>\$ 346,107</u>	<u>\$ 180,916</u>	<u>\$ --</u>	<u>\$ 527,023</u>

4. DUE TO STATE GOVERNMENT

This represents unexpended prior years' appropriations, totaling \$21,209 as of September 30, 2011, that have lapsed but not yet returned to the State Government.

5. CONTINGENCIES

PTS does not hold title to the land or building in which it conducts current operations. Title to such property is held by the Yap State Government. No charges are assessed for the use of these facilities.

6. YAP STATE OPERATING SUBSIDIES

PTS received operating subsidies for the years ended September 30, 2011 and 2010 in the amount of \$216,175 and \$362,214, respectively, from the Yap State Government which was funded by Compact-CIP and Compact – Education Grants.

Grant expenditures for the year ended September 30, 2010 totaled \$339,373, comprising of \$78,398 and \$260,975 in expenditures against FY11 and FY10 grants. For the expenditures against FY10 grants, these represent bus purchases which were paid in FY10 but were received in FY11.

As of September 30, 2010, out of the total grant expenditures of \$304,081, \$101,239 was expended against FY10 grants and the remaining \$202,842 was expended against FY09 grants.

PUBLIC TRANSPORTATION SYSTEM

Notes To Financial Statements
September 30, 2011 and 2010

7. RELATED PARTY TRANSACTIONS

In the ordinary course of business, PTS enters into transactions with private businesses and State agencies in which certain board members hold positions of influence.

8. 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, 2011

Grantor/CFDA Grantor's Program Title	Federal CFDA #	Authorized	Beginning		Expenses	Cash Receipt	Ending Deferred Revenue
			Deferred Revenue	Revenue			
Amended Compact - Education Sector Grant	15.875	\$ 75,173	\$ 152,772	\$ 194,156	\$ 46,825	\$ 5,441	
Amended Compact - General Fund/CIP	15.875	141,002	50,924	145,217	198,281	103,988	
Total Federal awards expended			<u>\$ 203,696</u>	<u>\$ 339,373</u>	<u>\$ 245,106</u>	<u>\$ 109,429</u>	

Note (1)

The Education Sector Grant is passed through the FSM National Government to the State of Yap.

(2)

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



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

The Board of Directors of
Public Transportation System:

We have audited the financial statements of the Public Transportation System (PTS) as of and for the years then ended September 30, 2011 and 2010, and have issued our report thereon dated May 15, 2012. We conducted our audits 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 audits, we considered 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 PTS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PTS's internal control over financial reporting.

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. However, as described in the accompanying Schedule of Findings and status of prior year's findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

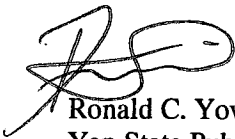
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiency, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings (page 15) to be a material weakness.

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 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 did not disclose any instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

PTS's responses to the findings identified in our audit are described in the accompanying Management Response to Findings. We do not audit PTS's response and, accordingly, we express no opinion on it.

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



Ronald C. Yow
Yap State Public Auditor

May 15, 2012

PUBLIC TRANSPORTATION SYSTEM

Schedule of Findings September 30, 2011

Finding No. 1 – Unresolved Prior Year Findings

Criteria: Policies and procedures for the immediate implementation and adoption of audit recommendations must be in place in order to strengthen controls over financial reporting and ensure full compliance with laws and regulations of the Yap State Government.

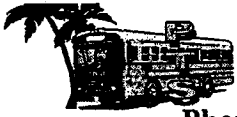
Condition: Out of the five findings cited in the prior years, three have been resolved and the remaining two are still recurring as of Sept. 30, 2011, to wit:

1. Untimely collection of receivables
2. Bus Collections

Cause: The Public Transportation System (PTS) did not have in place any adopted policies and procedures specifically designed to address and resolve audit findings.

Effect: Due to continuous failure to address the unresolved findings, PTS will remain susceptible of committing the same errors in succeeding years thus exposing them to possible material misstatements in the future.

Recommendation: We recommend that the PTS management develop applicable policies and procedures for the Board of Director's review and adoption and make certain that such approved policies and procedures are implemented and enforced to ensure realization of its purpose.



Public Transportation System

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RESPONSES TO AUDITORS REPORT (Findings)

Finding No. 1- Unresolved Prior Year Findings

Responses:

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