

**YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)
Financial Statements and
Independent Auditor's Report**

**Fiscal Years Ended
September 30, 2004 and 2003**



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

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

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Years Ended September 30, 2004 and 2003

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**OFFICE OF THE PUBLIC AUDITOR
STATE OF YAP**

FEDERATED STATES OF MICRONESIA

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Yap Community Action Program


I have audited the accompanying statements of financial position of Yap Community Action Program (YCAP) as of September 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the YCAP's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits 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 I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the YCAP's internal control over financial reporting. Accordingly, I do not express such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Yap Community Action Program as of September 30, 2004 and 2003, and the results of its operations, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of YCAP's management. Such information has been subjected to the auditing procedures applied in my audits of the financial statements referred to in the first paragraph and, in my opinion, is fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued a report dated March 23, 2005 on my consideration of the YCAP's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the results of my audits.


Gertrude Gootinan
Yap State Public Auditor

March 23, 2005 .

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Statements of Financial Position
September 30, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>
Current Assets		
Cash, unrestricted	\$ 756,104	\$ 727,290
Cash, restricted	656,140	521,357
Short-term investment	500,000	500,000
Receivables		
Travel advance	2,598	1,884
Employee and other receivables	3,208	3,285
Loans receivables, net, current portion (note 2)	140,341	178,592
Accrued Interest receivables - Loans, net (note 2)	1,871	0
Accrued Interest receivables - TCD	688	1,668
	<hr/>	<hr/>
Total Current Assets	2,060,949	1,934,076
Property and equipment, net (note 3)	44,754	57,897
Long-term portion of loans receivables (note 2)	345,554	324,541
TOTAL ASSETS	\$ <u>2,451,258</u>	\$ <u>2,316,514</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	19,901	12,921
Accrued expenses	12,619	8,326
Accrued annual leave	7,572	8,365
Due to grantors (note 4)	102,639	102,639
	<hr/>	<hr/>
Total liabilities	142,731	132,251
Contingencies and commitments (notes 5 and 6)		
Net assets		
Unrestricted	\$ 14,199	\$ (3,846)
Temporarily - restricted	373,933	367,520
Permanently - restricted	1,920,395	1,820,589
	<hr/>	<hr/>
Total net assets	2,308,527	2,184,263
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>2,451,258</u>	\$ <u>2,316,514</u>

See accompanying notes to financial statements.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Statements of Activities
Years Ended September 30, 2004 and 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				2004	2003
REVENUES, GAINS, AND OTHER SUPPORT (NOTE 5)					
Grants and contracts	\$ 1,600	\$ 264,849	\$	\$ 266,449	\$ 230,254
Interest			49,827	49,827	52,051
Other income	32,103			32,103	16,022
Net assets released from restriction				-	
Satisfaction of program restriction	<u>255,238</u>	<u>(255,238)</u>		<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>288,941</u>	<u>9,611</u>	<u>49,827</u>	<u>348,379</u>	<u>298,327</u>
EXPENSES AND LOSSES:					
Program services					
Federal and Compact programs	3,213	1,599		4,812	43,706
Other nonprofit and local programs	52,535			52,535	8,008
Management and general					
Salaries and fringe benefits	149,707			149,707	149,437
Contractual services	18,755			18,755	23,105
Repair & maintenance	1,868			1,868	5,173
Supplies and materials	3,820			3,820	19,656
Utilities	-			-	4,582
Office miscellaneous	2,741			2,741	9,351
Other costs	14,781			14,781	
Travel	3,878			3,878	6,609
Fuel	-			-	2,539
Communications	3,941			3,941	5,021
Other costs - CAP admin	15,658			15,658	
Depreciation expenses			13,143	13,143	9,061
Bad debt expense					
Total expenses and losses	<u>270,896</u>	<u>1,599</u>	<u>13,143</u>	<u>285,638</u>	<u>286,248</u>
Other changes in net assets					
Acquisition of property and equipment					
Grant funds disbursed as housing loans		(1,599)	1,599	-	
Recovery of bad debt			61,523	61,523	57,535
Loss on asset disposal				-	(3,007)
Change in net assets	18,045	6,413	99,806	124,264	66,607
Net assets at beginning of year	<u>(3,846)</u>	<u>367,520</u>	<u>1,820,589</u>	<u>2,184,263</u>	<u>2,117,656</u>
Net assets at end of year	\$ <u>14,199</u>	\$ <u>373,933</u>	\$ <u>1,920,395</u>	\$ <u>2,308,527</u>	\$ <u>2,184,263</u>

See accompanying notes to financial statements.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Statements of Cash Flows
September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Receipts from operating activities	\$ 10,226	\$ 6,004
Cash received from other revenue and support	267,567	240,272
Cash payments for goods and services	(116,446)	(121,738)
Cash payments to employees	(146,208)	(150,261)
Net cash provided by (used for) operating activities	15,139	(25,723)
 Cash flows from lending activities		
Principal and interest payments received	206,231	186,618
Housing loans disbursed	(78,533)	(130,237)
Net cash provided by lending activities	127,698	56,381
 Cash flows from investing activities		
Purchase of time-deposit certificates	(134,783)	(66,057)
Acquisition of fixed assets	-	(48,113)
Interest income on short-term investment	20,760	-
Net cash used for investing activities	(114,023)	(114,170)
 Cash, beginning of year	727,290	810,802
 Cash, end of year	\$ 756,104	\$ 727,290
 Reconciliation of operating loss to net cash used for operating activities:		
Changes in net assets	\$ 124,264	\$ 66,607
Adjustments to reconcile changes in net asset to net cash used for operating activities		
Loan interest income	(44,591)	(52,051)
Interest income on savings accounts	(5,235)	-
Interest income on short-term investment	(20,760)	9,061
Depreciation	13,143	(57,535)
Recovery of bad debts	(61,523)	3,007
(Increase)/decrease in assets		
Travel advance	(714)	3,586
Employee receivables	76	(738)
Increase/(decrease) in liabilities		
Accounts payable	6,980	3,164
Accrued expenses	4,292	(1,614)
Annual leave	(793)	790
Net cash used for operating activities	\$ 15,139	\$ (25,723)
 Supplemental disclosures of noncash transactions:	\$ -	\$ -

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Schedule of Expenditures of Federal Awards
September 30, 2004

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA No.</u>	<u>2004 Expenditures</u>
Amended Compact of Free Association		
Environmental Sector Grant		
Yap Community Action Program	15.875	\$ 67,937
<i>(Passed through FSM National Government and Yap State)</i>		
 Compact of Free Association		
Section 212 Special Development		
Yap Community Development Program	15.875	3,213
<i>(Passed through FSM National Government and Yap State)</i>		
 USDA Rural Development		
Rural Housing		
Housing Preservation Grant	10.433	<u>1,599</u>
<i>(Through Yap Rural Development Office)</i>		
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u>\$ 72,749</u>

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Notes to Financial Statements
Fiscal Years Ended September 30, 2004 and 2003

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity - The Yap Community Action Program (YCAP) is a nonprofit organization created in fiscal year 1968 by the Trust Territory Government. By virtue of the extent of control exercisable by the State of Yap, YCAP is considered a component unit of the State. An eight-member Board of Directors governs YCAP; the Governor appoints two members from his cabinet and one each from the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. The mission of YCAP is to "operate and support programs aimed at environmental and cultural preservation and other sustainable economic and social development programs in pursuit of self-reliance for Yap citizens."

Adoption of Accounting Standards: YCAP has adopted the provisions of Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made" (SFAS 116), Statement of Financial Accounting Standards No. 117, "Financial Statements for Not-for-Profit Organizations" and SFAS 124 "Accounting for Certain Investments held by Not-for-Profit Organizations." SFAS 116 establishes standards for accounting for contributions. SFAS 117 establishes broad standards for reporting information in financial statements issued by not-for-profit organizations and requires those organization's financial position and activities to be reported in three classes of net assets: unrestricted, temporarily-restricted and permanently-restricted. SFAS 124 requires certain investments to be carried at market value.

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

Unrestricted
Temporarily restricted
Permanently restricted

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

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

Net assets were released from restrictions due to satisfaction of donor-imposed restrictions in the amount of \$255,238 and \$258,366 for the years ended September 30, 2004 and 2003, respectively.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Notes to Financial Statements
Fiscal Years Ended September 30, 2004 and 2003

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

Cash and Equivalents - Cash includes cash on hand as well as cash in various bank accounts and time certificates of deposits with an initial maturity date of 90 days or less. All of the Company's bank accounts and certificates of deposits for fiscal year 2004 and 2003 are with a federally insured bank, approximately \$100,000 of which is subject to coverage by federal insurance with the remaining balance exceeding insurable limits. Restricted cash represents cash restricted for the revolving housing loan programs.

Short-Term Investments - Short-term investments represent time deposits with initial maturity date greater than 90 days but not more than one year. YCAP's short-term investment at September 30, 2004 represents a renewed one-year deposit agreement with the Yap Cooperative Association (YCA), a local importer/retailer, with a maturity date of September 12th, 2005. The deposit earns interest at 5%, but such interest will be forfeited if funds are withdrawn prior to the maturity date. In addition, withdrawals made within the first three months of the deposit are subject to a 1% penalty on the amount drawn. The deposit is collateralized by YCA assets and property.

Property and Equipment - 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:

Office furniture, fixtures, & equipment	3-10 years
Vehicles	4-6 years
Other equipment	4-25 years
Building	25 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 disclosure 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.

Reclassifications - Certain reclassifications have been made to the fiscal year 2003 balances and amounts in order to conform to the fiscal year 2004 presentation.

**YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)**

Notes to Financial Statements
Fiscal Years Ended September 30, 2004 and 2003

2. LOANS RECEIVABLE

Details of receivables under the housing loan program are presented below:

	<u>2004</u>	<u>2003</u>
Community Development Block Grant Loans	\$ 642,075	\$ 696,863
Yap State Legislature Loans	654,704	669,667
Yap State Housing Authority Loans	189,052	190,372
Housing Preservation Grant Loans	<u>6,384</u>	<u>12,400</u>
	1,492,215	1,569,302
Add: Accrued interest	<u>135,611</u>	<u>121,117</u>
Total loan principal and interest	1,627,827	1,690,419
Less: Allowance for doubtful loans and interest	<u>(1,140,062)</u>	<u>(1,187,286)</u>
Loans receivable, net	487,765	503,133
Less: Current portion	<u>(142,212)</u>	<u>(178,592)</u>
Long-term portion	<u>\$ 345,554</u>	<u>\$ 324,541</u>

3. PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 2004 and 2003 is as follows:

	Beginning Balance October 1, 2003	Transfers And Additions	Transfers And Disposal	Ending Balance September 30, 2004
Vehicles	\$ 141,266	\$	\$	\$ 141,266
Office furniture & equipments	49,516			49,516
Other assets	<u>12,652</u>			<u>12,652</u>
	203,434	-0-	-0-	203,434
Less:				
Accumulated Depreciation	<u>(145,537)</u>			<u>(158,680)</u>
Total	<u>\$ 57,897</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 44,754</u>

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Notes to Financial Statements
Fiscal Years Ended September 30, 2004 and 2003

PROPERTY AND EQUIPMENT (CONT.)

	Beginning Balance October 1, 2002	Transfers And Additions	Transfers And Disposal	Ending Balance September 30, 2003
Vehicles	\$ 125,923	\$ 31,293	\$ (15,950)	\$ 141,266
Office furniture & equipments	46,707	12,409	(9,600)	49,516
Other assets	8,686	4,410	(444)	12,652
	<u>181,316</u>	<u>48,112</u>	<u>(25,994)</u>	<u>203,434</u>
Less:				
Accumulated Depreciation	<u>(159,462)</u>	<u>(9,061)</u>	<u>22,987</u>	<u>(145,537)</u>
Total	<u>\$ 21,854</u>	<u>\$ 39,051</u>	<u>\$ (3,007)</u>	<u>\$ 57,897</u>

4. DUE TO GRANTORS

Amount due to grantors represent unexpended balances from expired grants from the prior years. The amount is classified by funding source as follows:

	<u>2004</u>	<u>2003</u>
U.S. Federal grants	\$ 40,307	\$ 40,307
State Legislature grants	31,251	31,251
Other private grants	31,081	31,081
	<u>\$ 102,639</u>	<u>\$ 102,639</u>

5. NET ASSETS

The components of ending net assets are presented below:

	<u>2004</u>	<u>2003</u>
Unrestricted net assets		
CAP Admin	\$ 116,235	\$ 99,790
Miscellaneous	(103,636)	(103,636)
YCAP Indirect	1,600	0
Subtotal	<u>14,199</u>	<u>(3,846)</u>
Temporarily-restricted net assets		
YSL CAP	714	0
CFSM Matching Funds	28,284	28,284
Housing Preservation Grants	17,200	18,799
Yap State Legislature matching funds	14,203	15,802

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Notes to Financial Statements
Fiscal Years Ended September 30, 2004 and 2003

Australian matching	38,500	38,500
Senior Grant	17,846	17,846
Office miscellaneous	58,687	51,202
Rare project	239	239
Wottegai Seawall	475	475
Wacholab	471	471
Rumung water catchment	9,300	9,300
Tagreng/Bileyuw project	1,441	1,441
Yap community development program	163,659	166,872
Agriculture & Forestry Fire Project	709	709
MRMD Reef project	2,056	2,056
CFSM Kaday youth project	152	152
CFSM Dalipebinau recreation project	3,992	4,171
YESC	6,300	2,017
Seacology	1,338	7,630
YBSAP	1,310	985
Sudal	1,492	0
TNC Computer Training	1,167	567
Waterwatch	319	0
Pacific Diabetes	4,080	0
Subtotal	373,933	367,520
Permanently restricted net assets		
HPG revolving loan fund	88,712	84,966
CDBG revolving loan fund	845,595	782,972
YSHA revolving loan fund	91,900	110,583
YSL revolving loan fund	849,166	783,904
CFSM capital assets	8,301	11,419
YSL capital assets	13,322	18,132
Housing capital assets	23,398	28,614
Subtotal	1,920,395	1,820,589
	\$ 2,308,527	\$ 2,184,263

6. COMMITMENTS

As of September 30, 2004 and 2003, housing loans are granted, but are undisbursed in the amount of \$255,500 and \$94,665, respectively. Funding for projects under the Yap Community Development Program are approved but not disbursed in the amount of \$92,336 and \$95,549 as of September 30, 2004 and 2003, respectively.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Notes to Financial Statements
Fiscal Years Ended September 30, 2004 and 2003

7. RELATED PARTY TRANSACTIONS

Employees and directors of YCAP or their immediate family members owed \$80,544 and \$87,182 of the loan receivables outstanding at September 30, 2004 and 2003, respectively.

8. GRANTS AND CONTRACTS

During the year ended September 30, 2004 and 2003, YCAP received \$197,463 and \$207,050, respectively, in operating subsidies from the Yap State Legislature. \$67,937 of the amount received from the State of Yap General Fund for the year ended September 30, 2004 was originally requested by YCAP under the Amended Compact Environmental Sector Grant funds. Due to the delay in the availability of funding under the Amended Compact for FY04, State of Yap General Fund monies were expended for programs budgeted for Compact II funding. Upon the availability of Compact funds, \$67,937 of the \$197,463 disbursed by the State of Yap to YCAP, was subsequently reimbursed to the State from the Environmental Sector Grant funds under the Amended Compact. The \$67,937, is therefore, reflected as federal grant expenditures in the accompanying Schedule of Expenditures of Federal Awards.

9. SUBSEQUENT EVENTS

On October 10, 2004, YCAP deposited \$400,000 with the AYUW Credit Services under the terms of a deposit agreement. The deposit has a maturity date of October 10, 2005 and earns interest at 5%, but such interest would be forfeited if funds are withdrawn prior to the maturity date. Moreover, withdrawals made within the first three months of the deposit are subject to a 1% penalty on the amount drawn. The deposit is collateralized by AYUW Credit Services property and assets. AYUW Credit Services is a non-federally insured credit union, affiliated with Pacific Savings Bank in Koror, Republic of Palau, and offers a wide range of financial services to the general public.

On the 14th of October 2004, YCAP purchased a mini truck for \$6,950.00.



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

To the Board of Directors of
Yap Community Action Program:

I have audited the financial statements of Yap Community Action Program (YCAP) as of September 30, 2004 and 2003, and for the years then ended, and have issued my report thereon dated March 23, 2005. I conducted my audits in accordance with auditing standards generally accepted in the United States 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 my audit, I considered YCAP's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect YCAP's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

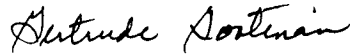
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of 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, I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. But I did note certain matters involving the internal control over financial reporting which I have reported to management of YCAP and are presented in the Schedule of Findings as Findings No. 1, 3, 4, and 5.

Compliance

As part of obtaining reasonable assurance about whether the YCAP's financial statements are free of material misstatement, I 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 my audit and accordingly, I do not express such an

opinion. The results of my tests disclosed an instance of noncompliance that is reported to management in the Schedule of Findings as Findings No. 2.

This report is intended for the information of the Board of Directors and management of YCAP, granting agencies, pass-through entities, and the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, therefore, its distribution is not limited.



Gertrude Gootinan
Yap State Public Auditor

March 23, 2005

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Schedule of Findings
September 30, 2004

FINDING NO. 1 – LOANS RECEIVABLES

Criteria: Every effort should be made to collect on past due accounts.

Condition: Loan balances aggregating \$721,434 for thirty-six borrowers were reviewed in fiscal year 2004. Twenty (20) borrowers with balances totaling \$409,662 were current with their payments. Sixteen (16) borrowers with total balances of \$311,772 were either making insufficient payment to cover interest and principal or had ceased payments resulting in their loan balances being fully reserved as uncollectable. Our analysis of the \$311,772 reserved as uncollectible showed that 31% of the borrowers were either off-island or were deceased and 69% were borrowers who were on island and gainfully employed, while the rest were related-party borrowers. The Executive Director was of the opinion that the loan officer was doing his best to collect from these groups of borrowers.

Loan balances that were reserved as uncollectible were mostly loans issued prior to 1998. Such loans were poorly documented. They were not secured by mortgages and there were no guarantee on payments. However, we believe that YCAP should exhaust all possible means reasonable to collect these outstanding balances.

Cause: YCAP had not been actively pursuing the 69% of borrowers who were currently employed and should be able to resume payments. Moreover, certain borrowers who were making small amounts of payments were not required to increase payments to cover interest and principal balances due.

Effect: Borrowers who were making inadequate payments to cover their interests and principal due only paid a total of \$1,809 or the period of October 2004 to January 2005. Consequently, allowance for uncollectible increased by 65% in fiscal year 2004.

Recommendation: I recommend that YCAP's efforts to collect delinquent loans be targeted to borrowers who are currently employed. Efforts should also be directed to encourage those who are currently paying to increase their payments enough to cover interest and principal balances due.

RESPONSE: *The agency agrees with this finding. We will step up our collection efforts through personal contacts with the borrowers including calling in problematic ones to meet with the board. We intend to begin sending out loan statements to all borrowers starting the end of FY 05 and if successful we will increase the frequency to two or four times a year. Starting in FY '06 we will focus more or give priority to delinquent borrowers who are gainfully employed. Deputy Director and Housing Loan Officer will be the lead personnel to ensure that recommended activities are carried out.*

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Schedule of Findings
September 30, 2004

FINDING NO. 2 – UNTIMELY CLOSURE AND FORFEITURE OF LOANS

Criteria: Policy number PP-100 of the Housing Loan Program Procedure and the revised Policy number PP-200 of the Housing Preservation Grant state that “Loan Officer shall ensure that the funds left over after the completion of each project’s scope of works be reverted to the Housing Loan Fund and that such reverted fund be immediately deducted from the project loan principal” and also require that loans shall be cancelled if no disbursement of the loan has been made three (3) months after the loan has been approved.

Condition: Our review of loan receivables for the year ending September 30, 2004 found that \$255,500 in loans had not been disbursed. Of the total undisbursed loan fund, \$6,477 was the total remaining from housing projects that have been completed. Such loans were closed in January 2005. Another housing loan of \$30,000 was approved in May 2002 but no disbursement had been made toward the project.

Cause: Policies in place were not enforced because YCAP loan officers did not ensure that the unused portion of loans for projects that were completed be immediately applied against the loan balances. The Executive Director granted extensions of grace periods when loan applicants submitted written justification for construction delays.

Effect: Lack of enforcement of policies for the Housing Loan Programs increases the risk of non-compliance.

Recommendation: I recommend that Loan Officers follow up on the Inspectors’ progress reports to ensure that upon completion of each housing project, the necessary documents be made immediately to close out the loan. Furthermore, YCAP Management and the Board of Directors should add additional guidelines to Section XVI in the Housing Loan Policies to provide discretion to the Executive Director to waive or extend the grace period based on formal request by applicant.

RESPONSE: *While the agency does not agree fully with the finding it agrees wholly with the recommendation. We will appropriately amend the Housing Loan Policy to allow for the extension of the loan grace period and also allow for use of loaned fund, beyond the original approved scope of the loan, for improvements or project enhancement related expenses by either the Executive Director or the Board. The Executive Director will be responsible for drafting the amendments to the policy for Board’s review and approval before the end of FY ‘06.*

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FINDING NO. 3 – EMPLOYEE RECEIVABLES

Criteria: Proper internal controls should require that receivables are collected on a timely manner.

Condition: During our review of receivables, we found that a total of \$3,180 in employee receivables was still outstanding at September 30, 2004. Of the total employee receivables, \$504 was total charges made to YCAP's credit card and \$2,676 was long-distance calls made by employees.

Cause: YCAP did not have policies in place to ensure timely collection of employee receivables.

Effect: Since YCAP settled all charges to its accounts, employees did not make the effort to pay what was owed to YCAP. Such practice increases the risk of YCAP paying for unallowable expenses.

Recommendation: I recommend that the Executive Director require immediate payment of personal expenses charged to YCAP's accounts. The Executive Director should require his prior approval of all charges to YCAP's account in order to assess each employee's ability to settle the charges to YCAP's account. Furthermore, payment schedule should be made for those employees with outstanding balances.

RESPONSE: *The agency agrees with this finding and its recommendation. The Executive Director will develop policies on employees' receivables requiring prior authorization and immediate payments by affected employees for review and approval by the Board. A payment schedule will also be developed for those employees and board members owing money to the agency for all receivable accounts to be cleared by the end of FY '06. The Executive Director will take responsibility for ensuring that these activities are carried out.*

FINDING NO. 4 – TIMELY RECONCILIATION OF ACCOUNTS

Criteria: The Fiscal Procedures Agreement under the Amended Compact requires timely and accurate financial reports of the use of Compact Funds. YCAP's primary source of funding may be a sector grant under the Amended Compact.

Condition: A finding on the untimely reconciliation of the general ledger was raised in our audit for year ending September 30, 2003 and had been discussed with YCAP Management and the Board of Directors. The Executive Director and the Board of Directors wanted this finding resolved in time for audit of fiscal year ending September 30, 2004. Our audit procedures started before the audit report for FY03 was final and was distributed.

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FINDING NO. 4 – TIMELY RECONCILIATION OF ACCOUNTS (CONT.)

Cause: The accounting staff did not have a regular schedule for maintaining the general ledger to ensure that within a reasonable timeframe after the end of the fiscal period, a final trial balance and supporting schedule was available to audit. In addition, the accounting staff was depending on the audit adjustments to correct his general ledger balances.

Effect: After May 2005, YCAP accounting staff was still reconciling and correcting material errors in the general ledger and revising estimates for presentation in the financial statements and disclosures in the notes.

Recommendation: The Executive Director should require the accounting staff to develop a daily, weekly, monthly, and year-end schedule to ensure that financial transactions are posted, reviewed and reconciled on a regular basis in order for YCAP to meet the reporting deadlines imposed by the Amended Compact. An automated accounting program would make the posting, reviewing and reconciliation of accounts more efficient.

Prior Year Status: This finding was cited in the audit report for YCAP for the year ended September 30, 2003.

RESPONSE: *The position of the agency on this particular finding is somewhat mixed. We believe that we have now everything in place to be able to meet the reporting requirements of the compact as well as produce the agency's financial statement at the end of each FY. However, instead of contesting the finding, we are agreeing to it mainly to test out our internal processes and procedures for FY '05. The Fiscal Officer will be responsible for ensuring that all accounts are fully reconciled not more than 30 days after the end of the current FY. The agency's financial statement will be produced and made available to those needing the report within 60 days after the end of each FY.*

FINDING NO. 5 – OUTSTANDING TRAVEL ADVANCE

Criteria: YCAP's travel policies require that expense vouchers should be filed within 10 days after completion of trips.

Condition: A travel advance of \$1,884 made in August 24, 2002 was still outstanding at September 30, 2004. During our FY03 audit, we found that the traveler was employed by the agency that passed the Coral Reef Project Funds to YCAP for administration. Discussions with YCAP personnel found that the traveler costs from the Coral Reef Project funds even though his trip was unrelated to the Coral Reef Project. He promised to reimburse the Coral Reef Project (and YCAP) after his sponsors had reimbursed him

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FINDING NO. 5 – OUTSTANDING TRAVEL ADVANCE (CONT.)

for the costs of his travel. Since August of 2002 until the present, YCAP had written several memos to the traveler asking him to refund the amount advanced but without much success. As per discussion with the Executive Director, a letter dated May 23, 2005 was sent to the traveler to file the needed voucher and submit to YCAP with the reimbursement amount of \$1,884.

Cause: The Coral Reef Project was one of the grants for which YCAP was cited in its audit for fiscal year 2002. The project funds were transferred to YCAP, but spending authority was retained by the transferring agency. Accordingly, YCAP virtually had no authority to refuse payment of questionable transactions and couldn't effectively collect receivables related to the grant.

Effect: With the above causes, it is unlikely that YCAP will collect the above travel advance.

Recommendation: We recommend that YCAP should fully reserve the amount of the advance as doubtful and then seek legal advice on how best to collect the amount from the traveler.

Prior Year Status: This finding was cited in the audit report for YCAP for the year ended September 30, 2003.

RESPONSE: *The agency agrees with this finding and recommendation. Between the times the last audit report was released and now, we have issued notice letters to the traveler and even met with the AG regarding the case and possible involvement of the AG's office in collecting the amount owed by the traveler. The AG's advice is for the agency to work out a repayment schedule with the traveler and if the case continues to be problematic to refer it to Small Claims Court. The Deputy Director will be responsible for attempting to secure a repayment schedule with the traveler and if that does not work, to refer the case to Small Claims Court for legal proceedings. We will reserve the amount as doubtful to be written off against the grant itself if collection efforts fail by the end of third quarter in FY '06.*