

**YAP COMMUNITY ACTION PROGRAM  
(A NONPROFIT CORPORATION)**

**Financial Statements and  
Independent Auditor's Report  
September 30, 2006 and 2005**



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# OFFICE OF THE STATE PUBLIC AUDITOR

YAP STATE GOVERNMENT

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## EXECUTIVE SUMMARY

### Financial Audit of the Yap Community Action Program For the Years ended September 30, 2006 and 2005

The Office of the Yap State Public Auditor has issued its audit report on the audit of the financial statements of the Yap Community Action Program for the years ended September 30, 2006 and 2005 which report is dated October 29, 2007. The Independent Auditor's Report on page 1 gives an "unqualified opinion" on the financial statements, meaning that, in the auditor's opinion, the financial statements presented on pages 2 through 4 are fairly presented in accordance with accounting principles generally accepted in the United States of America.

The Schedule of Expenditures of Federal Awards on page 5 shows that for the years ended September 30, 2006 and 2005, Yap CAP expended \$60,382 and \$206,183, respectively in Compact and other federal financial assistance.

The report on internal control over financial reporting and compliance and other matters required by Government Auditing Standards on page 13 discusses reportable conditions at Yap CAP. These conditions and our recommendations are presented for the information of Yap CAP's management in the Schedule of Findings beginning on page 14. Of the six findings, five are related to inadequate controls while one pertains to noncompliance with laws and regulations. Three of the six findings are repeated from the prior years.


Following is a summary of the audit findings for the year ended September 30, 2006:

- (1) Finding No. 1 cites Yap CAP for inadequate documentation of compliance with federal competitive procurement requirements.
- (2) Finding No. 2 and 4 relates to improper recording of grant expenditures. Finding No. 2 relates to funds advanced to a vendor which were expensed before the receipt of goods. Finding No. 4 relates to the procedures for accruing and recording cashed vacation leave hours which immaterially misstated grant expenditures.
- (3) Finding No. 3 relates to a cost of living allowance of \$35 per employee each pay period during fiscal year 2006 and continuing into fiscal year 2007. The finding notes that Yap CAP relies on annual operating subsidy from the State Government; therefore, the agency should exercise the same fiscal restraints as the primary government which is currently under a salary freeze.
- (4) Finding No. 5 discusses the need for Yap CAP to utilize accounting software to make its bookkeeping and accounting more efficient and its financial reports more reliable.
- (5) Finding No. 6 relates to improper calculation of loan interest which results in the overcharging of interests to borrowers whose housing loans are disbursed over a longer period of time. Because Yap CAP charges loan interest based on each authorized loan amount less payments, Yap CAP occasionally charges interest on funds still earning interest in Yap CAP's bank accounts. The

correct balance to be used for calculating loan interest should be based on funds actually disbursed on behalf of borrowers.

We have met and reviewed the draft report and related findings with the Board of Directors, the Executive Director, and selected staff members and they agreed with our findings and recommendations. Management has prepared written responses which are presented along with the findings in the Schedule of Findings beginning on page 14.

I would like to thank the Board of Directors, the management and staff of the Yap Community Action Program for their assistance and cooperation.



Gertrude Gootinan  
Yap State Public Auditor  
November 14, 2007

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

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors of  
Yap Community Action Program:

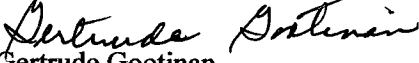
I have audited the accompanying statements of financial position of Yap Community Action Program (Yap CAP) as of September 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Yap CAP's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted the 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. 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 Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, 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 Yap CAP'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 October 29, 2007 on my consideration of the Yap CAP'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

October 29, 2007

**YAP COMMUNITY ACTION PROGRAM**  
(A NONPROFIT CORPORATION)

Statements of Financial Position  
September 30, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
Current Assets		
Cash, unrestricted	\$ 234,339	\$ 326,131
Cash, restricted	770,821	747,864
Short term investment	900,000	900,000
Loans receivable, current portion (note 3)	206,673	176,997
Grants receivable (note 2)	55,901	0
Interest receivable (note 3)	7,056	7,056
Prepaid expense	3,681	9,310
Travel advance and other receivable	<u>2,063</u>	<u>4,486</u>
Total current assets	2,180,534	2,171,844
Long-term portion of loans receivable (note 3)	405,898	391,561
Property and equipment, net (note 4)	82,774	50,055
TOTAL ASSETS	<u>\$ 2,669,206</u>	<u>\$ 2,613,460</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 20,717	\$ 11,274
Accrued expenses	15,100	13,372
Accrued annual leave	8,290	8,583
Due to Yap State Treasury (note 9)	1,425	18,351
Due to other grantors (note 5)	<u>102,639</u>	<u>102,639</u>
Total current liabilities	148,171	154,219
Commitments and contingencies		
Net assets:		
Unrestricted	17,329	54,753
Temporarily-restricted	338,042	377,855
Permanently-restricted	<u>2,165,664</u>	<u>2,026,633</u>
Total net assets	<u>2,521,035</u>	<u>2,459,241</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,669,206</u>	<u>\$ 2,613,460</u>

See accompanying notes to financial statements

**YAP COMMUNITY ACTION PROGRAM**  
(A NONPROFIT CORPORATION)

Statements of Activities  
For the Years Ended September 30, 2006 and 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2006	2005
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>					
Grants and contracts	\$	\$ 218,926	\$	\$ 218,926	\$ 214,524
Interest	47,500		68,545	116,045	97,556
Other income	3,951	10,887		14,838	33,288
Net assets released from restriction				-	-
Satisfaction of program restriction	232,306	(232,306)		-	-
<b>Total revenues, gains, and other support</b>	<b>283,757</b>	<b>(2,493)</b>	<b>68,545</b>	<b>349,809</b>	<b>345,368</b>
<b>EXPENSES AND LOSSES</b>					
Program services					
Federal and Compact programs	23,808	2,479		26,287	12,144
Other nonprofit and local programs	16,871			16,871	13,477
Management and general					
Salaries and fringe benefits	156,719			156,719	146,089
Contractual services	25,685			25,685	16,608
Depreciation expenses	-		21,394	21,394	14,286
Miscellaneous (note 10)	21,132			21,132	13,738
Supplies and materials	17,450			17,450	7,799
Travel	12,675			12,675	7,348
Fuel	12,298			12,298	9,029
Communications and utilities	10,251			10,251	9,562
Other costs	2,105			2,105	1,921
<b>Total expenses and losses</b>	<b>298,994</b>	<b>2,479</b>	<b>21,394</b>	<b>322,867</b>	<b>252,001</b>
Other changes in net assets					
Acquisition of property and equipment	(22,187)	(32,060)	54,247	-	-
Grant funds disbursed as housing loans		(2,781)	2,781	-	-
Recovery			34,987	34,987	57,347
Loss on asset disposal			(135)	(135)	
<b>Change in net assets</b>	<b>(37,424)</b>	<b>(39,813)</b>	<b>139,031</b>	<b>61,794</b>	<b>150,714</b>
<b>Net assets at beginning of year</b>	<b>54,753</b>	<b>377,855</b>	<b>2,026,633</b>	<b>2,459,241</b>	<b>2,308,527</b>
<b>Net assets at end of year</b>	<b>\$ 17,329</b>	<b>\$ 338,042</b>	<b>\$ 2,165,664</b>	<b>\$ 2,521,035</b>	<b>\$ 2,459,241</b>

See accompanying notes to financial statements

**YAP COMMUNITY ACTION PROGRAM**  
(A NONPROFIT CORPORATION)

Statements of Cash Flows  
For the Years Ended September 30, 2006 and 2005

Increase (Decrease) in Cash

	<u>2006</u>	<u>2005</u>
Cash flows provided by (used for) operating activities		
Receipts from operating activities	\$ 10,887	\$ 18,289
Cash received from other revenues and support	222,877	260,817
Cash payments for goods and services	(200,089)	(89,892)
Cash payments to employees	(155,284)	(144,324)
Net cash provided by (used for) operating activities	<u>(121,609)</u>	<u>44,890</u>
Cash flows from lending activities		
Principal and interest payments received	245,421	213,539
Housing loans disbursed	(185,900)	(204,603)
Net cash provided by lending activities	<u>59,521</u>	<u>8,936</u>
Cash flows from (used for) investing activities		
Purchase of time-certificates of deposits	(22,957)	(491,724)
Interest income	47,500	27,575
Acquisition of fixed assets	(54,247)	(19,650)
Net cash used for investing activities	<u>(29,704)</u>	<u>(483,799)</u>
Net increase (decrease) in cash	(91,792)	(429,973)
Cash, beginning of year	<u>326,131</u>	<u>756,104</u>
Cash, end of year	<u>\$ 234,339</u>	<u>\$ 326,131</u>
 Reconciliation of Changes in Net Assets to Net Cash used for Operating Activities:		
Changes in net assets	\$ 61,794	\$ 150,714
Adjustment to reconcile net loss to net cash used in operating activities:		
Loan interest income presented as lending activity	(68,545)	(31,642)
Interest income presented as investing activity	(47,500)	(34,621)
Depreciation	21,394	14,286
Recovery of bad debts	(34,987)	(57,347)
Loss on asset disposal	135	--
(Increase)/decrease in assets		
Federal and other grant receivables	(55,901)	0
Travel advance	1,884	0
Employee and other receivables	538	1,320
Prepaid expense	5,628	(9,310)
Increase/(decrease) in liabilities		
Accounts payable	9,442	(8,627)
Accrued expenses	1,728	754
Annual leave	(293)	1,012
Due to Yap State Treasury	(16,926)	18,351
Net cash used for operating activities	<u>\$ (121,609)</u>	<u>\$ 44,890</u>

See accompanying notes to financial statements.



**YAP COMMUNITY ACTION PROGRAM  
(A NONPROFIT ORGANIZATION)**

Schedule of Expenditures of Federal Awards  
September 30, 2006 and 2005

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	
		<u>2006</u>	<u>2005</u>
<b>Amended Compact of Free Association</b>			
Environment Sector Grant			
Yap Community Action Program	15.875	\$ 34,096	\$ 184,134
<i>(Passed through FSM National Government and Yap State)</i>			
<b>Compact of Free Association</b>			
Section 212 Special Development			
Yap Community Action Program	15.875	1,865	5,721
<i>(Passed through FSM National Government and Yap State)</i>			
<b>USDA Rural Development</b>			
Rural Development			
Housing Preservation Grant <b>(Note 1)</b>	10.433	2,479	4,447
<i>(Direct through Yap Rural Development Office)</i>			
<b>U.S. Department of State</b>			
Pacific Island Fund Grant <b>(Note 2)</b>	None	472	11,881
YCAP Water Watch Program			
<i>(Direct from the U.S. Embassy in Kolonia, Pohnpei)</i>			
<b>National Oceanic &amp; Atmospheric Administration</b>			
JIMAR-University of Hawaii			
YCAP Turtle Project			
<i>(direct from NOAA-JIMAR on a reimbursement basis)</i>	11.432	<u>21,470</u>	<u>--</u>
<b>TOTAL FEDERAL AWARDS EXPENDED:</b>		<b><u>\$ 60,382</u></b>	<b><u>\$ 206,183</u></b>

**Note 1:** Only 50% Federal share is reflected herein.

**Note 2:** The Pacific Island Fund Grant is a small grant scheme and does not have a CFDA number.

YAP COMMUNITY ACTION PROGRAM  
(A NON-PROFIT CORPORATION)

Notes To Financial Statements  
Fiscal Years Ended September 30, 2006 and 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** - The Yap Community Action Program (Yap CAP) is a nonprofit organization created in fiscal year 1968 by the Trust Territory Government. An eight-member Board of Directors governs Yap CAP; two of whom are appointed by the Governor and one each by the Councils of Tamol and Pilung. These four board members then determine the process of selecting the remaining four members. The mission of Yap CAP 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** – Yap CAP 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 \$232,306 and \$212,572 for the years ended September 30, 2006 and 2005, respectively.

YAP COMMUNITY ACTION PROGRAM  
(A NON-PROFIT CORPORATION)

Notes To Financial Statements  
Fiscal Years Ended September 30, 2006 and 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**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 is 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 Yap CAP's bank accounts and certificates of deposits for fiscal year 2006 and 2005 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 at September 30, 2006 and 2005 consist of funds invested under deposit agreements with locally-owned businesses as follows:

\$500,000 with a maturity date of September 12, 2007 invested with the Yap Cooperative Association (YCA), a local importer/retailer, on September 13, 2005. The deposit earns interest at five and a half percent (5.5%) for the first twelve months and 6% thereafter, 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 secured by the YCA assets and properties.

\$400,000 invested with the Community Ayuw Services (Ayuw), a locally-owned credit union, on October 27, 2007 with a maturity date of October 27, 2007. The deposit earns fixed interest of 5.5% per annum, subject to forfeiture if funds are withdrawn prior to the maturity date. Withdrawals made within the first three months of deposit will be assessed a 1% penalty. The deposit is secured by Ayuw assets and properties.

**Property and Equipment** - Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Yap CAP capitalizes assets with useful lives in excess of two years and costs in excess of \$300. 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

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

Notes To Financial Statements  
Fiscal Years Ended September 30, 2006 and 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**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.

**2. GRANTS RECEIVABLE**

Yap CAP receives its grants from outside sources on a reimbursement basis. Accordingly at September 30, 2006, Yap CAP had submitted expenditure requests to granting agencies for which payment was outstanding as follows:

		<u>2006</u>
Yap State General Fund (YSL 6-57)	\$	29,089
NOAA-JIMAR Turtle Tagging Project		19,490
Yap State FY06 Environmental Sector Grants		7,295
Others		27
		<hr/>
	\$	<u>55,901</u>

**3. LOANS RECEIVABLE**

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

		<u>2006</u>		<u>2005</u>
Community Development Block Grant Loans	\$	540,183	\$	601,800
Yap State Legislature Loans		797,207		725,804
Yap State Housing Authority Loans		184,729		185,509
Housing Preservation Grant Loans		4,438		4,419
		<hr/>		<hr/>
		1,526,557		1,517,532
Add: Accrued interest		144,124		144,124
		<hr/>		<hr/>
Total loan principal and interest		1,670,681		1,661,656
Less: Allowance for doubtful loans and interest		<u>(1,051,054)</u>		<u>(1,086,042)</u>
		<hr/>		<hr/>
Loans receivable, net		619,627		575,614
Less: Current portion - principal		(206,673)		(176,997)
Current portion - interest		<u>(7,056)</u>		<u>(7,056)</u>
		<hr/>		<hr/>
Long-term portion	\$	<u>405,898</u>	\$	<u>391,561</u>

YAP COMMUNITY ACTION PROGRAM  
(A NON-PROFIT CORPORATION)

Notes To Financial Statements  
Fiscal Years Ended September 30, 2006 and 2005

**4. PROPERTY AND EQUIPMENT**

A summary of property and equipment as of September 30, 2006 and 2005 is as follows:

	Beg Balance October 1, 2005	Transfers and Additions	Transfers and Disposal	Ending September 30, 2006
Vehicles	\$ 148,216	\$ 18,300	\$ (23,405)	\$ 143,111
Office furniture & equipments	52,792	21,347	(1,506)	72,633
Other assets	17,652	14,600	(1,750)	30,502
	<u>218,660</u>	<u>54,247</u>	<u>(26,661)</u>	<u>246,246</u>
Less: Accum. Depreciation	<u>(168,605)</u>	<u>(21,393)</u>	<u>26,526</u>	<u>(163,472)</u>
	<u>\$ 50,055</u>	<u>\$ 32,854</u>	<u>\$ (135)</u>	<u>\$ 82,774</u>

	Beg Balance October 1, 2004	Transfers and Additions	Transfers and Disposal	Ending September 30, 2005
Vehicles	\$ 141,266	\$ 6,950	\$	\$ 148,216
Office furniture & equipments	49,516	7,700	(4,424)	52,792
Other assets	12,652	5,000	(4,424)	17,652
	<u>203,434</u>	<u>19,650</u>	<u>(4,424)</u>	<u>218,660</u>
Less: Accum. Depreciation	<u>(158,680)</u>	<u>(14,286)</u>	<u>4,361</u>	<u>(168,605)</u>
	<u>\$ 44,754</u>	<u>\$ 5,364</u>	<u>\$ (63)</u>	<u>\$ 50,055</u>

**5. 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>2006</u>	<u>2005</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>

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

Notes To Financial Statements  
Fiscal Years Ended September 30, 2006 and 2005

**6. NET ASSETS**

The components of ending net assets are presented below:

	<u>2006</u>	<u>2005</u>
<b>Unrestricted net assets</b>		
CAP Admin	\$ 118,890	\$ 156,314
Miscellaneous	(103,636)	(103,636)
YCAP Indirect	<u>2,075</u>	<u>2,075</u>
Subtotal	<u>17,329</u>	<u>54,753</u>
<b>Temporarily-restricted net assets</b>		
YSL CAP	(10)	(10)
Env. Student Intern	6,877	10,070
CFSM Matching Funds	28,284	28,284
Housing Preservation Grants	10,123	12,753
Yap State Legislature matching funds	7,126	9,756
Australian matching	38,500	38,500
Senior Grant	17,846	17,846
Office miscellaneous	48,016	63,879
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	156,072	157,938
Agriculture & Forestry Fire Project	-	236
MRMD Reef project	172	2,056
CFSM Kaday youth project	69	152
CFSM Dalipebinau recreation project	3,992	3,992
YESC	1,966	7,185
Seacology	-	538
YBSAP	2,821	5,378
Sudal	830	1,492
TNC Computer Training	1,167	1,167
Waterwatch	165	637
Pacific Diabetes	4,080	4,080
Gielob Turtle Tagging Project	<u>(1,980)</u>	<u>-</u>
Subtotal	<u>338,042</u>	<u>377,855</u>
<b>Permanently restricted net assets</b>		
HPG revolving loan fund	99,136	95,473
CDBG revolving loan fund	943,266	870,345
YSHA revolving loan fund	96,752	95,823
YSL revolving loan fund	943,407	914,606

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

Notes To Financial Statements  
Fiscal Years Ended September 30, 2006 and 2005

**6. NET ASSETS (CONT.)**

CFSM capital assets	5,215	6,466
YSL capital assets	16,663	8,754
Others capital assets	48,258	16,983
Housing capital assets	<u>12,967</u>	<u>18,183</u>
Subtotal	<u>2,165,664</u>	<u>2,026,633</u>
	<u>\$ 2,521,035</u>	<u>\$ 2,459,241</u>

**7. COMMITMENTS**

As of September 30, 2006 and 2005, housing loans are granted, but are undisbursed in the amount of \$168,412 and \$267,963, respectively. Funding for projects under the Yap Community Development Program are approved but not disbursed in the amount of \$84,750 and \$86,615 as of September 30, 2006 and 2005, respectively.

**8. RELATED-PARTY TRANSACTIONS**

Employees and directors of Yap CAP or their immediate family members owed \$59,996 and \$67,090 of the loan receivables outstanding at September 30, 2006 and 2005, respectively.

**9. GRANTS AND CONTRACTS**

Yap CAP received \$35,521 from the State of Yap from funds allocated to Environmental Sector Grants of the Amended Compact for fiscal year 2006. The grant expired at September 30, 2006 with \$1,425 unexpended. Such unexpended amount did not clear within the required 90 days after expiration of the grant, therefore, only \$34,096 was recognized as grant revenue for FY2006 and the unexpended amount of \$1,425 is presented as a liability due to the State Treasury as of September 30, 2006.

Yap CAP also received \$144,490 in operating subsidies from the State of Yap General Fund on a reimbursement basis for fiscal year 2006. In fiscal year 2005, \$202,484 was allocated to Environmental Sector Grants of the Amended Compact with \$18,351 encumbered for an off-island purchase which did not clear within the required 90 days after expiration of the grant.

Yap CAP was granted extension of the above unexpended amount of \$18,351 to lapse on September 30, 2006 and therefore, \$162,841 and \$184,134 are recognized as grant revenues for fiscal years 2006 and 2005, respectively.

YAP COMMUNITY ACTION PROGRAM  
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Notes To Financial Statements  
Fiscal Years Ended September 30, 2006 and 2005

**10. MISCELLANEOUS EXPENSES**

Provided below is a breakdown of miscellaneous expenses for the years ended September 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Other expenses	\$ 7,893	\$ 5,257
Cost of equipment rental sales	3,349	6,146
Repair and maintenance	<u>9,890</u>	<u>2,335</u>
	<u>\$ 21,132</u>	<u>\$ 13,738</u>

**11. SUBSEQUENT EVENTS**

Yap CAP increased its vehicle fleet on January 10, 2007 by \$19,700 with the acquisition of a Mitsubishi 4x4 pick-up truck.

In fiscal year 2007, Yap CAP received grant funds totaling \$100,000 for the Yap Rapid Ecological Assessment and the Kanif Seawall Project. Yap CAP was also awarded \$46,088 for the Coral Reef Monitoring Projects.





# OFFICE OF THE STATE PUBLIC AUDITOR

## YAP STATE GOVERNMENT

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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  
Yap Community Action Program:

I have audited the financial statements of Yap Community Action Program (Yap CAP) as of and for the years ended September 30, 2006 and 2005, and have issued my report thereon dated October 29, 2007. I conducted my 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 my audit, I considered the Yap CAP'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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a reportable 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 might 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. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions and are described in the accompanying Schedule of Findings as Findings Nos. 3 - 6.

### Compliance

As part of obtaining reasonable assurance about whether the 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 audits, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are presented in the Schedule of Findings as Finding No. 1.

This report is intended for the information of the management and Board of Directors of Yap CAP and is not intended to be and should not be use by anyone other than these specified parties. This report, however, is a matter of public record and its distribution is not limited.

Gertrude Gootinan  
Yap State Public Auditor

October 29, 2007

YAP COMMUNITY ACTION PROGRAM  
(A NON-PROFIT CORPORATION)

Schedule of Findings  
September 30, 2006

**FINDING NO. 1 - COMPETITIVE PROCUREMENT REQUIREMENTS**

**Criteria:** Expenditures charged to Compact Funds should be price compared with a representative number of vendors and costs charged should be necessary and reasonable.

**Condition:** On March 16, 2006, Yap CAP renewed a two-hour monthly service agreement with a local vendor to provide computer maintenance, consultation services and software support and installation. Yap CAP did not solicit prices from other vendors to compare to the selected vendor's price and no evidence was found to document justification of the sole source contract. The contract agreement renewal stated that services to be provided would allow only two service hours each month for \$250 a month (\$125/hour compared to the vendors' standard rate of \$75 per hour for services to regular customers.) Services provided after the 2-hour allowed per month would be billed separately.

**Cause:** Yap CAP believed that because the vendor had been providing computer services over the years, it was not necessary to contact other vendors for such services. Moreover, Yap CAP believed it was important to maintain ongoing computer technical support.

**Effect:** The execution of the contract was inconsistent with the State's procurement procedures which require price comparison for small purchases. As a result, Yap CAP was charged a higher hourly rate than other customers.

**Recommendation:** Yap CAP had adopted policies and procedures to ensure compliance with the State's procurement requirements. We recommend that management ensure that policies and procedures intended to ensure compliance with laws and regulations are followed at all times.

**Prior Year Status:** A similar finding was cited in the audit report for fiscal year ended September 30, 2005.

***RESPONSE: The agency agrees with the finding. Microtech was the first computer servicing company established on Yap so it was necessary to retain their services to ensure expedient and priority services over others. Yap has since seen the establishment of two other companies offering similar services. We have elected not to renew the service contract with Microtech instead we will seek assistance from anyone of the three registered companies on a as needed basis based on best price offered and expediency in completing the job requested. The Deputy Director will be responsible for ensuring that the price comparison requirements are being met and adhered to.***

**FINDING NO. 2 – IMPROPER RECORDING OF EXPENSES**

**Criteria:** Generally accepted accounting principles require expenses to be recorded only when the cost is incurred (the goods or services have been received).

YAP COMMUNITY ACTION PROGRAM  
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Schedule of Findings  
September 30, 2006

**FINDING NO. 2 – IMPROPER RECORDING OF EXPENSES (CONT.)**

**Condition:** Yap CAP expensed funds advanced to vendors for goods and services not yet received at September 30, 2006. The computer maintenance contract discussed in Finding No. 1 contained a provision requiring the full contract amount of \$2,850 to be advanced to the contractor upon execution of the contract. The contract terms covered the period of April 1, 2006 to March 31, 2007. Yap CAP expensed the total amount of the contract even though at September 30, 2006, it had yet to receive the two service hours each for the months of October 2006 through March 2007.

Purchase order (PO#06348) dated September 28, 2006 in the amount of \$2,651 was for a laptop computer purchased from a local vendor. Yap CAP advanced \$2,121 (80%) to the vendor and recorded it as prepaid expense. Even though Yap CAP had not received the laptop as of September 30, 2006, it improperly recorded the remaining \$530 (20%) to accounts payable.

Yap CAP claimed the advance payment of \$2,850 as expenditure against its Environmental Sector Grant at September 30, 2006, even though it had no assurance that the vendor would fulfill its commitment under the service contract.

**Cause:** We believe that Yap CAP recorded expenses before costs were incurred in an attempt to show that it had exhausted all funding slated to lapse at September 30, 2006. Moreover, the disbursement of funds to vendors before the vendors fulfilled their end of purchase or service contracts contribute to the improper recording of expenses.

**Effect:** By allowing purchase order advances and including provisions in its contracts to front payments to vendors, Yap CAP is essentially agreeing to finance the operations of its suppliers.

**Recommendation:** We recommend the Executive Director require the fiscal officer to record only GAAP expenses against grant funds. Any funds advanced to vendors should be recorded as an advance of Yap CAP's available pool of cash only. Such disbursements would not be chargeable against grant funds until goods and services have been received because it is only then that Yap CAP could determine with reliability the nature and measure of the costs to be recorded as grant expenditures. We also recommend that the Board of Directors require Yap CAP to refrain from fronting payments to contractors but to instead use a schedule of installment payments coordinated with the actual receipt of goods and services.

**Prior Year Status:** A similar finding was cited in the audit report for the fiscal year ended September 30, 2005.

***RESPONSE:*** *The agency agrees with the finding for improper recording and the Fiscal Officer has been tasked to learn the proper method of recording in order to avoid similar finding in future audits. Going forward we will record expenses against grant funds only when cost is incurred or when goods/services have been received. As for advance payments, we will try to work out schedule of payments with the vendors as some of them require the agency, thru their quotations, for advance payments. With limited outlets for goods and services available on the island we are often at the mercy of the vendors who will only provide services with a portion of the payment made up front.*

YAP COMMUNITY ACTION PROGRAM  
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Schedule of Findings  
September 30, 2006

**FINDING NO. 3 – COSTS OF LIVING ALLOWANCE**

**Criteria:** Yap CAP relies on the Yap State Government to subsidize its operations; therefore it must adhere to the financial restrictions and cost-saving policies of the Yap State Government.

**Condition:** The Board of Yap CAP in its special meeting held in May 30, 2006 approved Resolution No. 107-06 authorizing YCAP to implement a Cost of Living Adjustment, “COLA” Plan for Yap CAP’s employees. The plan paid each employee \$35 COLA per pay period through the agency’s payroll system. This payment of COLA was retroactive to January 2, 2006 and would continue to the end of FY2007. It was estimated that Yap CAP paid an estimated total of \$7,300 in FY2006 to its employees in COLA payments.

In contrast, the Yap State Government has had in place a salary freeze for over ten years. Since then, there has not been any increase to State government employees’ salaries to meet the high cost of living which also affect State government employees. The State Government allows only merit increases but such increases are required to be earned by employees through good job performance.

**Cause:** According to the Resolution, Yap CAP management was tasked to “explore the possibilities of how financially and methodologically permanent employees of Yap CAP could be paid some sort of pay increases, yet mindful of the fact that pay increases throughout the entire Yap State Government and its agencies are being frozen”. Part of approval concluded “that pay increase is very much needed and deserving as prices of goods, including the basic necessities and utilities have increased considerably”. Consequently, Yap CAP Board of Directors and management did not require the pay increases to be tied to promotions or good performance.

**Effect:** Our review of FY2006 operating expenses found that despite the freeze on pay increase throughout the entire Yap State Government, salaries for Yap CAP employees (permanent and contracted) increased by approximately \$20,000 over FY2005 salaries. A comparison of increases in pay rates for individual employees ranged from 6% to 79% when compared to pay rates in FY2002 to 2006. Furthermore, Yap CAP was paying 24% more than what the State Government would pay its employees for similar positions.

It is a fact that costs of living will continue to increase, therefore, Yap CAP cannot reasonably expect to continue to accommodate the rising costs of living for its employees when it is not itself financially self-sufficient.

**Recommendation:** We recommend that Yap CAP follow the practice of the State Government by demonstrating fiscal restraint in the dispensing of pay increases. Salary increase should be allowed only when additional duties and responsibilities are assigned to employees above their existing duties and responsibilities. Accordingly, goals and expectation of each position within each agency should be documented. Only when performance evaluations clearly show that employees have exceeded normal expectation should salary increase be awarded.

YAP COMMUNITY ACTION PROGRAM  
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Schedule of Findings  
September 30, 2006

**FINDING NO. 3 – COSTS OF LIVING ALLOWANCE (CONT.)**

***RESPONSE:*** *The Board of Directors has the legal mandate to authorize the payment COLA to Yap CAP employees from its unrestricted account in response to the rising cost of fuel. The cost of fuel, which is still rising, is definitely causing the cost of living on Yap and just about everywhere else to escalate and there is no sign that it is taking a downward turn. As long as the cost of fuel continues its present trend, the Board will continue to authorize COLA to its employees at a level its unrestricted account can afford.*

**FINDING NO. 4 – ANNUAL LEAVE ACCRUALS**

**Criteria:** Vested vacation leave should be accrued and reported as a liability for external reporting purposes in conformity with generally accepted accounting principles, however, the corresponding expense generated as a result of the accounting entry should not be claimed as reimbursable grant expenditure.

**Condition:** Yap CAP properly accrues annual leave balances at the end of each fiscal period and reverse out the entry during the next period. At the end of each fiscal year, the dollar value of vacation leave hours at September 30 is accrued and the corresponding expense included in grant expenditure reports for reimbursement by the Yap State Finance, even though only half of the hours in excess of 160 would actually be expensed within 90 days after year-end (not considering actual time-off taken by employees).

Yap CAP's vacation leave policy allows employees to annually cash out half of the vacation leave hours in excess of 160 at December 31<sup>st</sup>. The impact of its vacation leave cash out policy on the accrual and reversal of vacation leave immaterially misstates the actual expenditures charged to grant expenses.

**Cause:** The allowable cash out balances in excess of 160 is calculated based on balances at December 31<sup>st</sup> instead of September 30<sup>th</sup> balances to be consistent with the balances accrued at year-end.

**Effect:** Reimbursable grant revenues and expenses may be immaterially misstated.

**Recommendation:** We recommend that Yap CAP review again its accrual and reversal of annual leave and its procedures for cash out of leave balances to ensure that grant reimbursements are not misstated.

***RESPONSE:*** *Nothing has changed from previous years recording and we thank the auditors for pointing this out this time around. Every year end, prior year accruals are being reversed as we accrue for the current FY. The leave hours are earned and we feel that the agency owes to the employees. The Fiscal Officer is being advised that at year end, only 50% of the accumulated annual leave hours shall be accrued against the grant funds. At year end, he will report only the 50% in the grant reimbursements.*

YAP COMMUNITY ACTION PROGRAM  
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Schedule of Findings  
September 30, 2006

**FINDING NO. 5 – MANUAL ACCOUNTING LEDGERS**

**Criteria:** Management is responsible to ensure that tasks are accomplished effectively, efficiently and economically.

**Condition:** Year-end reconciliation of the general ledger was not completed until after we commenced our audit for fiscal year 2006. Schedules for loans receivables, accrued interests receivables, and estimated allowances for doubtful accounts did not agree to the general ledger balances at September 30, 2006. Some of the variances were related to uncorrected discrepancies identified in the prior years. Net assets beginning balance was not reconciled to the prior year closing balance.

For the past three consecutive fiscal years, Yap CAP was cited for inaccurate financial information, untimely reconciliation of accounts, improper recording of year-end adjusting entries, interest income and misclassifications of expenses. Recommendations were given to Yap CAP to require accounting staff to develop a periodical schedule to ensure that financial transactions were posted, reviewed and reconciled on a regular basis. Moreover, an automated accounting program was also recommended to make the process more efficient and cost effective.

**Cause:** In response to a similar finding for fiscal year 2005, Yap CAP stated that it planned to automate its general ledger beginning in fiscal year 2008. It is hard to understand why Yap CAP has been reluctant to purchase and put in use accounting software to replace the manual ledgers it currently uses for its accounting. Manual accounting ledgers require more man-hours to maintain and are harder to reconcile than ledgers maintained using accounting software. Therefore, we believe that Yap CAP's reluctance may be due to the accounting staff's unfamiliarity with the software and the potential of the program to make redundant some existing accounting staff positions.

**Effect:** By not taking timely action to improve its accounting system, the errors and problems found in the prior years remained uncorrected for fiscal year 2006.

**Recommendation:** We recommend that the Executive Director take the initial steps to purchase accounting software and identify a trainer for the accounting staff in order that the program could be in place and ready for use at the beginning of fiscal year 2008.

**Prior Year Status:** A similar finding was issued to Yap CAP for the years ended September 30, 2005, 2004 and 2003.

***RESPONSE: This is not the first time this finding has been issued. Our response last year was that the accounting records would be automated at the beginning of FY '08. Recently, we have hired an IT Manager who will train the staff and help convert the manual accounting-system to an automated accounting-system. By FY '08, the automated system will be fully operational and functional. The IT Manager will be responsible for ensuring that the staff are well trained in the new system and the system can be in use comes FY '08.***

YAP COMMUNITY ACTION PROGRAM  
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Schedule of Findings  
September 30, 2006

**FINDING NO. 6 – HOUSING LOAN INTEREST**

**Criteria:** Interests should be charged only on loan amounts disbursed to borrowers.

**Condition:** Our review of loans receivables found that interests were not calculated on loans receivables recorded to the general ledger which is based on amounts disbursed to borrowers, but instead interest is calculated on subsidiary ledger balances which are based on authorized loan amounts less payments. We selected ten borrowers with undisbursed loan balances at September 30, 2006. We compared interests paid on loan amounts recorded as loans receivable to interests calculated as per subsidiary ledgers and found that borrowers were over-charged interests totaling to \$6,800.

**Cause:** Although Yap CAP changed its loan disbursement procedures from supervised checking accounts to purchase order system, interests were calculated as if the entire loan amount has been disbursed and is outstanding less payments received.

**Effect:** Yap CAP is earning interests simultaneously from borrowers with undisbursed loan amounts and from the bank where the loan funds remain in Yap CAP's name. The error is not material to Yap CAP's financial statements but the impact on affected borrowers is significant as they were charged \$50 to \$2,000 more than necessary in loan interest. Loans for borrowers whose housing projects were contracted to bigger construction company would not be greatly affected as loan amounts are disbursed in a shorter time frame.

**Recommendation:** Since Yap CAP changed its system of administering loans, we recommend that management and the board require loan section staff to ensure that interests are calculated on loan amounts recorded as loans receivable at all times.

***RESPONSE:*** *We are in full agreement with this finding. This is not the first time this issue has been discussed with and amongst the housing loan staff as well as with the board. Due to limited staffing and the fact that all ledgers being kept manually, decision was made to pursue the hiring of an IT Manager who will supervise and maintain and electronic based accounting system as well as linking the various housing loan ledgers to the automated system. It is hoped that with such system in place the agency could track individual loan accounts more efficiently and charge loan interest based on loan disbursements. The agency now has hired an IT Manager and will begin the process of converting to an automated accounting system this current FY. We are aiming to have the automated system fully operational and functional by FY 2008. The Fiscal Officer will be responsible for ensuring that loan interests are charged to individual loan account based on disbursements as soon as the automated system is in use.*