

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

**Financial Statements and
Independent Auditor's Report
For the Years Ended
September 30, 2007 and 2006**



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



OFFICE OF THE STATE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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EXECUTIVE SUMMARY

Financial Audit of the Yap Community Action Program For the Years ended September 30, 2007 and 2006

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, 2007 and 2006 which report is dated February 18, 2008. 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, 2007 and 2006, Yap CAP expended \$64,293 and \$60,382, respectively in Compact and other federal financial assistance.

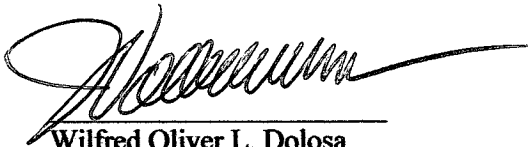
The report on internal control over financial reporting and compliance and other matters required by Government Auditing Standards on page 13 discusses reportable conditions at Yap CAP. These conditions and our recommendations are presented for the information of Yap CAP's management in the Schedule of Findings beginning on page 15. Of the eight findings, three are related to inadequate controls while five pertains to noncompliance with laws and regulations. Three of the eight findings are repeated from the prior years.

Following is a summary of the audit findings for the year ended September 30, 2007:

- (1) Finding No. 1 cites Yap CAP for inadequate documentation of compliance with federal competitive procurement requirements.
- (2) Finding No. 2 relates to non-compliance with terms of grant agreements wherein Yap CAP attempted to drawdown the total funds authorized by the appropriation law instead of restricting its claims only to the extent of allowable and qualified expenditures.
- (3) Finding No.3 cites Yap Cap for providing housing and housing allowance to a locally hired employee in contradiction with the State's Housing Regulation.
- (4) Finding No. 4 cites Yap Cap for inadequate Board meetings held in FY2007. The finding notes that for FY2007 Yap CAP held only 2 Board Meetings which is half the number of Board Meetings required as per their By-Laws.
- (5) Finding No. 5 relates to Yap CAP's deviation from their personnel policy in obtaining Board approval in instances when employee's starting annual salary is \$12,000 and more than 20% above his previous employment salary.
- (6) Finding No. 6 discusses the administrative cost that Yap CAP incurred in FY 2007, which is 65% of the total revenues received which is excessive in comparison with the industry standard of 10% - 25%.

- (7) Finding No. 7 relates to a cost of living allowance of \$35 per employee each pay period during fiscal year 2007 and continuing into fiscal year 2008. 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.
- (8) Finding No. 8 reiterate the need for Yap CAP to utilize accounting software to make its bookkeeping and accounting more efficient and its financial reports more reliable.

A Copy of the draft report was provided to the Chairman of the Board and the Executive Director, the contents of which were discussed with the Board of Directors, Chairman of the Board and key personnel on August 25, 2008. We requested Yap CAP to provide written responses to the audit findings and recommendations, but despite repeated follow-up on our part, YCAP was not able to submit written responses.



Wilfred Oliver L. Dolosa
Acting Yap State Public Auditor

December 8, 2008

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Yap Community Action Program

We have audited the accompanying statements of financial position of Yap Community Action Program (Yap CAP) as of September 30, 2007 and 2006, 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. Our responsibility is to express an opinion on these financial statements based on our audits.

We 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 we 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 Yap CAP'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. We believe that our audits provide a reasonable basis for our opinion.

In our 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, 2007 and 2006, 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 our audits of the financial statements referred to in the first paragraph and, in our 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*, we have also issued a report dated February 18, 2008 on our consideration of the Yap CAP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our 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 our audits.


Wilfred Oliver L. Dolosa
Acting Yap State Public Auditor

February 18, 2008

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)

Statements of Financial Position
September 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets		
Cash, unrestricted	\$ 235,754	\$ 234,339
Cash, restricted	821,572	770,821
Short term investment	900,000	900,000
Loans receivable, current portion (note 3)	165,697	206,673
Grants receivable (note 2)	77,665	55,901
Travel advance and other receivable	9,535	2,063
Prepaid expense	8,033	3,681
Interest receivable (note 3)	529	7,056
Total current assets	<u>2,218,785</u>	<u>2,180,534</u>
Long-term portion of loans receivable (note 3)	326,679	405,898
Property and equipment, net (note 4)	<u>112,620</u>	<u>82,774</u>
TOTAL ASSETS	<u><u>\$ 2,658,084</u></u>	<u><u>\$ 2,669,206</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,404	\$ 20,717
Accrued expenses	18,385	15,100
Accrued annual leave	9,803	8,290
Due to Yap State Treasury	-	1,425
Due to other grantors (note 5)	<u>102,639</u>	<u>102,639</u>
Total current liabilities	<u>132,231</u>	<u>148,171</u>
Commitments and contingencies		
Net assets:		
Unrestricted	8,104	17,329
Temporarily-restricted	330,924	338,042
Permanently-restricted	<u>2,186,825</u>	<u>2,165,664</u>
Total net assets	<u>2,525,853</u>	<u>2,521,035</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,658,084</u></u>	<u><u>\$ 2,669,206</u></u>

See accompanying notes to financial statements

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

Statements of Activities
For the Years Ended September 30, 2007 and 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2007	2006
REVENUES, GAINS, AND OTHER SUPPORT					
Grants and contracts	\$	\$ 310,839	\$	\$ 310,839	\$ 218,926
Interest	50,999		45,844	96,843	116,045
Other income	21,512	6,271		27,783	14,838
Net assets released from restriction				-	
Satisfaction of program restriction	281,101	(281,101)		-	-
Total revenues, gains, and other support	353,612	36,009	45,844	435,465	349,809
EXPENSES AND LOSSES					
Program services					
Federal and Compact programs	12,056	4,497		16,553	26,287
Other nonprofit and local programs	80,675			80,675	16,871
Management and general					
Salaries and fringe benefits	152,230			152,230	156,719
Depreciation expenses			32,042	32,042	21,394
Miscellaneous (note 10)	26,155			26,155	21,132
Contractual services	24,779			24,779	25,685
Communications and utilities	10,312			10,312	10,251
Fuel	9,719			9,719	12,298
Supplies and materials	9,655			9,655	17,450
Travel	6,113			6,113	12,675
Other costs	3,413			3,413	2,105
Total expenses and losses	335,107	4,497	32,042	371,646	322,867
Other changes in net assets					
Acquisition of property and equipment	(27,730)	(34,157)	61,888	0	0
Grant funds disbursed as housing loans		(4,473)	4,473	-	-
Bad debt expense			(59,002)	(59,002)	34,987
Loss on asset disposal				-	(135)
Change in net assets	(9,225)	(7,118)	21,161	4,818	61,794
Net assets at beginning of year	17,329	338,042	2,165,664	2,521,035	2,459,241
Net assets at end of year	\$ 8,104	\$ 330,924	\$ 2,186,825	\$ 2,525,853	\$ 2,521,035

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)

Statements of Cash Flows
For the Years Ended September 30, 2007 and 2006

Increase (Decrease) in Cash

	<u>2007</u>	<u>2006</u>
Cash flows provided by (used for) operating activities		
Receipts from operating activities	\$ 6,271	\$ 10,887
Cash received from other revenues and support	332,352	222,877
Cash payments for goods and services	(241,700)	(200,089)
Cash payments to employees	(147,432)	(155,284)
Net cash used for operating activities	<u>(50,509)</u>	<u>(121,609)</u>
Cash flows from lending activities		
Principal and interest payments received	212,738	245,421
Housing loans disbursed	(99,175)	(185,900)
Net cash provided by noncapital financial activities	<u>113,563</u>	<u>59,521</u>
Cash flows from (used for) investing activities		
Purchase of time-certificates of deposits	(50,751)	(22,957)
Interest income	50,999	47,500
Acquisition of fixed assets	(61,887)	(54,247)
Net cash used for investing activities	<u>(61,639)</u>	<u>(29,704)</u>
Net increase (decrease) in cash	1,415	(91,792)
Cash, beginning of year	234,339	326,131
Cash, end of year	<u>\$ 235,754</u>	<u>\$ 234,339</u>
Reconciliation of Changes in Net Assets to Net Cash used for operating Activities:		
Changes in net assets	\$ 4,818	\$ 61,794
Adjustment to reconcile changes in net assets to net cash used in operating activities:		
Loan interest income presented as lending activity	(36,042)	(68,545)
Interest income presented as investing activity	(60,801)	(47,500)
Depreciation	32,042	21,394
Bad debt expense	59,002	(34,987)
Loss on asset disposal	-	135
(Increase)/decrease in assets		
Federal and other grant receivables	(21,764)	(55,901)
Travel advance	(7,640)	1,884
Employee and other receivables	168	538
Prepaid expense	(4,352)	5,628
Increase/(decrease) in liabilities		
Accounts payable	(19,313)	9,442
Accrued expenses	3,285	1,728
Annual leave	1,513	(293)
Due to Yap State Treasury	(1,425)	(16,926)
Net cash used for operating activities	<u>(50,509)</u>	<u>(121,609)</u>
Supplemental disclosures of noncash transactions:		
Loss on disposal of assets which decreased property & equipment	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT ORGANIZATION)

Schedule of Expenditures of Federal Awards
September 30, 2007 and 2006

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	
		<u>2007</u>	<u>2006</u>
Amended Compact of Free Association			
Environmental Sector Grant			
Yap Community Action Program	15.875	\$ 47,741	\$ 34,096
<i>(Passed through FSM National Government and Yap State)</i>			
Compact of Free Association			
Section 212 Special Development			
Yap Community Action Program	15.875	754	1,865
<i>(Passed through FSM National Government and Yap State)</i>			
USDA Rural Development			
Rural Development			
Housing Preservation Grant (Note 1)	10.433	4,497	2,479
<i>(Direct through Yap Rural Development Office)</i>			
U.S. Department of State			
Pacific Island Fund Grant (Note 2)	None	--	472
YCAP Water Watch Program			
<i>(Passed through the U.S. Embassy in Kolonia, Pohnpei)</i>			
National Oceanic & Atmospheric Administration			
JIMAR-University of Hawaii			
YCAP Turtle Project			
<i>(direct from NOAA-JIMAR on a reimbursement basis)</i>	11.432	--	21,470
National Oceanic & Atmospheric Administration			
Fisheries Habitat Conservation Program Office			
Developing a Coral Reef Monitoring Program			
<i>(direct from NOAA on a reimbursement basis)</i>	11.463	<u>11,301</u>	<u>--</u>
TOTAL FEDERAL AWARDS EXPENDED:		\$ <u>64,293</u>	\$ <u>60,382</u>

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, 2007 and 2006

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 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 \$281,101 and \$232,306 for the years ended September 30, 2007 and 2006, respectively.

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

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Notes To Financial Statements
Fiscal Years Ended September 30, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 2007 and 2006 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, 2007 and 2006 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, 2005 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2007 and 2006

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. GRANTS RECEIVABLE

Yap CAP receives its grants from the Yap State Government and outside sources on a reimbursement basis. Accordingly, at September 30, 2007, Yap CAP had submitted expenditure requests to granting agencies for which payment was outstanding as follows:

	<u>2007</u>	<u>2006</u>
Yap State General Fund (YSL 6-87 & 6-57)	\$ 44,517	\$ 29,089
NOAA Coral Reef Monitoring Project	28,202	
NOAA-JIMAR Turtle Tagging Project	--	19,490
Yap State (YSL 6-85 & 6-72) Environmental Sector Grants	4,946	7,295
Others	--	27
	<u>\$ 77,665</u>	<u>\$ 55,901</u>

3. LOANS RECEIVABLE

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

	<u>2007</u>	<u>2006</u>
Community Development Block Grant Loans	\$ 490,404	\$ 540,183
Yap State Legislature Loans	785,083	797,207
Yap State Housing Authority Loans	183,949	184,729
Housing Preservation Grant Loans	5,929	4,438
	<u>1,465,365</u>	<u>1,526,557</u>
Add: Accrued interest	<u>128,681</u>	<u>144,124</u>
Total loan principal and interest	1,594,046	1,670,681
Less: Allowance for doubtful loans and interest	<u>(1,101,141)</u>	<u>(1,051,054)</u>
Loans receivable, net	492,905	619,627
Less: Current portion - principal	(165,697)	(206,673)
Current portion - interest	(529)	(7,056)
Long-term portion	<u>\$ 326,679</u>	<u>\$ 405,898</u>

4. PROPERTY AND EQUIPMENT

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

**Notes To Financial Statements
Fiscal Years Ended September 30, 2007 and 2006**

A summary of property and equipment as of September 30, 2007 and 2006 is as follows:

	Beginning Balance October 1, 2006	Transfers And Additions	Transfers And Disposal	Ending Balance September 30, 2007
Vehicles	\$ 143,111	\$ 19,701	\$ --	\$ 162,812
Office furniture & equipments	72,633	12,459	--	85,092
Other assets	30,502	29,728	--	60,230
	<u>246,246</u>	<u>61,888</u>	<u>--</u>	<u>308,134</u>
Less: accum. depreciation	<u>(163,472)</u>	<u>(32,042)</u>	<u>--</u>	<u>(195,514)</u>
	<u>\$ 82,774</u>	<u>\$ 29,846</u>	<u>\$ --</u>	<u>\$ 112,620</u>

	Beginning Balance October 1, 2005	Transfers And Additions	Transfers And Disposal	Ending Balance 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>

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>2007</u>	<u>2006</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>

6. NET ASSETS

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2007 and 2006

The components of ending net assets are presented below:

	<u>2007</u>	<u>2006</u>
Unrestricted net assets		
CAP Admin	\$ 109,665	\$ 118,890
Miscellaneous	(103,636)	(103,636)
YCAP Indirect	2,075	2,075
Subtotal	<u>8,104</u>	<u>17,329</u>
Temporarily-restricted net assets		
YSL CAP	(10)	(10)
Env. Student Intern	6,337	6,877
CFSM Matching Funds	28,284	28,284
Housing Preservation Grants	5,638	10,123
Yap State Legislature matching funds	2,641	7,126
Australian matching	38,500	38,500
Senior Grant	17,846	17,846
Office miscellaneous	46,404	48,016
Rare project	239	239
Rapid Environmental Marine Assessment	(679)	-
Kanif Seawall Project	14,928	-
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	155,318	156,072
Ngulu Atoll Management Plan	(3,375)	-
Sea Turtle Conservation Project	(3,350)	-
MRMD Reef project	172	172
CFSM Kaday youth project	69	69
CFSM Dalipebinau recreation project	3,992	3,992
YESC	-	1,966
YBSAP	2,821	2,821
Sudal	30	830
TNC Computer Training	1,167	1,167
Waterwatch	165	165
Pacific Diabetes	4,080	4,080
Gielob Turtle Tagging Project	(1,980)	(1,980)
Subtotal	<u>330,924</u>	<u>338,042</u>
Permanently restricted net assets		
HPG revolving loan fund	104,990	99,136

6. NET ASSETS (CONT.)

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2007 and 2006

CDBG revolving loan fund	978,913	943,266
YSHA revolving loan fund	97,725	96,752
YSL revolving loan fund	892,213	943,407
Ayuw revolving loan fund	34	-
CFSM capital assets	4,007	5,215
YSL capital assets	13,596	16,663
Other capital assets	87,595	48,258
Housing capital assets	7,752	12,967
Subtotal	2,186,825	2,165,664
	\$ 2,525,853	\$ 2,521,035

7. COMMITMENTS

As of September 30, 2007 and 2006, housing loans are granted, but are undisbursed in the amount of \$130,692 and \$168,412, respectively. Funding for projects under the Yap Community Development Program are approved but not disbursed in the amount of \$83,995 and \$84,750 as of September 30, 2007 and 2006, respectively.

8. RELATED-PARTY TRANSACTIONS

Employees and directors of Yap CAP or their immediate family members owed \$69,448 and \$59,996 of the loan receivables outstanding at September 30, 2007 and 2006, respectively.

9. GRANTS AND CONTRACTS

Yap State Legislature through YSL No. 6-85 appropriated \$50,316 from funds allocated to Environmental Sector Grants of the Amended Compact to YCAP on a reimbursement basis for fiscal year 2007. YCAP received a total of \$42,795.00, of which \$1,425 represents the unexpended portion of the 2006 grant that was extended up to September 30, 2007. As of September 30, 2007, YCAP expended a total of \$47,741.00 including \$4,946 receivable from Yap State Treasury. Thus, \$47,741 and \$34,096 were recognized as grant revenues for fiscal years 2007 and 2006 respectively.

Yap State Legislature through YSL No. 6-87 also appropriated \$136,758 in operating subsidies from the State General Fund to YCAP on a reimbursement basis for fiscal year 2007. During fiscal year 2007, YCAP expended a total of \$134,740 of which \$90,223 was already reimbursed and \$44,517 presented as a receivable at September 30, 2007. YCAP's grant revenue for fiscal years 2007 and 2006 were \$134,740.00 and \$162,841 respectively.

10. MISCELLANEOUS EXPENSES

Provided below is a breakdown of miscellaneous expenses for the years ended September 30, 2007 and 2006:

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

**Notes To Financial Statements
Fiscal Years Ended September 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Repair and maintenance	15,830	9,890
Other expenses	\$ 9,587	\$ 7,893
Cost of equipment rental sales	738	3,349
	<u>\$ 26,155</u>	<u>\$ 21,132</u>

11. SUBSEQUENT EVENTS

Resolution No. 101-08 was approved on October 30, 2007 to continue the payment of Cost of Living Allowances "COLA" to all employees for the period of October 1, 2007 to September 30, 2008 at the same rate of \$35 per employee per pay period for a total \$12,740 per year.

On December 7, 2007, the Board of Directors approved Resolution No. 103-08 to increase the YCA short-term investment from \$500,000 to \$1 million. The increase in investment was made possible thru the transfer of their \$400,000.00 investment with AYUW Community Services Credit Union and \$100,000.00 from the agency's general fund.

As of February 11, 2008, Yap CAP's assets increased by \$23,000 with the acquisition of a 24' Marine Six Boat with 115 hp Yamaha engine and a boat trailer.

In fiscal year 2008, YCAP received a total of \$55,482 from Yap State Treasury, with \$49,463 earmarked for allowable expenditures and was considered as receivables as of September 30, 2007. The \$6,019 difference was already encumbered due to outstanding purchase orders that were liquidated in October and December 2007.



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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

We have audited the financial statements of the Yap Community Action Program (Yap CAP) as of and for the year ended September 30, 2007, and have issued our report thereon dated February 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Yap CAP'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 Yap CAP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Yap CAP's internal control over financial reporting.

A control deficiency 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 to detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Yap CAP's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Yap CAP's financial statements that is more than inconsequential will not be prevented or detected by Yap CAP's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by Yap CAP's internal control.

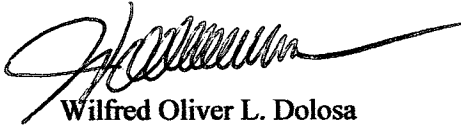
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Deficiencies in internal control over financial reporting that we considered to be material weaknesses are described in the Schedule of Findings (pages 15 – 21) as Findings No. 6 to 8.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Yap Community Action Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are presented in the Schedule of Findings (pages 15 – 21) as Findings Nos. 1 to 5.

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

A copy of the draft report was provided to the Chairman of the Board and the Executive Director, the contents of which were discussed with the Board of Directors, Chairman of the Board and key personnel on August 25, 2008. After the meeting, we solicited written comments from the management on the findings contained in the report. Yap CAP was unable to submit written comments on the audit findings and recommendations despite repeated follow-up; hence, this report is issued without management's response.



Wilfred Oliver L. Dolosa
Acting Yap State Public Auditor

February 18, 2008

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

Schedule of Findings
September 30, 2007

FINDING NO. 1 - COMPETITIVE PROCUREMENT REQUIREMENTS

Criteria: To mitigate the risk of noncompliance with funding sources that explicitly requires competitive procurement, all transactions should be subjected to the same requirements, especially when the control objective of the requirement can be of benefit to all funds no matter the source.

Condition: A sample of 34 transactions aggregating \$62,850 revealed that 8 transactions totaling \$22,134 or 35% of the total sampled had no evidence of price comparison. These transactions were charged to an unrestricted fund (CAP admin) which main income source was interest income over which the Board and Management felt they had full discretion. A review of grant ledgers found that during the year certain transactions initially charged to the unrestricted funds were later reclassified and recorded as expenditures of the Yap State Legislature Grant and Compact Environmental Sector Grants – funding sources that do require competitive procurement procedures. According to Yap CAP personnel, the transferred expenditures followed competitive procurement, but we were unable to verify this claim due to inadequate documentation to allow tracing of the journal entry to individual transactions.

Cause: YCAP follows the competitive procurement requirements and tries to be consistent with the State's requirements. However, those transactions that were not price compared were charged against the unrestricted fund because YCAP felt that price comparison was not a requirement of the fund.

Effect: Purchases made were inconsistent with the State's and Compact Fiscal Procedures Agreement requirements, which require price comparison for small purchases.

Recommendation: YCAP had adopted policies and procedures to ensure compliance with the State's procurement requirements. Management should ensure that the mentioned policies and procedures are complied with and followed at all times irregardless of the funding source to be consistent with the State's policies.

Prior Year Status: A similar finding was cited in the audit report for fiscal year ended September 30, 2005 and 2006.

FINDING NO. 2 – COMPLIANCE WITH TERMS OF GRANT AGREEMENTS

Criteria: Grants authorized to YCAP by the State Government during fiscal year 2007 were comprised of \$136,758 appropriated from the General Fund and \$50,316 from Compact Environmental Sector Grant. The Memorandum of Agreement between Yap CAP and the Office of Administrative Services for administration of the grant stipulated that grant monies was to be disbursed to YCAP on a reimbursement basis.

Condition: YCAP did not restrict its claims for funds drawdown only to the extent of allowable and qualified expenditures.

Cause: Instead of attempting to claim reimbursement of grant related expenditures, YCAP attempted to drawdown the total funds authorized by the appropriation laws.

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

Schedule of Findings
September 30, 2007

FINDING NO. 2 – COMPLIANCE WITH TERMS OF GRANT AGREEMENTS (cont.)

Effect: By not limiting grant revenue to the extent of grant expenditures, YCAP materially overstated its recording of revenues and receivables for the General Fund and Compact Environmental Sector Grants at September 30, 2007, with the effect that it received \$2,018 from the General Fund and \$4,000 from Compact Environmental Sector Grant subsequently in FY08 in excess of allowable expenditures as of September 30, 2007.

Recommendation: We recommend that the Executive Director ensure that future YCAP claims for grant reimbursements are based on actual grant expenditures and not planned purchases.

FINDING NO. 3 – HOUSING BENEFIT

Criteria: The State's Housing Regulations prohibits awarding housing and housing allowance to locally hired employees or employees who had established residence where his/her duty station is situated.

Condition: In fiscal year 2007, YCAP renewed an employment contract for one of its local employees. The contract stated that in lieu of an increase in salary, the employee will be provided housing benefit for the period of March 2007 to March 2008. The employee's authorized annual salary was \$17,160, therefore, the housing benefit of \$6,050 annually represented a 35% raise that was above and beyond what would normally be given to employees of similar positions within the State.

Cause: Management's written justification for the housing benefit was to show the agency's appreciation for the employee's contribution to the rapid growth and expansion of environmental program. Even though the employee's salary was funded by the Compact Environmental Sector Grant, the housing benefit was not charged to Compact Funds, possibly because YCAP was aware that the benefit was irregular and inconsistent with State personnel and housing policies.

Effect: Preferential treatment given to the employee might affect the morale of other employees of YCAP specially those with higher positions than the mentioned employee. Further, non-compliance with the State's Housing Regulations increases the risk of not getting State subsidies.

Recommendation: Again, we recommend that the Board of Directors requires all employment contracts be reviewed for legal sufficiency to avoid non-compliance with State and other applicable laws.

Local Questioned Costs: \$6,050 charged to YCAP's unrestricted fund for a local employee's housing rental.

FINDING NO. 4 – BOARD MEETINGS

Criteria: By-Law of the Yap Community Action Program formulated in March 2002 requires the Board of Directors to hold its meetings at least once every quarter.

Condition: Our review of the Board meeting minutes found that in fiscal year 2007, only two meetings were held by the YCAP Board of Directors on November 30, 2006 and August 08, 2007.

**YAP COMMUNITY ACTION PROGRAM
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Schedule of Findings
September 30, 2007

FINDING NO. 4 – BOARD MEETINGS (cont.)

Cause: Due to other commitments of the Executive Director and members of the Board, there were insufficient number of members of the YCAP Board in times of scheduled meetings and therefore, most meetings scheduled to take place were cancelled.

Effect: Important issues affecting the operations of YCAP were not addressed by the Board in a timely manner.

Recommendation: We recommend the Board of Directors follows its mandates accordingly, otherwise the YCAP By-law and its policies and regulations become ineffective.

FINDING NO. 5 – YCAP POLICY ON STARTING SALARIES

Criteria: YCAP Personnel Policy No. PM – 800 states that “No employee beginning at \$12,000 or more per annum shall have a salary of more than 20% above his salary at his previous job without the approval of the Board of Directors.

Additionally, YCAP Board of Directors and the Personnel Committee should be involved in the wages classifications which positions are classified and wages established by position title, responsibilities of the class of jobs, duties recommended by the Executive Director and minimum requirements for hiring.

Condition: Our review of personnel regulations and policies found that Yap CAP authorized beginning salaries for two employees hired in FY2007 in excess of \$12,000 per annum. Such wages were 81% to 105% higher than the salaries earned by the employees at their previous posts.

Furthermore, we found no evidence of the Board’s or the Personnel Committee’s approvals of the beginning salaries for the positions of the two newly hired employees.

Cause: The Executive Director represented that he overlooked the existing policy limiting starting salaries. Moreover, his position was that the existing policy on salaries was outdated and should be revised.

Effect: Non-adherence to YCAP Personnel Policy No. PM -800 has created a big distortion in the pay scale of Yap CAP employees which could lead to low morale. By his sole approval of the Personnel Action Forms without seeking the input from the Board of Directors, the Executive Director usurp a basic control feature which is the check and balance between management and the Board.

Recommendation: To ensure that proper checks and balances are maintained between management and the policy-making board, policies in place, no matter how outdated or in need of reform, should not be ignored or dismissed without the approval of the Board of Directors.

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

Schedule of Findings
September 30, 2007

FINDING NO. 6 – ADMINISTRATIVE COSTS

Criteria: Generally, non-profit organizations that expend approximately 10% to 25% of its revenues on administrative costs are considered well managed and therefore pleasing to donors.

Condition: During fiscal year 2007 and for the past five years, YCAP had been involved in the implementation of the certain programs. YCAP expended an average of 65% of its annual revenues and loan proceeds on administrative costs and only 35% of its total revenues for implementation of its programs.

A comparison of the administrative costs as percentage of average total revenues, total funds received, total expenses and total disbursements for the different programs from fiscal years 2003 to 2007 is as follows:

<u>Proceeds</u>	<u>Average</u>	<u>% of Admin</u>
Grants and contracts	243,762	
Interests and other income	108,576	
Total revenue	352,338	65%
 Add: Loan proceeds	 202,803	
Total Funds Received	555,141	42%
 <u>Disbursements</u>		
Admin costs	230,681	
Environ. & Other Programs	52,207	
Housing Loan Projects	2,807	
Total expenses	285,695	81%
 Add: Loans disbursed	 139,690	
Total Disbursements	425,384	54%

Cause: More than half of YCAP's administrative expense was due to salaries and fringe benefits of its employees. YCAP pays the best starting salaries and has some of the best paid employees in the State. YCAP's employees have been enjoying annual COLA adjustments for the past two years and it also provided housing for one of its key local employees.

YCAP was able to fund these benefits through the bank interests earned from the Revolving Housing Loan fund, which were not booked as addition to the mentioned fund but were recorded as unrestricted income to be used at the discretion of the board and management.

**YAP COMMUNITY ACTION PROGRAM
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Schedule of Findings
September 30, 2007

FINDING NO. 6 – ADMINISTRATIVE COSTS (cont.)

Effect: For the past five years, administrative costs have been considerably higher for the housing loan program, since costs charged to the program's income were not exclusively for the benefit of the loan program. Instead of using the additional earnings to lower the interest charged to borrowers, YCAP has expended the additional income to lavish its employees with benefits not enjoyed by any other government employee within the State.

From FY2003 to 2007, YCAP earned approximately \$178,127 in interest income from its time certificates of deposit and short-term investments consisting primarily of cash for the housing loan program. Approximately \$140,000 of the interest earned was spent on vehicles, boat and accessories, office equipments and fixtures, employees' benefits, travel and promotion and entertainment.

Loan repayments from fiscal years 2007 and 2006 continued to increase by 6% and 13%, respectively, as compared to fiscal year 2005. Loan disbursements on the other hand started to decline by 52% in FY2007 as compared to FY2005.

Recommendation: We recommend that the Board of Directors review its existing policies on the loan program and come up with new polices that are consistent with the program goals, which are to help the local population improve its standard of living. As a nonprofit organization chartered to improve the living conditions of the people of Yap, the benefits to be derived from the activities of the program should benefit a wider segment of the population of Yap rather than merely the employees of the agency.

FINDING NO. 7 – COST OF LIVING ALLOWANCE

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

Condition: In FY2007, YCAP paid an estimated total of \$9,300 to its employees as the Cost of Living Allowance. "COLA" payments was \$2,000 more than the amount paid in FY2006.

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. Only merit increases are allowed by the State Government 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.

**YAP COMMUNITY ACTION PROGRAM
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Schedule of Findings
September 30, 2007

FINDING NO. 7 – COST OF LIVING ALLOWANCE (cont.)

Effect: 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.

On October 30, 2007 Board Resolution No. 101-08 authorized YCAP to continue the payment of COLA to both permanent and contractual employees for the period October 1, 2007 to September 30, 2008. This resulted in an estimated total of \$12,740 to be paid in fiscal year 2008.

Recommendation: We recommend that Yap CAP follow the practice of the State Government by exhibiting 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 evaluation clearly shows that employees have exceeded normal expectation should salary increase be awarded

Prior Year Status: Same Finding was cited in the audit of fiscal year ending September 30, 2006.

FINDING NO. 8 – 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 2007. Net assets beginning balance was not reconciled to the prior year closing balance. Schedules for loans receivables, accrued interests receivables, and estimated allowances for doubtful accounts did not agree to the general ledger balances at September 30, 2007 as follow:

<u>G/L Account/Loan Program</u>	<u>General Ledger</u>	<u>Sub-ledgers</u>	<u>Unreconciled variance</u>
<u>LOANS RECEIVABLE BALANCES</u>			
YSL Loan Funds	\$785,083	\$812,503	\$(27,420)
CDBG Loan Funds	490,404	464,383	26,021
YSHA Loan Funds	183,949	183,949	–
HPG Loan Funds	1,456	5,523	(4,067)
Totals	\$1,276,943	\$1,282,409	\$(5,466)
<u>ALLOWANCES FOR BAD DEBT – LOANS RECEIVABLE</u>			
YSL Loan Funds	\$332,759	\$411,971	\$(79,212)
CDBG Loan Funds	394,978	375,373	19,605
HPG Loan Funds	1,521	1,696	(175)
YSHA Loan Funds	184,729	183,949	780
Totals	\$913,987	\$972,989	\$(59,002)
<u>ACCRUED INTEREST RECEIVABLES</u>			
YSL Loan Funds	\$65,631	\$56,196	\$9,435
CDBG Loan Funds	78,258	72,146	6,112
HPG Loan Funds	235	339	(104)
Totals	\$144,124	\$128,681	\$15,443