

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

**Financial Statements and
Independent Auditor's Report
For the Years Ended
September 30, 2008 and 2007**



**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, 2008 and 2007**

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, 2008 and 2007 which report is dated June 10, 2010. 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, 2008 and 2007, Yap Cap expended \$20,854 and \$64,293, respectively in Compact and other federal financial assistance.

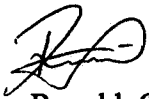
The report on internal control over financial reporting and compliance and other matters required by Government Auditing Standards on pages 13 to 14 discusses reportable conditions at Yap CAP. These conditions and our recommendations are presented for the information of Yap Cap's management in the Schedule of Findings beginning on page 15. Of the five findings, three are related to inadequate controls while the remaining 2 pertains to noncompliance with laws and regulations. Four of the five findings are repeated from the prior years.

Following is a summary of the audit findings for the year ended September 30, 2008:

- (1) Finding No.1 cites Yap CAP for providing housing and housing allowance to a locally hired employee in contradiction with the State's Housing Regulation.
- (2) Finding No. 2 cites Yap CAP for giving Cost of Living Allowances (COLA) to its employees in FY2008. The finding notes that Yap CAP relies on annual operating subsidy from the State Government and therefore, must adhere to the financial restrictions and cost-savings policies of the Yap State Government.
- (3) Finding No. 3 refers to the unresolved prior year findings. Only three (3) out of eight (8) prior year findings have been resolved and the remaining five (5) findings have remained unresolved and are still recurring in FY08 audit.
- (4) Finding No. 4 cites Yap CAP on the improper usage of unrestricted funds. During the year, Yap CAP disbursed a total of \$95,000 while the only addition to the mentioned fund was \$35,000, which came from the interest of their investment at YCA.

- (5) Finding No. 5 reiterate the need for Yap CAP to utilize an 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 April 23, 2010. Yap Cap's written responses to the findings are presented beginning on page 19. We thank the staff and management of Yap CAP for the cooperation and assistance extended to us during the course of this audit.



Ronald C. Yow
Public Auditor
Yap State, FM

June 7, 2010

**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

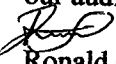
We have audited the accompanying statements of financial position of Yap Community Action Program (Yap CAP) as of September 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Yap CAP's management. 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, 2008 and 2007, 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 June 7, 2010 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.


Ronald C. Yow
Yap State Public Auditor

June 7, 2010

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)

Statements of Financial Position
September 30, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current Assets		
Cash, unrestricted	\$ 228,875	\$ 235,754
Cash, restricted	828,522	821,572
Short term investment	1,000,000	900,000
Loans receivable, current portion (note 3)	150,038	165,697
Grants receivable (note 2)	38,266	77,665
Travel advance and other receivable	9,313	9,535
Prepaid expense	8,175	8,033
Interest receivable (note 3)	1,116	529
Total current assets	<u>2,264,305</u>	<u>2,218,785</u>
Long-term portion of loans receivable (note 3)	303,543	326,679
Property and equipment, net (note 4)	<u>109,035</u>	<u>112,620</u>
TOTAL ASSETS	<u>\$ 2,676,883</u>	<u>\$ 2,658,084</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 8,032	\$ 1,404
Accrued expenses	19,150	18,385
Accrued annual leave	9,775	9,803
Due to other grantors (note 5)	<u>102,639</u>	<u>102,639</u>
Total current liabilities	<u>139,596</u>	<u>132,231</u>
Commitments and contingencies		
Net assets:		
Unrestricted	(69,728)	8,104
Temporarily-restricted	383,444	330,924
Permanently-restricted	<u>2,223,571</u>	<u>2,186,825</u>
Total net assets	<u>2,537,287</u>	<u>2,525,853</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,676,883</u>	<u>\$ 2,658,084</u>

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)

Statements of Activities
For the Years Ended September 30, 2008 and 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2008	2007
REVENUES, GAINS, AND OTHER SUPPORT					
Grants and contracts	\$	\$ 298,090	\$	\$ 298,090	\$ 310,839
Interest	24,509		44,793	69,302	96,843
Other income	14,742	9,703		24,445	27,783
Net assets released from restriction					
Satisfaction of program restriction	238,478	(238,478)		-	-
Total revenues, gains, and other support	277,729	69,315	44,793	391,837	435,465
EXPENSES AND LOSSES					
Program services					
Federal and Compact programs	15,306	1,547		16,853	16,553
Other nonprofit and local programs	46,559			46,559	80,675
Management and general					
Salaries and fringe benefits	192,704			192,704	152,230
Depreciation expenses			43,619	43,619	32,042
Miscellaneous (note 10)	18,760			18,760	26,155
Supplies and materials	15,269			15,269	9,655
Contractual services	13,210			13,210	24,779
Fuel	12,382			12,382	9,719
Communications and utilities	11,059			11,059	10,312
Other costs	3,848			3,848	3,413
Travel	1,759			1,759	6,113
Total expenses and losses	330,856	1,547	43,619	376,022	371,646
Other changes in net assets					
Acquisition of property and equipment	(24,705)	(9,320)	34,025	-	-
Grant funds disbursed as housing loans		(5,928)	5,928	-	-
Bad debt expense			(4,381)	(4,381)	(59,002)
Change in net assets	(77,832)	52,520	36,746	11,434	4,818
Net assets at beginning of year	8,104	330,924	2,186,825	2,525,853	2,521,035
Net assets at end of year	\$ (69,728)	\$ 383,444	\$ 2,223,571	\$ 2,537,287	\$ 2,525,853

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)

Statements of Cash Flows
For the Years Ended September 30, 2008 and 2007

Increase (Decrease) in Cash

	<u>2008</u>	<u>2007</u>
Cash flows provided by (used for) operating activities		
Receipts from operating activities	\$ 9,703	\$ 6,271
Cash received from other revenues and support	312,832	332,352
Cash payments for goods and services	(93,592)	(241,700)
Cash payments to employees	(191,967)	(147,432)
Net cash used for operating activities	<u>36,976</u>	<u>(50,509)</u>
Cash flows from lending activities		
Principal and interest payments received	168,019	212,738
Housing loans disbursed	(102,358)	(99,175)
Net cash provided by noncapital financial activities	<u>65,661</u>	<u>113,563</u>
Cash flows from (used for) investing activities		
Purchase of time-certificates of deposits	--	(50,751)
Inc/Dec in short-term investment	(100,000)	--
Interest income	24,509	50,999
Acquisition of fixed assets	(34,025)	(61,887)
Net cash used for investing activities	<u>(109,516)</u>	<u>(61,639)</u>
Net increase (decrease) in cash	(6,879)	1,415
Cash, beginning of year	235,754	234,339
Cash, end of year	<u>\$ 228,875</u>	<u>\$ 235,754</u>
Reconciliation of Changes in Net Assets to Net Cash used for operating Activities:		
Changes in net assets	\$ 11,434	\$ 4,818
Adjustment to reconcile changes in net assets to net cash used in operating activities:		
Loan interest income presented as lending activity	(37,760)	(36,042)
Interest income presented as investing activity	(31,542)	(60,801)
Depreciation	43,619	32,042
Bad debt expense	4,381	59,002
(Increase)/decrease in assets		
Federal and other grant receivables	39,399	(21,764)
Travel advance and other receivable	222	(7,472)
Prepaid expense	(142)	(4,352)
Increase/(decrease) in liabilities		
Accounts payable	6,628	(19,313)
Accrued expenses	765	3,285
Annual leave	(28)	1,513
Due to Yap State Treasury	--	(1,425)
Net cash used for operating activities	<u>36,976</u>	<u>(50,509)</u>

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT ORGANIZATION)

Schedule of Expenditures of Federal Awards
September 30, 2008 and 2007

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	
		<u>2008</u>	<u>2007</u>
Amended Compact of Free Association			
Environmental Sector Grant			
Yap Community Action Program	15.875	\$ 4,000	\$ 47,741
<i>(Passed through FSM National Government and Yap State)</i>			
Compact of Free Association			
Section 212 Special Development			
Yap Community Action Program	15.875	3,091	754
<i>(Passed through FSM National Government and Yap State)</i>			
USDA Rural Development			
Rural Development			
Housing Preservation Grant (Note 1)	10.433	1,547	4,497
<i>(Direct through Yap Rural Development Office)</i>			
U.S. Department of State			
U.S. Fish and Wildlife Service			
Marine Conservation Area (MCA) at Nimpal Channel			
<i>(direct from USFWS on a reimbursement basis)</i>	15.608	5,998	--
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	6,218	11,301
TOTAL FEDERAL AWARDS EXPENDED:		\$ 20,854	\$ 64,293

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

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2008 and 2007

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. SFAS 136 establishes that an organization that holds assets for others will report those assets as liabilities.

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 \$238,478 and \$281,101 for the years ended September 30, 2008 and 2007, 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, 2008 and 2007

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 2008 and 2007 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, 2008 and 2007 consist of funds invested under deposit agreements with locally-owned businesses as follows:

On November 6, 2007, the short-term investment with Yap Cooperative Association (YCA) of \$500,000 the maturity date of September 12, 2007 was increased to \$1,000,000 to mature on November 5, 2010 or a period of three (3) years. Such investment will be earning interest rates of 6.5% for the first year and 7% for the last two (2) years. Since YCA does not have its fund insured through FDIC, in the event of YCA's loss of invested fund, YCAP shall become a creditor to YCA. The \$500,000 increase in investment came from the following; \$400,000 from proceeds of a short term investment, which matured on October 27, 2007, with Community Ayuw Services (Ayuw), a locally owned credit union; and \$100,000 from YCAP's unrestricted general fund.

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

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.

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2008 and 2007

2. GRANTS RECEIVABLE

Yap CAP receives its grants from the Yap State Government and outside sources on a reimbursement basis. Accordingly, on September 30, 2008 and 2007, Yap CAP had submitted expenditure requests to granting agencies for which payment was outstanding as follows:

	<u>2008</u>	<u>2007</u>
Yap State General Fund (YSL 6-87 & 6-57)	\$ 10,064	\$ 44,517
NOAA Coral Reef Monitoring Project	28,202	28,202
Compact Environmental Sector Grants	--	4,946
	<u>\$ 38,266</u>	<u>\$ 77,665</u>

3. LOANS RECEIVABLE

Details of receivables under the housing loan program as of September 30, 2008 and 2007 are presented below:

	<u>2008</u>	<u>2007</u>
Community Development Block Grant Loans	\$ 434,079	\$ 490,404
Yap State Legislature Loans	796,832	785,083
Yap State Housing Authority Loans	183,169	183,949
Housing Preservation Grant Loans	8,892	5,929
	<u>1,422,971</u>	<u>1,465,365</u>
Add: Accrued interest	<u>181,199</u>	<u>128,681</u>
Total loan principal and interest	1,604,170	1,594,046
Less: Allowance for doubtful loans and interest	<u>(1,149,473)</u>	<u>(1,101,141)</u>
Loans receivable, net	454,697	492,905
Less: Current portion - principal	(150,038)	(165,697)
Current portion - interest	(1,116)	(529)
Long-term portion	<u>\$ 303,543</u>	<u>\$ 326,679</u>

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

**Notes To Financial Statements
Fiscal Years Ended September 30, 2008 and 2007**

4. PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 2008 and 2007 is as follows:

	Beginning Balance October 1, 2007	Transfers And Additions	Transfers And Disposal	Ending Balance September 30, 2008
Vehicles	\$ 162,812	\$ --	\$ --	\$ 162,812
Office furniture & equipments	85,092	--	--	85,092
Other assets	60,230	40,033	--	100,263
	<u>308,134</u>	<u>40,033</u>	<u>--</u>	<u>348,167</u>
Less: accum. depreciation	<u>(195,514)</u>	<u>(43,619)</u>	<u>--</u>	<u>(239,132)</u>
	<u>\$ 112,620</u>	<u>\$ (3,586)</u>	<u>\$ --</u>	<u>\$ 109,035</u>

	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	129,728	--	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>

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>2008</u>	<u>2007</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, 2008 and 2007

6. NET ASSETS

The components of ending net assets are presented below:

	<u>2008</u>	<u>2007</u>
Unrestricted net assets		
CAP Admin	\$ 53,945	\$ 109,665
Miscellaneous	(103,635)	(103,636)
YCAP Indirect	2,075	2,075
Subtotal	<u>(47,615)</u>	<u>8,104</u>
Less: Unfunded projects charge to unrestricted funds	<u>(22,140)</u>	<u>--</u>
Subtotal	<u>(69,755)</u>	<u>8,104</u>
Temporarily-restricted net assets		
YSL CAP	(10)	(10)
Env. Student Intern	6,337	6,337
CFMS Matching Funds	28,284	28,284
Coral Reef Project	(6,218)	--
Housing Preservation Grants	1,900	5,638
Yap State Legislature matching funds	--	2,641
Australian matching	37,403	38,500
Senior Grant	17,846	17,846
Office miscellaneous	52,715	46,404
Rare project	239	239
Rapid Environmental Marine Assessment	6,545	(679)
Kanif Seawall Project	4,058	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	152,227	15,318
Ngulu Atoll Management Plan	(7,720)	(3,375)
Sea Turtle Conservation Project	(12,110)	(3,350)
Nimpal Site Conservation (USFWS)	(13,848)	--
Nimpal Site Conservation (MCT/PKRD)	(1,766)	--
MRMD Reef project	172	172
CFMS Kaday youth project	69	69
CFMS Dalipebinau recreation project	3,992	3,992
YBSAP	2,821	2,821
Sudal	30	30
TNC Computer Training	1,167	1,167
Ngulu Surveillance	78,566	--
Fish Market Survey	(3,247)	--

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2008 and 2007

6. NET ASSETS (CONT.)

Waterwatch	165	165
Pacific Diabetes	--	4,080
Gielob Turtle Tagging Project	--	(1,980)
Subtotal	361,304	330,924
Add: Unfunded projects charge to Unrestricted funds	22,140	--
Subtotal	383,444	--
Permanently restricted net assets		
HPG revolving loan fund	112,263	104,990
CDBG revolving loan fund	987,818	978,913
YSHA revolving loan fund	97,880	96,752
YSL revolving loan fund	921,915	892,213
Ayuw revolving loan fund	339	34
CFSM capital assets	3,273	4,007
YSL capital assets	8,665	13,596
Other capital assets	88,882	87,595
Housing capital assets	2,536	7,752
Subtotal	2,223,571	2,186,825
	\$ 2,537,260	\$ 2,525,853

7. COMMITMENTS

As of September 30, 2008 and 2007, undisbursed approved housing loans totaled \$33,536 and \$130,692, respectively. Undisbursed approved funding for projects under the Yap Community Development Program totaled \$80,904 and \$83,995 as of September 30, 2008 and 2007, respectively.

8. RELATED-PARTY TRANSACTIONS

Employees and directors of Yap CAP or their immediate family members owed \$64,756 and \$69,448 of the loan receivables outstanding at September 30, 2008 and 2007, respectively.

9. GRANTS AND CONTRACTS

Yap State Legislature did not appropriate any appropriation from the Environmental Sector Grants of the Amended Compact. However, the unexpended portion of the FY2007 grant of \$4000 was expended as of December 2007.

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2008 and 2007

9. GRANTS AND CONTRACTS (CONT.)

In fiscal year 2007, Yap State Legislature through YSL No. 6-85 appropriated \$50,316 from funds allocated to Environment Sector Grants of the Amended Compact to YCAP on a reimbursement basis of which \$4,000 and \$47,741 were recognized as grant revenues for fiscal years 2008 and 2007 respectively.

In fiscal year 2008, Yap State Legislature through YSL No. 7-11 appropriated \$196,110 in operating subsidies from the State General Fund to YCAP on a reimbursement basis. Grant expenditures totaled \$198,116, which was inclusive of \$2,008 unexpended portion of FY07, and \$134,740 as of September 30, 2008 and 2007 respectively. As of September 30, 2008, \$188,055 of the total grant expenditures of \$198,116 was already reimbursed and the remaining \$10,061 was recognized as grants receivable.

10. MISCELLANEOUS EXPENSES

Provided below is a breakdown of miscellaneous expenses for the years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Repair and maintenance	\$ 10,515	\$ 15,830
Other expenses	8,245	9,587
Cost of equipment rental sales	--	738
	<u>\$ 18,760</u>	<u>\$ 26,155</u>

11. SUBSEQUENT EVENTS

On November 19, 2008, YCAP received \$65,000 in interest from its short-term investment with Yap Cooperative Association.

On November 12, 2008, a A Pass-Thru-Grant/Sub-Grant Agreement was executed between the Yap State Government as "Grantor" and YCAP as "Grantee". The agreement transfers all pertinent financial management responsibilities from the Grantor to the Grantee for funds/grant in the amount of \$150,000. The grant was authorized by section 1 of the Yap State Public Law 5-34 which appropriated such amount from the Special Revenue Fund of the State of Yap out of the Compact Section 212 financial assistance funding for the purpose of providing additional funding for the Yap Community Development Projects (YCDP).

In October 2008, the Yap State Legislature through YSL Nos. 7-42 and 7-44 appropriated to YCAP a sum of \$208,477, of which \$138,591 was from the State's General Fund and \$69,886 from the Environment Sector Grant of the Amended Compact. All funds appropriated by the two laws will be maintained under the authority of the Director of the Office of Administrative Services and will not be advanced to the respective agency at the beginning of the fiscal year. The administration of YCAP's funds by State Finance will definitely have an impact on YCAP's financial statements in fiscal year 2009 since nearly 100% of YCAP's operation is funded by Yap State.



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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, 2008, and have issued our report thereon dated June 7, 2010. 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 to 18) as Findings No. 3 to 5.

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 to 18) as Findings Nos.1 and 2.

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.



Ronald C. Yow
Yap State Public Auditor

June 10, 2010

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

Schedule of Findings
September 30, 2008

FINDING NO. 1 – HOUSING BENEFIT

Criteria: The Yap 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: YCAP issued a check in the amount of \$7,200 to a local business establishment as payment for housing of one of YCAP's local employees for the period of March 2008 to March 2009. Of the total amount paid, \$4,200 was expended from the FY08 appropriations under the State's General Fund and an advance payment of \$3,000 from YCAP's unrestricted fund.

In fiscal year 2007, YCAP paid \$6,050 as housing benefit which was cited as "local questioned cost" in FY2007 audit report. The amount paid in FY2008 increased by approximately 20% from FY2007.

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 its 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, as it should be, which is inconsistent with the State's personnel and housing policies. Furthermore, employment contracts did not go through the AG's Office for legal certification ensuring compliance to the State's policies, laws and regulations.

Effect: Housing benefit is not in compliance with policies, laws and regulations of Yap State Government.

Recommendation: We reiterate our prior years' recommendations that the Board of Directors requires all employment contracts be reviewed by the Office of the Attorney General for legal sufficiency to avoid non-compliance with State and other applicable laws.

FINDING NO. 2 – COST OF LIVING ALLOWANCE

Criteria: YCAP 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: On October 30, 2007 Board Resolution No. 101-08 authorized YCAP to continue payments of Cost of Living Allowance "COLA" to both permanent and contractual employees for the period of October 1, 2007 to September 30, 2008. This resulted in YCAP paying an additional amount of \$12,740 to its employees.

Cause: According to the Resolution, YCAP management was tasked to "explore the possibilities of how financially and methodologically permanent employees of YCAP 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 the 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, YCAP's Board of Directors and management did not require the pay increases to be tied to promotions or good performance.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Schedule of Findings
September 30, 2008

FINDING NO. 2 – COST OF LIVING ALLOWANCE (CONT.)

Effect: YCAP still continues to pay “COLA” to its employees though for the past two fiscal years they have been cited for its inconsistency with the financial restrictions and cost-saving policies of the State Government. The “COLA” payments of YCAP in FY2008 substantially increased by 37% and 75% as compared to FY2007 and 2006 figures.

In contrast, the Yap State Government has a salary freeze in place 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.

Recommendation: We again recommend that YCAP follow the practice of the State Government by exhibiting fiscal restraint in dispensing of pay increases.

Prior Year Status: A similar finding was cited in the audit report for fiscal year ended September 30, 2007 and 2006.

FINDING NO. 3 – UNRESOLVED PRIOR YEAR FINDINGS

Criteria: YCAP should on a timely manner, adopt and implement audit recommendations to strengthen controls over its financial reporting and ensure full compliance with laws and regulations of the Yap State Government.

Condition: Out of the eight findings cited in fiscal year 2007, the Board and Management of YCAP only managed to resolve three (37%). Five or 63% of the FY2007 findings have remained unresolved and are still recurring exceptions in the FY2008 audit report.

Cause: YCAP failed to implement and adopt audit recommendations on a timely manner.

Effect: Due to continuous failure to address the unresolved findings, YCAP have remained non-compliant with some existing laws and regulations of Yap State, thus, such exceptions will remain to be identified and considered as questioned costs.

Recommendation: YCAP should find ways to improve its efficiency in addressing audit recommendations on a timely manner.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Schedule of Findings
September 30, 2008

FINDING NO. 4 – THE USE OF UNRESTRICTED FUNDS

Criteria: Sound accounting practice dictates that in order to have financial viability, a proper matching of income and expenses should be maintained.

Condition: During the course of the year, the disbursement using the unrestricted funds amounted to approximately \$95,000 while its only addition of approximately \$39,000 came via bank interest earned from the Revolving Housing Loan Fund. Based on the figures, YCAP has expended 142% more than it earned and of the trend continues, YCAP might end up with no unrestricted funds in the near future.

Of the total expended, approximately \$25,000 was used to purchase a boat and other fixed assets and \$70,000 was expended on salaries and cost of living allowance, employees' benefits and other cost that may appear to be questionable or irregular if charged against temporarily restricted and permanently restricted funds.

Cause: YCAP was able to fund these benefits through the bank interest 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.

Effect: The Yap State Government had been funding the operations of YCAP to ensure continuity of its programs and services and therefore, surplus and additional income to the agency should be retained for future provision of programs and services.

Recommendation: We recommend that YCAP adopt policies and procedures to ensure YCAP's adherence to the financial restrictions and cost savings of the Yap State Government as changes of the State's fund source of revenue may greatly impact the reliability or predictability with which YCAP can retain its employees and effectively maintains its operations and programs.

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 2008. Net assets' beginning balances were not reconciled to prior year closing balances. Schedules for accrued interest receivables, and estimated allowances for doubtful accounts did not agree to the general ledger balances as of September 30, 2008.

Cause: YCAP stated that it planned to automate its general ledger beginning in fiscal year 2008. An IT Manager/Accountant IV was hired in FY2007 to automate the general ledger. During our audits for FY2007 and 2008, the general ledger was yet to be automated.

Effect: By not taking timely action to improve its accounting system, errors and problems found in prior years will still remain uncorrected for fiscal year 2009.

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

Schedule of Findings
September 30, 2008

FINDING NO. 5 – MANUAL ACCOUNTING LEDGERS (CONT.)

Recommendation: Since a “Quickbooks” accounting program is readily available and FY2009 transactions are being posted, we recommend that YCAP management ensures that the IT Manager/Accountant IV will be able to provide the program’s generated accounting records for fiscal year ending September 30, 2009.

Prior Year Status: A similar finding was issued to YCAP for the years ended September 30, 2007, 2006, 2005, 2004 and 2003.

Yap Community Action Program

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May 12, 2010

Ronald Yow
Public Auditor
Office of the Public Auditor
Colonia, Yap State FM 96943

Re: Response to 2008 Audit Findings

Dear Mr. Yow:

Many thanks to you and your staff for completing the draft audit report for Yap CAP for fiscal year 2008. Below please find our official response to the findings contained in the draft report.

FINDING NO. 1 – HOUSING BENEFIT

Response: We appreciate the opinion and position expressed by the Public Auditor on this and other policy issues being cited in this report. And as much as we wish we could, without questions, doubts or thoughts, comply blindly with the recommendations offered by that office we are of the firm belief that would not be in the best interest of the organization. We further believe that a paramount purpose of the audit is to serve as a tool in guiding the direction, management practices and policies of an organization. In this case, the awarding of an additional housing benefit in lieu of a salary increase to a deserving contracted employee was done as part of a package negotiated and agreed to by both parties. The Board feels that it has the right to negotiate and award contracts funded from the organization's unrestricted fund account without the restrictions of the government's internal policies. Yap CAP is a chartered non-government organization governed and directed by a Board of Directors. As such, the organization has its own set of policies and procedures established by the Board and independent of the government.

FINDING NO. 2 – COST OF LIVING ALLOWANCE

Response: Similar to our response to Finding No.1, we appreciate the opinion and position expressed by the Public Auditor on this policy issue. COLA is exactly what the acronym stands for – Cost Of Living Allowance and not a pay increase as has been cited. The Board has the discretion to disburse funds out of the unrestricted account of the organization in an effort to promote the interest and well being of the organization and its employees. In this case, COLA was authorized as an economic counter measure to the increasing cost of living fueled by the increased cost of fuel. This is not meant to be permanent but temporary in nature. Should economic

conditions in Yap improve to a point where the Board feels COLA is no longer warranted or be afforded, it will be ceased.

FINDING NO. 3 – UNRESOLVED PRIOR YEAR FINDINGS

Response: The management wholly agrees with the finding that the management should improve in addressing audit recommendations on a timely manner. However the management does not agree on having this as a separate finding in itself. It's redundant. These findings referenced as "Unresolved Prior Year Findings" are enumerated separately in the FY 2008 Audit Schedule of Findings. It would be very difficult for us to summarize our plan of actions or responses for those different concerns under this particular finding. Management believes that there is no need for a separate response to this particular finding, Finding # 3, as they are each addressed specifically as a separate Finding in themselves.

FINDING NO. 4 – THE USE OF UNRESTRICTED FUNDS

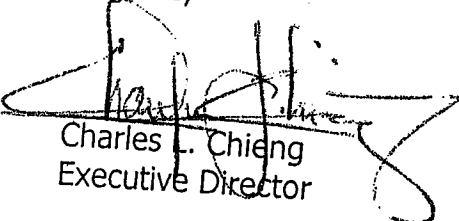
Response: While we welcome the Auditor's expressed opinion on the organization's use and management of its Unrestricted Account we do not appreciate the fact that only part of the picture is being presented thereby allowing room for the wrong conclusions to be drawn. Firstly, the Finding failed to mention that the Unrestricted Account had a balance of \$109,665.62 at the end of the previous FY and it got carried over into FY 2008. Secondly, the \$39,000 earned and booked in FY '08 was not from "bank interest earned from the Revolving Housing Loan Fund" as stated in the Finding. The amount was from Ayuw as Interest Earned on an investment instrument negotiated and placed with them. The investment account is comprised of comingled funds available to the organization. The fact that the funds are comingled its earning is booked as Unrestricted. Thirdly, the purchase of capital items were deemed necessary and are used 'match' for outside grants. Most grants do not allow purchase of capital assets. The Board is very keen on the long term sustainability of the organization and feels that they are being prudent in the management of the organization toward that end.

FINDING NO. 5 – MANUAL ACCOUNTING LEDGERS

Response: We do agree that there is a "Quickbooks" readily available for the Agency to use but the Agency still has not been able to use it fully. The program was purchased in 2008 and nobody was familiar with its uses. Obviously staff training was needed. The last thing we want to happen is to make errors in the program and not be able to track, identify, and make the necessary corrections to them. In FY 2009 the management will try to enroll all of the users in workshops that perhaps may be conducted locally to help them learn how to use the program. Only then, the Agency can start using the program. It is important for the users to use the program with confidence to effectively and timely accomplish the necessary tasks with minimal variances in the financial recordings.

We appreciate your patience and understanding and we look forward to working with your office again for our fiscal year 2009 audit. Meanwhile, do let us know if you have any questions or need clarification on any of the responses provided above.

Regards,


Charles L. Chieng
Executive Director

Xc: Yap CAP BOD
File