

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

**Financial Statements and
Independent Auditor's Report
For the Years Ended
September 30, 2009 and 2008**



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



OFFICE OF THE STATE PUBLIC AUDITOR
YAP STATE GOVERNMENT

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EXECUTIVE SUMMARY

**Financial Audit of the Yap Community Action Program
For the Years ended September 30, 2009 and 2008**

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, 2009 and 2008 which report is dated December 24, 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, 2009 and 2008, Yap Cap expended \$82,690 and \$20,854, 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 14 to 15 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 16. 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, 2009:

- (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 FY2009. 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) or 37% prior year findings have been resolved and the remaining five (5) findings or 67% have remained unresolved and have been recurring for the past two fiscal years.
- (4) Finding No. 4 cites Yap CAP on the improper usage of restricted funds. During the year, Yap CAP Board of Directors, through Resolution nos. 102-09 and 103-09, authorized the use of the housing Revolving Loan Fund to purchase a 4X4 double cabin pick-up, a computer and printer for the Housing Loan Division.

- (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.
- (6) Finding No. 6 cites Yap CAP for unrecorded expenses totaling \$196, 309 as of September 30, 2009.
- (7) Finding No.7 cites Yap Cap for long outstanding travel advances. A total of \$7,288 dating back to three fiscal years has not been liquidated. Mentioned advances were given to three travelers though they still have outstanding travel advances.

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 September 30, 2010. Yap Cap's written responses to the findings are presented beginning on page 21. 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
Acting Public Auditor
Yap State, FM

December 24,2010

**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, 2009 and 2008, 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, 2009 and 2008, 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 December 24, 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
Acting Yap State Public Auditor

December 24, 2010

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)

Statements of Financial Position
September 30, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current assets :		
Cash, unrestricted	\$ 200,690	\$ 228,875
Cash, restricted	1,006,805	828,522
Short-term investment	1,000,000	1,000,000
Loans receivable, current portion (note 3)	145,022	150,038
Grants receivable (note 2)	28,202	38,266
Travel advance and other receivable	9,243	9,313
Prepaid expense	38,079	8,175
Interest receivable (note 3)	407	1,116
Total current assets	<u>2,428,448</u>	<u>2,264,305</u>
Long-term portion of loans receivable (note 3)	235,837	303,543
Property and equipment, net (note 4)	<u>128,668</u>	<u>109,035</u>
TOTAL ASSETS	<u>\$ 2,792,953</u>	<u>\$ 2,676,883</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 4,203	\$ 8,032
Accrued expenses	8,322	19,150
Accrued annual leave	10,115	9,775
Due to other grantors (note 5)	<u>102,639</u>	<u>102,639</u>
Total current liabilities	<u>125,279</u>	<u>139,596</u>
Commitments and contingencies		
Net assets:		
Unrestricted	(115,042)	(69,728)
Temporarily-restricted	509,349	383,444
Permanently-restricted	<u>2,273,368</u>	<u>2,223,571</u>
Total net assets	<u>2,667,674</u>	<u>2,537,287</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,792,953</u>	<u>\$ 2,676,883</u>

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)

Statements of Activities
For the Years Ended September 30, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2009	2008
REVENUES, GAINS, AND OTHER SUPPORT					
Grants and contracts (note 9)	\$ -	\$ 420,947	\$ -	\$ 420,947	\$ 298,090
Interest	65,000	-	35,259	100,259	69,302
Other income	5,860	12,020		17,880	24,445
Net assets released from restriction					
Satisfaction of program restriction	267,435	(267,435)		-	
Total revenues, gains, and other support	338,295	165,532	35,259	539,086	391,837
EXPENSES AND LOSSES					
Program services					
Federal and Compact programs	17,318	2,872		20,190	16,853
Other nonprofit and local programs	55,474	2,872		58,346	46,559
Management and general					
Salaries and fringe benefits	196,816			196,816	192,704
Depreciation expenses			47,978	47,978	43,619
Miscellaneous (note 10)	24,213			24,213	18,760
Supplies and materials	30,858			30,858	15,269
Contractual services	6,695			6,695	13,210
Fuel	10,512			10,512	12,382
Communications and utilities	6,234			6,234	11,059
Other costs	4,534			4,534	3,848
Travel	653			653	1,759
Total expenses and losses	353,308	5,744	47,978	407,030	376,022
Other changes in net assets					
Acquisition of property and equipment	(33,727)	(33,883)	67,610	-	-
Grant funds disbursed as housing loans	-	-	-	-	-
Bad debt expense	-	-	(5,094)	(5,094)	(4,381)
Other income	3,426	-	-	3,426	-
Change in net assets	(45,314)	125,905	49,797	130,388	11,434
Net assets at beginning of year	(69,728)	383,444	2,223,571	2,537,287	2,525,853
Net assets at end of year	\$ (115,042)	\$ 509,349	\$ 2,273,368	\$ 2,667,674	\$ 2,537,287

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT CORPORATION)

Statements of Cash Flows
For the Years Ended September 30, 2009 and 2008

Increase (Decrease) in Cash

	<u>2009</u>	<u>2008</u>
Cash flows provided by operating activities		
Receipts from operating activities	\$ 12,020	\$ 9,703
Cash received from other revenues and support	426,806	312,832
Cash payments for goods and services	(185,879)	(93,592)
Cash payments to employees	(207,252)	(191,967)
Net cash provided by operating activities	<u>45,695</u>	<u>36,976</u>
Cash flows provided by lending activities		
Principal and interest payments received	148,371	168,019
Housing loans disbursed	(47,940)	(102,358)
Net cash provided by noncapital financial activities	<u>100,431</u>	<u>65,661</u>
Cash flows provided by (used for) investing activities		
Change in restricted cash	(175,127)	-
Inc/Dec in short-term investment	-	(100,000)
Interest income	65,000	24,509
Other income	3,426	-
Acquisition of fixed assets	(67,610)	(34,025)
Net cash used for investing activities	<u>(174,311)</u>	<u>(109,516)</u>
Net increase (decrease) in cash	(28,185)	(6,879)
Cash, beginning of year	228,875	235,754
Cash, end of year	<u>\$ 200,690</u>	<u>\$ 228,875</u>
Reconciliation of Changes in Net Assets to Net Cash used for operating Activities:		
Changes in net assets	\$ 130,388	\$ 11,434
Adjustment to reconcile changes in net assets to net cash used in operating activities:		
Loan interest income presented as lending activity	(30,202)	(37,760)
Interest income presented as investing activity	(70,057)	(31,542)
Depreciation	47,978	43,619
Bad debt expense	5,094	4,381
Other expense/(income)	(3,399)	-
(Increase)/decrease in assets		
Federal and other grant receivables	10,063	39,399
Travel advance and other receivable	-	222
Employee and other receivables	53	-
Prepaid expense	(29,904)	(142)
Increase/(decrease) in liabilities		
Accounts payable	(3,829)	6,628
Accrued expenses	(10,829)	765
Annual leave	340	(28)
Net cash used for operating activities	<u>45,696</u>	<u>36,976</u>

See accompanying notes to financial statements

YAP COMMUNITY ACTION PROGRAM
(A NONPROFIT ORGANIZATION)

Schedule of Expenditures of Federal Awards
September 30, 2009 and 2008

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	
		<u>2009</u>	<u>2008</u>
Amended Compact of Free Association			
Environmental Sector Grant			
Yap Community Action Program	15.875	\$ 62,500	\$ 4,000
<i>(Passed through FSM National Government and Yap State)</i>			
Compact of Free Association			
Section 212 Special Development			
Yap Community Action Program	15.875	4,840	3,091
<i>(Passed through FSM National Government and Yap State)</i>			
USDA Rural Development			
Rural Development			
Housing Preservation Grant (Note 1)	10.433	2,872	1,547
<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	6,152	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	<u>6,326</u>	<u>6,218</u>
TOTAL FEDERAL AWARDS EXPENDED:		<u>\$ 82,690</u>	<u>\$ 20,854</u>

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, 2009 and 2008

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 \$267,435 and \$238,478 for the years ended September 30, 2009 and 2008, respectively.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT CORPORATION)

Notes To Financial Statements
Fiscal Years Ended September 30, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Cash and Equivalents - Cash includes cash on hand as well as cash in bank accounts and shares purchased at the Community Ayuw Services. In fiscal years 2009 and 2008, Yap CAP's bank accounts are with a federally insured bank, of which approximately \$250,000 and \$100,000, respectively, 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, 2009 and 2008 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 with 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. The 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 in FY2008 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 \$100,000.00 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, 2009 and 2008**

2. GRANTS RECEIVABLE

Yap CAP receives its grants from the Yap State Government and outside sources on a reimbursement basis. Accordingly, at September 30, 2009 and 2008, Yap CAP had submitted expenditure requests to granting agencies for which payment was outstanding as follows:

	<u>2009</u>	<u>2008</u>
Yap State General Fund (YSL 6-87 & 6-57)	\$ -	\$ 10,064
NOAA Coral Reef Monitoring Project	28,202	28,202
	<u>\$ 28,202</u>	<u>\$ 38,266</u>

3. LOANS RECEIVABLE

Details of receivables under the housing loan program as of September 30, 2009 and 2008 are presented below:

	<u>2009</u>	<u>2008</u>
Community Development Block Grant Loans	\$ 407,865	\$ 434,079
Yap State Legislature Loans	750,906	796,832
Yap State Housing Authority Loans	182,389	183,169
Housing Preservation Grant Loans	9,090	8,892
	<u>1,350,250</u>	<u>1,422,972</u>
Add: Accrued interest	185,584	181,199
	<u>1,535,834</u>	<u>1,604,171</u>
Less: Allowance for doubtful loans and interest	<u>(1,154,568)</u>	<u>(1,149,473)</u>
Loans receivable, net	381,266	454,697
Less: Current portion – principal	(145,022)	(150,038)
Current portion – interest	(407)	(1,116)
Long-term portion	<u>\$ 235,837</u>	<u>\$ 303,543</u>

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2009 and 2008

4. PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 2009 and 2008 is as follows:

	Beginning Balance October 1, 2008	Transfers And Additions	Transfers And Disposal	Ending Balance September 30, 2009
Vehicles	\$ 162,812	\$ --	\$ --	\$ 162,812
Office furniture & equipments	85,092	24,191	(15,794)	93,489
Other assets	100,263	43,419		143,682
	<u>348,167</u>	<u>67,610</u>	<u>(15,794)</u>	<u>399,983</u>
Less: accum. Depreciation	(239,132)	(47,978)	15,794	(271,316)
	<u>\$ 109,035</u>	<u>\$ 19,632</u>	<u>\$ --</u>	<u>\$ 128,667</u>

	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	(195,514)	(43,618)	--	(239,132)
	<u>\$ 112,620</u>	<u>\$ (3,585)</u>	<u>\$ --</u>	<u>\$ 109,035</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>2009</u>	<u>2008</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, 2009 and 2008

6. NET ASSETS

The components of ending net assets are presented below:

	<u>2009</u>	<u>2008</u>
Unrestricted net assets		
CAP Admin	\$ 22,227	\$ 53,973
Miscellaneous	(103,636)	(103,636)
YCAP Indirect	2,075	2,075
Subtotal	<u>(79,334)</u>	<u>(47,588)</u>
Less: Unfunded projects charge to unrestricted Funds	<u>(35,708)</u>	<u>(22,140)</u>
Subtotal	<u>(115,042)</u>	<u>(69,728)</u>
Temporarily-restricted net assets		
YSL CAP	(5,460)	(10)
Env. Student Intern	6,337	6,337
CFSM Matching Funds	28,284	28,284
Compact Environment Sector Grant	(1,737)	-
Coral Reef Project	(6,218)	(6,218)
Housing Preservation Grants	(972)	1,901
Australian matching	34,531	37,403
Senior Grant	17,846	17,846
Office miscellaneous	52,210	52,715
Rare project	239	239
Rapid Environmental Marine Assessment	-	6,545
Kanif Seawall Project	3,783	4,057
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	297,388	152,227
Ngulu Atoll Management Plan	(7,720)	(7,720)
Sea Turtle Conservation Project	(12,110)	(12,110)
Nimpal Site Conservation (USFWS)	(5,858)	(13,848)
Nimpal Site Conservation (MCT/PKRD)	(993)	(1,766)
MRMD Reef project	172	172
Coral Reef (FSM/NOAA)	(6,326)	-
CFSM Kaday youth project	69	69
CFSM Dalipebinau recreation project	3,992	3,992
YBSAP	2,821	2,821
Sudal	30	30
Water Watch	165	165

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

Notes To Financial Statements
Fiscal Years Ended September 30, 2009 and 2008

6. NET ASSETS (CONT.)

TNC Computer Training	1,167	1,167
Ngulu Surveillance	63,636	78,566
Fish Market Survey	(5,000)	(3,247)
Community-Based Marine Protection Areas	(1,836)	--
Maaq Culvert and Waterline Extension	(4,085)	--
German Lifeweb	7,600	--
Subtotal	473,641	361,304
Add: Unfunded Projects charge to unrestricted Funds	35,708	22,140
Subtotal	509,349	383,444

Permanently restricted net assets

HPG revolving loan fund	113,193	112,263
CDBG revolving loan fund	993,996	987,818
YSHA revolving loan fund	97,986	97,880
YSL revolving loan fund	944,563	921,915
Ayuw revolving loan fund	642	339
CFSM capital assets	2,762	3,273
YSL capital assets	6,147	8,665
Other capital assets	114,079	88,882
Housing capital assets	--	2,536
Subtotal	2,273,368	2,223,571
	\$ 2,667,674	\$ 2,537,287

7. COMMITMENTS

As of September 30, 2009 and 2008, undisbursed approved housing loans totaled \$190,168 and \$33,536, respectively. Undisbursed approved funding for projects under the Yap Community Development Program totaled \$66,362 and \$80,904 as of September 30, 2009 and 2008, respectively.

8. RELATED-PARTY TRANSACTIONS

Employees and directors of Yap CAP or their immediate family members owed \$59,932 and \$64,756 of the loan receivables outstanding at September 30, 2009 and 2008, respectively.

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

**Notes To Financial Statements
Fiscal Years Ended September 30, 2009 and 2008**

9. GRANTS AND CONTRACTS

Yap State Legislature through YSL No. 7-42 appropriated a sum of \$138,591 in operating subsidies from the State General fund to Yap CAP for fiscal year 2009. However, such fund appropriated was maintained under the authority of the Director of the Office of Administrative Services. Yap CAP through the State Finance Office expended a total of \$133,809, of which \$5,450 was recognized as wages payable as of September 30, 2009. Recognized grant revenues as of September 30, 2009 and 2008 were \$128,359 and \$198,116, respectively.

A sum of \$69,886 was appropriated through YSL No. 7-44 from the Amended Compact Environment Sector grants to Yap CAP for fiscal year 2009. Such fund was also administered under the authority of the Director of the Office of Administrative Services, of the total appropriated, Finance recorded \$62,500 in expenditures, of which \$1,737 was recognized as wages payable as of September 30, 2009. Recognized grant revenues as of September 30, 2009 and 2008 were \$ 60,763 and \$4,000, respectively.

On November 12, 2008, Yap CAP through a Pass-thru-Grant/Sub-grant agreement executed on May 18, 2008 received \$150,000 from the Yap State Government for the purpose of funding the Yap Community Development Projects (YCDP). The fund was appropriated through YSL No. 5-34 from the Special Revenue Fund of Yap State out of the Compact Section 212 Financial Assistance Funds.

In January 2009, Yap CAP entered into an agreement with the Micronesia Conservation Trust (MCT) for capital purchases and telecommunications for the Nimpal Marine Conservation area and Ngulu Atoll Marine Conservation area. The grant of \$37,745.90 was made available to Yap CAP through a project proposal presented by MCT to the German Federal Ministry for Environment, Nature Conservation and Nuclear Safety. Additional \$8,000 was requested by Yap CAP on February 16, 2009, bringing the total grant revenue as of September 30, 2009 to \$45,746.

Seacology awarded Yap CAP a grant of \$33,188 in August 2008 to construct causeway culverts and extend household water systems in Maaq village of Tomil Municipality. From the total amount awarded, \$20,000 was wire-transferred to Yap CAP bank account as the first payment upon signing the grant agreement. The remaining \$13,188 will be given after a progress report is submitted with detailed description of work completed and conservation activities and the financial accounting of the first phase. The \$20,000 was recognized as grant revenue as of September 30, 2009.

In September of year 2007, Grant Agreement No. 122008G013 was executed between U.S. Fish and Wildlife Service (USFWS) and Yap CAP to engage local communities in marine conservation practices. Yap CAP is to assist in planning, managing and delineating a marine conservation area (MCA) at Nimpal channel. USFWS will reimburse Yap CAP in the amount of \$20,000 for work identified for such project. As of September 30, 2008, Yap CAP recognized a total of \$14,142 as grant revenue.

In February 2008, the Micronesia Conservation Trust (MCT) awarded to Yap CAP a total of \$38,000 for conservation programs and activities focused on the Nimpal Channel Marine Conservation area. The disbursement of the grant fund will be made on a quarterly basis on a cost-reimbursement basis starting March 2008 and the final reports are due on February 15, 2010. As of September 30, 2009, \$1,937 was recognized as grant revenue.

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

**Notes To Financial Statements
Fiscal Years Ended September 30, 2009 and 2008**

10. MISCELLANEOUS EXPENSES

Provided below is a breakdown of miscellaneous expenses for the years ended September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Repair and maintenance	7,162	10,515
Other expenses	\$ 3,178	\$ 8,245
Advertisement & promotion	2,689	--
Rent & entertainment	<u>11,184</u>	<u>--</u>
	<u>\$ 24,213</u>	<u>\$ 18,760</u>

11. SUBSEQUENT EVENTS

YSL No. 7-68 which amended YSL No. 7-59, appropriated a total of \$205,673 for the operations of Yap CAP for fiscal year 2010 of which, \$136,400 was appropriated from the State General Fund and \$69,273 from the Amended Compact Environment Sector Grant.

In January and February 2010, the Micronesia Conservation Trust awarded Yap CAP a total of \$69,128 worth of grants, of which \$48,628 is specifically for Marine Conservation Area Programs and \$20,500 for Coral and Fish Monitoring Activities for a one year period starting October 2009.

On November 2009 and January 2010, Yap CAP increased its fixed assets by \$ 54,688 by purchasing a new Mazda pick-up truck worth \$27,540 and \$27,238 was used to modify and refurbish an existing boat.

On July 25, 2010, Executive Director Charles Chieng passed-away and on July 26, 2010, the Board of Director appointed Deputy Director Julian Tewassilpiy as the Acting Executive Director until a new Executive Director is hired.

Yap CAP received a total of \$140,000, \$70,000 on November 11, 2009 and \$70,000 on November 26, 2010, from YCA for the annual interests on their investment. Yap CAP also rolled-over their investment amounting to \$1,000,000.00 with YCA for another two years starting from November 6, 2010 up to November 5, 2012.



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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, 2009, and have issued our report thereon dated December 24, 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 16 to 20) as Findings No. 3 to 7.

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 16 to 20) as Findings Nos.1 to 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
Acting Yap State Public Auditor

December 24, 2010

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

Schedule of Findings
September 30, 2009

FINDING NO. 1 – HOUSING BENEFIT FOR EMPLOYEES

Criteria: Yap State's Housing Regulations prohibits housing and housing allowance to locally hired employees or who has established residence where his/her duty station is situated. Additionally, the allowable maximum housing allowance for employees with no dependents is \$3,000 per year.

Condition: On February 2008, an employment contract for one of YCAP's locally-hired employee was renewed for another year ending March 2009. However, such employment contract is subject to automatic renewal every year and provided that in lieu of monetary increase in salary, the employee is provided housing benefit of \$600 per month during his/her employment with YCAP. Consequently, in fiscal year 2009, YCAP paid a total of \$7,200 for housing benefit.

Cause: The above condition was to show the agency's appreciation toward the employee's contribution to the rapid growth and expansion of the conservation program. Furthermore, the Board of YCAP felt 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". And that "the organization has its own set of policies and procedures established by the Board and independent of the government".

Effect: YCAP uses Yap State funding to fund its operation then uses its unrestricted fund, the composition of which includes State funds and other grants, to pay for housing and other expenses that are not allowable under State funding.

Recommendation: As a not-for-profit organization depending on the Yap State Government to fund its operations, the Board of Directors for YCAP should establish policies and regulations that are consistent with the State's and to be in compliance with applicable Laws and Regulations of the State of Yap, including but not limited to housing benefits, and contractee/expatriate housing eligibility.

Local Questioned Cost: \$7,200 charged to YCAP's unrestricted fund for a local employee's housing rental.

Prior Year Status: A similar finding was cited in the audit report for fiscal year ended September 30, 2008, 2007 and 2006.

FINDING NO. 2 – COSTS 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: In June 2009, the Board of Directors through Resolution 101-09 authorized the continuance of cost of living allowance "COLA" payments to YCAP employees for the period of October 1, 2008 to September 30, 2009. As a result, YCAP paid an additional estimated \$12,740 to its employees in fiscal year 2009.

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

Schedule of Findings
September 30, 2009

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

Cause: YCAP’s Board of Directors authorized COLA payments to YCAP’s employees as “an economic counter measure to the increasing cost of living fueled by the increased cost of fuel and 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”. Furthermore, The Board felt that it has “the discretion to disburse funds out of the unrestricted account of YCAP in an effort to promote the interest and well-being of YCAP and its employees”.

Effect: YCAP uses Yap State funding to fund its operation then uses its unrestricted fund, which is composed of the State’s funding and other grants, to pay for the COLA and other expenses that are not allowable under State’s funding. Expenses such as COLA, which only benefits YCAP’s employees, is in direct contradiction with the main purpose of YCAP’s existence and that is; “to provide services and conduct community action programs and related antipoverty programs designed to raise the standards of living, education and economic development of the people of Yap State”.

Recommendation: Same recommendation as FINDING NO. 1.

Prior Year Status: A similar finding was cited in the audit report for fiscal years ended September 30, 2008, 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 (8) findings cited in fiscal year 2007, the Board and Management of YCAP only managed to resolve three or 37%. The remaining Five (5) or 63% of the mentioned exceptions have been recurring for the past two fiscal years.

Cause: The Board of YCAP failed to implement and adopt audit recommendations accordingly and on a timely manner.

Effect: YCAP failed to correct deficiencies in improving its compliance with laws and regulations. And therefore, audit findings will continue to identify and address questioned costs.

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

Prior Year Status: A similar finding was cited in the audit report for fiscal year ended September 30, 2008 and 2007.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT ORGANIZATION)

Schedule of Findings
September 30, 2009

FINDING NO. 4 – THE USE OF RESTRICTED FUND

Criteria: The basic concept of restricted net assets is that the restrictions are not unilaterally established by the reporting government itself and cannot be removed without the consent of those imposing the restrictions (externally imposed restrictions) or through formal due process. Externally imposed restrictions are commonly found in the form of Laws and regulations of another government that has jurisdiction over the reporting government, requirements contained in grants agreements with grantors and contractual agreements with donors or other contributions.

Condition: On June 8, 2009, YCAP Board of Directors approved Resolution No.102-09 authorizing the use of housing Revolving Loan Fund to purchase a 4X4 double-cabin pick-up to replace the “Pajero” jeep that will be reassigned to the administrative section.

On August 7, 2009, YCAP Board of Directors also approved Resolution No. 103-09 authorizing the use of housing Revolving Loan Fund to purchase a computer and printer for the Housing Loan Division.

Cause: YCAP’s Board of Director felt that and was stated in the 8/7/08 BOD meeting minutes that *“Although the housing loan fund is a Restricted Fund, with the approval of the Board, the funds can be used for the purchase of supplies, fixed assets, etc. for the operation of the Housing Loan Program”*.

Effect: The Yap State Legislature appropriated funds into the Revolving Housing Loan Program Fund for the “purpose of funding low cost long term housing loans to residents of Yap State.” Such appropriations were allotted to the Governor who shall be responsible for ensuring that these funds are used ONLY for the purpose of funding housing loans. And therefore, The Board of Directors of YCAP has no authority to amend the use and purpose of such fund.

Recommendation: We strongly recommend that the Board of Directors adhere to the Appropriation’s guidelines while promoting the purpose of each fund, and to seek legal advice on any decisions contrary to the terms and provisions of the housing loan fund or any other fund.

FINDING NO. 5 – MANUAL ACCOUNTING LEDGERS

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

Condition: For the past five consecutive fiscal years, Yap CAP had been cited for inaccurate financial information, untimely reconciliation of accounts, improper recording of year-end adjusting entries, interest income and misclassifications of expenses. Recommendations were given to Yap CAP to automate its accounting program to make the process more efficient and cost effective.

Additional procedures were done in order to reconcile net assets beginning balances and interest income for fiscal year ending September 30, 2009.

Cause: Yap CAP’s plan to automate its general ledger did not take place until fiscal year 2010.

YAP COMMUNITY ACTION PROGRAM
(A NON-PROFIT ORGANIZATION)

Schedule of Findings
September 30, 2009

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

Effect: By not taking timely action to improve its accounting system, errors and problems will still remain uncorrected for at least another fiscal year.

Recommendation: We recommend that the Executive Director takes initial steps in requiring the IT Manager/Accountant IV to start inputting financial information into the “Quickbooks” Accounting Program.

Prior Year Status: A similar finding was issued to Yap CAP for the years ended September 30, 2008, 2007, 2006, 2005, 2004 and 2003.

FINDING NO. 6 - UNRECORDED EXPENSES

Criteria: Generally accepted accounting principles require expenses be recorded in the proper period.

Condition: Our review of expenses revealed that YCAP did not record in its general ledgers expenses totaling \$133,809 and \$62,500 charged to Yap State General Fund and the Environment Sector Grant of the Amended Compact, respectively. Material adjustments were made to YCAP’s trial balance for year-ending September 30, 2009 in order to recognize such expenses.

Cause: YCAP believed that since the Office of Administrative Services (OAS) is administering funds appropriated by the State Legislature for the operations of YCAP for fiscal year 2009, OAS assumed the fiscal responsibilities of such funds, i.e. ensuring compliance to grants requirements and recording transactions.

Effect: Unrecorded expenses increase the risk of misstatements of the financial statements and is not in accordance to generally accepted accounting principles adopted by Government entities.

Recommendation: YCAP still has the fiscal responsibilities over grants appropriated by the Yap State Legislature although Yap State Office of Administrative Service administered such grants. And Accounting Section should ensure that all expenses are accurately and properly recorded.

FINDING NO. 7 - TRAVEL ADVANCES

Criteria: YCAP’s Travel Regulations, AP-500 clearly states that “*No additional reimbursement on the Travel Claim, or further travel will be allowed until the Travel Claim is submitted*”.

Condition: Our review of YCAP’s general ledger found that \$7,288 worth of travel advances dating back to three (3) fiscal years has not been liquidated as of September 30, 2009. Further review revealed that additional advances were given to three travelers even though their previous travel advances dating back to November 2006 have not been liquidated.

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

Schedule of Findings
September 30, 2009

FINDING NO. 7 - TRAVEL ADVANCES (CONT.)

Cause: Existing policies in place were not followed.

Effect: Travel policy for timely filing of trip reports and travel claims after completion of trips are in place to prevent the following:

- Travel funds spent could not be verified if allowable and consistent to purposes of trips
- Trips could not be verified if completed as per travel authorizations.
- Increase in outstanding travel advances

Not implementing such policy increase the risk of claiming unallowable travel expenses and to collect from travelers such expenses may not be possible. Furthermore, policies become ineffective when management and the Board disregard or chose not to enforce them.

Recommendation: Being in authoritative and accountable positions, Management and the Board of Directors should strictly enforce the policies of YCAP.

Yap Community Action Program

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November 19, 2010

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

Re: Responses to 2009 Audit Findings

Dear Mr. Yow:

On behalf of the Board of Directors, Management, and Staff, I want to thank you and your staff for completing the Yap CAP Draft Audit Report for fiscal year 2009. Provided below are our official responses to the findings contained in the draft report.

FINDING NO. 1 – HOUSING BENEFIT

Response No. 1. The Board believes that the Yap State Housing Regulations do not apply or extend to Yap CAP. Because Yap CAP is a chartered non-government organization governed and directed by a Board of Directors, the Board believes that it has the right to negotiate and award contracts funded from the organization's unrestricted fund account. However, the agency understands that the State Housing Regulations are considered to be the standard and that these regulations and recommendations are rooted in a sound fiscal policy that the Yap CAP Board of Directors should consider and; therefore, the management has been tasked with development of such for the Board's consideration and action of a policy similar to the Yap State Housing Regulations.

FINDING NO. 2 – COST OF LIVING ALLOWANCE

Response No 2. The Board concurs that the funding which Yap CAP has received from the State are subject to the State Financial Management Act and other State laws. But the State salary freeze within the Public Service System does not apply to Yap CAP nor does subject the Yap CAP employees to the Public Service System. While we agree that the fiscal conservatism reflected in the PSS salary freeze along with your recommendation for Yap CAP to adhere to the government's financial restrictions and cost-saving policies are sound, Yap CAP is trying to maintain an employee compensation schedule that balances both the need for fiscal conservatism and the need for proper compensation to maintain and provide incentive to deserving and hardworking employees. This is important in order for Yap CAP to maintain a productive and efficient workforce.

And as conveyed earlier, the "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 the COLA is no longer warranted or be afforded, it will be ceased." However, Yap CAP will give due reconsideration to its action in light of the recommendation.

FINDING NO. 3 – UNRESOLVED PRIOR YEAR FINDINGS

Response No. 3: Management does not disagree with the finding, and as agreed to during the audit exit conference, Yap CAP will work with your office on details and resolution in an improved, timely manner. We believe that additional clarification and guidance is still needed however in terms of finding resolution process regarding some unresolved prior year findings that the agency had provided sufficient clarification and response to.

FINDING NO. 4 – THE USE OF RESTRICTED FUNDS

Response No. 4. It is our opinion that the laws appropriating funding for the Revolving Housing Loan Program Fund do not restrict the funds only for use as loan proceeds. Such a restrictive view would lend difficulty to administering the housing loan program and so, we think, could not have been intended. In order for Yap CAP to implement the housing loan program, it will have to purchase certain fixed assets, hire and maintain employees, purchase office supplies, etc. It is our opinion that the appropriation laws do not restrict the use of funds in Revolving Housing Loan Program for expenditures (other than loan awards) if the needs are necessary and incidental to the effective administration of the housing loan program.

We think the more important considerations are, first and foremost, whether the vehicle, computer and printer are necessary purchase; and further whether the procurements are in compliance of the bidding requirements to ensure better pricing. The vehicle in question is necessary as Yap CAP needs a reliable means of transportation to go into the field to inspect and monitor projects on a consistent basis. Other assets are indeed needed for the load and type of work in the division. Both purchases were bided-out and the lowest bidder was then awarded. Going forward, Yap CAP will continue to consider all relevant factors and ensure compliance with applicable laws in the expenditure of public funds.

FINDING NO. 5 – MANUAL ACCOUNTING LEDGERS

Response No. 5: We do agree not to disagree with the finding. True, there is the program readily available for the Agency to use but we are still experiencing some problems with the program. We have already set up the program, but we are still experiencing some minor technical glitches that prevent our full utilization of the program. But as agreed to during the audit exit conference, the Agency will solicit for further assistance from your office for proper installation and setting-up of the program. Until the assistance is provided and the problem being resolved, the program can then be put to its full use.

FINDING NO. 6 – UNRECORDED EXPENSES

Response No. 6: From the start people were not certain if Yap CAP should include in its general ledger expenses incurred against Yap State General fund and the Environment Sector Grant both of which were administered by the Yap State Finance Office. Now that this requirement has been clarified along with your recommendations to include such transaction in the Agency's general ledger, we certainly will task the Fiscal Officer and the accounting staff to ensure that such expenses are incorporated into the Agency's financial records as recommended.

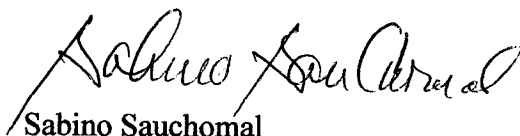
FINDING NO. 7 – TRAVEL ADVANCES

Response No. 7: As we all agreed to during the exit conference, the Fiscal Officer shall write-off those long overdue advances that have never been filed and believed to be uncollectible, especially travels for the late Executive Director and the off-island guests.

The Fiscal Officer will work on the other outstanding advances so the travel vouchers can be completed and submitted for processing. Going forward, the management will ensure that future travelers adhere to the program's travel policy whereby travelers are required to timely file their travel reports & claims after completion of each trip.

We appreciate your patience and understanding and we look forward to working with your office again for our fiscal year 2010 audit. If you have any question or need clarification on any of the responses provided above, please let me know.

Best regards,



Sabino Sauchomal
Chairman, Yap CAP Board

xc: Yap CAP BOD Members
File