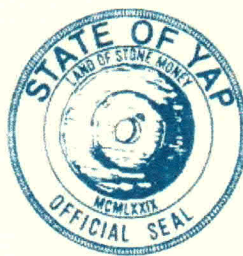


# **YAP COMMUNITY ACTION PROGRAM (A NON-PROFIT CORPORATION)**

## **Financial Statements and Independent Auditor's Report**

For The Years Ended  
September 30, 2010 and 2009



**Office of the Public Auditor  
State of Yap**

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

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Years Ended September 30, 2010 and 2009

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# OFFICE OF THE STATE PUBLIC AUDITOR

## YAP STATE GOVERNMENT

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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 net assets of Yap Community Action Program (Yap CAP) as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and of 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 in the first paragraph, present fairly, in all material respects, the financial position of the YCAP as of September 30, 2010 and 2009, and the respective changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.


In accordance with *Government Auditing Standards*, we have also issued a report dated May 16, 2014 on our consideration of the YCAP'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 and compliance and the results of that 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 considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. As a result of such limited procedures, we believe that Management's Discussion and Analysis stipulated by Government Accounting Standards Board No. 34 are not provided. We do not express an opinion or provide any assurance

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on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide an assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements of YCAP taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Achilles Defngin  
Acting Yap State Public Auditor

May 16, 2014

**Office of the Public Auditor  
State of Yap**

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

Statements of Financial Position  
Years Ended September 30, 2010 and 2009

<b>ASSETS :</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Current Assets		
Cash, unrestricted	\$ 163,509	\$ 200,690
Cash, restricted	779,117	1,006,805
Short-term investment	1,000,000	1,000,000
Loans receivable, current portion (note 3)	109,317	145,022
Grants receivable (note 2)	-	28,202
Travel advance and other receivable	8,497	9,243
Prepaid expense	8,260	38,079
Interest receivable (note 3)	3,494	407
	<hr/>	<hr/>
Total current assets	2,072,194	2,428,448
Long-term portion of loans receivable (note 3)	509,803	235,837
Property and equipment, net (note 4)	154,320	128,668
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,736,317</u></b>	<b><u>\$ 2,792,953</u></b>
 <b>LIABILITIES AND NET ASSETS :</b>		
Current liabilities:		
Accounts payable	\$ 8,307	\$ 4,203
Accrued Expenses	2,116	8,322
Accrued annual leave	14,521	10,115
Due to other grantors (note 5)	102,639	102,639
	<hr/>	<hr/>
Total current liabilities	127,583	125,279
Commitments and Contingencies		
Net assets:		
Unrestricted	(146,385)	(115,043)
Temporarily-restricted	406,297	509,349
Permanently-restricted	2,348,821	2,273,368
	<hr/>	<hr/>
Total net assets	2,608,734	2,667,674
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,736,317</u></b>	<b><u>\$ 2,792,953</u></b>

See accompanying notes to financial statements

Office of the Public Auditor  
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**YAP COMMUNITY ACTION PROGRAM  
(A NON-PROFIT CORPORATION)**

Statements of Activities  
Years Ended September 30, 2010 and 2009

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Totals</u>	
				<u>2010</u>	<u>2009</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>					
Grants and contracts (note 9)		\$ 286,083		\$ 286,083	\$ 420,947
Interest	\$ 70,000		\$ 72,310	142,310	100,259
Other income	23,381	11,494		34,875	17,880
Net assets released from restriction					
Satisfaction of program restriction	312,439	(312,439)			-
<b>Total revenues, gains, and other support</b>	<u>405,820</u>	<u>(14,862)</u>	<u>72,310</u>	<u>463,268</u>	<u>539,086</u>
<b>EXPENSES AND LOSSES</b>					
Program services					
Federal and Compact programs	30,932	4,125		35,056	20,190
Other nonprofit and local programs	138,481	4,125		142,606	58,346
Management and general				0	
Salaries and fringe benefits	185,594			185,594	196,816
Depreciation expenses			58,464	58,464	47,978
Miscellaneous (note 10)	26,099			26,099	24,213
Supplies and materials	16,547			16,547	30,858
Contractual services	2,330			2,330	6,695
Fuel	9,949			9,949	10,512
Communications and utilities	11,334			11,334	6,234
Other costs	8,038			8,038	4,534
Travel	3,683			3,683	653
<b>Total expenses and losses</b>	<u>432,986</u>	<u>8,249</u>	<u>58,464</u>	<u>499,699</u>	<u>407,029</u>
Other changes in net assets					
Acquisition of property and equipment	(4,177)	(79,941)	84,117	(0)	-
Bad debt expense			(22,510)	(22,510)	(5,094)
Other income				0	3,425
<b>Changes in net assets</b>	<u>(31,343)</u>	<u>(103,052)</u>	<u>75,454</u>	<u>(58,941)</u>	<u>130,387</u>
Net assets at beginning of year	(115,042)	509,348	2,273,368	2,667,674	2,537,287
<b>Net assets - end of year</b>	<u>\$ (146,385)</u>	<u>\$ 406,296</u>	<u>\$ 2,348,822</u>	<u>\$ 2,608,733</u>	<u>\$ 2,667,674</u>

See accompanying notes to financial statements.

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**YAP COMMUNITY ACTION PROGRAM  
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Statements of Cash Flows  
Years Ended September 30, 2010 and 2009

Increase (Decrease) in Cash

	<b>2010</b>	<b>2009</b>
Cash flows provided by operating activities		
Receipts from operating activities	\$ 34,875	\$ 12,021
Cash received from other revenues and support	286,083	426,806
Cash payments for goods and services	(192,769)	(185,879)
Cash payments to employees	(187,394)	(207,252)
Net cash provided by operating activities	(59,203)	45,696
Cash flows provided by lending activities		
Principal and interest payments received	161,033	148,371
Housing loans disbursed	(357,707)	(47,940)
Net cash provided by noncapital financial activities	(196,674)	100,431
Cash flows used for investing activities		
Change in restricted cash	227,688	(175,127)
Inc/Dec in short-term investment	-	-
Interest income	70,000	65,000
Other income	5,127	3,426
Acquisition of fixed assets	(84,117)	(67,611)
Net cash used for investing activities	218,698	(174,312)
Net increase/(decrease) in cash	(37,179)	(28,185)
Cash, beginning of year	200,690	228,875
Cash, end of year	\$ 163,511	\$ 200,690
Reconciliation of Changes in Net Assets to Net Cash used for operating activities		
Changes in net assets	\$ (58,941)	\$ 130,388
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Loan interest income presented as investing activity	(67,182)	(30,202)
Interest income presented as investing activity	(75,127)	(70,057)
Depreciation	58,464	47,978
Bad debt expense	22,510	5,094
Other expense/(income)	(1,305)	(3,399)
(Increase)/Decrease in assets		
Federal and other grant receivables	28,203	10,063
Travel advance and other receivable	-	-
Employee and other receivables	746	53
Prepaid expense	29,819	(29,904)
Increase/(Decrease) in liabilities		
Accounts payable	4,104	(3,829)
Accrued expenses	(4,899)	(10,829)
Annual leave	4,406	340
Net cash used in operating activities	(59,203)	45,696

See accompanying notes to financial statements

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**YAP COMMUNITY ACTION PROGRAM  
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Schedule of Expenditures of Federal Awards  
Years Ended September 30, 2010 and 2009

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	
		<u>2010</u>	<u>2009</u>
<b>Amended Compact of Free Association</b>			
Environmental Sector Grant			
Yap Community Action Program <i>(Passed through FSM National Government and Yap State)</i>	\$ 15.875	\$ 48,513	\$ 62,500
<b>Compact of Free Association</b>			
Section 212 Special Development			
Yap Community Action Program <i>(Passed through FSM National Government and Yap State)</i>	15.875	140	4,840
<b>USDA Rural Development</b>			
Rural Development			
Housing Preservation Grant (Note 1) <i>(Direct through Yap Rural Development Office)</i>	10.433	4,125	2,872
<b>U.S. Department of State</b>			
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
<b>National Oceanic &amp; Atmospheric Administration</b>			
Fisheries Habitat Conservation Program Office			
Developing a Coral Reef Monitoring Program <i>(direct from NOAA on a reimbursement basis)</i>	11.463	2,020	6,326
<b>TOTAL FEDERAL AWARDS EXPENDED:</b>		<b>\$ 54,797</b>	<b>\$ 82,690</b>

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

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

Notes To Financial Statements  
Years Ended September 30, 2010 and 2009

**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 \$312,439 and \$267,435 for the years ended September 30, 2010 and 2009, respectively.

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**YAP COMMUNITY ACTION PROGRAM  
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Notes To Financial Statements  
Years Ended September 30, 2010 and 2009

**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 2010 and 2009, Yap Cap's bank accounts are with two federally insured banks, of which approximately \$250,000, 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, 2010 and 2009 consist of funds invested under a deposit agreement with Yap Cooperative Association (YCA), a locally-owned business. The total amount invested is \$1,000,000.00 for three (3) years from September 2007 to November 2010, earning 6.5% on the first year and 7% for the remaining 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.

**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.

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**YAP COMMUNITY ACTION PROGRAM  
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Notes To Financial Statements  
Years Ended September 30, 2010 and 2009

**2. GRANTS RECEIVABLE**

Yap CAP receives its grants from the Yap State Government and outside sources on a reimbursement basis. Accordingly, at September 30, 2010 and 2009, Yap CAP had submitted expenditure requests to granting agencies for which payment was outstanding as follows:

		<u>2010</u>		<u>2009</u>
NOAA Coral Reef Monitoring Project	\$	--		28,202
	\$	--	\$	28,202

**3. LOANS RECEIVABLE**

Details of receivables under the housing loan program as of September 30, 2010 and 2009 are presented below:

		<u>2010</u>		<u>2009</u>
Community Development Block Grant Loans	\$	392,829	\$	407,865
Yap State Legislature Loans		984,357		750,906
Yap State Housing Authority Loans		181,559		182,389
Housing Preservation Grant Loans		17,798		9,090
		<u>1,576,543</u>		<u>1,350,250</u>
Add: Accrued interest		223,149		185,584
		<u>1,799,692</u>		<u>1,535,834</u>
Less: Allowance for doubtful loans and interest		<u>(1,177,078)</u>		<u>(1,154,568)</u>
Loans receivable, net		622,614		381,266
Less: Current portion - principal		(109,317)		(145,022)
Current portion - interest		(3,494)		(407)
Long-term portion	\$	<u>509,803</u>	\$	<u>235,837</u>

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Notes To Financial Statements  
Years Ended September 30, 2010 and 2009

**4. PROPERTY AND EQUIPMENT**

A summary of property and equipment as of September 30, 2010 and 2009 is as follows:

	Beginning Balance October 1, 2009	Transfers And Additions	Transfers And Disposal	Ending Balance September 30, 2010
Vehicles	\$ 162,812	\$ 27,450	\$ --	\$ 190,262
Office furniture & equipments	93,489	12,432	--	105,921
Other assets	143,682	44,235	(451)	187,466
	<u>399,983</u>	<u>84,117</u>	<u>(451)</u>	<u>483,649</u>
Less: accum. depreciation	<u>(271,316)</u>	<u>(58,464)</u>	<u>451</u>	<u>(329,329)</u>
	<u>\$ 128,667</u>	<u>\$ 25,653</u>	<u>\$ --</u>	<u>\$ 154,320</u>

	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	<u>(239,132)</u>	<u>(47,978)</u>	<u>15,794</u>	<u>(271,316)</u>
	<u>\$ 109,035</u>	<u>\$ 19,632</u>	<u>\$ --</u>	<u>\$ 128,667</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>2010</u>	<u>2009</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>

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**YAP COMMUNITY ACTION PROGRAM  
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Notes To Financial Statements  
Years Ended September 30, 2010 and 2009

**6. NET ASSETS**

The components of ending net assets are presented below:

	<u>2010</u>	<u>2009</u>
<b>Unrestricted net assets</b>		
CAP Admin	\$ 45,879	\$ 22,227
Miscellaneous	(103,636)	(103,636)
YCAP Indirect	2,075	2,075
Subtotal	<u>(55,682)</u>	<u>(79,334)</u>
Less: Unfunded projects charge to unrestricted Funds	<u>(90,702)</u>	<u>(35,708)</u>
Subtotal	<u>(146,384)</u>	<u>(115,042)</u>
<b>Temporarily-restricted net assets</b>		
YSL CAP	1	(5,460)
Env. Student Intern	6,337	6,337
CFSM Matching Funds	28,284	28,284
Compact Environment Sector Grant	1	(1,737)
Coral Reef Project	185	(6,218)
Housing Preservation Grants	(11,151)	(972)
Australian matching	24,652	34,531
Senior Grant	17,846	17,846
Office miscellaneous	15,355	52,210
Rare project	239	239
Kanif Seawall Project	--	3,783
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	297,247	297,388
Ngulu Atoll Management Plan	(7,720)	(7,720)
Sea Turtle Conservation Project	(12,110)	(12,110)
Nimpal Site Conservation (USFWS)	--	(5,858)
Nimpal Site Conservation (MCT/PKRD)	(6,434)	(993)
MRMD Reef project	172	172
Coral Reef (FSM/NOAA)	--	(6,326)
CFSM Kaday youth project	69	69
CFSM Dalipebinau recreation project	341	3,992
YBSAP	2,821	2,821
Sudal	30	30
Water Watch	165	165

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Notes To Financial Statements  
Years Ended September 30, 2010 and 2009

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

TNC Computer Training	1,167	1,167
Ngulu Surveillance	(20,000)	63,636
Fish Market Survey	(5,000)	(5,000)
Community-Based Marine Protection Areas	(1,908)	(1,836)
Maaq Culvert and Waterline Extension	(7,830)	(4,085)
Coral Reef Monitoring FY09 (MCT/NOAA)	(18,414)	--
Ngulu Marine Managed Area (Lifeweb II)	6,359	--
Ngulu Marine Conservation Area (Lifeweb II)	(2,380)	--
Qookaw & Kaday Waterways (Seacology)	23,033	--
German Lifeweb	--	7,600
Housing program	(27,450)	--
Subtotal	<u>315,594</u>	<u>473,641</u>
Add: Unfunded Projects charge to unrestricted Funds	90,703	35,708
Subtotal	<u>406,297</u>	<u>509,349</u>

**Permanently restricted net assets**

HPG revolving loan fund	126,681	113,193
CDBG revolving loan fund	1,000,426	993,996
YSHA revolving loan fund	98,106	97,986
YSL revolving loan fund	976,887	944,562
Ayuw revolving loan fund	1,051	642
Bank of Guam revolving funds	263	--
CFSM capital assets	2,702	2,762
YSL capital assets	2,103	6,147
Other capital assets	108,921	114,079
Compact capital assets	4,927	--
Housing capital assets	26,754	--
Subtotal	<u>2,348,821</u>	<u>2,273,368</u>
	<u>\$ 2,608,734</u>	<u>\$ 2,667,674</u>

**7. COMMITMENTS**

As of September 30, 2010 and 2009, undisbursed approved housing loans totaled \$245,067 and \$190,168, respectively. Undisbursed approved funding for projects under the Yap Community Development Program totaled \$66,222 and \$66,362 as of September 30, 2010 and 2009, respectively.

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

Notes To Financial Statements  
Years Ended September 30, 2010 and 2009

**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.

**9. GRANTS AND CONTRACTS**

Yap State Legislature through YSL No. 7-59 appropriated a sum of \$136,400 in operating subsidies from the State General fund to Yap CAP for fiscal year 2010. However, such fund appropriated was maintained under the authority of the Director of the Office of Administrative Services. Recognized grant revenues as of September 30, 2010 and 2009 were \$134,844 and \$128,359, respectively.

A sum of \$69,273 was appropriated through YSL No. 7-59 from the Amended Compact Environment Sector grants to Yap CAP for fiscal year 2010. Such fund was also administered under the authority of the Director of the Office of Administrative Services. Recognized grants revenues as of September 30, 2010 and 2009 were \$54,552 and \$60,763, respectively.

Aside from the existing grants, in Fy2010 YCAP was the recipient of 4 grants coming from Non-Government Agencies, three from Micronesia Conservation Trust (MCT) and one from Seacology:

On February 11, 2010, Yap CAP entered into an agreement with Micronesia Conservation Trust (MCT) to monitor and assess changes in coral covers over time as well as health and population of corals and fish in all established monitoring sites in Yap. The amount of the Grants is \$20,500 which will be on a quarterly reimbursement basis.

On January 26, 2010, Yap CAP entered into an agreement with Micronesia Conservation Trust (MCT) to for conservation programs and activities focused on the Ngulu Atoll Marine Managed Area. The amount of grant is \$24,436, of which \$19,549 (80%) is given upon signing of the Agreement and the remaining 20% will be given upon completion of the project. The remaining 20% will be released by MCT upon receipt and acceptance of deliverables, final activity and financial reports. As of September 30, 2010, the \$19,549 was recognized as grant revenue.

In March 2010, the Micronesia Conservation Trust (MCT) awarded Yap CAP a total of \$24,192 for conservation programs and activities focused on the Nimpal Channel Marine Conservation area. Eighty percent (80%) of the grant was received by Yap CAP in March. The remaining 20% will be released by MCT upon receipt and acceptance of deliverables, final activity and financial reports. As of September 30, 2010, \$19,354 was recognized as grant revenue.

Yap CAP was awarded a grant of \$31,400 from Seacology in May 2010 for the rehabilitation and restoration of the Qookaw and Kaday waterways. Yap CAP received \$25,120 or 80% in May 2010 and will be receiving the remaining 20% once Seacology receives a progress report with detailed description of work completed and conservation activities and the financial accounting report. Yap CAP recognized the \$25,120 as of September 30, 2010.

**Office of the Public Auditor  
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**YAP COMMUNITY ACTION PROGRAM  
(A NON-PROFIT CORPORATION)**

Notes To Financial Statements  
Years Ended September 30, 2010 and 2009

**10. MISCELLANEOUS EXPENSES**

Provided below is a breakdown of miscellaneous expenses for the years ended September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Repair and maintenance	13,097	7,162
Other Expenses	1,656	3,178
Advertisement & promotion	--	2,689
Rent & entertainment	<u>11,346</u>	<u>11,184</u>
	<u>\$ 26,099</u>	<u>\$ 24,213</u>

**11. SUBSEQUENT EVENTS**

Yap CAP received a total of \$140,000; \$70,000 on November 17, 2010 and \$70,000 on November 26, 2011, 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.

On March 28, 2011, Yap CAP hired Moses L. Fathal as the new Executive Director.

**Office of the Public Auditor  
State of Yap**





# OFFICE OF THE STATE PUBLIC AUDITOR

YAP STATE GOVERNMENT

Federated States of Micronesia

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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, 2010, and have issued our report thereon dated May 16, 2014. 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 audits, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and status of prior year's findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings (pages 17-18) as findings no. 2010-001 and in the Status of Prior Year's Findings (pages 19-22) as findings no. 2009-004 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. No significant deficiencies were noted.


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## 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 or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings (pages 17-18) as findings no. 2010-002 and in the Status of Prior Year's Findings (pages 19-22) as findings no. 2009-001 to 2009-003 and 2009-005.

Yap CAP's responses to the findings identified in our audit are described in the accompanying Management's Response to Findings. We did not audit Yap CAP's responses, and accordingly, we express no opinion on it.

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 used by anyone other than these specified parties.



Achilles Defngin  
Acting Yap State Public Auditor

May 16, 2014

Office of the Public Auditor  
State of Yap

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

Schedule of Findings  
September 30, 2010

INTERNAL CONTROLS

**Findings no. 2010-001: Reconciliation**

**Criteria:** Proper accounting practice dictates that accounting records should be reconciled on a regular basis so as to detect any errors or omissions at the earliest possible time.

**Condition:**

- General ledger of Loans Receivables does not tally with the subsidiary ledgers. There were no accruals of interest receivables made during the year end.
- Balances of fixed asset accounts as per general ledger did not tally with fixed assets registers. There were various acquisitions that were not booked and it also affected the computation of depreciation.
- General ledger balances of the appropriations coming from the State (both local and compact) did not tally with the fund balance report issued by the Office of Administrative Services (OAS). There were expenses and fixed asset purchases booked under OAS but were not recorded by Yap CAP.

**Cause:** No account reconciliations were done in FY2010

**Effect:** Due to the lack of account reconciliation, errors and omissions were left unidentified and uncorrected thus making the financials of Yap CAP misstated.

**Recommendation:** Since Yap CAP is still using manual accounting ledgers, its' imperative that reconciliations be done on a regular basis so as to immediately identify errors and omissions that could lead to misstatement of their financial statements.

COMPLIANCE

**Findings no. 2010-002: Contributions and Donations**

**Criteria:** YCAP funds should only be disbursed for official purposes consistent with existing Yap State laws and FMA regulations.

**Condition:** On July 26, 2010, Yap CAP Board of Directors authorized the disbursement of not more than \$6,000 for the funeral expenses of the late Executive Director Charles Chieng. Review of pertinent documents revealed that a total of \$5,815 was disbursed, \$4,815 was used to pay for the funeral services and \$1,000 was given to the family as donation.

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**YAP COMMUNITY ACTION PROGRAM  
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Schedule of Findings  
September 30, 2010

**Findings no. 2010-002: Contributions and Donations (Cont.)**

**Cause:** It was to show Yap CAP's appreciation for all the improvements and achievements that the late director was able to bring to the program. Yap CAP believes that as long as the Board of Directors authorized it and as long as the disbursement is from the unrestricted funds, these will not be subjected to existing state policies. Furthermore, Yap CAP has its own set of policies and procedures established by the Board and independent of the State Laws.

**Effect:** Yap CAP incurred expenses that are unrelated to its mandate based on its Articles of Incorporation. Furthermore, what Yap CAP did was inconsistent with the prevailing practice where government agencies and private business ask fellow employees themselves to give voluntary monetary contributions as commiseration to fellow workers.

**Recommendation:** The Board of Directors should formulate policies relating to allowable contributions and donations that are consistent with existing State Laws and FMA regulations.

**YAP COMMUNITY ACTION PROGRAM**  
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Status of Prior Year Findings  
September 30, 2010

**Findings no. 2009-01: 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 2010, 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 employee/expatriate housing eligibility.

**Prior Year Status:** A similar finding was cited in the audit report for fiscal years ended September 30, 2009, 2008, 2007 and 2006. Subsequent events review revealed that said practice was already discontinued in FY11.

**Findings no. 2009-002: Cost of Living Allowance**

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

**Condition:** In February 2010, the Board of Directors through Resolution 101-10 authorized the continuance of cost of living allowance "COLA" payments to YCAP employees for the period of October 1, 2009 to September 30, 2010. As a result, YCAP paid an additional estimated \$11,681 to its employees in fiscal year 2010.

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**YAP COMMUNITY ACTION PROGRAM**  
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Status of Prior Year Findings  
September 30, 2010

**Findings no. 2009-002: Cost 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 to 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, 2009, 2008, 2007 and 2006. Subsequent events review revealed that payment of COLA is still in effect.

**Findings no. 2009-003: The Use of Restricted Funds**

**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 the following dates, Yap CAP Board of Directors approved 2 resolutions authorizing the use of the Housing Revolving Loan Fund to purchase fixed assets for the housing program:

- 11/06/09-Resolution no.102-09: Purchase of a new vehicle for the housing projects. The vehicle purchased was a Mazda double cab pick-up amounting to \$27,450. Mentioned vehicle was observed to be used by the Director/Acting Director after office hours.
- 02/25/10-Resolution no. 104-10: Purchase of two (2) hand-held vhf two-way radio for the housing project.

**Cause:** YCAP's Board of Director felt that and was stated in the 8/7/09 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*".

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Status of Prior Year Findings  
September 30, 2010

**Findings no. 2009-003: The Use of Restricted Funds (cont.)**

**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:** The Board of Directors should 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.

**Prior Year Status:** A similar finding was cited in the audit report for fiscal years ended September 30, 2009, 2008, 2007.

**Findings no. 2009-004: Manual Accounting Ledgers**

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

**Condition:** For the past eight 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, 2010.

**Cause:** Yap CAP’s plan to automate its general ledger is still not in effect as of September 30, 2010.

**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:** The Executive Director should take 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, 2009, 2008, 2007, 2006, 2005, 2004 and 2003.

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Status of Prior Year Findings  
September 30, 2010

**Findings no. 2009-005: Travel Advances**

**Criteria:** YCAP's Travel Regulations, AP-500 clearly states, "*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 \$10,408 worth of travel advances, some of which date back to four (4) fiscal years have not been liquidated as of September 30, 2010. Out of the mentioned amount, \$3,657 was written-off and includes the travel advances of the late Director. The remaining \$6,751 were advances of the environmental protection division officer, these advances were only liquidated in FY11 and 12.

**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 increases 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.

**Prior Year Status:** A similar finding was issued to Yap CAP for the year ended September 30, 2009.



# Yap Community Action Program

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October 14, 2014

Achilles Defngin  
Acting Public Auditor  
Office of the Public Auditor  
Colonia, Yap State FM 96943

Re: Responses to 2010 Audit Findings

Dear Mr. Defngin:

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 2010. Provided below are our official responses to the findings contained in the draft report.

## YAP CAP 2010 AUDIT RESPONSES

### **I. FINDING 2010-001: Reconciliation**

*We do not disagree with the finding. Subject finding was discussed during the course of the audit field work and necessary adjustments were being made thereafter. We have discussed the matter with the Fiscal Officer to ensure that accounts reconciliations are being performed regularly to ensure that the financials are free of errors and to avoid repeated errors and findings.*

### **II. FINDING 2010-001: Contribution and Donations**

*Yap CAP concurs that its State-appropriated funds are subject to State laws to the extent required by the appropriating law. But Yap CAP believes that State laws do not preclude it from using its own unrestricted funds towards the funeral contributions of employees. The State Government does this for the funerals of high-level government officials as a matter of policy. Similarly, the Yap CAP Board has adopted a policy to make reasonable contributions to funerals of employees. The Board has the authority to adopt such a policy, and it has done so without contravening any applicable laws. The amount of contribution per funeral is not fixed, but is based on the level of appreciation for the deceased employee and the weight of his achievements and contributions to the agency. In the case of the late former Executive Director, the Board, considering his achievements for the agency and how far along he has brought Yap CAP, decided that \$6,000.00 was warranted as proper amount of contribution. The finding may be accurate that this may be high and inconsistent when compared to other contributions; however, the Board when making such decisions, is not limited by what the*

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government or others have decided in their own separate instances of funeral contributions, but do give due reflection to the circumstances at hand, the best interest of Yap CAP, and its policies and regulations. Whether one agrees or disagrees with the Board, it duly considered these factors and arrived at the figure it did.

**III. FINDING 2009-001: Housing Benefit for Employee**

Yap CAP still holds the same belief reported in the last FY's audit response that Yap CAP is not limited by what the government does and can conduct its activities in a manner that in its opinion it is in the best interest of the Agency and its employees. However, the practice was discontinued in FY11 and subject employee is no longer with the agency.

**IV. FINDING 2009-002: Cost of Living Allowance**

Similar to the above, Yap CAP still holds the same belief reported in last FY's audit response. And as explained earlier, the board authorized this as an economic counter measure to the increasing cost of living fueled by the increased cost of fuel and other factors. 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. True that the Auditor's subsequent events review indicated that the practice still continues, however the COLA had been ceased or discontinued in FY13.

**V. FINDING 2009-003: The Use of Restricted Funds**

Although the recommendation is sound, our opinion still remains the same as last fy that the laws appropriating funding for the Revolving Housing Loan Program Fund do not restrict the funds for use as loan proceeds only. Such a restrictive view would only lend difficulty to administering the housing loan program. And so, we think, could not have been intended. To effectively administer the housing loan program, Yap CAP will have to purchase certain fixed assets, hire and maintain employees, purchase office supplies, etc. using the funds. The Board is 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.

**VI. FINDING 2009-004: Manual Accounting Ledgers**

We do agree not to disagree with the finding. There is the program readily available but we are still experiencing some problems with the program. As agreed with, assistance from your office was rendered, but halted due to other commitments. Plan was for your office to revisit us and the program, but has not yet happen up to today. However, we have developed a spreadsheet that we are currently using, mostly for the loan program, and can be verified by your staff if necessary.

**VII. FINDING 2009-005: Travel Advances**

We agree with the finding. Recommendations during the fy' 2009 audit exit conference were implemented thereafter. The fiscal officer will ensure that all future travel claims are filed in accordance with the program's policy.

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