

YAP FISHING AUTHORITY

Financial Statements and Independent Auditor's Report Fiscal Years Ended September 30, 2010 and 2009



**Office of the Yap State Public Auditor
P.O. Box 927
Colonia, Yap FM 96943
Federated States of Micronesia
Tel: (691) 350-3416
Fax: (691) 350-4987
Email: audityap@mail.fm**



**OFFICE OF THE STATE PUBLIC AUDITOR
YAP STATE GOVERNMENT**

Federated States of Micronesia

P.O. Box 927

Colonia, Yap FM 96943

Phone: (691) 350-3416 Fax: (691) 350-4987 Email: audit Yap@mail.fm

EXECUTIVE SUMMARY

**Financial Audit of the Yap Fishing Authority
For the Years ended September 30, 2010 and 2009**

The Office of the Yap State Public Auditor has released the final financial audit report of the Yap Fishing Authority (YFA) for the years ended September 30, 2010 and 2009 which report is dated May 20, 2011. The Independent Auditor's opinion on the financial statements presented on page 1 gives a "qualified opinion" on the financial statements, meaning that, in the auditor's opinion, except for the scope limitations discussed in the report, the financial statements presented on pages 5 through 7 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 8 shows that for the years ended September 30, 2010 and 2009, YFA expended \$296,670 in FEMA grants for FY2009.

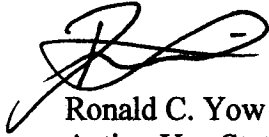
The report on internal control over financial reporting and compliance and other matters required by *Government Auditing Standards* on pages 15 to 16 discusses reportable conditions at YFA. These conditions and our recommendations are presented for the information of YFA's management in the Schedule of Findings beginning on page 17. Of the nine findings, five were considered to be material weaknesses. Eight of the nine findings were related to inadequate controls over financial reporting and one was related to non compliance with certain provisions of laws, regulations, contracts and grants.

Following is a summary of the audit findings for the year ended September 30, 2010:

- Finding no.1 relates to the inadequacy of board meetings for the whole fiscal year .
- Finding no. 2 discusses the unresolved prior years findings.
- Finding nos. 3 discusses the improper maintenance of the general ledger.
- Finding no. 4 refers to the untimely collections of receivables.
- Finding nos. 5 and 9 discusses about the inadequacy of controls over spare parts inventory and expenses, respectively.
- Finding no.6 refers to long outstanding liability accounts.
- Finding no.7 discusses the inadequacy of monitoring mechanism over ice sales.
- Finding no.8 discusses unreasonable purchases.

We have met with the YFA Board of Directors and Management to discuss the findings and recommendations contained in this report. Their responses to the findings are presented on pages 24 and 25 of this report.

We would like to thank the Board of Directors, the management and staff of YFA for their assistance and cooperation during the course of this audit.



Ronald C. Yow
Acting Yap State Public Auditor

May 20, 2011

YAP FISHING AUTHORITY
Years ended September 30, 2010 and 2009

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OFFICE OF THE STATE PUBLIC AUDITOR

YAP STATE GOVERNMENT

FEDERATED STATES OF MICRONESIA

P.O. Box 927, Colonia, Yap 96943

Phone: (691) 350-3416 Fax: (691) 350-4987 Email: audityap@mail.fm

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Yap Fishing Authority:

We have audited the accompanying statements of net assets of the Yap Fishing Authority (YFA) as of September 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the YFA management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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. 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 YFA's internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinions.

In fiscal years 2010 and 2009, documentation was not available to substantiate the carrying value of YFA's fishing dock of \$1,275,683 and \$1,341,428 representing 61% of property and equipment as of September 30, 2010 and 2009 respectively. Neither were we able to apply alternative audit procedures to satisfy ourselves that the carrying value of the fishing dock was not materially misstated.

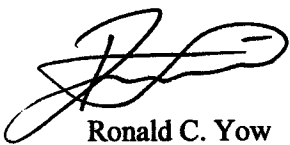
Due to inadequate accounting records, we were unable to obtain sufficient audit evidence to verify the completeness of ice sales which comprises 26% and 29% of operating revenues for fiscal year 2010 and 2009, respectively. Neither were we able to apply alternative audit procedures to satisfy ourselves that ice sales of \$69,602 and \$80,511 for 2010 and 2009, respectively, were not materially misstated.

In our opinion, except for the scope limitations discussed in the previous paragraphs, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Yap Fishing Authority as of September 30, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 20, 2011 on our consideration of the Yap Fishing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of 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.

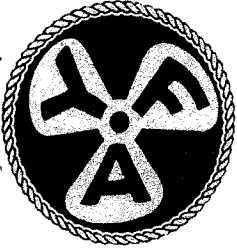
Accounting principles generally accepted in the United States of America require that the Management's discussion and analysis on pages 3 to 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, which 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 the Management's Discussion and Analysis is not in conformity with accounting principles generally accepted in the United States of America because the minimum requirements for Management's Discussion and Analysis stipulated by the Government Accounting Standards Board Statement (GASB) No. 34 are not provided. We do not express an opinion or provide any assurance on the information because limited procedures do not provide us with sufficient evidenced to express an opinion or provide assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise YFA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Ronald C. Yow
Acting Yap State Public Auditor

May 20, 2011



Yap Fishing Authority

P.O. Box 338

Colonia, Yap FM 96943

Telephone: (691) 350-2185/3361/2224 Fax: (691) 350-4107

E-mail: fishyap@mail.fm

Management Discussions & Analysis

This section of Yap Fishing Authority's annual financial statement report presents our discussion and analysis of the Authority's financial performance for the year ended September 30, 2010. The financial statement for YFA is attached hereto.

The Yap Fishing Authority was created pursuant to Yap State Law No. 6-13, now codified in Title 18 of the Yap State Code. The Authority is a component unit of Yap State Government with the primary objective of promoting, developing, and supporting the commercial utilization of living marine resources within the State of Yap.

Financial Highlights

As of September 30, 2010, YFA total operating revenue showed a decrease of about 5% compared to FY2009. However, the operating expense also showed a decrease of about 9% compared to FY2009 thus resulting in an operating loss of \$169,809.00, a 7% decrease in FY2010.

The decrease in operating revenue was mainly due to drop in ice sales and other revenue whereas the decrease in operating expense was mainly due to the utilities and personnel. Even though there wasn't any change with the rate per kilowatt, we tried to minimize the consumption of electricity as best as we could and since our sale of ice decreased, it meant fewer times to have the ice machine produce ice. The slight decrease in personnel expense was mainly due to the rearrangement of personnel.

Plan of Action for FY2012

In order to address the previous audit findings as well as improving the performance of the Authority as a whole, the Board of Directors along with management came up with basically the same plan of actions that were made for FY2011 to be initiated in FY 2012 since the Authority is facing the same problems.

1. Updating internal transactions such as general ledgers and bank reconciliation; staff cross trainings; and to ensure that all appropriate policies and regulations, that are necessary to improve the well being of operation, will be adopted by the Board of Directors.

-
2. Implement strict compliance on the process of actual collection of YFA receivables.
 3. Decrease the numbers of findings by resolving the unresolved ones and comply with all policies in place.
 4. Generate more revenue mainly by sale of fish and other services the Workshop has the capacity of providing.

YAP FISHING AUTHORITY

Statements of Net Assets
For the Years Ended September 30, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current Assets		
Cash	\$ 80,769	\$ 44,527
Inventory (Note 9)	116,487	98,472
Trade receivables, net (Note 2)	<u>19,015</u>	<u>15,184</u>
Total current assets	216,271	158,183
Property and equipment, net (Note 3)	<u>2,076,965</u>	<u>2,199,609</u>
TOTAL ASSETS	<u>\$ 2,293,236</u>	<u>\$ 2,357,792</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 22,613	\$ 18,944
Accrued payroll and others	4,847	10,463
Due to affiliates (Note 4)	41,945	41,945
Due to State Government (Note 5)	<u>35,325</u>	<u>35,325</u>
Total current liabilities	104,730	106,677
Net Assets		
Invested in capital assets	2,076,965	2,199,609
Unrestricted	<u>111,541</u>	<u>51,506</u>
Total net assets	<u>2,188,506</u>	<u>2,251,115</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,293,236</u>	<u>\$ 2,357,792</u>

See accompanying notes to financial statements

YAP FISHING AUTHORITY
Statements of Revenues, Expenses and Changes in Net Assets
Years ended September 30, 2010 and 2009

	2010	2009
Operating revenues		
Fish Sales	\$ 113,054	\$ 109,538
Ice Sales	69,602	80,511
Other Sales	64,126	56,648
Other revenue	19,639	33,290
Total operating revenues	266,421	279,987
Cost of Sales	79,492	69,207
Gross Margin	186,929	210,780
Operating expenses		
Depreciation	190,884	178,610
Payroll, taxes and benefits	76,581	81,877
Utilities	44,374	74,324
Other (Note 10)	44,899	59,255
Total operating expenses	356,738	394,066
Loss from operations	(169,809)	(183,286)
Nonoperating revenues/(expenses)		
Intergovernmental contribution (Note 8)	112,726	405,039
Other income/(expense)	6,666	
Bad debt expense	(12,157)	
Gain/(Loss) on asset disposal	(35)	(337)
Total nonoperating revenues	107,200	404,702
Changes in net assets	(62,609)	221,416
Net assets at beginning of year	2,251,115	2,029,699
Net assets at end of year	\$ 2,188,506	\$ 2,251,115

See accompanying notes to financial statements

YAP FISHING AUTHORITY

Statement of Cash Flows For the Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Receipts from customers	\$ 246,825	\$ 285,091
Cash payments for goods and services	(159,571)	(213,448)
Cash payments to employees	(82,198)	(78,089)
	5,056	(6,446)
Net cash from/(used) for operating activities		
Cash flows used to investing activities		
Grant received for Grassroot Project	97,000	-
OFCF donated items received	2,461	-
Acquisition of fixed assets	(68,275)	(2,512)
	31,186	(2,512)
Net cash from/(used) for investing activities		
Net decrease in cash	36,242	(8,958)
Cash, beginning of year	44,527	53,485
Cash, end of year	\$ 80,769	\$ 44,527
Reconciliation of operating loss to net cash used for operating activities:		
Loss from operations	(169,809)	(183,286)
Adjustments to reconcile loss from operations to net cash used for operating activities		
Depreciation	190,884	178,610
OFCF contributions expensed	-	16,734
Other income/expense	(6,666)	337
Bad debt on receivables	12,157	-
Loss on asset disposal	35	-
(Increase)/decrease in assets		
Due from grantor		
Trade receivables	(3,831)	5,104
Employee receivables	-	93
Inventory	(15,765)	(11,250)
Increase/(decrease) in liabilities		
Accounts payables	3,668	(16,483)
Accrued payroll and other	(5,617)	3,695
Net cash used for operating activities	\$ 5,056	\$ (6,446)
Supplemental disclosures of noncash transactions		
Intergovernmental contributions which increased property, plant and equipment	67,645	340,000

See accompanying notes to financial statements

YAP FISHING AUTHORITY

Schedule of Expenditures of Federal Awards
For the Years ended September 30, 2010 and 2009

Grantor/CFDA #/Grantor's Program Title	CFDA #	FY10 Expenditures		FY09 Expenditures
Federal Emergency Management Agency Grant FEMA-FM-DR1511 Typhoon Sudal				
Public Assistance Grant – Yap Fishing Authority (Note 10)	83.516	-0-		296,670
TOTAL FEDERAL AWARDS EXPENDED		-0-	\$	296,670

The FEMA Grant was passed through the FSM National Government to the State of Yap.

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Yap Fishing Authority (YFA), an enterprise fund of the State of Yap, was created in 1979 pursuant to Yap State Law (YSL) No. 6-13. The primary objective of YFA is to promote, develop, and support commercial utilization of living marine resources within the State of Yap.

YFA is governed by a five-member Board of Directors appointed by the Governor with the advice and consent of the State Legislature.

Basis of Accounting - YFA utilizes accounting principles generally accepted in the United States of America as is applicable to proprietary funds of governmental entities. Such funds are accounted for using the flow of economic resources measurement focus. Thus, revenues are recorded when earned and liabilities are recognized at the time expenses are incurred.

Accounting Standards - Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting" requires that proprietary activities apply all Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. YFA implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

YFA has adopted GASB Statement No. 34 (*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*) which establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into four net asset categories:

- (a) **Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- (b) **Nonexpendable** – Net assets subject to externally imposed stipulations that require the YFA to maintain them permanently.
- (c) **Expendable** – Net assets whose use by the YFA is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time.
- (d) **Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

The YFA does not have nonexpendable restricted net assets as of September 30, 2010 and 2009.

New Accounting Standards – During fiscal years 2010 and 2009, YFA implemented the following pronouncements:

GASB Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". GASB Statement No.43 establishes uniform financial reporting for other post employment benefit plans by state and local governments.

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*". GASB Statement No.45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, notes of disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employees. The provisions of this statement are effective for YFA for periods beginning after December 15, 2007.

GASB Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*". GASB Statement No.48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

GASB Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*". GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

GASB Statement No. 50, "*Pension Disclosures on Amendments of GASB Statement No. 25 and 27*". GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

In June 2007, GASB issued Statement No.51, "*Accounting and Financial Reporting for Intangible Assets*". GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009.

In June 2008, GASB issued Statement No.53, "*Accounting and Financial Reporting for Derivative Instruments*". GASB Statement No. 53 is intended to improve how the state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009.

In February 2009, GASB issued Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions for Regulatory Statements*". GASB Statement No. 54 is for establishing fund balance classification that comprise a hierachy based primarily on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in government funds. The provisions of this statement are effective for periods beginning after June 15, 2010.

In December 2009, GASB issued Staement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". GASB Statement No. 58 establishes requirements for recognizing and measuring the effects on assets and liabilities of governments filing for Chapter 9 bankruptcy protection. The provisions of the new pronouncement will take effect for the fiscal year that ends on June 30, 2010.

YAP FISHING AUTHORITY

Notes to Financial Statements September 30, 2010

The adoption of these pronouncements will not have material impact on the accompanying 2010 and 2009 financial statements.

Cash – For purposes of the balance sheet and statement of cash flows, cash represents cash on hand and cash on deposit in a bank account. All of the balances at September 30, 2010 and 2009 are fully collateralized as such are subject to Federal Deposit Insurance Corporation (FDIC) coverage.

Depreciation – Property and equipment is stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Depreciation is recorded in the financial statements using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	3-20 years
Dock	40 years
Fishing fleet	10 years
Refrigeration & cold storage equipment	5-10 years
Motor vehicles	5-20 years
Other equipment	2-10 years
Other capital assets	2-10 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. TRADE RECEIVABLE

A summary of trade receivables at September 30, 2010 and 2009 are presented below:

	<u>2010</u>	<u>2009</u>
Accounts Receivable - trade	\$ 38,757	22,768
(Less): Allowance for doubtful accounts	(19,742)	(7,584)
Trade receivable, net	<u>\$ 19,015</u>	<u>\$ 15,184</u>

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2010

3. PROPERTY AND EQUIPMENT

A summary of property and equipment as of September 30, 2010 and 2009 are as follow:

	<u>Beginning Balance October 1, 2009</u>	<u>Transfers and Additions</u>	<u>Transfers and Disposals</u>	<u>Ending Balance September 30, 2010</u>
Buildings	\$ 1,753,638	\$	\$	\$ 1,753,638
Dock	2,629,778			2,629,778
Fishing fleet	832,134	67,645		899,779
Refrigeration & cold storage equipments	285,069	315		285,384
Motor vehicles	146,304			146,304
Other equipment	<u>136,390</u>	<u>315</u>	<u>(544)</u>	<u>136,161</u>
Total cost	5,783,313	68,275	(544)	5,851,044
Less: accumulated depreciation	<u>(3,583,704)</u>	<u>(190,884)</u>	<u>509</u>	<u>(3,774,079)</u>
	\$ <u>2,199,609</u>	\$ <u>(122,609)</u>	\$ <u>(35)</u>	\$ <u>2,076,965</u>

	<u>Beginning Balance October 1, 2008</u>	<u>Transfers and Additions</u>	<u>Transfers and Disposals</u>	<u>Ending Balance September 30, 2009</u>
Buildings	\$ 1,753,638	\$	\$	\$ 1,753,638
Dock	2,629,778			2,629,778
Fishing fleet	535,464	296,670		832,134
Refrigeration & cold storage equipments	274,413	10,656		285,069
Motor vehicles	135,804	10,500		146,304
Other equipment	<u>111,704</u>	<u>24,686</u>		<u>136,390</u>
Total cost	5,440,801	342,512	-0-	5,783,313
Less: accumulated depreciation	<u>(3,405,094)</u>	<u>(178,610)</u>	<u>-0-</u>	<u>(3,583,704)</u>
	\$ <u>2,035,707</u>	\$ <u>163,902</u>	\$ <u>-0-</u>	\$ <u>2,199,609</u>

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2010

4. DUE TO AFFILIATE

In fiscal year 2000, YFA added a donated used tuna long-liner, the *FV Marwel*, to its fishing fleet. YFA commissioned the Yap Fresh Tuna, Inc. (YFTI), a 50% owned subsidiary, to outfit, staff, and manage the *FV Marwel* for commercial fishing. YFTI intermittently billed YFA for expenses incurred in operating the boat which aggregated \$41,945 as of September 30, 2002. YFTI ceased operations in fiscal year 2003. However, it has not been formally dissolved to allow YFA to settle its inter-company receivables and payables. Management intends to work with its joint venture partner, the National Fisheries Corporation (NFC) to reach an agreement on the disposal of YFTI's assets and liabilities in order to formally dissolve the Yap Fresh Tuna, Inc. Accordingly, the \$41,945 due to YFTI is still shown as a liability as of September 30, 2010 and 2009.

5. DUE TO YAP STATE GOVERNMENT

This has been a long-standing payable on the Authority's books for which original records have been lost. Attempts to confirm the \$35,325 balance at September 30, 2006 and 2005 with the State Finance has failed to produce information that would allow management to settle the account. Management intends to further investigate the balance with State officials and pursue forgiveness of the debt should the State Finance fail to produce reliable records to confirm the debt. Consequently the balance remains a payable for the Authority as of September 30, 2010 and 2009.

6. RISK MANAGEMENT

YFA is self-insured for all risks. Any loss or liability that may result upon occurrence of a natural disaster, accident or litigation will be borne entirely by YFA.

7. GRANTS

Total intergovernmental contributions for fiscal years 2010 and 2009 are presented below;

	<u>2010</u>	<u>2009</u>
Overseas Fishery Cooperation Foundation	\$ 15,726	108,369
Small-scale Fisheries Grant (OFCE)	97,000	-
FEMA Grant	-	296,670
	<u>-----</u>	<u>-----</u>
	\$ 112,726	405,039
	<u>-----</u>	<u>-----</u>

From the total grants received, YFA capitalized \$67,645 and \$340,000 as fixed assets in FY10 and FY09 respectively.

8. INVENTORY

YFA's inventory as of September 30, 2010 and 2009 are as follow:

Fish Inventory	\$ 27,015	11,250
Spare Parts Inventory (Prepaid Expenses)	<u>89,472</u>	<u>87,222</u>
	<u>-----</u>	<u>-----</u>
	\$ 116,487	98,472
	<u>-----</u>	<u>-----</u>

YAP FISHING AUTHORITY

Notes to Financial Statements
September 30, 2010

9. OTHER EXPENSES

Provided below is the breakdown of Other Expenses for the years ended September 30, 2010 and 2009:

Workshop expense	17,558	15,400
Communication	4,914	5,276
General administrative expenses	1,426	7,628
Miscellaneous	-	17,859
Cold storage repairs & maintenance	7,818	4,265
Office supplies	2,533	3,892
Fuel	5,757	3,040
Fleet expenses	4,020	1,895
Grassroot Project expense	873	-
	<u>44,899</u>	<u>59,255</u>

10. SUBSEQUENT EVENTS

In October 2010, YFA received from the Overseas Fisheries Cooperation Foundation of Japan (OFCF) \$41,778 and \$3,171 worth of spare parts and supplies for OFCF's FDAPIN V-1 and FDAPIN V-2 projects respectively.



**OFFICE OF THE STATE PUBLIC AUDITOR
YAP STATE GOVERNMENT
FEDERATED STATES OF MICRONESIA
P.O. Box 927, Colonia, Yap 96943
Phone: (691) 350-3416 Fax: (691) 350-4987 Email: audit Yap@mail.fm**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED UPON THE AUDIT IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Yap Fishing Authority:

We have audited the financial statements of the Yap Fishing Authority (YFA), as of and for the years ended September 30, 2010 and 2009, and have issued our report thereon dated May 20, 2011 which report was qualified due to scope limitations presented by the lack of underlying documentation to support the ice sales and the carrying value of the fishing dock. We conducted our 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.

Internal Control Over Financial Reporting

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

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 to 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 to 23) to be material weaknesses. (Finding nos. 2 through 5 and 7).

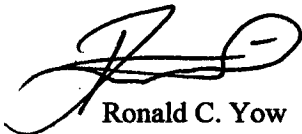
A significant deficiency is a control deficiency or combination of control deficiencies that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiency in the accompanying Schedule of Findings (pages 17 to 23) to be significant deficiencies. (Finding nos. 6,8 through 9)

Compliance

As part of obtaining reasonable assurance about whether the YFA'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 audits 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 is presented in the Schedule of Findings (pages 17 to 23). (Finding no. 1)

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

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



Ronald C. Yow
Acting Yap State Public Auditor

May 20, 2011

YAP FISHING AUTHORITY

Schedule of Findings September 30, 2010

FINDING NO. 1 - BOARD MEETINGS

Criteria: In accordance with Title 18 Section 152 of the Yap State Code, “The Board of Directors shall meet at least every three months and shall hold public meetings as it may deem necessary for the transaction of its general business”

Condition: Our review of YFA’s BOD meeting minutes found that there were only 3 BOD meetings held in fiscal year 2010. The meetings took place on December 11, 2009, January 8, 2010 and June 10, 2010.

Cause: According to YFA, some meetings were scheduled but did not take place as the Board did not meet the required quorum of any four (4) members present.

Effect: Not having regular meetings can affect the outcome of YFA’s future simply because strategic and economic decisions are made through the Board of Directors.

Recommendation: We recommend that the Board of Directors of YFA should ensure that it complies with it’s mandates at all time.

FINDING NO. 2 - UNRESOLVED PRIOR YEARS FINDINGS

Criteria: Yap Fishing Authority should, on a timely manner, adopt and continually implement applicable audit recommendations to strengthen controls over financial reporting.

Condition: Out of the 11 prior years findings, YFA was able to resolve 6 (55%) and 5 (45%) were repeated in FY10.

Cause: YFA was unsuccessful in fully implementing audit recommendations and other applicable remedial policies and procedures on a timely manner.

Effect: Due to untimely implementation of corrective measures, most of the conditions cited in previous years still exist in FY10.

Recommendation: We recommend that YFA should immediately adopt audit recommendations and formulate applicable policies and procedures to ensure that controls over financial reporting are strengthened.

Prior Year Status: *This finding was cited in the FY2008 audit report.*

YAP FISHING AUTHORITY

Schedule of Findings September 30, 2010

FINDING NO. 3 - PROPER MAINTENANCE OF THE GENERAL LEDGER

Criteria: YFA management is responsible in ensuring that the Authority maintains and makes available, reliable, and accurate accounting and financial records including but not limited to the followings:

- Timely posting of accounting transactions to the general ledger
- Regular reconciliation of general ledger accounts
- Maintenance and filing of proper and accurate schedules that support the general ledger account balances
- Timely and accurate posting of year-end closing entries, i.e. estimates of allowance for doubtful accounts, accruals, depreciation expenses and all necessary adjusting entries.
- Ensures proper and reliable back-up system for the general ledger

Condition: The trial balance was submitted to OPA on February 18, 2011, however, the accompanying supporting schedules such as aged accounts receivable, fixed assets register, inventory listing, schedules of payables and accruals and cash reconciliation reports were submitted on later dates and these were not accurately reconciled to the general ledger.

Some of the schedules were returned to YFA for the accountant to make the necessary adjustment while others were taken as is with OPA recommending the necessary adjustments to correct the account balance, to wit:

- ◆ Physical count of cash on hand at 9/30/10 revealed a balance of \$498 while the general ledger has a balance of \$17,796. Audit proposed an adjustment of \$18,695 to correct the general ledger balance to the actual cash on hand.
- ◆ Reversals of prior years' accruals were never done and therefore, we again proposed to adjust the general ledger by approximately \$7,100 to correct the wages payable at 9/30/10. Additionally, schedule for annual leave balances only provided leave balances for employees by hours but not the monetary value. Additional work was done to determine the value of the annual leave balances as of 9/30/10.

Cause: Accounting section was not able to reconcile the general ledger account balances with the trial balance on a timely manner, thus making the supporting schedules unavailable for a timely audit. Furthermore, a reliable back-up of the general ledger was not available.

Effect: In the prior years specifically fiscal year 2006, YFA was cited for deficiencies in proper maintenance of the general ledger which prevented timely audits. Consequently, improper maintenance of the general ledger resulted in the continuance of questionable account balances and resulting to the proposed material adjustments in order to reconcile general ledger account balances.

YAP FISHING AUTHORITY

Schedule of Findings September 30, 2010

FINDING NO. 3 - PROPER MAINTENANCE OF THE GENERAL LEDGER (CONT.)

Recommendation: We would like to reiterate to Management, its responsibility to ensure proper maintenance of the general ledger and reconciliation of general ledger accounts and all deficiencies and irregularities in the accounting system should be done on a timely manner.

Furthermore, Management should also ensure that a reliable back-up system be in place to prevent further loss of financial data.

Prior Year Status: *Similar findings were issued in the audit reports for fiscal years ending September 30, 2009 and 2008.*

FINDING NO. 4 - UNTIMELY COLLECTIONS OF RECEIVABLES

Criteria: Written and adopted policies should be in place to arrest the accumulation of receivables and to effect the collection of balances due to YFA, especially accounts outstanding over 365 days from employees, board members and customers.

Condition: YFA outstanding receivable balances have been a constant concern in terms of reportable condition and have been cited as a finding for eight consecutive years since fiscal year 2000.

A huge chunk of the accounts receivable represent prior years' balances that could no longer be substantiated by proper supporting documentation. In FY09, since YFA has nothing to back up its collection claims, a large portion of these accounts were written-off. YFA still continues to allow charges to few reliable customers and they intend to start collecting from the other delinquent customers whose balances remained on the books.

However, during our FY10 review, we noted that collection for past due accounts was not successful. We tested \$33,000 worth of accounts receivable and YFA only managed to collect \$2,757 or 8%. Aside from this, YFA still allow charges to customers with past due balances.

Cause: There are no policies and guidelines in place to limit credit availment of customers nor were there any established policies and guidelines to effect timely collections which resulted in the continuous increase of accounts receivable.

Effect: The YFA's accounts receivable balance will be overstated since there is a strong possibility that a huge portion of the accounts receivable is uncollectible and if YFA will still continue to extend credits to customers with past due accounts, it will put a substantial strain in their limited cash flow and might affect their operations in the future.

YAP FISHING AUTHORITY

Schedule of Findings
September 30, 2010

FINDING NO. 4 - UNTIMELY COLLECTIONS OF RECEIVABLES (CONT.)

Recommendation: We recommend that the board should implement measures that will limit or eliminate granting of credit extensions to delinquent customers. Furthermore, effective and stricter policies and guidelines on collections must be put in place in order to arrest the accumulation of receivables.

Prior Year Status: *This finding had been in the audit report since FY2000 to FY2008.*

FINDING NO. 5 - INADEQUATE CONTROLS OVER SPARE PARTS INVENTORY

CRITERIA: Proper controls should be in place to ensure that spare parts inventories are properly accounted for, maintained, monitored, and updated on a timely basis.

CONDITION: During the inventory observation on spare parts, we noted the following:

- 1) Final inventory listing was not available during our physical count.
- 2) Some of the boxes were not yet opened. Evidently, such items were not counted nor checked to ensure that quantity of items received were accurate.

CAUSE: Accounting personnel failed to ensure that donated spare parts were properly and accurately recorded. There were no controls in place to ensure that inventory movements are properly monitored and accounted.

EFFECT: The inventory balance is understated and the risk of pilferage or theft is very high due to the absence of controls and proper accounting.

RECOMMENDATION: We recommend that YFA management should set-up control mechanisms that would ensure proper monitoring and accounting of the spare parts inventory.

PRIOR YEAR STATUS: Similar findings were issued for the audits of fiscal years ended September 30, 2009 and 2008.

FINDING NO. 6 - LONG OUTSTANDING LIABILITY ACCOUNTS

Criteria: Payables should be settled on a timely manner.

Condition: During our follow-up on prior year findings, we noted that YFA had carried on its books for some time, a liability to the Yap State Government for \$35,325. Another liability account is the Marwel Receivable/Payable account amounting to \$41,945 though the Marwel operation had stopped way before 2005.

YAP FISHING AUTHORITY

Schedule of Findings September 30, 2010

FINDING NO. 6 - LONG OUTSTANDING LIABILITY ACCOUNTS (CONT.)

Several other payables totaling \$4,100 have also remained on YFA's books even before FY2005. Tests and reviews found that supporting documents for these payables were not available and basic information of the vendors such as address and contact numbers were also not available.

YFA also owed \$5,500 to one local vendor and these were charges from November 1995 to September 2006. Further investigation revealed that some of the charges were unauthorized and unrelated to the operations of YFA. However, because YFA did not settle the matter on a timely manner, the vendor still claims the unpaid amount.

Cause: The untimely settlement of the above condition was a result of high turn-over in YFA's management position. Furthermore, due to improper maintenance of financial records, some of the long outstanding liabilities might have resulted from non-recording or mispostings of transactions.

Effect: Some of the long outstanding liabilities of YFA are questionable due to lack of documentation.

Recommendation: Because vendors have not made any attempt over the years to collect the above amounts, we recommend the Board of YFA should undertake the necessary steps in resolving the matter thru verification whether these liabilities are in existence or not.

With regards to the amount owed to the Yap State Government, we recommend that YFA makes a confirmation letter addressed to the Director of OAS and the Chief of Finance to verify whether the State has record of such liability, if the response is negative then this amount can be written-off with the Board's approval.

For the Marwel receivable/payable account, this is still in the books though the Marwel had ceased to operate even before the beginning of 2005. Management has to look into whether the said account can be requested for write-off.

FINDING NO. 7 - INADEQUATE MONITORING MECHANISM OVER ICE SALES

Criteria: Adequate monitoring mechanism should be in place to ensure proper accountability of all inventory items.

Condition: Comparative review of ice sales revealed a significant decrease of \$11,000 in FY2010 as compared to FY2009. Further review noted that the biggest drop in sales was in March 2010, which amounted to \$3,500, though said month happens to be the busiest month in Yap due to the Yap Day celebration.

Moreover, an additional fishing vessel in fiscal year 2010 would have contributed to the increase in ice sale which did not happen.

YAP FISHING AUTHORITY

Schedule of Findings September 30, 2010

FINDING NO. 7 - INADEQUATE MONITORING MECHANISM OVER ICE SALES (CONT.)

The audit for fiscal year 2009 found an estimated misstatement of \$14/day in ice sales which was conservative if one misstatement or unrecorded sale occurred per day. Now, due to the continuous lack of controls in FY2010, we conservatively estimated that 2 to 3 misstatements can easily happen on a daily basis. If we are going to take it on an annual basis, we are looking at a material misstatement of \$9,000 to \$13,000.

Cause: YFA wasn't able to establish an effective control mechanism with regards to the ice sales.

Effect: Ice is more susceptible to theft/pilferage than fish and other inventory items. The absence of an effective monitoring system of ice inventory gives greater opportunity of theft/pilferage.

Recommendation: We recommend that Management should establish a more stringent monitoring and control system over ice inventory in order to limit or even eliminate the chances of theft/pilferage.

Prior Year Status: *Similar finding was issued in FY2009.*

FINDING NO. 8 - UNREASONABLE PURCHASES

Criteria: Management is responsible for implementing policies and procedures to ensure, among other objectives, that all financial transactions of the entity are legitimate, reasonable, and supportive of the entity's business purposes.

Condition: Our review of expenses noted a purchase of alcoholic beverages on November 10, 2009 for \$151.20. The purchase of beers and alcoholic beverages has no economic substance nor contributes to the purpose of the entity.

Cause: The Authority did not ensure policies and procedures are in place to limit purchases only to items and services that would help meet and carry out the mandates of the Authority.

Effect: As of fiscal year ending September 30, 2010, YFA's presented a total of \$80,769 in cash of which \$19,194 is restricted to the Small-scaled Fisheries Project also known as the "Grassroot Project", leaving \$61,757 as operating fund. The remaining operating fund represents 28% of YFA's total current assets of \$216,271 and by allowing continuous incurrence of unreasonable expenses, it will further deplete the Authority's limited funds.

Recommendation: The Board and Management of YFA should implement appropriate policies and procedures to prohibit unnecessary expenditures and regulate unreasonable costs.

YAP FISHING AUTHORITY

Schedule of Findings September 30, 2010

FINDING NO. 9 – INADEQUATE CONTROLS OVER EXPENSES

Criteria: Proper controls should be in place to ensure that all expenses are competitively procured, properly documented, reviewed, approved and properly posted to the general ledger.

Condition: Our review of expenses found the followings:

- 1) We tested four expense accounts, i.e. office supplies, general admin., POL and shop supplies, and found 14 instances that the amount paid is less than the amount printed on the check. Such amounts were properly recorded in the general ledger as reductions to expenses and properly deposited to the bank, however, it was not indicated in the deposit slips whether portion of the deposits were the change for the purchases or just sales.
- 2) Out of the total of \$3,000 in repair and maintenance expenses tested, and \$920 or 31% did not have evidence of price comparison.
- 3) Tests of shop supplies found that 8 of 10 transactions, 80% have disbursement vouchers that were not properly filled out. The expenses were allocated to certain expense accounts on the disbursement vouchers that did not correspond to the expense accounts in the general ledger.

Cause: The conditions discussed above revealed that disbursements were not properly reviewed by key accounting personnel to ensure that all expenses were properly documented and accurately posted.

Effect: Though the amounts involved in the sampled expense accounts were immaterial, the possibility that the prior years' conditions, wherein YFA have unsettled disputed expenses due to inadequate controls over disbursements and deficiencies in the maintenance of proper accounting records, still exists.

Recommendation: We recommend that Management should require accounting personnel to take all the necessary measures to make certain that all expenditures are process accordingly and expenses are accurately recorded to the general ledger.

Prior Year Status: Similar finding was issued in the audit report for fiscal year ending September 30, 2008.

Yap Fishing Authority

P.O. Box 338
Colonia, Yap FM 96943
Phone: (691) 350-2185/2224 Fax: (691) 350-4107
Email address: fishyap@mail.fm

Responses to FY2010 Findings

Finding No.1 – Board Meeting

Although it showed that the Board only met 3 times during the fiscal year, this is the most active Board YFA has had thus far. There are supposed to be 5 members on the Board but unfortunately, one resigned back in 2008 and was never replaced and two of the remaining members were from the same department (Dept. of R&D's Director and his Deputy). In order to form a quorum, there has to be 4 members present but because of the mentioned circumstances, having a quorum is usually not forthcoming.

Finding No. 2 – Unresolved Prior Years Findings

We acknowledge this finding and as much as we try to resolve prior years' findings, we still fail but we are trying our best to tackle one at a time. Hopefully in time we will resolve all these findings.

Finding No. 3 – Proper Maintenance of the General Ledger

This was partly due to our server that broke several times but personnel has been instructed to take all necessary measurements to prevent this from happening again.

Finding No. 4 – Untimely Collections of Receivables

YFA Management has stopped giving charges to customers with prior years' past due balances entirely. Collections on the past dues are still in progress although very slow. Most customers with outstanding balances keep on claiming that they cannot pay yet therefore purchasing fish on cash basis only. Some are trying to pay. Allowing charges is very risky but it's something that the Authority cannot entirely refrain from due to a lot of reasons.

Finding No. 5 – Inadequate Controls Over Spare Parts Inventory

We understood that although we have forms to list down the parts used, we need to organize the parts so that they can be easily inventoried.

Finding No. 6 – Long Outstanding Liability Accounts

We understand that all payables should be settled on a timely manner. As we have discussed several times before the liability to the Yap State Government, that although the Government has confirmed that its books doesn't have any record of such amount owed, there has to be something in writing to substantiate such claim. A confirmation letter addressed to the Acting Director of OAS was written with the help of the Auditor auditing YFA but no response was received. YFA will still follow up on this. As to the other payables, the Board of YFA will take the necessary steps recommended by your office.

Finding No. 7 – Inadequate Monitoring Mechanism Over Ice Sales

This is something that YFA is trying to find a way to keep an inventory on but it has been difficult since the ice machine produces ice automatically and there is no accurate way of controlling the amount of ice it produces. The production of ice depends on a sensor and the climate. As to the depletion in ice sales during the time when ice sales should have increased, we did find the problem and we dealt with the problem the way we felt appropriate.

Finding No. 8 – Unreasonable Purchases

This unreasonable purchase of \$151.20 of alcoholic beverages was really for an occasion that we had to show our appreciation the Grassroot representatives from off-island for granting us the \$97,000.00 to help promote the small scale fishery development in our communities. Since we had those guests from off-islands, COP, Governor's Office, OPB, Dept. of R&D, and our BOD, we thought it customary that we get a few beers for this occasion.

Finding No. 9 – Inadequate Controls Over Expenses

Accounting personnel has been instructed to take all the necessary measures to make certain that all expenditures are processed accordingly and expenses are accurately recorded to the general ledger.