

**YAP VISITORS BUREAU
(A COMPONENT UNIT OF THE STATE OF YAP)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2008 AND 2007

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Yap Visitors Bureau:

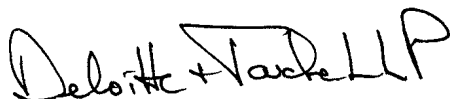
We have audited the accompanying statement of net assets of the Yap Visitors Bureau, a component unit of Yap State Government, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Yap Visitors Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Yap Visitor Bureau's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Yap Visitors Bureau as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 - 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Yap Visitors Bureau's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2009, on our consideration of the Yap Visitors Bureau's internal control over financial reporting and on 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 read in conjunction with this report in considering the results of our audit.



June 24, 2009

YAP VISITORS BUREAU
(A COMPONENT UNIT OF THE STATE OF YAP)

Management's Discussion and Analysis
Years Ended September 30, 2008 and 2007

This section of the Yap Visitors Bureau (Bureau) annual financial report presents our management's discussion and analysis of the Bureau's financial performance for the years ended September 30, 2008 and 2007. It should be read in conjunction with the financial statements, which follow this section.

The Yap Visitors Bureau was created pursuant to Yap State Law (YSL) No. 4-25, as amended and commenced operations on October 22, 1996. The Yap Visitors Bureau is the agency responsible for, among others, promoting Yap as a visitor's destination, developing industry and promoting local participation at all levels of the tourism industry.

On January 20, 2004, the Governor signed into law YSL No. 6-24 which amended Title 20 of the Yap State code by amending Subsection 1014 concerning the fiscal authority of the Yap Visitors Bureau. This new law makes it clear that, unless otherwise provided by law of the granting authority, all funds received by the Bureau shall be considered grants in aid.

Also in FY-2005, the Management and the Board were working with the State Government offices in trying to recover from Typhoon Sudal. The Bureau is eligible for U.S. Federal Emergency Management Assistance and Yap State funding for the total replacement cost of damaged property and assets. The construction of the new building for the Bureau is approximately 100% complete. The solicitation of bid proposals for the damaged property of the Bureau has been completed.

The Bureau, during the past two fiscal years, received grants from the Compact II Private Sector grant for its operations. For fiscal years 2008 and 2007, a memorandum of agreement with the Bureau and the State Finance Office was to allow monthly reimbursement to the Bureau and thereby liquidate the Bureau's budget.

For the fiscal years 2008 and 2007, \$278,783 and \$239,735, respectively, represents the total operating grants from the Private Sector Grant Compact II funding.

Summary Statements of Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 228,694	\$ 240,846	\$ 232,503
Capital assets, net	<u>42,485</u>	<u>12,636</u>	<u>21,486</u>
	<u>\$ 271,179</u>	<u>\$ 253,482</u>	<u>\$ 253,989</u>
Liabilities and Net Assets:			
Accounts payable	\$ 29,701	\$ 29,701	\$ 17,629
Accrued payroll and others	<u>5,482</u>	<u>1,881</u>	<u>1,183</u>
Total liabilities	<u>35,183</u>	<u>31,582</u>	<u>18,812</u>
Net assets:			
Invested in capital assets	42,485	12,636	21,486
Unrestricted	<u>193,511</u>	<u>209,264</u>	<u>213,691</u>
Total net assets	<u>235,996</u>	<u>221,900</u>	<u>235,177</u>
	<u>\$ 271,179</u>	<u>\$ 253,482</u>	<u>\$ 253,989</u>

**YAP VISITORS BUREAU
(A COMPONENT UNIT OF THE STATE OF YAP)**

Management's Discussion and Analysis
Years Ended September 30, 2008 and 2007

Summary Statements of Revenues, Expenses and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 1,086	\$ 9,417	\$ 5,804
Operating expenses	<u>318,831</u>	<u>277,705</u>	<u>379,505</u>
Loss from operations	(317,745)	(268,288)	(373,701)
Nonoperating revenues	<u>331,841</u>	<u>255,011</u>	<u>369,871</u>
Change in net assets	14,096	(13,277)	(3,830)
Net assets at beginning of year	<u>221,900</u>	<u>235,177</u>	<u>239,007</u>
Net assets at end of year	<u>\$ 235,996</u>	<u>\$ 221,900</u>	<u>\$ 235,177</u>

Financial Highlights

Government subsidy to Yap Visitors Bureau in fiscal year 2008 was \$278,783 and in fiscal year 2007 was \$239,735.

Expenses from operations in fiscal year 2008 were \$318,831 and in fiscal year 2007 were \$277,705. The increase was due to certain promotional and product development projects.

Capital Assets and Debt

The Bureau has not acquired significant capital assets during the years ended September 30, 2008 or 2007. For more information concerning the Bureau's capital assets, please see the accompanying notes to the financial statements, primarily note 6.

The Bureau has not engaged in either short-term or long-term debt financing during the years ended September 30, 2008 and 2007.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in YVB's report on the audit of financial statements, which is dated June 25, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements and can be viewed at the FSM Office of the Public Auditors' website at www.fsmpublicauditor.fm.

Plan of Action for 2009

In May 2008, a new General Manager was hired and together with the Board of Directors, the following are courses of action undertaken in resolving the pending issues of the Yap Visitors Bureau.

1. Change and update the current Accounting program to a more user friendly software.
2. Evaluate and reorganize the office filing system.
3. Promote customer relations and accountability.
4. Enforce office policies and regulations.

**YAP VISITORS BUREAU
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Management's Discussion and Analysis
Years Ended September 30, 2008 and 2007

The Yap Visitors Bureau has made strides in improving its financial performance this last fiscal year. The accounting system was changed to a more user friendly system. Unfortunately, the Yap Legislature requires that all grant award funds now be administered through the Yap State financial system, and as of Fiscal Year 2009 all expenditures were made through that system. This creates another step in all the Bureau's transactions and requirements and slows down all accounting procedures. The Bureau management will continue to attempt to streamline procedures to be a more efficient entity, but at the same time make an effort to follow required procedures and policies at all the various levels.

**YAP VISITORS BUREAU
(A COMPONENT UNIT OF THE STATE OF YAP)**

Statements of Net Assets
September 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash	\$ 143,713	\$ 149,878
Due from Yap State Government	80,414	79,327
Receivables, net	87	2,741
Prepaid expenses	<u>4,480</u>	<u>8,900</u>
Total current assets	228,694	240,846
Capital assets, net	<u>42,485</u>	<u>12,636</u>
	<u>\$ 271,179</u>	<u>\$ 253,482</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 29,701	\$ 29,701
Accrued payroll and others	<u>5,482</u>	<u>1,881</u>
Total liabilities	<u>35,183</u>	<u>31,582</u>
Contingency		
Net assets:		
Invested in capital assets	42,485	12,636
Unrestricted	<u>193,511</u>	<u>209,264</u>
Total net assets	<u>235,996</u>	<u>221,900</u>
Total liabilities and net assets	<u>\$ 271,179</u>	<u>\$ 253,482</u>

See accompanying notes to financial statements.

YAP VISITORS BUREAU
(A COMPONENT UNIT OF THE STATE OF YAP)

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Sales of promotional materials	\$ 195	\$ 432
Other	<u>891</u>	<u>8,985</u>
Total operating revenues	<u>1,086</u>	<u>9,417</u>
Operating expenses:		
Contractual services	102,628	46,359
Payroll, tax and benefits	66,346	63,100
Promotions and advertising	40,903	74,724
Travel	37,828	29,744
Communications and utilities	21,795	17,808
Depreciation	18,415	10,750
Office supplies	3,634	13,006
Bad debts	2,741	-
Repair and maintenance	-	1,586
Representation and entertainment	-	1,348
Other	<u>24,541</u>	<u>19,280</u>
Total operating expenses	<u>318,831</u>	<u>277,705</u>
Loss from operations	<u>(317,745)</u>	<u>(268,288)</u>
Nonoperating revenues:		
Yap State subsidies	278,783	239,735
FEMA grant	-	15,276
Refund	<u>4,794</u>	<u>-</u>
Total nonoperating revenues	<u>283,577</u>	<u>255,011</u>
Net loss before capital contributions	<u>(34,168)</u>	<u>(13,277)</u>
Capital contributions	<u>48,264</u>	<u>-</u>
Change in net assets	14,096	(13,277)
Net assets at beginning of year	<u>221,900</u>	<u>235,177</u>
Net assets at end of year	<u>\$ 235,996</u>	<u>\$ 221,900</u>

See accompanying notes to financial statements.

YAP VISITORS BUREAU
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Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows used for operating activities:		
Cash received from customers	\$ 999	\$ 8,911
Cash payments to vendors for goods and services	(226,909)	(196,203)
Cash payments to employees for services	<u>(62,745)</u>	<u>(61,273)</u>
Net cash used for operating activities	<u>(288,655)</u>	<u>(248,565)</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from Yap State Government	277,696	213,584
Refund	4,794	-
FEMA grants received	<u>-</u>	<u>15,276</u>
Net cash provided by noncapital financing activities	<u>282,490</u>	<u>228,860</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>-</u>	<u>(1,900)</u>
Net cash used for capital and related financing activities	<u>-</u>	<u>(1,900)</u>
Net change in cash	(6,165)	(21,605)
Cash at beginning of year	<u>149,878</u>	<u>171,483</u>
Cash at end of year	<u>\$ 143,713</u>	<u>\$ 149,878</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (317,745)	\$ (268,288)
Adjustments to reconcile loss from operations to net cash used for operating activities		
Depreciation	18,415	10,750
Bad debts	2,741	-
Increase (decrease) in assets:		
Receivables	(87)	623
Prepaid expenses	4,420	(4,420)
Increase (decrease) in liabilities:		
Accounts payable	-	12,072
Accrued payroll and other	<u>3,601</u>	<u>698</u>
Net cash used for operating activities	<u>\$ (288,655)</u>	<u>\$ (248,565)</u>

Non-cash investing and financing activities:

The Company acquired \$48,264 of furniture, fixtures and office equipment which were purchased and contributed by FEMA during the year ended September 30, 2008.

See accompanying notes to financial statements.

**YAP VISITORS BUREAU
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Notes to Financial Statements
September 30, 2008 and 2007

(1) Organization

The Yap Visitors Bureau (YVB) was created pursuant to Yap State Law (YSL) No. 4-25 and commenced operations on October 22, 1996. YSL No. 4-81, dated August 1998, authorized YVB to maintain records and accounts independent of the State. The primary objectives of YVB include increasing the awareness of Yap as a tourist destination, developing the resources of the private sector, increasing local employment in the tourism industry, encouraging and developing community involvement in tourism, increasing the number of visitor activities and preserving the tourism environment.

YVB is governed by a seven-member Board of Directors, five of whom are appointed from the business community by the Governor with the advice and consent of the State Legislature, one appointed by the Speaker of the State Legislature, and one elected by a vote of the six appointed members who has direct involvement in the tourism industry. A General Manager, hired by the Board of Directors, oversees daily operations.

YVB's financial statements are incorporated into the financial statements of the State of Yap as a component unit.

(2) Summary of Significant Accounting Policies

The accounting policies of YVB conform to accounting principles generally accepted in the United States of America as applicable to governmental entities, specifically proprietary funds. Governmental 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 applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. YVB has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modify certain other financial statement disclosure requirements.

To conform to the requirements of GASB Statement 34, net assets are presented in the following categories:

- Invested in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- 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.

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

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

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net assets. Proprietary fund operating statements present increases and decreases in net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. YVB considers revenues and costs that are directly related to its operations to be operating revenues and expenses. Revenues and expenses related to financing and other activities, such as grants and subsidies, are reflected as nonoperating.

Cash

For purposes of the statements of net assets and cash flows, cash is defined as cash on hand and cash held in demand accounts.

Receivables

All receivables are due from government agencies, businesses and individuals located within the State of Yap and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Due to the nature of receivables for YVB, balances not expected to be collected within one year from the balance sheet date are fully reserved as doubtful.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Routine maintenance and repairs are expensed as incurred. As a general rule, YVB capitalizes all assets that have a useful life of more than one year. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follow:

Furniture and fixtures	2 - 6 years
Office equipment	3 - 5 years
Automobile	3 - 5 years

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Annual and Sick Leave

Earned but unused annual leave is paid to employees upon termination of their employment. Therefore, YVB accrues such benefits in the period earned. Sick pay benefits are dependent solely on employee illness. Accordingly, an expense for earned sick leave is only recorded when the leave is actually taken.

New Accounting Standards

During fiscal year 2008, YVB implemented the following pronouncements:

- GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.
- GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*, which more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2004, GASB issued 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 post-employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of YVB.

In December 2006, GASB issued 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. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of YVB.

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. Management does not believe that the implementation of this statement will have a material effect on the financial statements of YVB.

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of YVB.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how 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. Management does not believe that the implementation of this statement will have a material effect on the financial statements of YVB.

(3) Deposits

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by YVB or its agent in YVB's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in YVB's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in YVB's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, YVB's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in YVB's name. YVB does not have a deposit policy for custodial credit risk.

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2008 and 2007

(3) Deposits, Continued

As of September 30, 2008 and 2007, cash was \$143,713 and \$149,878, respectively, which approximated bank balances all of which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008 and 2007, bank deposits in the amount of \$100,000 were FDIC insured. YVB does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. YVB has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on its deposits.

(4) Due from State Government

The balance due from the Yap State Government as of September 30, 2008 and 2007 amounted to \$80,414 and \$79,327, respectively, and represents outstanding reimbursement requests for expenditures related to operating subsidies funded from Compact Private Sector Grants and local funds.

(5) Receivables

Receivables at September 30, 2008 and 2007, consist of the following:

	<u>2008</u>	<u>2007</u>
Employee and director receivables	\$ 29,555	\$ 29,649
Travel advances	27,581	27,581
Other	<u>5,316</u>	<u>5,316</u>
	62,452	62,546
Less: allowance for doubtful accounts	<u>(62,365)</u>	<u>(59,805)</u>
	\$ <u><u>87</u></u>	\$ <u><u>2,741</u></u>

(6) Capital Assets

Capital asset activity for the years ended September 30, 2008 and 2007 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2007</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2008</u>
Furniture and fixtures	\$ 6,724	\$ 9,870	\$ (2,358)	\$ 14,236
Vehicles	40,300	-	(14,800)	25,500
Office equipment	18,510	38,394	-	56,904
Other assets	<u>9,350</u>	<u>-</u>	<u>(9,350)</u>	<u>-</u>
	74,884	48,264	(26,508)	96,640
Less accumulated depreciation	<u>(62,248)</u>	<u>(18,415)</u>	<u>26,508</u>	<u>(54,155)</u>
Total	\$ <u><u>12,636</u></u>	\$ <u><u>29,849</u></u>	\$ <u><u>-</u></u>	\$ <u><u>42,485</u></u>

YAP VISITORS BUREAU
(A COMPONENT UNIT OF THE STATE OF YAP)

Notes to Financial Statements, Continued
September 30, 2008 and 2007

(6) Capital Assets, Continued

	Beginning Balance <u>October 1, 2006</u>	Transfers and <u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance <u>September 30, 2007</u>
Furniture and fixtures	\$ 6,724	\$ -	\$ -	\$ 6,724
Vehicles	40,300	-	-	40,300
Office equipment	16,610	1,900	-	18,510
Other assets	<u>9,350</u>	<u>-</u>	<u>-</u>	<u>9,350</u>
	72,984	1,900	-	74,884
Less accumulated depreciation	<u>(51,498)</u>	<u>(10,750)</u>	<u>-</u>	<u>(62,248)</u>
Total	\$ <u>21,486</u>	\$ <u>(8,850)</u>	\$ <u>-</u>	\$ <u>12,636</u>

(7) Yap State Subsidies

YVB's authorized operating subsidies for the years ended September 30, 2008 and 2007 of \$284,173 and \$284,174, respectively, from the Yap State Government were budgeted under Compact Private Sector Grants. Pursuant to the terms of a Memorandum of Understanding with the Office of Administrative Services, eligible expenditures require funds drawn down to occur on a reimbursement basis. During the years ended September 30, 2008 and 2007, YVB incurred \$278,783 and \$239,735, respectively, in eligible expenditures.

(8) Other Expenses

A summary of other expenses for the years ended September 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Freight	\$ 11,975	\$ 3,524
Miscellaneous	10,774	-
Fuel	1,466	900
FSM import taxes	258	105
Books and subscription	68	2,860
Training	-	10,883
Bank fees	<u>-</u>	<u>1,008</u>
	\$ <u>24,541</u>	\$ <u>19,280</u>

(9) Related Party Transactions

In the ordinary course of business, YVB enters into transactions with the State Government and private businesses in which certain of the YVB board members hold positions of influence.

(10) Risk Management

YVB is self-insured for all risks. Any loss or liability may result upon occurrence of a natural disaster, accident or litigation will be borne entirely by YVB. Management is of the opinion that no material losses have been sustained as a result of this practice during the past three years.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
Yap Visitors Bureau:

We have audited the accompanying statement of net assets of the Yap Visitors Bureau, a component unit of Yap State Government, as of September 30, 2008 and for the year then ended, and have issued our report thereon dated June 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

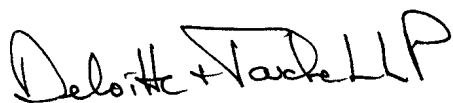
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Yap Visitors Bureau's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Please refer to finding number 08-01 in the accompanying Schedule of Findings and Questioned Costs.

The auditee's response to the finding identified in our audit has not been subjected to the auditing procedures applied in the audit and, accordingly, we express no opinion on it.

We noted certain matters that we have reported to management of the Yap Visitors Bureau in a separate letter dated June 24, 2009.

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

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 24, 2009

**YAP VISITORS BUREAU
(A COMPONENT UNIT OF THE STATE OF YAP)**

Findings and Questioned Costs
Year Ended September 30, 2008

Finding No.: 08-01
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875
Grant Number: CSG-FSM-2008-PSD
Area: Sole Source Procurement
Questioned Costs: \$6,170

Criteria: In accordance with applicable procurement requirements, Yap Visitors Bureau will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Comment: Out of 30 transactions under the expenditure testing, we tested two sole source procurement transactions, noting no documentation on file to indicate how the entity determined that no other vendor could provide the required items for the following:

<u>Check No.</u>	<u>Check Date</u>	<u>Invoice No.</u>	<u>Amount</u>
6746	7/31/2008	GDYI-0108-0110	\$ 3,470
6752	8/6/2008	as per contract	\$ 2,700

Cause: Yap Visitors Bureau did not enforce established procurement regulations.

Effect: Yap Visitors Bureau is in noncompliance with applicable procurement requirements. A questioned cost of \$6,170 exists. Although, the known questioned cost is less than \$10,000, the projected questioned cost exceeds the threshold; therefore, this finding is considered reportable.

Recommendation: In accordance with applicable procurement requirements, we recommend the entity conduct procurement transactions in a manner providing full and open competition, and maintain records sufficient to detail the significant history of procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Auditee Response: Management agrees with the finding. There was no documentation of justification done to waive the vendor as a sole source. YVB will ensure to make the effort to comply in the future.

**YAP VISITORS BUREAU
(A COMPONENT UNIT OF THE STATE OF YAP)**

Summary Schedule of Prior Year Findings
Year Ended September 30, 2008

There are no unresolved prior year findings or questioned costs.