

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2007 AND 2006

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Yap Visitors Bureau:

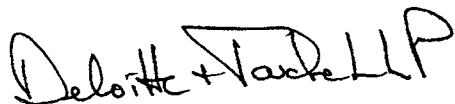
We have audited the accompanying statement of net assets of the Yap Visitors Bureau, a component unit of Yap State Government, as of September 30, 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of the Yap Visitors Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Yap Visitors Bureau for the year ended September 30, 2006 were audited by other auditors whose report, dated June 25, 2007, expressed an unqualified opinion on those statements.

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 audit provides 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, 2007, and the changes in its net assets and its cash flows for the year 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 25, 2008, 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 25, 2008

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

Management's Discussion and Analysis
Years Ended September 30, 2007 and 2006

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, 2007 and 2006. 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 a 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 2007 and 2006, 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 2007 and 2006, \$239,735 and \$366,286, respectively, represents the total operating grants from the Private Sector Grant Compact II funding.

The fiscal year 2006 audit recommendations were implemented although some required new procedures which may not have been followed, and due to a poor filing system, some documentation was lost. The board and management will rectify, in written form, the recommended policies and those policies will be adopted by the Board.

**YAP VISITORS BUREAU
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Management's Discussion and Analysis
Years Ended September 30, 2007 and 2006

Summary Statements of Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 240,846	\$ 232,503	\$ 391,907
Capital assets, net	<u>12,636</u>	<u>21,486</u>	<u>28,601</u>
	<u>\$ 253,482</u>	<u>\$ 253,989</u>	<u>\$ 420,508</u>
Liabilities and Net Assets:			
Accounts payable	\$ 29,701	\$ 17,629	\$ -
Accrued payroll and others	1,881	1,183	4,099
Due to Yap State Government	<u>-</u>	<u>-</u>	<u>177,402</u>
Total liabilities	<u>31,582</u>	<u>18,812</u>	<u>181,501</u>
Net assets:			
Invested in capital assets	12,636	21,486	28,601
Unrestricted	<u>209,264</u>	<u>213,691</u>	<u>210,406</u>
Total net assets	<u>221,900</u>	<u>235,177</u>	<u>239,007</u>
	<u>\$ 253,482</u>	<u>\$ 253,989</u>	<u>\$ 420,508</u>

Summary Statements of Revenues, Expenses and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 9,417	\$ 5,804	\$ 1,724
Operating expenses	<u>277,705</u>	<u>379,505</u>	<u>444,570</u>
Loss from operations	(268,288)	(373,701)	(442,846)
Nonoperating revenues	<u>255,011</u>	<u>369,871</u>	<u>470,983</u>
Change in net assets	(13,277)	(3,830)	28,137
Net assets at beginning of year	<u>235,177</u>	<u>239,007</u>	<u>210,870</u>
Net assets at end of year	<u>\$ 221,900</u>	<u>\$ 235,177</u>	<u>\$ 239,007</u>

Financial Highlights

Government subsidy to Yap Visitors Bureau in fiscal year 2007 was \$239,735 and in fiscal year 2006 was \$366,286.

Expenses from operations in fiscal year 2007 were \$277,705 and in fiscal year 2006 were \$379,505. The decrease was due to some unimplemented promotional and product development projects.

Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in YVB's report on the audit of financial statements, which is dated June 25, 2007. That Discussion and Analysis explains the major factors impacting the 2006 financial statements and can be viewed at the FSM Office of the Public Auditors' website at www.fsmpublicauditor.fm.

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

Management's Discussion and Analysis
Years Ended September 30, 2007 and 2006

Capital Assets and Debt

The Bureau has not acquired significant capital assets during the years ended September 30, 2007 or 2006. For more information concerning the Bureau's capital assets, please see the accompanying notes to the financial statements, primarily note 5.

The Bureau has not engaged in either short-term or long-term debt financing during the years ended September 30, 2007 and 2006.

Plan of Action for 2008

In May 2008, a new General Manager was hired and together with the Board of Directors, the following are course of actions 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 customers relations and accountability.
4. Enforce office policies and regulations.

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

Statements of Net Assets
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash	\$ 149,878	\$ 171,483
Due from Yap State Government	79,327	53,176
Receivables, net	2,741	3,364
Prepaid expenses	<u>8,900</u>	<u>4,480</u>
Total current assets	240,846	232,503
Capital assets, net	<u>12,636</u>	<u>21,486</u>
	<u>\$ 253,482</u>	<u>\$ 253,989</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 29,701	\$ 17,629
Accrued payroll and others	<u>1,881</u>	<u>1,183</u>
Total liabilities	<u>31,582</u>	<u>18,812</u>
Contingencies		
Net assets:		
Invested in capital assets	12,636	21,486
Unrestricted	<u>209,264</u>	<u>213,691</u>
Total net assets	<u>221,900</u>	<u>235,177</u>
Total liabilities and net assets	<u>\$ 253,482</u>	<u>\$ 253,989</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Sales of promotional materials	\$ 432	\$ 658
Other	<u>8,985</u>	<u>5,146</u>
Total operating revenues	<u>9,417</u>	<u>5,804</u>
Operating expenses:		
Promotions and advertising	74,724	192,913
Payroll, tax and benefits	63,100	50,348
Contractual services	46,359	12,568
Travel	29,744	54,674
Communications and utilities	17,808	13,689
Office supplies	13,006	7,557
Depreciation	10,750	10,700
Repair and maintenance	1,586	7,801
Representation and entertainment	1,348	1,105
Bad debts	-	10,764
Other	<u>19,280</u>	<u>17,386</u>
Total operating expenses	<u>277,705</u>	<u>379,505</u>
Loss from operations	<u>(268,288)</u>	<u>(373,701)</u>
Nonoperating revenues:		
Yap State subsidies	239,735	366,286
FEMA grant	<u>15,276</u>	<u>3,585</u>
Total nonoperating revenues	<u>255,011</u>	<u>369,871</u>
Change in net assets	(13,277)	(3,830)
Net assets at beginning of year	<u>235,177</u>	<u>239,007</u>
Net assets at end of year	<u>\$ 221,900</u>	<u>\$ 235,177</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows used for operating activities:		
Cash received from customers	\$ 8,911	\$ 5,804
Cash payments to vendors for goods and services	(196,203)	(294,544)
Cash payments to employees for services	<u>(61,273)</u>	<u>(47,400)</u>
Net cash used for operating activities	<u>(248,565)</u>	<u>(336,140)</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from Yap State Government	213,584	135,708
FEMA grants received	<u>15,276</u>	<u>3,585</u>
Net cash provided by noncapital financing activities	<u>228,860</u>	<u>139,293</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(1,900)</u>	<u>(3,585)</u>
Net cash used for capital and related financing activities	<u>(1,900)</u>	<u>(3,585)</u>
Net change in cash	(21,605)	(200,432)
Cash at beginning of year	<u>171,483</u>	<u>371,915</u>
Cash at end of year	<u>\$ 149,878</u>	<u>\$ 171,483</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (268,288)	\$ (373,701)
Adjustments to reconcile loss from operations to net cash used for operating activities		
Depreciation	10,750	10,700
Bad debts	-	10,764
Increase (decrease) in assets:		
Receivables	623	5,864
Prepaid expenses	(4,420)	(4,480)
Increase (decrease) in liabilities:		
Accounts payable	12,072	17,629
Accrued payroll and other	<u>698</u>	<u>(2,916)</u>
Net cash used for operating activities	<u>\$ (248,565)</u>	<u>\$ (336,140)</u>

See accompanying notes to financial statements.

**YAP VISITORS BUREAU
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Notes to Financial Statements
September 30, 2007 and 2006

(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 modifies certain other financial statement disclosure requirements.

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

- Investment 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, 2007 and 2006

(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. YVB currently has no official capitalization policy but, as a general rule, 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, 2007 and 2006

(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.

Reclassification

Certain reclassifications have been made to the fiscal year 2006 balances and amounts in order to conform to the fiscal year 2007 presentation.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of YVB.

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 postemployment 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 September 2006, GASB issued 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. The provisions of this statement are effective for periods beginning after December 15, 2006. 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.

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an Amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe 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.

(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, 2007 and 2006

(3) Deposits, Continued

As of September 30, 2007 and 2006, cash was \$149,878 and \$171,483, 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, 2007 and 2006, 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.

(3) Due from State Government

The balance due from the Yap State Government as of September 30, 2007 and 2006 amounted to \$79,327 and \$53,170, respectively, and represents outstanding reimbursement requests for expenditures related to FY07 operating subsidies funded from Compact Private Sector Grants and local funds.

(4) Receivables

Receivables at September 30, 2007 and 2006, consist of the following:

	<u>2007</u>	<u>2006</u>
Employee and director receivables	\$ 29,649	\$ 33,364
Travel advances	27,581	25,672
Other	<u>5,316</u>	<u>4,810</u>
	62,546	63,846
Less: allowance for doubtful accounts	<u>(59,805)</u>	<u>(60,482)</u>
	<u>\$ 2,741</u>	<u>\$ 3,364</u>

(5) Capital Assets

Capital asset activity for the years ended September 30, 2007 and 2006 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2006</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <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>

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2007 and 2006

(5) Capital Assets, Continued

	<u>Beginning Balance</u> <u>October 1, 2005</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2006</u>
Furniture and fixtures	\$ 6,024	\$ 700	\$ -	\$ 6,724
Vehicles	40,300	-	-	40,300
Office equipment	13,725	2,885	-	16,610
Other assets	<u>9,350</u>	<u>-</u>	<u>-</u>	<u>9,350</u>
	69,399	3,585	-	72,984
Less accumulated depreciation	<u>(40,798)</u>	<u>(10,700)</u>	<u>-</u>	<u>(51,498)</u>
Total	\$ <u>28,601</u>	\$ <u>(7,115)</u>	\$ <u>-</u>	\$ <u>21,486</u>

(6) Yap State Subsidies

YVB's authorized operating subsidies for the years ended September 30, 2007 and 2006 of \$284,174 and \$437,544, 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, 2007 and 2006, YVB incurred \$239,735 and \$366,286, respectively, in eligible expenditures.

(7) Other Expenses

A summary of other expenses for the years ended September 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Training	\$ 10,883	\$ 5,612
Freight	3,524	8,747
Books and subscription	2,860	-
Bank fees	1,009	1,185
Fuel	900	1,336
FSM import taxes	105	-
Miscellaneous	<u>-</u>	<u>506</u>
	\$ <u>19,280</u>	\$ <u>17,386</u>

(8) 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.

(9) 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 COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT 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, 2007 and for the year then ended, and have issued our report thereon dated June 25, 2008. 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.

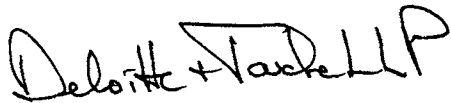
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Yap Visitors Bureau in a separate letter dated June 25, 2008.

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 25, 2008