

**Yap Visitors Bureau  
(A Component Unit of the State of Yap)**

Financial Statements and  
Independent Auditor's Reports  
as of and for the Years Ended  
September 30, 2009 and 2008

**Fortenberry & Ballard, PC**  
Certified Public Accountants

# Yap Visitor's Bureau

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**FORTENBERRY & BALLARD, PC**  
**Certified Public Accountants**

**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, 2009 and 2008, 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 Visitors 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, 2009 and 2008, 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 5-7 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 February 1, 2010, 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.

*FORTENBERRY & BALLARD, PC*

February 1, 2010

**AICPA & MSCPA**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

**YAP VISITORS BUREAU**  
**(A COMPONENT UNIT OF THE STATE OF YAP)**  
Management's Discussion and Analysis  
Years Ended September 30, 2009 and 2008

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, 2009 and 2008. 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 complete.

The Bureau, during the past two fiscal years, received grants from the Compact II Private Sector grant for its operations. For fiscal years 2009 and 2008, 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 2009 and 2008, \$271,058 and \$278,783, respectively, represents the total operating grants from the Private Sector Grant Compact II funding.

Summary Statements of Net Assets:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 188,837	\$ 228,694	\$ 240,846
Capital assets, net	<u>35,439</u>	<u>42,485</u>	<u>12,636</u>
Total assets	<u>\$ 224,276</u>	<u>\$ 271,179</u>	<u>\$ 253,482</u>
Liabilities and Net Assets:			
Accounts payroll	\$ 137	\$ 29,701	\$ 29,701
Accrued payroll and others	<u>463</u>	<u>5,482</u>	<u>1,881</u>
Total liabilities	<u>600</u>	<u>35,183</u>	<u>31,582</u>
Net assets:			
Invested in capital assets	35,439	42,485	12,636
Unrestricted	<u>188,237</u>	<u>193,511</u>	<u>209,264</u>
Total net assets	<u>223,676</u>	<u>235,996</u>	<u>221,900</u>
Total liabilities & net assets	<u>\$ 224,276</u>	<u>\$ 271,179</u>	<u>\$ 253,482</u>

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Management's Discussion and Analysis  
Years Ended September 30, 2009 and 2008

Summary Statements of Revenues, Expenses and Changes in Net Assets:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 2,322	\$ 1,086	\$ 9,417
Operating expenses	<u>286,349</u>	<u>318,831</u>	<u>277,705</u>
Loss from operations	(284,027)	(317,745)	(268,288)
Nonoperating revenues	<u>271,707</u>	<u>331,841</u>	<u>255,011</u>
Change in net assets	(12,320)	14,096	(13,277)
Net assets at beginning of year	<u>235,996</u>	<u>221,900</u>	<u>235,177</u>
Net assets at end of year	<u>\$ 223,676</u>	<u>\$ 235,996</u>	<u>\$ 221,900</u>

**Financial Highlights**

Government subsidy to Yap Visitors Bureau in fiscal year 2009 was \$271,058 and in fiscal year 2008 was \$278,783. Expenses from operation in fiscal year 2009 were \$286,349 and in fiscal year 2008 were \$318,831.

**Capital Assets and Debt**

The Bureau has not acquired significant capital assets during the years ended September 30, 2009 or 2008. 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, 2009 and 2008.

**Plan of Action for 2010**

The General Manager of Yap Visitor's Bureau together with the Board of Directors has planned activities for 2010 that are consistent with the five year plan drafted in 2008.

**PRODUCT DEVELOPMENT:**

1. The Bureau plans to continue the development of various products including the continuation of the WWII projects that were started in 2009 for the second year. Major sites have been identified and researched with informational signs posted. The scope of the project will be expanded by researching out additional sites and including other sites that are on private property. YVB intends to encourage village projects that will protect and restore WWII products. The Bureau will continue to encourage WWII historical tours from outside as well as continue the training for local WWII guides on Yap.
2. The Bureau will also support and improve the Annual Canoe Festival that was developed and sponsored in 2009 to ensure its success.

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Management's Discussion and Analysis  
Years Ended September 30, 2009 and 2008

3. The Bureau will continue to use budgeted funds to develop various village products as well as continue to work with Yap Community Action Agency in also developing additional village products and attractions for visitors.

4. The Bureau intends to explore the concept of an annual marathon that could be a part of a planned Yap Home Coming event in future years.

**MARKETING:**

The Bureau will continue to explore various regions that have the potential to promote Yap as a possible destination. This will be flexible depending on the economy, and related air line schedules.

The Yap Visitors Bureau has made strides in improving a working system that will eventually lead to an increase in visitors to the State. In addition to increasing the number of visitors, the Bureau would like to encourage appropriate sustainable mechanisms to involve communities in tourism development.

## FINANCIAL STATEMENTS

**YAP VISITORS BUREAU**  
**(A COMPONENT UNIT OF THE STATE OF YAP)**  
 Statements of Net Assets  
 Years Ended September 30, 2009 and 2008

<b>Assets</b>	<u>2009</u>	<u>2008</u>
Current Assets:		
Cash	\$ 38,750	\$ 143,713
Investments	150,000	-
Due from Yap State Government	-	80,414
Receivable, net	87	87
Prepaid expenses	<u>-</u>	<u>4,480</u>
Total current assets	<u>188,837</u>	<u>228,694</u>
Capital assets, net	<u>35,439</u>	<u>42,485</u>
Total assets	<u>\$ 224,276</u>	<u>\$ 271,179</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable	\$ 137	\$ 29,701
Accrued payroll and others	<u>463</u>	<u>5,482</u>
Total liabilities	<u>600</u>	<u>35,183</u>
Net assets:		
Invested in capital assets	35,439	42,485
Unrestricted	<u>188,237</u>	<u>193,511</u>
Total net assets	<u>223,676</u>	<u>235,996</u>
Total liabilities and net assets	<u>\$ 224,276</u>	<u>\$ 271,179</u>

See accompanying notes to financial statements.

**YAP VISITORS BUREAU**  
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**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended September 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Sales of promotional materials	\$ 120	\$ 195
Other	<u>2,202</u>	<u>891</u>
Total operating revenues	<u>2,322</u>	<u>1,086</u>
Operating expenses:		
Contractual services	112,575	102,628
Payroll, tax and benefits	65,986	66,346
Promotions and advertising	41,515	40,903
Travel	25,060	37,828
Communications and utilities	19,258	21,795
Depreciation	7,046	18,415
Office supplies	8,939	3,634
Bad debts	-	2,741
Other	<u>5,970</u>	<u>24,541</u>
Total operating expenses	<u>286,349</u>	<u>318,831</u>
Loss from operations	<u>(284,027)</u>	<u>(317,745)</u>
Non-operating revenues:		
Yap State Subsidies	271,058	278,783
Refund	<u>649</u>	<u>4,794</u>
Total non-operating revenues	<u>271,707</u>	<u>283,577</u>
Net loss before capital contributions	<u>(12,320)</u>	<u>(34,168)</u>
Capital contributions	-	48,264
Change in net assets	<u>(12,320)</u>	<u>14,096</u>
Net assets at beginning of year	<u>235,996</u>	<u>221,900</u>
Net assets at end of year	<u>\$ 223,676</u>	<u>\$ 235,996</u>

See accompanying notes to financial statements.

**YAP VISITORS BUREAU**  
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 Statements of Cash Flows  
 Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows used for operating activities:		
Cash received from customers	\$ 2,322	\$ 999
Cash payments to vendors for goods and services	(238,400)	(226,909)
Cash payments to employees for services	<u>(71,005)</u>	<u>(62,745)</u>
Net cash used for operating activities	<u>(307,083)</u>	<u>(288,655)</u>
Cash flows used for investing activities		
Cash invested in investments	<u>(150,000)</u>	<u>-</u>
Net cash used by investing activities	<u>(150,000)</u>	<u>-</u>
Cash flows provided by noncapital financing activities:		
Operating subsidy received from Yap State Government	351,472	277,696
Refund	647	4,796
FEMA grants received	<u>-</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>352,119</u>	<u>282,492</u>
Net change in cash	(104,965)	(6,163)
Cash at beginning of year	<u>143,715</u>	<u>149,878</u>
Cash at end of year	<u>\$ 38,750</u>	<u>\$ 143,715</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (284,027)	\$ (317,745)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	7,046	18,415
Bad debts	-	2,741
(Increase) decrease in assets:		
Receivables	-	(87)
Prepaid expenses	4,480	4,420
Increase ( decrease ) in liabilities:		
Accounts payable	(29,564)	-
Accrued payroll and other	<u>(5,019)</u>	<u>3,601</u>
Net cash used for operating activities	<u>\$ (307,083)</u>	<u>\$ (288,655)</u>

See accompanying notes to financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

**YAP VISITORS BUREAU**  
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Notes to Financial Statements  
Years Ended September 30, 2009 and 2008

(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. 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. 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.

**YAP VISITORS BUREAU**  
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Notes to Financial Statements, Continued  
Years Ended September 30, 2009 and 2008

In order 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 maybe designated for specific purposes by action of management or the board of Directors or may otherwise be limited by contractual agreements with outside parties.

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 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 non-operating.

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

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Notes to Financial Statements, Continued  
Years Ended September 30, 2009 and 2008

evaluations of the collectibles 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 YVB receivables 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 follows:

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

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 2009, 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 20*, 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.

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Notes to Financial Statements, Continued  
Years Ended September 30, 2009 and 2008

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.

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

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Notes to Financial Statements, Continued  
Years Ended September 30, 2009 and 2008

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.

The deposit and investment policies of the Company are governed by its enabling legislation. The Board of Directors is required to engage one or more fund custodians to assume responsibility for the physical possession of the Company's investments.

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 the Company or its agent in the Company'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 the Company's name;
- Category 3: pledging financial institution's trust department or agent but not in the Company'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, the Company'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 or held by the pledging financial institution but not in the depositor government's name. The Company does not have a deposit policy for custodial credit risk.

As of September 30, 2009 and 2008, the carrying amounts of the bureau's deposits with financial institutions were \$188,750 and \$143,713, respectively. The bank balances were \$188,780 and \$143,713 of September 30, 2009 and 2008, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of \$250,000 were FDIC insured. YVB does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage, of which there are none, would be uncollateralized. Accordingly, these deposits would be 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.

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Notes to Financial Statements, Continued  
Years Ended September 30, 2009 and 2008

(4) Due from State Government

While there was no balance due from the Yap State Government as of September 30, 2009, the amount for 2008 amounted to \$80,414. The balance due to YVB represented outstanding reimbursement requests for expenditures related to operating subsidies funded from Compact Private Sector Grants and local funds.

(5) Receivables

Receivables at September 30, 2009 and 2008, consist of the following:

	2009	2008
Employee and director receivables	\$ 29,555	\$ 29,555
Travel advances	27,581	27,581
Others	5,316	5,316
	62,452	62,452
Less: allowance for doubtful accounts	(62,365)	(62,365)
	\$ 87	\$ 87

(6) Capital Assets

Capital asset activity for the years ended September 30, 2009 and 2008 is as follows:

	Balance Oct. 1, 2008	Transfers and Additions	Transfers and Deletions	Balance, Sept. 30, 2009
Furniture and fixtures	\$ 14,236	\$ -	\$ -	\$ 14,236
Vehicles	25,500	-	-	25,500
Office equipment	56,904	-	-	56,904
Other assets	-	-	-	-
Total capital assets	96,640	-	-	96,640
Less accumulated depreciation	(54,155)	(7,046)	-	(61,201)
Total capital assets, net of depreciation	\$ 42,485	\$ (7,046)	\$ -	\$ 35,439
	Balance Oct. 1, 2007	Transfers and Additions	Transfers and Deletions	Balance, Sept. 30, 2008
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	9,350	-	(9,350)	-
Total capital assets	74,884	48,264	(26,508)	96,640
Less accumulated depreciation	(62,248)	(18,415)	26,508	(54,155)
Total capital assets, net of depreciation	\$ 12,636	\$ 29,849	\$ -	\$ 42,485

**YAP VISITORS BUREAU**  
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Notes to Financial Statements, Continued  
Years Ended September 30, 2009 and 2008

(7) Yap State Subsidies

YVB received operating subsidies for the years ended September 30, 2009 and 2008 in the amount of \$271,058 and \$284,173, respectively, from the Yap State Government which was funded by Compact Private Sector Grants. Pursuant to the terms of a Memorandum of Understanding with the Department of Administrative Services, eligible expenditures could be reimbursed. During the years ended September 30, 2009 and 2008, YVB had eligible expenditures of \$271,058 and \$278,783.

(8) Other Expenses

A summary of other expenses for the years ended September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Freight	\$ 3,722	\$ 11,975
Miscellaneous	1,164	10,774
Fuel	1,084	1,466
FSM import taxes	-	258
Books and subscriptions	<u>-</u>	<u>68</u>
Total	<u>\$ 5,970</u>	<u>\$ 24,541</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 that may result upon the 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.

**REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS (GAS)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF THE 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, 2009 and for the year then ended, and have issued our report thereon dated February 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 the 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

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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 2009-01 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.

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.

FORTENBERRY & BALLARD, PC

February 1, 2010

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

**Yap Visitor's Bureau**  
Schedule of Findings and Questioned Costs  
For the Years Ended September 30, 2009 and 2008

Section 1: Summary Schedule of Auditor's Results:

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. Material noncompliance relating to the financial statements? No.
3. Internal control over financial reporting:
  - a. Material weakness(es) identified? No.
  - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes.

Section 2: Findings Relating to the Financial Statements

Finding 2009-1:

Administrators and management are charged with the responsibility of establishing a network of processes with the objective of controlling operations in a manner which provide the Board of Directors reasonable assurance that data and information published either internally or externally is accurate, reliable and complete. Thus the Yap Visitors Bureau (YVB) internal controls should promote the achievement of YVB plans, programs, goals, and objectives.

An adequate review process monitors and corroborates financial account balances reported by the Yap Visitors Bureau. The YVB has one position, the Finance Director, who is responsible for the recording and presentation of numerous accounts without review support.

A monitoring process, as required by SAS 112, has not been placed into effect in the areas of financial statement reporting. In the event of personnel changes, illness or during periods of heavy workload, valuable procedures could be neglected resulting in reporting misstatements. The Board of Directors could receive incomplete or incorrect financial statements with which to make decisions.

Recommendation:

The YVB should establish a written review process approved by the Board which would include a review of all financial account balances including bank reconciliations, budgetary comparisons and capital assets. Additionally QuickBooks training should be provided for the Financial Director.

Response:

The Yap Visitors Bureau will obtain QuickBooks training for the Director of Finance and will consider establishing an internal control monitoring policy while weighing the cost effectiveness of such monitoring procedures.

**Yap Visitor's Bureau**  
Status of Prior Year Findings

Finding  
08-01

Status  
corrected