

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Yap Visitors Bureau:

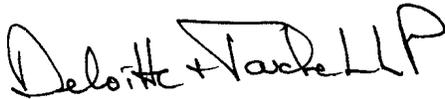
We have audited the accompanying statement of net assets of the Yap Visitors Bureau, a component unit of Yap State Government, as of September 30, 2012, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are 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 as of and for the year ended September 30, 2011, were audited by other auditors whose report, dated March 15, 2012, expressed an unqualified opinion.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Yap Visitors Bureau as of September 30, 2012, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2013, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

June 26, 2013

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

Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

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, 2012 and 2011, and how it has performed in the past, and its future prospects. 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.

The Bureau 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 Yap State Finance Office was to allow monthly reimbursement to the Bureau and thereby liquidate the Bureau's budget.

In fiscal year 2009, FSM law no. 827 was amended to read "Memorandum of Agreement (MOA) or other forms of agreement the purpose of which is to obligate and disburse to a respective agency its annual budget as approved herein, including reimbursements to such agencies for payments for expenditures under their respective budget is prohibited. All funds appropriated by this Act shall be maintained under the authority of the Director of the Office of Administrative Services."

This amendment to the law created a complete change in the way Yap Visitors Bureau was managed. Previously transactions and payments could be made on a timely manner and records kept on a computer accounting program with original hard copy files kept at the YVB office. With the change, official transactions, such as payments and record keeping was required to take place at Yap State Finance. This created many additional layers and delays with problems keeping track of the records and files.

These difficulties are reflected in the current audit, where the six questioned costs reflecting on the management of Yap Visitors Bureau were the result of incorrect procedures for sole source exceptions and lost attachments to YVB documents by Yap State Finance. There is nothing that Yap Visitors Bureau can do to correct procedures that are not in its control. YVB should not be required to pay the audit costs, if they are not allowed to control the financial activities.

The increase in the cost of the audit this year from \$3,000 to \$8,000 will also hamper the goals of Yap Visitors Bureau, as 50% of that cost may be taken from the already declining budget of YVB. Decisions must then be made by the management to recommend discontinuing on-going development programs or marketing activities designed to attract more visitors to the State of Yap.

**YAP VISITORS BUREAU
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Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

Summary Statements of Net Assets:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 102,068	\$ 25,890	\$ 181,393
Long-term assets	92,013	147,794	150,000
Capital assets, net	<u>713</u>	<u>9,646</u>	<u>24,435</u>
Total assets	\$ <u>194,794</u>	\$ <u>183,330</u>	\$ <u>355,828</u>
Liabilities and Net Assets:			
Accounts payable	\$ -	\$ -	\$ 7,757
Accrued payroll and other expenses	9,349	-	1,025
Amount held in custody for others	<u>-</u>	<u>-</u>	<u>150,000</u>
Total liabilities	<u>9,349</u>	<u>-</u>	<u>158,782</u>
Net assets:			
Invested in capital assets	713	9,645	24,435
Unrestricted	<u>184,732</u>	<u>173,684</u>	<u>172,611</u>
Total liabilities	<u>185,445</u>	<u>183,330</u>	<u>197,046</u>
Total liabilities & net assets	\$ <u>194,794</u>	\$ <u>183,330</u>	\$ <u>355,828</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ -	\$ -	\$ 1,276
Operating revenues	<u>304,537</u>	<u>306,490</u>	<u>314,359</u>
Loss from operations	(304,537)	(306,490)	(313,083)
Nonoperating revenues	<u>306,652</u>	<u>292,774</u>	<u>286,453</u>
Loss from operations	2,115	(13,719)	(26,630)
Net assets at beginning of year	<u>183,330</u>	<u>197,046</u>	<u>223,676</u>
Net assets at end of year	\$ <u>185,445</u>	\$ <u>183,330</u>	\$ <u>197,046</u>

For future prospects, YVB will continue with its Product Development: In the last 3 to 4 years, YVB has developed or at least supported several products that enhance the visitor experience. Many of these products will be fully developed in the next one to two years, such that emphasis should be on maintenance and updates, rather than development, and the budget can be expanded to other products support.

Capital Asset and Debt Management

The Bureau has no long-term debt. For more information concerning the Bureau's capital assets, please refer to note 5 to the financial statements.

**YAP VISITORS BUREAU
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Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

WWII History: This product will culminate next year in the publishing of all the researched information into a quality guide/information booklet complete with tour maps to the memorial sites with GPS positions. This book can be sold to raise funds to continue to maintain the memorials.

Annual Canoe Festival: It will be important for this product to continue and perhaps eventually come under the umbrella of the Yap Living History Museum as an annual museum activity. It should probably be reduced from a 3 day event, to a one or two day event.

The Yap Living History Museum is one of the most promising products, and may eventually be one of the main attractions to Yap. Although often criticized as being too small an area, it is in an idea and perfect location for a compact, highly visible and quality product. It is being registered as a non-profit corporation which will allow additional funding from various international sources. YVB should continue to actively support the LHM and perhaps work to integrate other traditional products into the museum.

Cruise Development: Although the Cruise industry has had its ups and downs lately, it still remains the fastest growing tourism niche in the Pacific. YVB should continue to nurse this industry for our State, as it has proven to provide revenue to even our most remote outer-islands without much disturbance to the culture or environment. Continuing to support the YLHM as a cruise welcome center, will not only enhance the cruise ships arrivals, but also support the museum.

Hiking trails: The Tamilyog trail product should be a lead in to other potential community maintained trails on Yap. There is a growing number of "walkers", usually older tourists who travel to a destination only to walk their trails. Yap provides one of the most exotic destinations for walkers, once a network of traditional trails or even mangrove trails has been restored.

Yap Day: This annual event remains the most popular for the state. YVB can encourage better organization and support without destroying the local flavor of this event.

Homecoming Festival: This relatively new event has the potential to grow and bring revenue to Yap during the summer slow season. It will be important to continue to learn and improve this one-day event, along with creative themes that keep it fresh and meaningful.

New Products to consider as older more established products require less developmental funding:

Diving: Now that we have made great strides with supplementary products for visitors to enjoy, we should not forget that 90% of visitors to Yap come for the diving. With the next five plan, we need to think of creative development that will support and improve the diving product.

Chamorro Bay: Now that the YLHM has been established in the center of Colonia, the next five years can address other improvements around Chamorro Bay for residents and visitors alike. Creative small projects, although not costly can do a great deal in setting the tone we would like to have in Colonia.

Small Business Development: YVB could get involved in helping local residents start small tourist and visitor related business. The Small Business Center is on-going and provides support, but has to meet very strict US guidelines which can be confusing and difficult for this social environment. Perhaps YVB can work with the Small Business Center on projects directly related to our tourism needs.

Yap International Airport: This gateway has been frustrating and YVB has contributed to the gateway effect, but perhaps YVB should gain more control of certain aspects of the airport, and perhaps also gain control of the departure fee funds to make needed improvements that will be visible to our guests.

**YAP VISITORS BUREAU
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Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

Additional Financial Information

This discussion and analysis is designed to provide the Yap Visitors Bureau's customers and other interested parties with an overview of the Yap Visitors Bureau's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Don Evans, General Manager, at P.O. Box 988, Colonia, Yap FM 96943 or email yvb@mail.fm.

YAP VISITORS BUREAU
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Statements of Net Assets
September 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 73,480	\$ 25,890
Loan receivable, current portion	<u>28,588</u>	<u>-</u>
Total current assets	102,068	25,890
Loan receivable, net of current portion	92,013	147,794
Capital assets, net	<u>713</u>	<u>9,646</u>
	<u>\$ 194,794</u>	<u>\$ 183,330</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued payroll and other expenses	<u>\$ 9,349</u>	<u>\$ -</u>
Total liabilities	<u>9,349</u>	<u>-</u>
Net assets:		
Invested in capital assets	713	9,646
Unrestricted	<u>184,732</u>	<u>173,684</u>
Total net assets	<u>185,445</u>	<u>183,330</u>
Total liabilities and net assets	<u>\$ 194,794</u>	<u>\$ 183,330</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 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating expenses:		
Payroll, tax and benefits	86,518	70,030
Promotions and advertising	71,492	69,493
Contractual services	65,482	76,177
Travel	39,592	32,281
Communications and utilities	26,890	36,842
Depreciation	8,933	14,789
Office repairs and supplies	5,630	6,878
	<u>304,537</u>	<u>306,490</u>
Total operating expenses		
Loss from operations	<u>304,537</u>	<u>306,490</u>
Nonoperating revenues:		
Yap State subsidies	276,687	292,149
Tamilyog Grant	2,059	-
LHM Grant	18,000	-
Other	3,131	-
Interest income	6,775	625
	<u>306,652</u>	<u>292,774</u>
Total nonoperating revenues		
Change in net assets	<u>2,115</u>	<u>(13,716)</u>
Net assets at beginning of year	<u>183,330</u>	<u>197,046</u>
Net assets at end of year	<u>\$ 185,445</u>	<u>\$ 183,330</u>

See accompanying notes to financial statements.

YAP VISITORS BUREAU
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Statements of Cash Flows
Years Ended September 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows used for operating activities:		
Cash payments to vendors for goods and services	\$ (209,086)	\$ (229,428)
Cash payments to employees for services	<u>(77,169)</u>	<u>(71,055)</u>
Net cash used for operating activities	<u>(286,255)</u>	<u>(300,483)</u>
Cash flows used for investing activities:		
Principal collection on loan receivable	27,193	2,206
Redemption of investments, net	-	152,717
Investment in note	-	(150,000)
Interest on loan receivable	<u>6,775</u>	<u>625</u>
Net cash provided by investing activities	<u>33,968</u>	<u>5,548</u>
Cash flows from noncapital financing activities:		
Operating subsidy received from Yap State Government	276,687	299,993
Tamilyog Grant	2,059	-
LHM Grant	18,000	-
Other	<u>3,131</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>299,877</u>	<u>299,993</u>
Net change in cash	47,590	5,058
Cash at beginning of year	<u>25,890</u>	<u>20,832</u>
Cash at end of year	<u>\$ 73,480</u>	<u>\$ 25,890</u>
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (304,537)	\$ (306,490)
Adjustments to reconcile loss from operations to net cash used for operating activities		
Depreciation	8,933	14,789
Increase (decrease) in liabilities:		
Accounts payable	-	(7,757)
Accrued payroll and other expenses	<u>9,349</u>	<u>(1,025)</u>
Net cash used for operating activities	<u>\$ (286,255)</u>	<u>\$ (300,483)</u>

See accompanying notes to financial statements.

**YAP VISITORS BUREAU
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Notes to Financial Statements
September 30, 2012 and 2011

(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.

The Company adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 (*Basic Financial Statements -Management's Discussion and Analysis for State and Local Governments*). GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into four net asset categories:

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

- a. Invested in capital assets, net of related debt - Capital assets, net of accumulated depreciation, and outstanding principle balances of debt attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted Nonexpendable - Net assets subject to externally imposed stipulations that require the Company to maintain them permanently.
- c. Restricted Expendable - Net assets whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

- d. Unrestricted - Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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.

Loan Receivables

Loan receivables are stated at unpaid principal balance less an allowance for loan losses. At September 30, 2012 and 2011, no allowance has been provided as the outstanding balances are considered to be fully collectible. See note 4 for more details.

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, 2012 and 2011

(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 2012, YVB implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of YVB.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. 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, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of YVB.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of YVB.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of YVB.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of YVB.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. 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.

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2012 and 2011

(3) Deposits, Continued

YVB does not have a formal deposit or investment policy. However the deposit and investment policy of the YVB is mandated 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 YVB's investments.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State'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 the depositor-government's name. YVB does not have a deposit policy for custodial credit risk.

GASB Statement No. 40 requires disclosures for 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. YVB does not have a deposit policy for custodial credit risk.

As of September 30, 2012 and 2011, the carrying amounts of the YVB's deposits with financial institutions were \$73,435 and \$25,832, respectively. The bank balances were \$76,901 and \$25,833 at September 30, 2012 and 2011, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of \$76,901 and \$25,833, respectively, were FDIC insured. 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) Loan Receivables

At September 30, 2012 and 2011, loan receivables of \$120,601 and \$147,794, respectively, represent balances outstanding on a \$150,000 loan dated August 31, 2010. The loan bears interest fixed at 5% and is payable by 60 monthly installments of \$2,830.

Future maturities of the loan receivables are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 28,588	\$ 5,381	\$ 33,969
2014	30,050	3,918	33,968
2015	31,588	2,381	33,969
2016	<u>30,375</u>	<u>765</u>	<u>31,140</u>
	\$ <u>120,601</u>	\$ <u>12,445</u>	\$ <u>133,046</u>

YAP VISITORS BUREAU
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Notes to Financial Statements, Continued
September 30, 2012 and 2011

(5) Capital Assets

Capital asset activity for the years ended September 30, 2012 and 2011 is as follows:

	<u>Beginning Balance</u> <u>October 1, 2011</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2012</u>
Furniture and fixtures	\$ 13,015	\$ -	\$ -	\$ 13,015
Vehicles	25,500	-	-	25,500
Other equipment	<u>48,933</u>	<u>-</u>	<u>-</u>	<u>48,933</u>
	87,448	-	-	87,448
Less accumulated depreciation	<u>(77,802)</u>	<u>(8,933)</u>	<u>-</u>	<u>(86,735)</u>
Total	\$ <u>9,646</u>	\$ <u>(8,933)</u>	\$ <u>-</u>	\$ <u>713</u>

	<u>Beginning Balance</u> <u>October 1, 2010</u>	<u>Transfers and</u> <u>Additions</u>	<u>Transfers and</u> <u>Deletions</u>	<u>Ending Balance</u> <u>September 30, 2011</u>
Furniture and fixtures	\$ 13,015	\$ -	\$ -	\$ 13,015
Vehicles	25,500	-	-	25,500
Other equipment	<u>48,933</u>	<u>-</u>	<u>-</u>	<u>48,933</u>
	87,448	-	-	87,448
Less accumulated depreciation	<u>(63,013)</u>	<u>(14,789)</u>	<u>-</u>	<u>(77,802)</u>
Total	\$ <u>24,435</u>	\$ <u>(14,789)</u>	\$ <u>-</u>	\$ <u>9,646</u>

(6) Yap State Subsidies

During the years ended September 30, 2012 and 2011, YVB received operating subsidies in the amount of \$276,687, and \$292,149, 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 are to be reimbursed. During the years ended September 30, 2012 and 2011, YVB incurred eligible expenditures of \$276,687 and \$292,149.

(7) Related Party Transactions

In the ordinary course of business, YVB enters into transactions with the Yap State Government and private businesses in which certain of the YVB board members hold positions of influence. The Yap State subsidies for the years ended September 30, 2012 and 2011 of \$276,687 and \$292,149, respectively, constitute related party transactions. Additionally, during the year ended September 30, 2012, YVB incurred contractual services of \$1,137, with a business controlled by a board member.

(8) 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.

INDEPENDENT AUDITOR'S 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 financial statements of Yap Visitors Bureau as of and for the year ended September 30, 2012, and have issued our report thereon dated June 26, 2013. 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. The financial statements of Yap Visitors Bureau as of and for the year ended September 30, 2011 were audited by other auditors whose report was dated March 15, 2012.

Internal Control over Financial Reporting

Management of Yap Visitors Bureau is responsible for establishing and maintaining effective internal control over financing reporting. In planning and performing our audit, we considered 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 Yap Visitors Bureau's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Yap Visitors Bureau's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

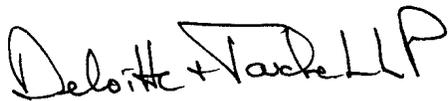
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 12-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Yap Visitors Bureau's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Yap Visitors Bureau's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board, others within the entity, and the Yap State Legislature, and the Office of the FSM National Public Auditor, 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 26, 2013

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Finding No.: 12-1
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant Number: CSG-FSM-2012-PSD
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$20,418

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

Condition: For six (or 24%) of 25 expenditures tested, the sole source procurement method was used. For the first three items below, an exemption from competition was obtained from the Governor. However, the Governor is not empowered to set aside federal procurement requirements. For the last three items below, we could not locate evidence of competition.

No documentation is on file to indicate how it was determined that no other vendor could provide the required services:

<u>Check No.</u>	<u>Check Date</u>	<u>Invoice No.</u>	<u>Amount</u>
350-60125-18	04/05/2012	C102201 2012-111	\$ 4,690
458-63557-31	11/01/2012	C110171 2012-216	3,800
321-59152-16	01/31/2012	C98870 2012-075	5,330
299-58458-10	12/22/2011	N/A	3,398
458-63572-46	11/01/2012	110699	2,000
457-63512-21	10/30/2012	1244109	<u>1,200</u>
			<u>\$20,418</u>

Cause: Yap Visitors Bureau did not enforce internal controls over compliance with applicable procurement requirements.

Effect: Yap Visitors Bureau appears to be in noncompliance with applicable procurement requirements. A questioned cost of \$20,418 exists.

Recommendation: In accordance with applicable procurement requirements, we recommend the entity to 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.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Finding No.:	12-1, Continued
Federal Agency:	U.S. Department of the Interior
CFDA Program:	15.875 Economic, Social and Political Development of the Territories
Grant Number:	CSG-FSM-2012-PSD
Area:	Procurement and Suspension and Debarment
Questioned Costs:	\$20,418

Auditee Response and Corrective Action Plan: YVB should not be marked as non-compliant, when it was, in fact, other offices of the Yap State Government that were non-compliant. In fiscal year 2009, FSM law no. 827 was amended such that all funds appropriated shall be maintained under the authority of the Director of the Office of Administrative Services. This amendment to the law created a complete change in the way Yap Visitors Bureau was managed, and created many additional layers and delays with problems keeping track of the records and files.

These difficulties are reflected in the current audit, where six questioned costs were the result of lost attachments of YVB documents submitted to Yap State Finance, as well as incorrect procedures.

There is nothing that Yap Visitors Bureau can do to correct procedures that are not in its control. YVB should not be required to pay the audit costs, or suffer the embarrassment of such findings if they are not allowed to control the financial activities.

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

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2012

There are no unresolved prior audit findings or questioned costs.