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June 10, 2014

The Board of Directors
Yap Visitors Bureau

Dear Members of the Board:

We have performed an audit of the financial statements of the Yap Visitors Bureau (the Bureau), a component unit of the State of Yap, as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated June 10, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Bureau is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 11, 2013. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation of the Bureau's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- To report on the Bureau's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, CONTINUED

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Bureau's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bureau's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bureau's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Bureau's 2013 financial statements include management's estimate of the allowance for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts, and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on the Bureau's financial reporting process. Such proposed adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the 2013 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

In addition, we have attached to this letter, as Appendix A to Attachment II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

The Bureau's significant accounting policies are set forth in Note 2 to the Bureau's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Bureau:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

The implementation of these statements did not have a material effect on the Bureau's 2013 financial statements.

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 the Bureau.

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 *N*o. 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 has not yet determined the effect of implementation of these statements on the financial statements of the Bureau.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Bureau.

SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Bureau.

OTHER INFORMATION IN THE ANNUAL REPORTS

When audited financial statements are included in documents containing other information such as the Bureau's 2013 Annual Report, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that the Bureau issues an Annual Report or other documentation that includes the audited financial statements, we will read the other information in the Bureau's 2013 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Directors.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Bureau's 2013 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issues requiring communication to the Board of Directors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Bureau's management and staff and had unrestricted access to the Bureau's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Bureau's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Bureau is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated June 10, 2014, wherein no matters involving the Bureau's internal control over financial reporting that were considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have identified, and included in the attached Attachment III, deficiencies related to the Bureau's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention.

The definition of a deficiency is also set forth in Attachment III.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Attachment IV and should be read in conjunction with this report.

* * * * * * * *

This report is intended solely for the information and use of the Board of Directors, management, and others within the Bureau, 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.

We wish to thank the staff and management of the Bureau for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

Journal Entries - AJE

#	Name	Debit	Credit
	1 AJE Correction of Beginning Net Position		
5111	BOFSM Checking	6,131.74	-
5312	Garamfel/Kudler	-	4,724.66
5311	Due from State Finance	-	42,691.76
5113	Undeposited Funds	-	15.00
6211	Misc. Liabilities	-	455.36
7113	Opening Bal Equity	-	2,831.00
7114	Retained Earnings Cumulative	-	24,070.11
8113	LHM Grant (Australia)	18,000.00	-
8114.03	LHM Small Misc Fund	136.00	-
8112	Tamilyog Grant (Australia)	2,059.39	-
6111	Accounts payable	42,798.76	-
7111	Opening Bal Equity	2,831.00	-
5313	Current Budget Remaining	2,831.00	-
		74,787.89	74,787.89
	Correction of FY13 beginning balances		
	2 AJE Cash		
5111	BOFSM Checking	133.15	-
8371.01	Reconciliation discrepancies	-	133.15
		133.15	133.15
	Variance between GL and bank confirmation		
	3 AJE Year end fund balance		
8111	Grants	2,831.00	-
5313	Current Budget Remaining	-	2,831.00
		2,831.00	2,831.00
	FY13 year end entry to recognize remaining budget		
	4 AJE Reverse JE184 and record depreciation		
5611	Fixed Assets:Office Equipments	-	2,872.83
5621	Fixed Assets:Office Equipments:Accumulated Dep. - Equipment	-	1,329.18
5621	Fixed Assets:Office Equipments:Accumulated Dep. - Equipment	2,872.83	-
5612	Fixed Assets:Office Furnitures	-	712.70
5622	Fixed Assets:Office Furnitures:Accumulated Dep. - Furniture	-	712.70
5622	Fixed Assets:Office Furnitures:Accumulated Dep. - Furniture	712.70	-
8361.02	Depreciation Expense:Depreciation-Furniture	712.70	-
8361.03	Depreciation Expense:Depreciation-Office Equipment	1,329.18	-
		5,627.41	5,627.41
	Variance between GL and fixed asset register		
	5 AJE To capitaliize fixed assets		
5611	Fixed Assets:Office Equipments	7,359.70	-
8371.04	Other Current Expenses:Equipment Repairs & Maint.	-	465.94
8371.03	Fixed Asset - Purchase:Equipment	-	6,893.76
		7,359.70	7,359.70
	Recognition of fixed asset addition for FY13		
	6 AJE Payroll Accrual		

Journal Entries - AJE

#	Name	Debit	Credit
6212	Payroll Liabilities	-	1,406.83
8311.01	Payroll Expenses	1,406.83	-
		1,406.83	1,406.83
	To record year-end accrual		
	7 AJE Annual Leave Expense		
6212	Payroll Liabilities	-	3,037.14
8311.01	Payroll Expenses	3,037.14	-
		3,037.14	3,037.14
	To record annual leave expense.		
	8 AJE Annual leave usage		
6212	Payroll Liabilities	1,914.01	-
8311.01	Payroll Expenses	-	1,914.01
		1,914.01	1,914.01
	To decrease annual leave payable based on the actual usage.		
	9 AJE To correct ending balance		
6212	Payroll Liabilities	3,783.27	-
8311.01	Payroll Expenses	-	3,783.27
		3,783.27	3,783.27
	To correct the ending balance		
	10 AJE AP cut-off error		
8331.03	Contractual Services:Public Relation (International):PR Hong Kong	4,500.00	-
8331.07	Contractual Services:Janitorial Services	280.00	-
8331.08	Contractual Services:On-Call Airport Greeters	750.00	-
8331.10	Contractual Services:TNS/Canoe Festival	3,800.00	-
8351.01	Other Current Expenses:Communications	575.13	-
8321.04	Other Current Expenses:POL	501.55	-
8321.06	Other Current Expenses:Supplies & Materials	2,417.70	-
8321.06	Other Current Expenses:Supplies & Materials	507.16	-
8321.07	Other Current Expenses:Supplies & Materials:WWII Materials	9,733.52	-
8321.08	Other Current Expenses:Trade Show Fees	9,476.07	-
8321.08	Other Current Expenses:Trade Show Fees	6,500.00	-
8351.02	Other Current Expenses:Utilities	1,231.74	-
8341.11	Travel:PATA & FSMVB	1,047.56	-
6111	Accounts payable	-	41,320.43
		41,320.43	41,320.43
	To correct FY13 AP and expenses which were not recorded in FY13.		
	11 AJE Contractual service LHM Grant		
8113	LHM Grant (Australia)	-	11,518.50
8331.13	Contractual Services: LHM Grant (Australia)	11,518.50	-
		11,518.50	11,518.50
	Recognize contractual services of LHM Grant (Australia)		

Journal Entries - AJE

#	Name	Debit	Credit

We have reviewed the audit adjustments summarized above and agreed that they should be recorded in the general ledger as of September 30, 2013. These adjusting journal entries are the results of errors and not results of fraud, irregularities, or illegal acts.

Don Evans, General Manager

Maria Ken, Accountant

ATTACHMENT II

The Land of Stone Money

Yap Visitors Bureau

P.O. Box 988 Colonia, Yap Western Caroline Islands FSM 96943
Phone: 691-350-2298 Fax: 691-350-7015 yvb@mail.fm

June 10, 2014

Deloitte & Touche
P.O. Box 753
Kolonia, Pohnpei 96941

We are providing this letter in connection with your audits of the statements of net position of Yap Visitors Bureau (the Bureau or YVB), a component unit of the State of Yap, as of September 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Bureau in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the following:

a. The fair presentation in the basic financial statements of the Bureau's net position, and the related statements of revenues, expenses and changes in net position, and cash flows in conformity with GAAP.

b. The fair presentation of the information included in supplemental schedules and Management's Discussion and Analysis accompanying the basic financial statements.

c. The design, implementation and maintenance of programs and controls to prevent and detect fraud related to federal awards.

d. Establishing and maintaining effective internal control over financial reporting.

e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for stand-alone business-type activities obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. In addition:

   a. Net position components (invested in capital assets net of related debt, restricted and unrestricted) are properly classified and approved

   b. Revenues and expenses are appropriately classified in the statements of revenues, expenses and changes in net position within operating and non-operating revenues and expenses

   c. Capital assets are properly capitalized, reported and depreciated

2. The Bureau has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Bureau has made available to you all:

   a. Public laws entered by the Yap State's Legislature pertaining to the Bureau and to the operations of the Bureau as well as minutes of meetings of the Bureau's Board of Directors.

   b. Financial records and related data for all financial transactions of the Bureau and for all funds administrated by the Bureau. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Bureau and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

   c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

   d. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. The following is a complete schedule of all Board meetings during fiscal year 2013 and through the date of this letter:

October 26, 2012	May 24, 2013	December 27, 2013
November 30, 2012	June 21, 2013	January 24, 2014
December 28, 2012	July 19, 2013	February 21, 2014
January 31, 2013	August 30, 2013	March 21, 2014
February 15, 2013	September 20, 2013	April 25, 2014
March 15, 2013	October 24, 2013	May 30, 2014
April 19, 2013	November 22, 2013	

4. There have been no:

   a. Action taken by the Bureau's management that contravenes the provisions of Yap State laws and regulations or of contracts and grants applicable to the Bureau and for all funds administered by the Bureau.

b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We have no knowledge of any fraud or suspected fraud affecting the Bureau involving (a) management, (b) employees who have significant roles in internal control over financial reporting, or (c) others if the fraud could have a material effect on the financial statements.

6. We have no knowledge of any allegations of fraud or suspected fraud affecting the Bureau received in communications from employees, former employees, analysts, regulators, or others.

7. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

8. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments.* Additionally, we did not utilize services of attorneys during the year ended September 30, 2013 to the date of this letter..

9. We are responsible for compliance with local and state laws, rules and regulations, including compliance with the provisions of grants and contracts relating to the Bureau's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. The Bureau is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.

10. There are no reportable conditions, including significant deficiencies and material weaknesses, in the design or operation of internal control that could adversely affect the Bureau's ability to initiate, record, process, and report financial information.

11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

12. The Bureau has not performed a formal risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Bureau and do not believe that the financial statements are materially misstated as a result of fraud.

13. Significant assumptions used by us in making accounting estimates are reasonable.

Except where otherwise stated below, matters less than $3,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

14. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

15. The Bureau has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

16. The following, to the extent applicable, have been appropriately identified and properly recorded and disclosed in the financial statements:

    a. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.

    b. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

17. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

    We are not aware of any estimates at September 30, 2013 that may change and that the effect of the change would be material to the financial statements.

18. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements;

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact; and

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

19. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Known actual or possible litigation and claims whose effects should be considered and accounted for and disclosed in the financial statements and that have not been disclosed to you.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments.*

20. We are responsible for compliance with local, state and federal laws, rules and regulations, including compliance with requirements of OMB Circular A-133, and provisions of grants and contracts relating to the Bureau's operations. We are responsible for establishing and maintaining the components of internal control relating to our activities in order to achieve the objectives of providing reliable financial reports, effective and efficient operations, and compliance with laws and regulations. Although Yap State Finance has maintenance over the files, the Bureau is responsible for approving transactions over revenues, obligations, expenditures, assets, and liabilities in compliance with the requirements mentioned above.

21. The Bureau has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

22. The Bureau has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.

23. No department or agency of Yap State has reported a material instance of noncompliance to us.

24. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information.

    b. The required supplementary information is measured and presented in accordance with GASB Codification Section 2200, *Comprehensive Annual Financial Report*

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

25. We have disclosed to you that no change in the Bureau's internal control over financial reporting has occurred during the Bureau's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Bureau's internal control over financial reporting.

26. Loan receivables recorded in the financial statements represent valid claims against debtors for loan or reimbursement or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value. As of September 30, 2013, the outstanding loan balance is considered to be fully collectible and as such, no allowance for loan losses is considered to be necessary.

27. There have been no actions taken by management, which contravene the provisions of local laws or regulations or of contracts applicable to the Bureau.

28. The Bureau is responsible for determining and maintaining the adequacy of the allowance for doubtful accounts receivable, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

29. The Bureau has obligated, expended, received, and used public funds of the Bureau in accordance with the purpose for which such funds have been appropriated or otherwise authorized by federal or local law. Such obligation, expenditure, receipt, or use of public funds was in accordance with any limitations, conditions, or mandatory directions imposed by federal or local law.

30. Money or similar assets handled by the Bureau on the local governments have been properly and legally administered and the accounting and recordkeeping related thereto is proper, accurate, and in accordance with law.

31. No evidence of fraud or dishonesty in fiscal operations of programs administered by the Bureau has been discovered.

32. During fiscal year 2013, YVB implemented the following pronouncements

- GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, which addressed 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.

- GASB Statement No. 61, The Financial Reporting Entity: Omnibus, which improved 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.

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.

- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

The implementation of these statements did not have a material effect on YVB's 2013 financial statements.

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 has not yet determined the effect of implementation of these statements on the financial statements of YVB.

In January 2013, GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of YVB.

In April 2013, GASB issued Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of YVB.

33. The Bureau 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. The Bureau has not experienced any losses on such accounts and management believes it is not exposed to any significant credit risk on its deposits.

34. No events have occurred after September 30, 2013, but before June 10, 2014, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

Don Evans, General Manager

Journal Entries - PAJE Uncorrected Misstatements

Name	Debit	Credit
1 PAJE Uncorrected prior year liabilities		
Net position	705.00	-
Accounts Payable	-	705.00
	705.00	705.00
YVB check #7000 unposted liability to YSG		
2 PAJE Difference between QuickBooks and Fundware		
Expense	10,011.00	-
Revenue	-	10,011.00
	10,011.00	10,011.00
Variance between QuickBooks and Fundware		
3 PAJE Unrecorded accrued interest		
Accrued interest	1,694.98	-
Interest income	-	1,694.98
	1,694.98	1,694.98

We have reviewed the uncorrected misstatements summarized above. These adjusting journal entries are the results of errors and not results of fraud, irregularities, or illegal acts.

Don Evans, General Manager

Maria Ken, Accountant

ATTACHMENT III

SECTION I – DEFICIENCIES

We identified, and have included below, deficiencies involving YVB's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Reconciliations of accounting records

Comment: The accounting records provided by the Bureau did not reconcile to the amount recorded by Yap State Government. We noted that reconciliations were not performed.

Recommendation: We recommend that management reconcile its books to the one of Yap State Government. Reconciliations should be performed on a timely basis to investigate and resolve differences.

2. Bookkeeping

Comment: There were numerous audit adjustments which impact a significant number of accounts. Many of the adjustments relate to the lack of the year-end closing entries.

Recommendation: We recommend that management record year-end closing entries, such as remaining budget, depreciation expense and payroll accruals.

SECTION II – DEFINITION

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

ATTACHMENT IV

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Bureau's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.