

ALELE, INC.
(A NOT-FOR-PROFIT CORPORATION)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Alele, Inc.:

We were engaged to audit the accompanying statement of financial position of Alele, Inc. (a Republic of the Marshall Islands not-for-profit corporation) as of September 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Alele Inc.'s management.

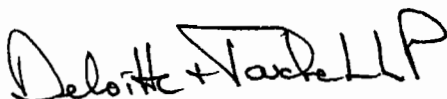
Because of inadequacies in Alele, Inc.'s accounting records and internal control over financial reporting, we were unable to form an opinion regarding assets, liabilities, revenues and other support, and expenses as of and for the year ended September 30, 2004. Furthermore, in our judgment, these accounts materially affect the results of operations for the year ended September 30, 2004.

Alele, Inc. did not record inventory within the accompanying statement of financial position which, in our opinion, should be included to conform with accounting principles generally accepted in the United States of America. Alele Inc.'s records did not permit the application of alternative auditing procedures with respect to inventories. Additionally, Alele did not maintain detail of its office equipment, stated at \$126,797 and no records have been provided to substantiate this account balance. No depreciation of such office equipment has been calculated or recorded in the accompanying financial statements, which is not in accordance with accounting principles generally accepted in the United States of America.

Due to the inadequacies in the accounting records, we were unable to substantiate the fairness of presentation of beginning net assets as of September 30, 2004. Additionally, insufficient data exists to present Alele's expenses on a programmatic basis, as is required by accounting principles generally accepted in the United States of America.

Because of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2006, on our consideration of Alele, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement, 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 engagement to audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our engagement.



March 2, 2006

ALELE, INC.
(A NOT-FOR-PROFIT CORPORATION)

Statement of Financial Position
September 30, 2004

ASSETS

Current assets:	
Cash	\$ 1,406
Receivables:	
Due from other funds	60,540
Due from Government	111,303
Other	3,799
	<u>175,642</u>
Less allowance for uncollectible receivables	(2,214)
	<u>173,428</u>
Office equipment	126,797
	<u>\$ 301,631</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued liabilities	\$ 100,332
Due to other funds	51,238
	<u>151,570</u>
Contingencies	
Net assets:	
Unrestricted	23,264
Temporarily restricted	-
Permanently restricted	126,797
	<u>150,061</u>
	<u>\$ 301,631</u>

See accompanying notes to financial statements.

ALELE, INC.
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Statement of Activities
Year Ended September 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support:				
Grants	\$ 78,482	\$ -	\$ -	\$ 78,482
Sales	15,926	-	-	15,926
Rental income	3,866	-	-	3,866
Fundraising, donations and fees	34,184	-	-	34,184
Other	2,417	-	-	2,417
Net assets released from restrictions:				
Satisfaction of program restrictions	-	-	-	-
	<u>134,875</u>	<u>-</u>	<u>-</u>	<u>134,875</u>
Total revenues and other support				
Expenses:				
Supporting services:				
Salaries and wages	181,385	-	-	181,385
Supplies and materials	2,416	-	-	2,416
Contractual services	1,232	-	-	1,232
Travel	39,668	-	-	39,668
Utilities	6,926	-	-	6,926
Rental	4,103	-	-	4,103
Repairs and maintenance	250	-	-	250
Communications	2,055	-	-	2,055
Miscellaneous	65,542	-	-	65,542
	<u>303,577</u>	<u>-</u>	<u>-</u>	<u>303,577</u>
Total expenses				
Acquisition of equipment	<u>(3,235)</u>	<u>-</u>	<u>3,235</u>	<u>-</u>
Change in net assets	(171,937)	-	3,235	(168,702)
Net assets at beginning of year	<u>195,201</u>	<u>-</u>	<u>123,562</u>	<u>318,763</u>
Net assets at end of year	<u>\$ 23,264</u>	<u>\$ -</u>	<u>\$ 126,797</u>	<u>\$ 150,061</u>

See accompanying notes to financial statements.

ALELE, INC.
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Statement of Cash Flows
Year Ended September 30, 2004

Cash flows from operating activities:	
Change in net assets	\$ (165,467)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Bad debts	2,214
(Increase) decrease in assets:	
Receivables:	
Other	156,145
Decrease in liabilities:	
Accounts payable and accrued liabilities	<u>58,281</u>
Net cash used in operating activities	<u>51,173</u>
Cash flows from financing activities:	
Decrease in bank overdraft	<u>(46,532)</u>
Net cash provided by financing activities	<u>(46,532)</u>
Cash flows from investing activities:	
Increase in office equipment	<u>(3,235)</u>
Net cash provided by financing activities	<u>(3,235)</u>
Net increase in cash	1,406
Cash at beginning of year	<u>-</u>
Cash at end of year	<u><u>\$ 1,406</u></u>

See accompanying notes to financial statements.

ALELE, INC.
(A NOT-FOR-PROFIT CORPORATION)

Notes to Financial Statements
September 30, 2004

(1) Organization

Alele, Inc., a not-for-profit corporation, was organized under the laws of the Republic of the Marshall Islands (RepMar) on August 1, 1984. The purpose of the organization is to operate and maintain a museum and library for the Marshall Islands, and to preserve the culture of the people of the Marshall Islands. On September 20, 2000, the Articles of Incorporation and By-laws of Alele, Inc. were amended. The purpose of the organization, as amended, is to operate an audio/video center for the Marshall Islands and to acquire and dispose of museum collections under the authority of the Board of Trustees and Alele management.

(2) Summary of Significant Accounting Principles

The financial statements of Alele, Inc. have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Reporting Entity

Effective October 1, 1996, Alele, Inc. adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made* and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 116 establishes standards for accounting for contributions. SFAS No. 117 establishes broad standards for reporting information in financial statements issued by not-for-profit organizations and requires these financial statements to focus on the entity as a whole. Amounts related to an organization's financial position and activities are to be reported in three classes of net assets - permanently restricted, temporarily restricted and unrestricted.

These financial statements must classify an organization's assets, liabilities, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. The three classes of net assets are now classified as one of the following types:

- Unrestricted
- Temporarily restricted
- Permanently restricted

Alele, Inc. has determined that all assets, liabilities, revenues, expenses, gains and losses from operating appropriations provided by the Nitijela (the RepMar Legislature) are unrestricted. Grants with donor stipulations that limit the use of the grant are temporarily restricted. Alele, Inc. has determined that equipment and related transfers and depreciation expense are permanently restricted. Alele, Inc. did not record fixed assets within the accompanying statement of financial position. Accordingly, permanently restricted net assets have not been presented in the accompanying financial statements.

Net Assets

Alele, Inc. reports grants or gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

ALELE, INC.
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Notes to Financial Statements
September 30, 2004

(2) Summary of Significant Accounting Principles, Continued

Net Assets, Continued

Net assets were not released from restriction for the year ended September 30, 2004.

Cash

For purposes of the statements of financial position and cash flows, Alele Inc. considers cash to be cash in checking accounts. Alele Inc.'s cash is deposited with a federally insured bank and is within insurable limits.

Receivables

Alele, Inc. grants credit, on an unsecured basis, to individuals who are primarily located in the Republic of the Marshall Islands. The allowance for uncollectible receivables is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unrestricted funding is recognized as support when received with the only limits on its use being the broad limits resulting from the nature of Alele, Inc., the environment in which it operates, and the purposes specified in its articles of incorporation and by-laws and limits resulting from contractual agreements entered into by Alele, Inc. in the course of its business. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Fund Raising and Donations

Alele, Inc. participates in various fund raising activities during the year. Revenues received from these fund raising activities are recognized as support when received. In addition, Alele, Inc. receives cash donations from private individuals, which are recognized as support when received.

Collections

Alele, Inc.'s collections are made up of artifacts of historical significance, scientific specimens, and art objects that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sale to be used to acquire other items for collections.

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Notes to Financial Statements
September 30, 2004

(2) Summary of Significant Accounting Principles, Continued

Collections, Continued

The collections, which were acquired through purchases and contributions since Alele, Inc.'s inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

Books used in the circulating library have not been capitalized because their estimated useful lives are less than one year.

Taxes

Alele, Inc. is exempt from RepMar gross receipts tax under Section 22(e) of the Income Tax Act 1989, as amended by the Income Tax Amendment Act 1991, the Income Tax Technical Amendment Act of 1992, and the Import Duties Tax Act.

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 amount 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 these estimates.

(3) Grant Support and Revenue

The following information summarizes Alele, Inc.'s grant and contract activity during the year ended September 30, 2004:

Nitijela appropriations	\$ <u>78,482</u>
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(4) Contingencies

Alele, Inc. receives a substantial amount of its support from the Nitijela of RepMar and outside organizations. A significant reduction in the level of this support, if this were to occur, may have an effect on Alele Inc.'s programs and activities.