

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
FOOD AND AGRICULTURE SUPPORT PROGRAM**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2003**

## Independent Auditors' Report

Mayor Jackson Ading  
Enewetak/Ujelang Local Government  
Republic of the Marshall Islands:

We were engaged to audit the accompanying balance sheet of Enewetak/Ujelang Local Government (EULGOV) Food and Agriculture Support Program (the Program) as of September 30, 2003, and the related statement of revenues, expenditures and changes in fund balance (deficit) for the year then ended. These financial statements are the responsibility of the Program's management.

Because of inadequacies in the Program's accounting records and internal control, we were unable to form an opinion regarding receivables and expenditures as of and for the year ended September 30, 2003.

We were unable to obtain resolutions and ordinances of the EULGOV Council that impact the Program that were passed for the period from October 1, 2002 to September 30, 2003.

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 accompanying financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2005, on our consideration of the Program's internal control over financial reporting and 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 engagement to audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our engagement.



January 12, 2005

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Balance Sheet  
Governmental Funds  
September 30, 2003

|                                    | Special Revenue                               |           |                               |
|------------------------------------|---|-----------|-------------------------------|
|                                    | Food and<br>Agriculture<br>Support<br>Program | Kawewa    | Total<br>(Memorandum<br>Only) |
| <u>ASSETS</u>                      |   |           |                               |
| Current assets:                    |   |           |                               |
| Cash                               | \$ 34,284                                     | \$ 20,732 | \$ 55,016                     |
| Other receivables                  | 28,386  | 4,930     | 33,316                        |
| Total assets                       | \$ 62,670                                     | \$ 25,662 | \$ 88,332                     |
| <u>LIABILITIES</u>                 |   |           |                               |
| Current liabilities:               |   |           |                               |
| Accounts payable                   | \$ 13,538                                     | \$ 17,430 | \$ 30,968                     |
| Other liabilities and accruals     | 45,746  | 20,466    | 66,212                        |
| Total liabilities                  | 59,284  | 37,896    | 97,180                        |
| <u>FUND BALANCE</u>                |   |           |                               |
| Fund balance:                      |   |           |                               |
| Unreserved (deficit)               | 3,386   | (12,234)  | (8,848)                       |
| Total liabilities and fund balance | \$ 62,670                                     | \$ 25,662 | \$ 88,332                     |

See accompanying notes to financial statements.

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Governmental Funds  
Year Ended September 30, 2003

|   | Special Revenue                               |             |                               |
|---|---|-------------|-------------------------------|
|   | Food and<br>Agriculture<br>Support<br>Program | Kawewa      | Total<br>(Memorandum<br>Only) |
| Revenues:   |   |             |                               |
| Federal grants  | \$ 1,620,000                                  | \$ -        | \$ 1,620,000                  |
| Other   | 8,392   | 65,862      | 74,254                        |
| Total revenues  | 1,628,392                                     | 65,862      | 1,694,254                     |
| Expenditures:   |   |             |                               |
| Food and agricultural support program                     | 922,118                                       | -           | 922,118                       |
| General government:                                       |   |             |                               |
| Personnel services  | -   | 132,193     | 132,193                       |
| Petroleum, oil and lube                                   | 57,570  | 73,878      | 131,448                       |
| Contractual services                                      | 90,000  | 1,225       | 91,225                        |
| Materials and supplies                                    | 44,299  | 27,367      | 71,666                        |
| Travel  | 59,563  | 3,968       | 63,531                        |
| Equipment   | 39,889  | 3,361       | 43,250                        |
| Insurance   | -   | 33,600      | 33,600                        |
| Legal fees  | 32,000  | -           | 32,000                        |
| Employer taxes  | -   | 13,768      | 13,768                        |
| Food stuff  | -   | 8,672       | 8,672                         |
| Communication   | 8,261   | -           | 8,261                         |
| Miscellaneous   | 18,833  | 59,604      | 78,437                        |
| Total expenditures  | 1,272,533                                     | 357,636     | 1,630,169                     |
| Excess (deficiency) of revenues over (under) expenditures | 355,859                                       | (291,774)   | 64,085                        |
| Other financing sources (uses):                           |   |             |                               |
| Operating transfers in                                    | -   | 299,000     | 299,000                       |
| Operating transfers out                                   | (299,000)                                     | -           | (299,000)                     |
| Total other financing uses (sources), net                 | (299,000)                                     | 299,000     | -                             |
| Net change in fund balance (deficit)                      | 56,859  | 7,226       | 64,085                        |
| Deficit at beginning of year                              | (53,473)                                      | (19,460)    | (72,933)                      |
| Fund balance (deficit) at end of year                     | \$ 3,386                                      | \$ (12,234) | \$ (8,848)                    |

See accompanying notes to financial statements.

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
FOOD AND AGRICULTURE SUPPORT PROGRAM**

Notes to Financial Statements  
September 30, 2003

**(1) Organization**

The Enewetak/Ujelang Local Government (EULGOV) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands and operates under the Constitution of the Enewetak/Ujelang Local Government. EULGOV is governed by an elected mayor and fifteen-member council.

The accompanying financial statements relate solely to those accounting records maintained by the EULGOV Food and Agriculture Support Program (the Program), and do not incorporate any accounts related to and accounted for by EULGOV. These financial statements are incorporated into the financial statements of EULGOV as a governmental fund – special revenue fund.

**(2) Summary of Significant Accounting Policies**

The financial statements of the Program have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Program's accounting policies are described below.

**A. Measurement Focus and Basis of Accounting**

The Program reports its financial position and the results of its operations in one Special Revenue Fund. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying financial statements, the Program is classified as a Governmental Fund – Special Revenue Fund.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

**B. Basis of Presentation**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Special Revenue Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**ENEWETAK/UJELANG LOCAL GOVERNMENT  
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Notes to Financial Statements  
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurement" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

C. Budget

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, a budget to actual presentation is not required or presented.

D. Cash

Cash includes cash held in demand deposits. As of September 30, 2003, the carrying amount of the Program's total cash was \$55,016 and the corresponding bank balance was \$30,987. As of September 30, 2003, bank deposits were fully FDIC insured.

E. Estimates

The preparation of financial statements in conformity with GAAP 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 expenditures during the reporting period. Actual results could differ from those estimates.

F. Memorandum Only-Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with GAAP. Interfund eliminations have not been made in the aggregation of this data.

(3) Risk Management

The Program is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Program not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Program management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Program reports all of its risk management activities in the General Fund of EULGOV. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from the Program's risk management activities.

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Notes to Financial Statements  
September 30, 2003

**(4) Operating Transfers In/Out**

Operating transfers in/out for all fund types, for the year ended September 30, 2003, are as follows:

|  | <u>Transfer<br/>Out</u> | <u>Transfer<br/>In</u> |
|--|-------------------------|------------------------|
| <b><u>Governmental Fund – Special Revenue Fund</u></b> |                         |                        |
| To Kawewa Fund From:                                   |                         |                        |
| Food and Agriculture Support Program                   | \$ <u>      -</u>       | \$ <u>299,000</u>      |
| From Food and Agriculture Support Program To:          |                         |                        |
| Kawewa Fund  | \$ <u>299,000</u>       | \$ <u>      -</u>      |

**(5) Contingency**

**Questioned Costs**

The Program is subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Expenditures of \$1,125,696 were questioned in the fiscal year 2003 Single Audit of the Program. In addition, the Program is considered to have responsibility for any questioned costs that may result from Single Audits of the Program for the fiscal years for which audits have not been performed. The ultimate disposition of these questioned costs can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of these matters has been made in the accompanying financial statements.