

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

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2005

Independent Auditors' Report

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

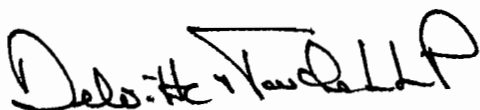
We have audited the accompanying statement of revenues, expenditures and changes in fund balance of the Enewetak/Ujelang Local Government (EULGOV) Food and Agriculture Support Program (the Program), a special revenue fund of EULGOV, for the year ended September 30, 2005. This financial statement is the responsibility of the Program's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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 statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the EULGOV Food and Agriculture Support Program and is not intended to present fairly the results of operations of the Enewetak/Ujelang Local Government in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of operations of the Program for the year ended September 30, 2005 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 September 8, 2006, 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 audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



September 8, 2006

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

Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended September 30, 2005

Revenues:	
Federal grants	\$ <u>1,793,000</u>
Total revenues	<u>1,793,000</u>
Expenditures:	
Direct food costs	534,267
Personnel services	592,547
Contractual services	147,273
Materials and supplies	152,263
Petroleum, oil and lube	215,449
Travel	30,600
Equipment rental	8,397
Insurance	39,645
Repairs and maintenance	37,509
Warehouse rental	9,000
Office rental	2,700
Communication	3,734
Miscellaneous	20,140
2004 expenditures charged in the current year:	
Salaries and wages	29,572
Contractual services	23,167
Other	<u>(15,176)</u>
Total expenditures	<u>1,831,087</u>
Deficiency of revenues under expenditures	(38,087)
Fund balance at beginning of year	<u>40,853</u>
Fund balance at end of year	<u><u>\$ 2,766</u></u>

See accompanying notes to financial statement.

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

Notes to Financial Statements
September 30, 2005

(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 a fifteen-member council. The EULGOV Food and Agriculture Support Program (the Program) is considered a governmental fund type-special revenue fund of EULGOV and was established to account for funding received pursuant to Section 103(f)(2) of the Compact of Free Association.

The accompanying financial statement relates solely to those accounting records maintained by the Program, and does not incorporate any accounts related to any other departments or agencies of EULGOV.

(2) Summary of Significant Accounting Policies

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

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. 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.

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.

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

Notes to Financial Statements
September 30, 2005

(2) Summary of Significant Accounting Policies, Continued

C. 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.

(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 during the past three years.

(4) Contingency

Questioned Costs

The Program is subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Expenditures of \$595,058 were questioned in the fiscal year 2005 Single Audit of the Program and prior year questioned costs of \$1,519,805 exist. 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.

(5) 2004 Expenditures Charged in 2005

During the year ended September 30, 2005, management discovered certain 2004 expenditures applicable to the Program that were not previously charged. Therefore, these amounts have been charged to the Program during the year ended September 30, 2005.