

KWAJALEIN ATOLL LOCAL GOVERNMENT

GENERAL PURPOSE FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2001

INDEPENDENT AUDITORS' REPORT

Kwajalein Atoll Local Government Council  
Kwajalein Atoll Local Government  
Republic of the Marshall Islands:

We were engaged to audit the accompanying general purpose financial statements of the Kwajalein Atoll Local Government (KALGOV) as of and for the year ended September 30, 2001. These general purpose financial statements are the responsibility of the management of KALGOV.

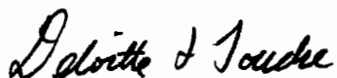
Because of inadequacies in KALGOV's accounting records and internal control over financial reporting, we were unable to form an opinion regarding assets, liabilities, revenues and expenditures as of and for the year ended September 30, 2001. Furthermore, in our judgment, these accounts materially affect the results of operations for the year ended September 30, 2001.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group, which, in our opinion, should be included to conform with accounting principles generally accepted in the United States of America. The amounts that should be recorded in the General Fixed Assets Account Group are not known.

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 general purpose financial statements referred to in the first paragraph.

The accompanying general purpose financial statements have been prepared assuming that KALGOV will continue as a going concern. KALGOV's general fund has an unreserved fund deficit of \$1,139,426, a condition that raises substantial doubt about the ability of KALGOV to meet its debts as they come due. The general purpose financial statements do not include any adjustments that might be necessary if KALGOV is not able to meet its debts as they come due.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2002, on our consideration of KALGOV's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an engagement to audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our engagement.



May 17, 2002

KWAJALEIN ATOLL LOCAL GOVERNMENT  
 Combined Balance Sheet - Governmental Fund Types  
 September 30, 2001  
 (With comparative totals as of September 30, 2000)

<u>ASSETS</u>	<u>Governmental Fund Types</u>		<u>Totals</u>	
	General	Special	(Memorandum Only)	
	<u>Fund</u>	<u>Revenue</u>	<u>2001</u>	<u>2000</u>
Accounts receivable	\$ 14,504	\$ -	\$ 14,504	\$ 14,504
Advances to officials (note 3)	97,145	-	97,145	-
Due from Grantor	10,405	168,062	178,467	178,467
Due from other funds	-	40,069	40,069	144,411
	<u>\$ 122,054</u>	<u>\$ 208,131</u>	<u>\$ 330,185</u>	<u>\$ 337,382</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>				
Liabilities:				
Bank overdraft	\$ 164,340	\$ -	\$ 164,340	\$ 127,753
Accrued liabilities	959,926	-	959,926	672,830
Due to other funds	40,069	-	40,069	144,411
Total liabilities	<u>1,164,335</u>	<u>-</u>	<u>1,164,335</u>	<u>944,994</u>
Fund balances (deficit):				
Reserved for related assets (note 3)	97,145	-	97,145	-
Unreserved	(1,139,426)	208,131	(931,295)	(607,612)
Total fund balances (deficit)	<u>(1,042,281)</u>	<u>208,131</u>	<u>(834,150)</u>	<u>(607,612)</u>
Contingency (note 6)	<u>\$ 122,054</u>	<u>\$ 208,131</u>	<u>\$ 330,185</u>	<u>\$ 337,382</u>

See accompanying notes to financial statements.

KWAJALEIN ATOLL LOCAL GOVERNMENT

Combined Statement of Revenues, Expenditures and Changes in  
Fund Balances (Deficit) - All Governmental Fund Types  
Year Ended September 30, 2001  
(With comparative totals for the year ended September 30, 2000)

	Governmental Fund Types		Totals	
	General	Special	(Memorandum Only)	
	Fund	Revenue Fund	2001	2000
Revenues:				
Taxes	\$ 879,686	\$ -	\$ 879,686	\$ 890,713
Contributions	5,242	769,082	774,324	955,591
Fees and other	78,245	-	78,245	96,636
Other	10,985	41,168	52,153	19,969
Total revenues	974,158	810,250	1,784,408	1,962,909
Expenditures:				
Education	-	670,686	670,686	716,185
Public safety	-	471,943	471,943	417,043
Public works	-	440,950	440,950	373,809
Municipal administration	144,829	-	144,829	128,231
Revenue and finance	112,114	-	112,114	107,242
Council	65,536	-	65,536	74,987
Mayor's office	54,251	-	54,251	55,519
Other	50,637	-	50,637	173,805
Total expenditures	427,367	1,583,579	2,010,946	2,046,821
Revenues over (under) expenditures	546,791	(773,329)	(226,538)	(83,912)
Other financing sources (uses):				
Operating transfers in (note 5)	-	668,987	668,987	659,540
Operating transfers out (note 5)	(668,987)	-	(668,987)	(659,540)
Total other financing sources (uses), net	(668,987)	668,987	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(122,196)	(104,342)	(226,538)	(83,912)
(Deficit) fund balances at beginning of year	(920,085)	312,473	(607,612)	(523,700)
(Deficit) fund balances at end of year	\$ (1,042,281)	\$ 208,131	\$ (834,150)	\$ (607,612)

See accompanying notes to financial statements.

**KWAJALEIN ATOLL LOCAL GOVERNMENT**  
**Combined Statement of Revenues, Expenditures**  
**and Changes in Fund Balances (Deficit) -**  
**Budget (GAAP Basis) and Actual -**  
**General and Special Revenue Funds**  
**Year Ended September 30, 2001**

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>									
Excise taxes	\$ 175,900	\$ 132,785	\$ (43,115)	\$ -	\$ -	\$ -	\$ 175,900	\$ 132,785	\$ (43,115)
Fuel excise tax	20,000	14,871	(5,129)	-	-	-	20,000	14,871	(5,129)
Beer liquor sales tax	200,000	152,339	(47,661)	-	-	-	200,000	152,339	(47,661)
Property tax	600,000	579,691	(20,309)	-	-	-	600,000	579,691	(20,309)
Fees and other	140,000	78,245	(61,755)	-	-	-	140,000	78,245	(61,755)
Contributions	19,352	5,242	(14,110)	1,012,000	769,082	(242,918)	1,031,352	774,324	(257,028)
Other	-	10,985	10,985	127,000	41,168	(85,832)	127,000	52,153	(74,847)
<b>Total revenues</b>	<b>1,155,252</b>	<b>974,158</b>	<b>(181,094)</b>	<b>1,139,000</b>	<b>810,250</b>	<b>(328,750)</b>	<b>2,294,252</b>	<b>1,784,408</b>	<b>(509,844)</b>
<b>Expenditures:</b>									
Education operations	-	-	-	682,451	670,686	11,765	682,451	670,686	11,765
Public safety	-	-	-	405,959	471,943	(65,984)	405,959	471,943	(65,984)
Municipal administration	140,987	144,829	(3,842)	-	-	-	140,987	144,829	(3,842)
Public works, administration	-	-	-	142,836	96,844	45,992	142,836	96,844	45,992
Revenue and finance	110,857	112,114	(1,257)	-	-	-	110,857	112,114	(1,257)
Public works, auto and equipment maintenance	-	-	-	77,477	71,634	5,843	77,477	71,634	5,843
Council	73,400	65,536	7,864	-	-	-	73,400	65,536	7,864
Public works, sanitation	-	-	-	149,000	67,211	81,789	149,000	67,211	81,789
Hospital maintenance	-	-	-	74,204	49,081	25,123	74,204	49,081	25,123
Public works, building maintenance	-	-	-	76,000	64,927	11,073	76,000	64,927	11,073
Mayor's office	82,900	54,251	28,649	-	-	-	82,900	54,251	28,649
Recreation and community services	-	-	-	60,060	47,775	12,285	60,060	47,775	12,285
Public works, roads and grounds	-	-	-	105,000	43,478	61,522	105,000	43,478	61,522
Legal services	56,710	50,637	6,073	-	-	-	56,710	50,637	6,073
Ports Authority	-	-	-	-	-	-	-	-	-
Contingency	21,411	-	21,411	25,000	-	25,000	46,411	-	46,411
Other	-	-	-	10,000	-	10,000	10,000	-	10,000
<b>Total expenditures</b>	<b>486,265</b>	<b>427,367</b>	<b>58,898</b>	<b>1,807,987</b>	<b>1,583,579</b>	<b>224,408</b>	<b>2,294,252</b>	<b>2,010,946</b>	<b>283,306</b>
Revenues over (under) expenditures	668,987	546,791	(122,196)	(668,987)	(773,329)	(104,342)	-	(226,538)	(226,538)
<b>Other financing sources (uses):</b>									
Operating transfers in (out), net (note 5)	(668,987)	(668,987)	-	668,987	668,987	-	-	-	-
Total other financing sources (uses), net	(668,987)	(668,987)	-	668,987	668,987	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	(122,196)	(122,196)	-	(104,342)	(104,342)	-	(226,538)	(226,538)
Other changes in fund balance (deficit):									
Increase in reserve for related assets	-	(97,145)	(97,145)	-	-	-	-	(97,145)	(97,145)
(Deficit) fund balances at beginning of year	-	(920,085)	(920,085)	-	312,473	312,473	-	(607,612)	(607,612)
(Deficit) fund balances at end of year	\$ -	\$ (1,139,426)	\$ (1,139,426)	\$ -	\$ 208,131	\$ 208,131	\$ -	\$ (931,295)	\$ (931,295)

See accompanying notes to financial statements.

# KWAJALEIN ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2001

## (1) Organization

The Kwajalein Atoll Local Government (KALGOV) 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 Kwajalein Atoll Local Government.

## (2) Summary of Significant Accounting Policies

The general purpose financial statements of KALGOV have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. 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, 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 KALGOV's accounting policies are described below:

### A. Fund Accounting

KALGOV uses funds to report on its financial position and the results of its operations. 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. In the accompanying general purpose financial statements, KALGOV's funds are classified as governmental.

Governmental funds are used to account for all or most of KALGOV's general activities, including the collection and disbursement of earmarked monies (special revenue funds). The special revenue fund of KALGOV (the Public Services Fund) accounts for the activities of the Departments of Public Works and Public Safety. The primary revenue source of this fund has been appropriations from the Republic of the Marshall Islands to fund the Public Works Department and Education operations. The general fund is used to account for all general governmental activities of KALGOV not accounted for in another fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds account for goods or services provided to outside parties. KALGOV accounts for the Ebeye Port Fund, which, pursuant to KALGOV Ordinance No. 1990-48, accounts for the activities of the Ebeye Port Commission. The Ebeye Port Commission was created to develop and maintain the port and wharf facilities at Ebeye. The KALGOV Office of Finance was designated to serve as administrator of the Ebeye Port Fund. The Ebeye Port Fund is not presented in the accompanying general purpose financial statements as it is considered immaterial to the general purpose financial statements taken as a whole.

KWAJALEIN ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recorded when they become susceptible to accrual; that is, when they become measurable and are available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

C. Budgetary Process

The Constitution of KALGOV provides for the Executive Committee to introduce to the Kwajalein Atoll Local Council at least one set of budget estimates of revenues and expenditures and at least one appropriation ordinance for each fiscal year. No monies shall be expended unless appropriated by ordinance for the purpose for which it is to be expended.

D. Cash

For purposes of the combined balance sheet, KALGOV considers cash to be cash on hand and cash in checking accounts. At September 30, 2001, KALGOV's cash accounts are with a non-federally insured bank.

E. Fixed Assets

KALGOV does not maintain continuing records of its property, plant and equipment used in governmental and proprietary fund type operations. Accordingly, fixed assets are not presented within the accompanying general purpose financial statements.

F. Compensated Absences

Vested or accumulated vacation leave that is liquidated with expendable available financial resources is reported as an expenditure in the fund to which it relates. It is KALGOV's policy to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The estimated amount of unused sick leave at September 30, 2001, was not available.

G. Total Columns of Combined Statements - Overview

Total columns in the combined general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

## KWAJALEIN ATOLL LOCAL GOVERNMENT

### Notes to Financial Statements September 30, 2001

#### (3) Advances to Officials

During the year ended September 30, 2001, KALGOV made advances to various officials which were partially offset by accrued vacation leave. Advances outstanding at September 30, 2001 totaled \$97,145 which were reserved for within the general fund fund balance.

#### (4) Risk Management

KALGOV 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. KALGOV has elected not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, KALGOV believes it is more economical to manage its risks internally. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. No losses as a result of these risks have occurred for the past three years.

#### (5) Transfers In/Out

Transfers between funds are authorized under KALGOV Ordinance No. 2001-03. During fiscal year 2001, \$668,987 was transferred to the Public Services Fund from the General Fund.

#### (6) Contingency

KALGOV has not made required payments of all taxes, penalties and interest due to the Marshall Islands Social Security Administration (MISSA) as of September 30, 2001. MISSA has recorded receivables from KALGOV of \$1,963,932 as of September 30, 2001. KALGOV has recorded liabilities to MISSA of \$210,170 as of September 30, 2001. Due to the uncertainty of the ultimate outcome of this matter, the amount recorded by KALGOV in the accompanying financial statements may change to a material extent.