

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2006**

# ENEWETAK/UJELANG ATOLL LOCAL GOVERNMENT

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Enewetak/Ujelang Local Government (EULGOV) as of and for the year ended September 30, 2006, which collectively comprise EULGOV's basic financial statements. These financial statements are the responsibility of EULGOV's management. Our responsibility is to express opinions on the respective financial statements based on our audit.

Except as discussed in the following paragraph, 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 statements are 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 EULGOV'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.

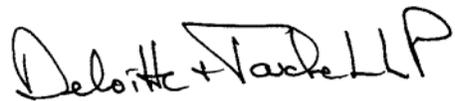
Because of inadequacies in EULGOV's accounting records, prior-year records and supporting data for the General Fund were not available for our audit and we were unable to satisfy ourselves about the classifications and amounts comprising the balance sheet at September 30, 2005. General Fund balance sheet account balances at September 30, 2005, including classifications and amounts, materially affect the determination of the results of operations of the governmental activities and the General Fund for the year ended September 30, 2006. Accordingly, 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 of the governmental activities and the General Fund for the year ended September 30, 2006, or on consistency of application of accounting principles with the preceding year. In addition, we were unable to form an opinion regarding the amounts at which loans receivable are recorded in the accompanying financial statements of the governmental activities and the General Fund at September 30, 2006 (stated at \$3,120,742), or the amount of loan interest income for the year then ended (stated at \$56,345).

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had accounting records concerning loans receivable been adequate, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Enewetak/Ujelang Local Government as of September 30, 2006.

In addition, in our opinion, the financial statements of the Enewetak Food and Agricultural Support Program Fund, the Enjebi Community Trust Fund and the Claims Trust Fund present fairly, in all material respects, the respective changes in financial position thereof for the year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. The Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, is not a required part of the basic financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of the management of EULGOV. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019, on our consideration of EULGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of EULGOV's 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.



November 27, 2019

ENEWETAK/UJELANG LOCAL GOVERNMENT

Statement of Net Assets  
September 30, 2006

ASSETS

Current assets:	
Cash and cash equivalents	\$ 119,480
Loans receivable	3,120,742
Other receivables	<u>134,239</u>
Total current assets	<u>3,374,461</u>
Noncurrent assets:	
Restricted assets:	
Investments	38,213,973
Capital assets, net of accumulated depreciation	<u>152,425</u>
Total noncurrent assets	<u>38,366,398</u>
Total assets	<u>\$ 41,740,859</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Current portion of notes payable	\$ 568,921
Accounts payable	50,612
Taxes payable	170,739
Interest payable	65,313
Other liabilities and accruals	<u>46,514</u>
Total current liabilities	902,099
Noncurrent liabilities:	
Notes payable, net of current portion	<u>5,090,273</u>
Total liabilities	<u>5,992,372</u>
Commitment and contingencies	
Net assets:	
Invested in capital assets	152,425
Restricted for:	
Nonexpendable:	
Claims	25,103,085
Resettlement	7,429,430
Expendable:	
Other purposes	44,447
Unrestricted	<u>3,019,100</u>
Total net assets	<u>35,748,487</u>
Total liabilities and net assets	<u>\$ 41,740,859</u>

See accompanying notes to financial statements.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Statement of Activities  
Year Ended September 30, 2006

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets	
<u>Functions/Programs</u>				
Government activities:				
General government	\$ 1,084,563	\$ 61,511	\$ -	\$ (1,023,052)
Education	93,368	-	-	(93,368)
Public safety	70,067	-	-	(70,067)
Food program	1,702,936	-	1,839,000	136,064
Liberation Day	8,393	-	-	(8,393)
Church summer program	11,250	-	-	(11,250)
Nuclear claims related	1,884,000	-	-	(1,884,000)
Unallocated interest - long-term debt	<u>320,622</u>	<u>-</u>	<u>-</u>	<u>(320,622)</u>
	<u>\$ 5,175,199</u>	<u>\$ 61,511</u>	<u>\$ 1,839,000</u>	(3,274,688)
General revenues:				
Taxes				822
Loan interest income				56,345
Fines				300,000
Other				488,638
Contributions to permanent fund				<u>3,142,383</u>
				<u>3,988,188</u>
				713,500
				<u>35,034,987</u>
				<u>\$ 35,748,487</u>

See accompanying notes to financial statements.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Balance Sheet  
Governmental Funds  
September 30, 2006

ASSETS	General	Special	Permanent		Total
		Revenue	Enjebi	Claims	
		Enewetak	Community	Trust	
		Food and	Trust		
		Agricultural			
		Support			
		Program			
Cash and cash equivalents	\$ 119,480	\$ -	\$ -	\$ -	\$ 119,480
Receivables:					
Loans	3,120,742	-	-	-	3,120,742
Interest and dividends	40,271	-	9,420	33,629	83,320
Employees	18,981	-	-	-	18,981
Other	1,052	30,886	-	-	31,938
Due from other funds	-	13,561	-	-	13,561
Restricted assets:					
Investments	-	-	7,420,010	30,793,963	38,213,973
	\$ <u>3,300,526</u>	\$ <u>44,447</u>	\$ <u>7,429,430</u>	\$ <u>30,827,592</u>	\$ <u>41,601,995</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Accounts payable	\$ 50,612	\$ -	\$ -	\$ -	\$ 50,612
Taxes payable	170,739	-	-	-	170,739
Other liabilities and accruals	46,514	-	-	-	46,514
Due to other funds	<u>13,561</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,561</u>
Total liabilities	<u>281,426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>281,426</u>
Commitment and contingencies					
Fund balance:					
Reserved for:					
Related assets	3,120,742	-	-	-	3,120,742
Claims	6,681	-	-	30,827,592	30,834,273
Resettlement	-	-	7,429,430	-	7,429,430
Unreserved	<u>(108,323)</u>	<u>44,447</u>	<u>-</u>	<u>-</u>	<u>(63,876)</u>
Total fund balance	<u>3,019,100</u>	<u>44,447</u>	<u>7,429,430</u>	<u>30,827,592</u>	41,320,569
Total liabilities and fund balance	\$ <u>3,300,526</u>	\$ <u>44,447</u>	\$ <u>7,429,430</u>	\$ <u>30,827,592</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					152,425
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:					
		Notes payable		(5,659,194)	
		Accrued interest payable		<u>(65,313)</u>	
					<u>(5,724,507)</u>
					\$ <u>35,748,487</u>

See accompanying notes to financial statements.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Statement of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
Year Ended September 30, 2006

	General	Special Revenue Enewetak Food and Agricultural Support Program	Enjebi Community Trust	Permanent Claims Trust	Total
Revenues:					
Federal grants	\$ -	\$ 1,839,000	\$ -	\$ -	\$ 1,839,000
Taxes	822	-	-	-	822
Dividends and interest	56,345	-	186,383	923,760	1,166,488
Net change in fair value of investments	-	-	504,173	1,884,007	2,388,180
Fares and freight	33,464	-	-	-	33,464
Fuel sales	2,603	-	-	-	2,603
Licenses and fees	25,444	-	-	-	25,444
Fines	300,000	-	-	-	300,000
Other	<u>83,664</u>	<u>-</u>	<u>1,033</u>	<u>409,502</u>	<u>494,199</u>
Total revenues	<u>502,342</u>	<u>1,839,000</u>	<u>691,589</u>	<u>3,217,269</u>	<u>6,250,200</u>
Expenditures:					
General government	1,080,105	-	-	-	1,080,105
Education	93,368	-	-	-	93,368
Public safety	70,067	-	-	-	70,067
Distributions	1,884,000	-	-	-	1,884,000
Food program	-	1,797,319	-	-	1,797,319
Liberation Day	8,393	-	-	-	8,393
Church summer program	11,250	-	-	-	11,250
Investment management	-	-	95,732	265,769	361,501
Debt service:					
Principal repayment	535,921	-	-	-	535,921
Interest	<u>327,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>327,393</u>
Total expenditures	<u>4,010,497</u>	<u>1,797,319</u>	<u>95,732</u>	<u>265,769</u>	<u>6,169,317</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,508,155)</u>	<u>41,681</u>	<u>595,857</u>	<u>2,951,500</u>	<u>80,883</u>
Other financing sources (uses):					
Operating transfers in	3,661,314	-	-	-	3,661,314
Operating transfers out	<u>-</u>	<u>-</u>	<u>(870,000)</u>	<u>(2,791,314)</u>	<u>(3,661,314)</u>
Total other financing sources (uses), net	<u>3,661,314</u>	<u>-</u>	<u>(870,000)</u>	<u>(2,791,314)</u>	<u>-</u>
Net change in fund balance	153,159	41,681	(274,143)	160,186	80,883
Fund balance at the beginning of the year	<u>2,865,941</u>	<u>2,766</u>	<u>7,703,573</u>	<u>30,667,406</u>	<u>41,239,686</u>
Fund balance at the end of the year	\$ <u>3,019,100</u>	\$ <u>44,447</u>	\$ <u>7,429,430</u>	\$ <u>30,827,592</u>	\$ <u>41,320,569</u>

See accompanying notes to financial statements.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended September 30, 2006

Net change in fund balances - total governmental funds \$ 80,883

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. For the current year, these amounts consist of:

Capital outlays, net of disposals	\$ 111,337	
Depreciation, net	<u>(21,412)</u>	
		89,925

The issuance of long-term debt (e.g. bonds, lease) provides current financial resources to governmental funds, while repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. For the current year, these amounts consist of:

Repayment of notes payable	535,921
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in accrued interest payable	<u>6,771</u>
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Change in net assets of governmental activities	<u>\$ 713,500</u>
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See accompanying notes to financial statements.

## ENEWETAK/UJELANG LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2006

### (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.

### (2) Summary of Significant Accounting Policies

The accompanying financial statements of EULGOV have been prepared in accordance 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 recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of EULGOV's accounting policies are described below.

#### A. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the non-fiduciary activities of EULGOV. For the most part, the effect of interfund activity has been eliminated from these statements. EULGOV's activities are defined as governmental activities, which are supported by intergovernmental revenues and other non-exchange revenues.

The Statement of Net Assets presents all of EULGOV's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net assets – nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- Restricted net assets – expendable consists of resources in which EULGOV is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

## ENEWETAK/UJELANG LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2006

### (2) Summary of Significant Accounting Policies, Continued

#### B. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for EULGOV's major funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards.

EULGOV reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

#### C. Measurement Focus and Basis of Accounting

##### Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

##### Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of EULGOV and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, EULGOV considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

## ENEWETAK/UJELANG LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2006

### (2) Summary of Significant Accounting Policies, Continued

#### C. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. EULGOV reports the following major funds:

General Fund - This fund is the primary operating fund of EULGOV used to account for all governmental transactions, except those required to be accounted for in another fund.

Enewetak Food and Agricultural Support Program Fund - a special revenue fund that accounts for all financial transactions of direct grants received from the U.S. Department of the Interior related to the provision of water-borne transportation of agricultural products to Enewetak including operations and maintenance of the vessel used for such purposes.

Enjebi Community Trust Fund - a permanent fund that accounts for United States Congress appropriations under United States Public Law 99-239, which was paid and distributed in accordance with an agreement between the Government of the United States, the Government of the Republic of the Marshall Islands and EULGOV to assist in the resettlement of Enjebi Island by the people of Enewetak.

Claims Trust Fund - a permanent fund that accounts for funds received under Article II, Section 3, of the agreement between the Government of the United States and the Government of the Republic of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association (the Compact). In accordance with Article II, Section 8, of the Compact, EULGOV executed the Enewetak/Ujelang Claims Trust agreement and established the Claims Trust Fund. Pursuant to Section 7.2 of the trust agreement, after the final payment was received on October 27, 2001, the Claims Trust Fund was required to distribute annually to the people of Enewetak between 15% and 35% of its net income. In addition, pursuant to Section 8.1 of the trust agreement, EULGOV may also invade up to 3% of the corpus of the Claims Trust Fund. Such invasion may occur in the event of an unforeseen natural disaster or other similar circumstance, as determined by the sole discretion of EULGOV, in order to prevent hardship to the people of Enewetak. An invasion of the corpus shall not occur more frequently than once every three years.

#### D. Cash and Cash Equivalents

Cash and cash equivalents include cash held in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by EULGOV.

#### E. Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

F. Receivables

Loans receivable are due from individuals located within the Republic of the Marshall Islands and are stated at the unpaid balances less the allowances for losses. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding.

The allowances for loan losses is established through a provision for losses charged to expense. Loans are charged against the allowance for losses when management believes that collection is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectability and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

Other receivables consist of amounts advanced to individuals, on an unsecured basis, substantially all of whom are situated in the Republic of the Marshall Islands. Receivables are stated net of allowances for uncollectable accounts.

G. Interfund Receivables/Payables

During the course of its operations, EULGOV records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet.

H. Restricted Assets

Certain assets of EULGOV are classified as restricted assets because their use is completely restricted by trust agreements or loan agreements. Specifically, investments recorded in the Enjebi Community Trust Fund and the Claims Trust Fund of \$7,420,010 and \$30,793,963, respectively, are restricted in that they are not available to be used in current operations.

I. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g. roads, docks, airports, water catchments, and other similar items), whether purchased or constructed, are recorded at historical cost. Asset acquisitions of \$5,000 and above are capitalized. Depreciation is provided over the estimated useful lives of the assets through use of the straight-line method.

The estimated useful lives of these assets are as follows:

Buildings	10 years
Motor vehicles	4 years
Machinery and equipment	4 years
Furniture and equipment	4 years

## ENEWETAK/UJELANG LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2006

### (2) Summary of Significant Accounting Policies, Continued

#### J. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

#### K. 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/expenses during the reporting period. Actual results could differ from those estimates.

#### L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### M. New Accounting Standards

During fiscal year 2006, EULGOV implemented the following pronouncements:

- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The implementation of this statement did not have a material effect on the financial statements of EULGOV.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34*, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The implementation of this statement did not have a material effect on the financial statements of EULGOV.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The implementation of this statement did not have a material effect on the financial statements of EULGOV.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers. The implementation of this technical bulletin did not have a material effect on the financial statements of EULGOV.

## ENEWETAK/UJELANG LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2006

### (2) Summary of Significant Accounting Policies, Continued

#### M. New Accounting Standards, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EULGOV.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EULGOV.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, which establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of EULGOV.

### (3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

EULGOV does not have formal deposit and investment policies. Investments in the Enjebi Community Trust Fund and the Claims Trust Fund are governed by their respective trust agreements.

#### A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, EULGOV's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. EULGOV does not have a deposit policy for custodial credit risk.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2006

(3) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2006, the carrying amount of EULGOV's total cash and cash equivalents was \$119,480 and the corresponding bank balances were \$205,386. Of the bank balance amounts, \$199,668 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$5,718 are maintained in financial institutions not subject to depository insurance. As of September 30, 2006, bank deposits in the amount of \$103,723 were FDIC insured. EULGOV 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.

B. Investments

As of September 30, 2006, investments at fair value are as follows:

Enjebi Community Trust Fund:

Cash management	\$ 272,911
Mutual funds	1,292,056
Common equities	<u>5,855,043</u>
	<u>7,420,010</u>

Claims Trust Fund:

Cash management	1,988,200
Mutual funds	15,109,949
Common equities	<u>13,695,814</u>
	<u>30,793,963</u>
	<u>\$ 38,213,973</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, EULGOV will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. EULGOV's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in EULGOV's name by EULGOV's custodial financial institutions at September 30, 2006.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. EULGOV does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for EULGOV. As of September 30, 2006, there were no investments in any one issuer that exceeded 5% of total investments.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2006

(4) Capital Assets

Capital asset activities for the year ended September 30, 2006, is as follows:

	Balance October <u>1, 2005</u>	Additions	Retirements	Balance September <u>30, 2006</u>
Buildings	\$ 50,000	\$ -	\$ -	\$ 50,000
Motor vehicles	30,000	46,700	-	76,700
Machinery and equipment	-	54,204	-	54,204
Furniture and equipment	<u>-</u>	<u>10,433</u>	<u>-</u>	<u>10,433</u>
	80,000	111,337	-	191,337
Less accumulated depreciation	<u>(17,500)</u>	<u>(21,412)</u>	<u>-</u>	<u>(38,912)</u>
	\$ <u>62,500</u>	\$ <u>89,925</u>	\$ <u>-</u>	\$ <u>152,425</u>

Depreciation expense was charged to the following functions:

General government	\$ 14,891
Food program	<u>6,521</u>
	\$ <u>21,412</u>

(5) Loans Payable

In 2001 and 2003, EULGOV obtained bank loans of \$2,585,000 and \$2,000,000, respectively, to fund distributions to the people of Enewetak. In 2004, the principal sums owing on these loan facilities were consolidated into one credit facility with an outstanding principal balance of \$3,700,000, interest at 6.3% per annum. Quarterly principal payments to be paid on the 27th day of October, January, April, and July commence October 27, 2004 in the amount of \$69,711 increasing to \$119,244 on October 27, 2013. The loan is collateralized by the assignment and pledge of certain investment holdings held by EULGOV in the Claims Trust Fund together with investment earnings to be received from the Claims Trust Fund. The term of the loan is for ten years and matures on July 27, 2014. As of September 30, 2006, the amount outstanding and payable on this loan totaled \$3,125,199.

In 2004, EULGOV obtained a \$3,000,000 bank loan, interest at 6.3% per annum, to fund loans to the people of Enewetak. Quarterly principal payments to be paid on the 27th day of October, January, April, and July commence October 27, 2004 in the amount of \$56,523 increasing to \$96,684 on October 27, 2013. The loan is collateralized by the assignment and pledge of certain investment holdings held by EULGOV in the Claims Trust Fund together with investment earnings to be received by EULGOV from the Claims Trust Fund. The term of the loan is for ten years and matures on July 27, 2014. As of September 30, 2006, the amount outstanding and payable on this loan totaled \$2,533,995.

The change in loans payable during the year ended September 30, 2006, is as follows:

Balance October 1, 2005	Additions	Payments	Balance September 30, 2006	Due Within 12 months
\$ <u>6,195,115</u>	\$ <u>-</u>	\$ <u>(535,921)</u>	\$ <u>5,659,194</u>	\$ <u>568,921</u>

## ENEWETAK/UJELANG LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2006

### (5) Loans Payable, Continued

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 568,921	\$ 343,088	\$ 912,009
2008	603,035	306,441	909,476
2009	639,677	267,584	907,261
2010	681,092	226,306	907,398
2011	722,752	182,413	905,165
2012 - 2014	<u>2,443,717</u>	<u>256,319</u>	<u>2,700,036</u>
	\$ <u>5,659,194</u>	\$ <u>1,582,151</u>	\$ <u>7,241,345</u>

### (6) Commitment

EULGOV entered into an office lease agreement for a term of five years commencing January 1, 2006. Annual rent payments amount to \$12,000.

### (7) Contingencies

#### Sick Leave

It is EULGOV's policy to record the cost of sick leave when leave is actually taken and a liability is actually incurred. The accumulated estimated amount of unused sick leave at September 30, 2006 is not available.

#### Questioned Costs

EULGOV participates in a number of federally assisted grant programs and various other U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. EULGOV is considered to have responsibility for any questioned costs that may result from single audits of EULGOV for the fiscal years for which audits have not been performed. The ultimate disposition of any 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.

### (8) Risk Management

EULGOV 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. EULGOV has elected to purchase commercial insurance from independent third parties for the risks of loss to which it believes it to be exposed. Settled claims have not exceeded this commercial coverage in any of the past three years.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2006

(9) Subsequent Events

On November 20, 2007, EULGOV obtained an \$8,000,000 bank loan for the purpose of consolidating principal amounts owing on existing loan facilities into one credit facility and to provide additional funds for distribution to the people of Enewetak.

On February 1, 2010, EULGOV entered into a promissory note with the Marshall Islands Social Security Administration relating to delinquent taxes of \$119,011.

On March 31, 2016, EULGOV entered into a settlement agreement with Bank of America whereby Bank of America agreed to forgive the outstanding principal balance of \$4,541,985 associated with the \$8,000,000 loan.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**- BUDGETARY REPORTING**

**YEAR ENDED SEPTEMBER 30, 2006**

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Revenues, Expenditures and Changes in  
Fund Balance - Budget and Actual - General Fund  
Year Ended September 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Dividends and interest	\$ 430,000	\$ 430,000	\$ 56,345	\$ (373,655)
Fares and freight	-	-	33,464	33,464
Fuel sales	-	-	2,603	2,603
Licenses and fees	2,500	2,500	25,444	22,944
Fines	-	-	300,000	300,000
Other	-	-	84,486	84,486
Total revenues	<u>432,500</u>	<u>432,500</u>	<u>502,342</u>	<u>69,842</u>
Expenditures:				
General government	967,889	1,067,889	1,080,105	(12,216)
Education	122,460	122,460	93,368	29,092
Public safety	91,830	91,830	70,067	21,763
Distributions	1,580,000	1,880,000	1,884,000	(4,000)
Liberation Day	41,000	41,000	8,393	32,607
Church summer program	62,000	62,000	11,250	50,750
Debt service	<u>895,000</u>	<u>895,000</u>	<u>863,314</u>	<u>31,686</u>
Total expenditures	<u>3,760,179</u>	<u>4,160,179</u>	<u>4,010,497</u>	<u>149,682</u>
Deficiency of revenues under expenditures	<u>(3,327,679)</u>	<u>(3,727,679)</u>	<u>(3,508,155)</u>	<u>219,524</u>
Other financing sources:				
Operating transfers in from the Enjebi Trust Fund	870,000	870,000	870,000	-
Operating transfers in from the Claims Trust Fund	<u>2,457,679</u>	<u>2,857,679</u>	<u>2,791,314</u>	<u>(66,365)</u>
Total other financing sources	<u>3,327,679</u>	<u>3,727,679</u>	<u>3,661,314</u>	<u>(66,365)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	-	-	153,159	153,159
Fund balance at beginning of year	<u>2,865,941</u>	<u>2,865,941</u>	<u>2,865,941</u>	<u>-</u>
Fund balance at end of year	<u>\$ 2,865,941</u>	<u>\$ 2,865,941</u>	<u>\$ 3,019,100</u>	<u>\$ 153,159</u>

See accompanying notes to required supplementary information - budgetary reporting

## ENEWETAK/UJELANG LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Information  
September 30, 2006

### Budgetary Information

The EULGOV Constitution provides for the Executive Committee to introduce into the Council, the proposed budget for the Fiscal Year effective October 1. The budget includes estimates of the proposed expenditures for all the funds and the sources of funds. The Executive members of the EULGOV Council review and recommend changes to the proposed budget during the budget deliberation prior to presentation to the Council. EULGOV council meeting holds public hearing/s during which the Council presents to the constituents the proposed budget for the coming fiscal year. After all of the feedbacks are heard, the Council en banc amends, if necessary, and then approves the budget through an ordinance duly enacted by the EULGOV Council.

The Appropriation Ordinance for fiscal year 2006 was passed by the Council on September 21, 2005. Formal budget integration is employed as a management control device during the year for all funds. The Executive Council has the authority to reprogram budgeted estimates in accordance with the EULGOV Constitution. All annual appropriations lapse at the end of the fiscal year unless otherwise specified in the Ordinance. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further ordinance for the matter.

Encumbrance accounting has not been utilized by the General Fund.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

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**INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2006**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities and each major fund of the Enewetak/Ujelang Local Government (EULGOV) as of and for the year ended September 30, 2006, which collectively comprise EULGOV's basic financial statements and have issued our report thereon dated November 27, 2019, which report was qualified due to the inadequacies of accounting records, prior-year records and supporting data for the General Fund and for loans receivable. Except as discussed in the preceding sentence, 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.

### **Internal Control Over Financial Reporting**

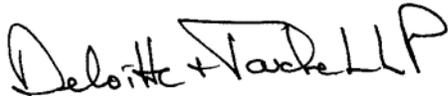
In planning and performing our audit, we considered EULGOV's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect EULGOV's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-001, 2006-002, 2006-003 and 2006-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above as items 2006-001, 2006-002, 2006-003 and 2006-005 to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether EULGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-003 and 2006-004.

This report is intended solely for the information and use of the Council, management, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

November 27, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

## **Compliance**

We have audited the compliance of the Enewetak/Ujelang Local Government (EULGOV) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2006. EULGOV's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of EULGOV's management. Our responsibility is to express an opinion on EULGOV's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about EULGOV's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of EULGOV's compliance with those requirements.

As described in items 2006-006 and 2006-007 in the accompanying Schedule of Findings and Questioned Costs, EULGOV did not comply with requirements regarding allowable costs/cost principles, procurement and suspension and debarment, and reporting that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion, for EULGOV to comply with the requirements applicable to this program.

In our opinion, except for the noncompliance described in the preceding paragraph, EULGOV complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

## Internal Control Over Compliance

The management of EULGOV is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered EULGOV's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

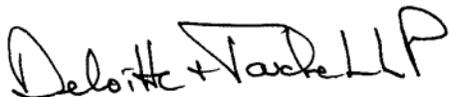
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect EULGOV's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-006 and 2006-007.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above as items 2006-006 and 2006-007 to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of EULGOV as of and for the year ended September 30, 2006, and have issued our report thereon dated November 27, 2019, which report was qualified due to the inadequacies of accounting records, prior-year records and supporting data for the General Fund and for loans receivable. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise EULGOV's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of EULGOV. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Council, management, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



November 27, 2019

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
	<u>U.S. Department of the Interior</u>	
	Funds received in a direct capacity:	
15.875	Operation of the Enewetak Food and Agricultural Support Program	<u>\$ 1,797,319</u>

See accompanying notes to schedule of expenditures of federal awards.

## ENEWETAK/UJELANG LOCAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

### (1) Scope of Review

The Enewetak/Ujelang Local Government (EULGOV) is a governmental entity governed by its own Constitution. All significant operations of EULGOV are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as EULGOV's cognizant agency for the Single Audit. EULGOV is the recipient of non-Compact of Free Association funds received from the U.S. Department of the Interior. These funds must be expended in accordance with grant awards and are subject to general U.S. federal requirements, including OMB's Circular A-87 and Circular A-102.

### (2) Summary of Significant Accounting Policies

#### a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of EULGOV and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. For federal direct assistance grants, authorizations represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

#### b. Indirect Cost Allocation

EULGOV has not entered into an approved indirect cost negotiation agreement covering fiscal year 2006. EULGOV did not charge federal programs for indirect costs during fiscal year 2006.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2006

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements of the governmental activities and the General Fund expressed a qualified opinion and an unqualified opinion on the financial statements of the Enewetak Food and Agricultural Support Program Fund, the Enjebi Community Trust Fund and the Claims Trust Fund.
2. Reportable conditions in internal control over financial reporting were identified, all of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, all of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. EULGOV's major program is as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Economic, Social and Political Development of the Territories and the Freely Associated States: Enewetak Food and Agricultural Support Program	15.875

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. EULGOV did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>
2006-001	Distribution Payments
2006-002	Loans Receivable
2006-003	Expenditures/RMI Procurement
2006-004	Loans Payable
2006-005	Employee Receivables/Credit Card Usage

**Section III - Federal Award Findings and Questioned Costs**

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2006-006	15.875	Allowable Costs/Cost Principles	\$ -
2006-006	15.875	Procurement and Suspension and Debarment Reporting	\$ -
2006-007	15.875		\$ -

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-001  
Area: Distribution Payments

Criteria: Disbursements from the Enewetak Distribution Authority (EDA) should be made to the designated payee based on the number of eligible household members per the Quarterly Distribution Listing.

Condition: During the year ended September 30, 2006, six separate distributions were made from the Claims Trust Fund to the people of Enewetak. One distribution for \$300,000, which was made in December 2005, was not supported by an authorizing Council resolution.

We tested thirty distribution payments made to the people of Enewetak and noted the following exceptions:

1. Ten disbursements (check #s 0741, 0785, 0844, 0914, 0998, 1075, 1162, 1347, 1613 and 6531) showed no indication of the recipients signing as evidence of the check receipt.
2. Six disbursements (check #s 2949, 3001, 3055, 3107, 3178 and 3255) were not evidenced by the underlying check payment and corresponding check register.
3. Five disbursements (check #s 0785, 0914, 0998, 3642 and 3835) were not evidenced by birth certificates demonstrating eligibility for number of shares received.

Cause: The cause of the above condition is the lack of adequate controls over distribution payments.

Effect: The effect of the above condition is the inability to determine whether the designated payees received distribution payments or whether the distribution payments were made in accordance with prescribed policies and procedures.

Recommendation: We recommend that management obtain written authorization and that such be kept on file before distribution checks are released to anyone other than the designated payee. In addition, we recommend that the designated payee, upon receipt, acknowledge all disbursements received in writing. Furthermore, we recommend that management require that birth certificates are maintained on file supporting the recipient's share of distribution.

Auditee Response and Corrective Action Plan: Authorization is to be obtained prior to the release of checks and the payee or authorized representative acknowledge receipt of check by signing the check stub.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-002  
Area: Loans Receivable

Criteria: An adequate system of internal control requires that accounting records be maintained over loans receivable whereby a subsidiary loan ledger be maintained showing transaction and payment history separately for each customer to whom credit has been extended.

Condition: At September 30, 2006, loans receivable of \$3,120,742 were not reconciled to and supported by a subsidiary loan ledger together with loan interest income and processing fees of \$56,345 that was recognized for the year then ended.

Cause: The cause of the above condition is the lack of adequate controls over backup procedures to allow for recovery of the subsidiary loan ledger from the computerized loan management system.

Effect: The effect of the above condition is the inability to determine that loans receivable are included in the financial statements at appropriate amounts and the accuracy of recorded loan interest income resulting in an audit opinion qualification.

Recommendation: We recommend that management establish internal controls over backup and recovery of computerized loan management system data to facilitate the maintenance and periodic reconciliation of the subsidiary loan ledger with the loans receivable balance in the general ledger.

Auditee Response and Corrective Action Plan: A new in-house loan system is to be installed to properly account for the loan receivables and maintain the subsidiary ledgers.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-003  
Area: Expenditures  
RMI Procurement

Criteria: Expenditures should be supported by vendor invoices, contracts, or other attendant documentation evidencing the nature, validity and reasonableness of the expenditures incurred. In addition, procurement of goods and services should be in accordance with the RMI Procurement Code, which states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

(d) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file.

Condition: Of \$626,058 in non-payroll expenditures for the General Fund, twelve items totaling \$84,779 were tested and the following exceptions were noted:

1. For the following six items, attendant documentation supporting both the purpose of the expenditure and the procurement process was not available for examination:

<u>Date</u>	<u>Document #</u>	<u>Amount</u>
10/31/2005	JV20051001N	\$ 8,025
10/31/2005	JV20051001N	\$ 235
11/05/2005	2553	\$ 6,178
04/26/2006	7544	\$ 4,377
05/25/2006	7711	\$ 4,611
08/31/2006	CC20060825	\$ 10,000

2. For one item (check # 6665 for \$8,025) relating to consulting services, the expenditure was not supported by documentation to evidence the procurement process.
3. For one item (check # 1770 for \$1,770) relating to per diem, the expenditure was not supported by a boarding pass or other evidential documentation to indicate that the travel actually occurred.

Furthermore, the EULGOV Council has established a small purchases policy for purchases less than \$2,500; however, the policy does not stipulate the method of procurement to be adopted for small purchases.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-003, Continued  
Area: Expenditures  
RMI Procurement

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of purpose of expenditures and procurement procedures to satisfy compliance with RMI procurement guidelines.

Effect: The effect of the above condition is potential unauthorized expenditures and noncompliance with the RMI Procurement Code.

Recommendation: We recommend that management require that expenditures be supported by vendor invoices, contracts, or other attendant documentation evidencing the nature, validity and reasonableness of the expenditures incurred. Furthermore, we recommend that EULGOV comply with the RMI procurement guidelines.

Auditee Response and Corrective Action Plan: Compliance with the RMI Procurement Code will be strictly implemented and all expenditures shall be supported by invoice and other supporting documents.

## ENEWETAK/UJELANG LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-004  
Area: Loans Payable

Criteria: Section 150 (2) of 4 MIRC Chapter 1 of the Local Government Act states that unless authorized by the Minister a local government shall not incur indebtedness chargeable to future revenue which extends beyond the next five (5) full financial years, and a local government shall not in any financial year incur any indebtedness or grant any charge against future revenue such that the total liability of the local government in that year for debt services exceeds fifteen percent (15%) of the estimated revenue for that year.

Condition: At September 30, 2006, EULGOV was indebted to a financial institution for two loans in the aggregate amount of \$5,659,194. Both loans were executed on July 27, 2004 for a period of ten years. No approval to exceed the five year period was provided by EULGOV to indicate that loan indebtedness was approved by the Minister of Internal Affairs. In addition, debt service of \$863,314 represented 19% of estimated 2006 revenues.

Cause: The cause of the above condition is the lack of adequate controls over the incurrence of loan indebtedness in accordance with the Local Government Act.

Effect: The effect of the above condition is potential noncompliance with the Local Government Act regarding loan indebtedness and debt service coverage.

Recommendation: We recommend that management comply with the Local Government Act and obtain written approval of the Minister of Internal Affairs for loan indebtedness exceeding the five year term limit. Furthermore, we recommend that management comply with debt service coverage requirements.

Auditee Response and Corrective Action Plan: Compliance with the Local Government Act will be enforced. Written approval from the Minister of Internal Affairs shall be obtained when incurring indebtedness.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-005  
Area: Employee Receivables/Credit Card Usage

Criteria: Receivables due from employees should be collected in a timely manner. Furthermore, credit card usage should be limited to official local government business.

Condition: At September 30, 2006, EULGOV recorded \$18,981 due from employees, which included \$16,869 from personal use of the Corporate credit card that lacked clear public purpose or benefit served. During the year ended September 30, 2006, charges associated with personal use amounted to \$20,669 less payroll deductions of \$3,800. No corresponding allowance for doubtful debts has been assessed by management as management believes that the employee has the intent and the ability to repay the amount in full. As the amount was not considered material to the financial statements, no audit adjustment was proposed.

Cause: The cause of the above condition is the lack of adequate controls associated with employee receivables and policies and procedures over Corporate credit card usage.

Effect: The effect of the above condition is potential bad debts associated with employee receivables and expenditures lacking clear public purpose or benefit served.

Recommendation: We recommend that management timely collect employee receivables. Furthermore, we recommend that the Council establish policies and procedures associated with Corporate credit card limiting such usage for official local government business.

Auditee Response and Corrective Action Plan: Employee receivables are collected every payroll through payroll deductions.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-006  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Enewetak Food and Agricultural Support Program  
Area: Allowable Costs/Cost Principles  
Procurement and Suspension and Debarment  
Questioned Costs: \$0

Criteria: Purchases less than \$100,000 require evidence of informal bidding procedures. For purchases greater than \$100,000, formal bidding procedures are required. Additionally, costs incurred for common or joint purposes should be allocated to the federal program based on a predetermined methodology.

Condition: Of sixteen non-payroll expenditures tested, totaling \$986,855, procurement of services, supplies and equipment from vendors for the following check numbers did not evidence support of either informal or formal procurement procedures.

<u>Check #</u>	<u>Amount</u>
2840	\$ 10,433
30426	24,000
31015	<u>18,700</u>
	\$ <u>53,133</u>

Additionally, check # 2840 was for the purchase of accounting software that is also utilized by the local government. No portion of the cost of this purchase was borne by the local government.

Cause: The cause of the above condition is the lack of support evidencing the allocation of costs and informal or formal procurement procedures for procurement of goods and services.

Effect: The effect of the above condition is noncompliance with allowable costs and informal or formal procurement procedures. No questioned costs result from this finding as such were subsequently resolved through a grantor determination letter dated July 9, 2014.

Prior Year Status: The lack of informal bidding procedures was reported as a finding in the Single Audits of the EULGOV Food and Agriculture Support Program for fiscal years 1994 through 1998 and 2003 through 2005.

Recommendation: We recommend that EULGOV comply with allowable costs and federal procurement standards with respect to procurement of services, supplies and equipment.

Auditee Response and Corrective Action Plan: Procurement guidelines for informal bidding procedures will be strictly implemented.

## ENEWETAK/UJELANG LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-007  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Enewetak Food and Agricultural Support Program  
Area: Reporting  
Questioned Costs: \$0

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) requires the quarterly submission of financial status reports (SF-269) and federal cash transactions reports (SF-272) based upon the financial accounting system of the grantee.

Condition: EULGOV was unable to provide copies of quarterly financial status and federal cash transactions reports for the months of October 2005 through April 2006. Additionally, EULGOV was unable to provide copies of drawdown requests for the months of October 2005 through March 2006. Therefore, we were precluded from ensuring that the reports were supported by the underlying books and records.

Cause: The cause of the above condition is an inability to provide these reports to document that such are in agreement with the underlying books and records.

Effect: The effect of the above condition is that EULGOV cannot produce the required reports to ensure compliance with the criteria.

Recommendation: We recommend that EULGOV comply with the criteria.

Prior Year Status: Noncompliance with reporting requirements was reported as a finding in the audits of the EULGOV Food and Agriculture Support Program for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan: Required quarterly and monthly reports are submitted regularly.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2006

Questioned Costs

There were no unresolved questioned costs for EULGOV as at September 30, 2006.

Unresolved Prior Year Findings

The status of unresolved prior year findings is discussed in the Schedule of Findings and Questioned Costs section of this report.

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2004-007	15.875	\$ -	Refer Note 1.
2004-008	15.875	\$ -	Refer Note 1.
2004-009	15.875	\$ -	Refer Note 1.
2005-003	15.875	\$ -	Refer Note 1.
2005-004	15.875	\$ -	Refer Note 1.

Note 1: Resolved through a grantor agency determination dated July 9, 2014.

**ENEWETAK/UJELANG LOCAL GOVERNMENT**  
**INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT**  
**YEAR ENDED SEPTEMBER 30, 2006**

November 27, 2019

Mr. Neil Flores  
City Manager  
Enewetak/Ujelang Local Government  
P.O. Box 1199  
Majuro, MH 96960

Dear Mr. Flores:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Enewetak/Ujelang Local Government (the "Government"), as of and for the year ended September 30, 2006, which collectively comprise the Government's basic financial statements, (on which we have issued our report dated November 27, 2019), 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, we considered the Government's 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 Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Attachment I, deficiencies related to the Government's internal control over financial reporting and other matters as of September 30, 2006 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Mayor Jackson Ading, also dated November 27, 2019, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Attachment I.

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 II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Council, management, others within the organization, and the Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.



We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

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

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

## SECTION I –DEFICIENCIES

We identified the following deficiencies involving the Government's internal control over financial reporting as of September 30, 2006 that we wish to bring to your attention.

### Accrued Expenditures

Comment: At September 30, 2006, a liability of \$20,137 was not recorded for payroll expenditures incurred during the year and paid subsequent to year end. In addition, we tested twelve non-payroll expenditures and noted one expenditure item (Check # 2553) for \$6,178 that pertained to a prior year liability. As these amounts were not considered material to the financial statements, no audit adjustments were proposed.

Recommendation: We recommend that management establish internal control procedures requiring expenditures be recorded in the period in which the related fund liability is incurred.

## SECTION II – DEFINITION

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.

## **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 Government'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.