

RONGELAP ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2014

RONGELAP ATOLL LOCAL GOVERNMENT

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INDEPENDENT AUDITORS' REPORT

Mayor James Matayoshi
Rongelap Atoll Local Government
Republic of the Marshall Islands:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise RALGOV's basic financial statements as set forth in Section II of the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
General Fund	Unmodified
Resettlement Trust Fund	Unmodified
Local Distribution Authority Fund	Qualified
Resettlement Phase One Fund	Qualified
Claims Trust Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions on the Governmental Activities, the Local Distribution Authority Fund, and the Resettlement Phase One Fund

Because of inadequacies in RALGOV's accounting records, we were unable to form an opinion regarding an investment of \$300,000 recorded by the governmental activities and the Local Distribution Authority Fund. In addition, as discussed in Note 3B to the financial statements, RALGOV reports its investment in Aquaculture Technologies of the Marshall Islands, Inc., a 51%-owned corporation, at cost. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. Due to the lack of audited financial statements of the corporation, the effect of that departure from accounting principles generally accepted in the United States of America on the accompanying financial statements of the governmental activities and the Resettlement Phase One Fund are not reasonably determinable.

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions on the Governmental Activities, the Local Distribution Authority Fund, and the Resettlement Phase One Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the Local Distribution Authority Fund, and the Resettlement Phase One Fund of the Rongelap Atoll Local Government as of September 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, the Resettlement Trust Fund, the Claims Trust Fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

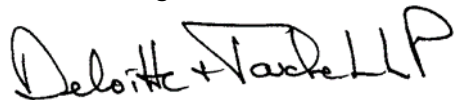
Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 RALGOV. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2018, on our consideration of RALGOV'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 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 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.



July 3, 2018

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Net Position September 30, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 2,559,998
Time certificate of deposit	6,480
Receivables, net of allowance for uncollectibles of \$1,656,224	331,342
Prepaid items	<u>36,372</u>
Total current assets	<u>2,934,192</u>
Noncurrent assets:	
Investments	1,004,011
Restricted assets:	
Investments	32,799,670
Capital assets, net of accumulated depreciation	<u>9,571,177</u>
Total noncurrent assets	<u>43,374,858</u>
Total assets	<u>\$ 46,309,050</u>

LIABILITIES

Current liabilities:	
Current portion of notes payable	\$ 20,148
Accounts payable	178,566
Interest payable	3,288
Other liabilities and accruals	<u>57,536</u>
Total current liabilities	259,538
Noncurrent liabilities:	
Notes payable, net of current portion	862,609
Loan payable	<u>5,326,000</u>
Total liabilities	<u>6,448,147</u>

Commitments and contingencies

NET POSITION

Net investment in capital assets	9,571,177
Restricted for:	
Nonexpendable:	
Claims	19,870,393
Expendable:	
Resettlement	6,754,071
Claims	3,167,623
Other	100,000
Unrestricted	<u>397,639</u>
Total net position	<u>39,860,903</u>
Total liabilities and net position	<u>\$ 46,309,050</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2014

	Program Revenues		Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Operating Grants and Contributions		Capital Grants and Contributions
<u>Functions/Programs</u>				
Government activities:				
Council	\$ 24,297	\$ -	\$ -	\$ (24,297)
Education	88,823	-	-	(88,823)
Finance	258,790	-	-	(258,790)
Health and sanitation	57,188	-	-	(57,188)
Office of the Mayor	505,217	-	-	(505,217)
Phase 1 - engineering	40,410	-	-	(40,410)
Public safety	79,026	-	-	(79,026)
Social services	264,898	71,681	-	(193,217)
Transportation and communication	98,476	-	-	(98,476)
Resettlement program	1,592,369	66,943	210,000	(1,315,426)
Fish farming	214,825	-	-	(214,825)
Multi-purpose cooperative	250,000	-	-	(250,000)
Nuclear claims related	1,682,117	-	-	(1,682,117)
Rongelap bungalows	131,349	-	-	(131,349)
Unallocated interest - long-term debt	153,730	-	-	(153,730)
	<u>\$ 5,441,515</u>	<u>\$ 138,624</u>	<u>\$ 210,000</u>	<u>(5,092,891)</u>
General revenues:				
Investment earnings				648,906
Other				144,350
				<u>793,256</u>
Total general revenues				793,256
Contributions from permanent fund				<u>2,391,673</u>
				<u>3,184,929</u>
Total general revenues and contributions				3,184,929
				<u>(1,907,962)</u>
Change in net position				(1,907,962)
Net position at the beginning of the year				<u>41,768,865</u>
Net position at the end of the year				<u>\$ 39,860,903</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2014

	Special Revenue			Capital	Permanent		Total
	General	Trust	Local	Resettlement	Claims	Other	
			Distribution				
			Authority	Phase One	Trust	Funds	
ASSETS							
Cash and cash equivalents	\$ 6,260	\$ -	\$ 2,508,947	\$ 36,244	\$ -	\$ 8,547	\$ 2,559,998
Time certificate of deposit	-	-	6,480	-	-	-	6,480
Investments	55,067	-	310,750	638,194	-	-	1,004,011
Receivables, net	65,977	9,235	44,577	145,095	27,604	38,854	331,342
Prepaid items	31,572	-	-	-	-	4,800	36,372
Due from other funds	312,558	-	313,016	47,764	-	-	673,338
Restricted assets:							
Investments	-	7,627,593	-	-	25,172,077	-	32,799,670
	<u>\$ 471,434</u>	<u>\$ 7,636,828</u>	<u>\$ 3,183,770</u>	<u>\$ 867,297</u>	<u>\$ 25,199,681</u>	<u>\$ 52,201</u>	<u>\$ 37,411,211</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 120,149	\$ -	\$ 14,977	\$ 39,003	\$ -	\$ 4,437	\$ 178,566
Other liabilities and accruals	32,554	-	1,170	23,812	-	-	57,536
Due to other funds	313,016	-	-	312,558	-	47,764	673,338
Total liabilities	465,719	-	16,147	375,373	-	52,201	909,440
Fund balances:							
Nonspendable	55,067	-	310,750	638,194	-	-	1,004,011
Restricted	-	7,636,828	2,856,873	-	25,199,681	-	35,693,382
Committed	100,000	-	-	-	-	-	100,000
Unassigned	(149,352)	-	-	(146,270)	-	-	(295,622)
Total fund balances	5,715	7,636,828	3,167,623	491,924	25,199,681	-	36,501,771
Total liabilities and fund balances	<u>\$ 471,434</u>	<u>\$ 7,636,828</u>	<u>\$ 3,183,770</u>	<u>\$ 867,297</u>	<u>\$ 25,199,681</u>	<u>\$ 52,201</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds

9,571,177

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	\$ (882,757)
Loan payable	(5,326,000)
Accrued interest payable	(3,288)

(6,212,045)

Net position of governmental activities

\$ 39,860,903

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2014

	Special Revenue			Capital Projects		Other Governmental Funds	Total
	General	Resettlement Trust	Local	Resettlement Phase One	Claims Trust		
			Distribution Authority				
Revenues:							
Federal and other grants	\$ 71,681	\$ -	\$ -	\$ 276,943	\$ -	\$ -	\$ 348,624
Dividends and interest	-	240,739	-	-	565,632	-	806,371
Net change in the fair value of investments	-	483,006	-	-	1,997,420	-	2,480,426
Other	46,944	128	22,110	25,469	-	67,241	161,892
Total revenues	118,625	723,873	22,110	302,412	2,563,052	67,241	3,797,313
Expenditures:							
Current:							
Council	24,297	-	-	-	-	-	24,297
Education	88,823	-	-	-	-	-	88,823
Finance	257,622	-	935	-	-	-	258,557
Health and sanitation	57,188	-	-	-	-	-	57,188
Office of the Mayor	498,111	-	-	-	-	-	498,111
Phase I - Engineering	32,990	-	-	-	-	-	32,990
Public safety	79,026	-	-	-	-	-	79,026
Social services	263,636	-	-	-	-	-	263,636
Transportation and communication	98,476	-	-	-	-	-	98,476
Resettlement program	78,598	-	-	1,205,822	-	-	1,284,420
Fish farming	-	-	214,825	-	-	-	214,825
Multi-purpose cooperative	-	-	250,000	-	-	-	250,000
Nuclear claims related	-	-	1,682,117	-	-	-	1,682,117
Investment management	-	74,967	-	-	171,379	-	246,346
Rongelap Bungalows	-	-	-	-	-	131,349	131,349
Debt service	-	-	-	47,482	108,592	-	156,074
Total expenditures	1,478,767	74,967	2,147,877	1,253,304	279,971	131,349	5,366,235
Excess (deficiency) of revenues over (under) expenditures	(1,360,142)	648,906	(2,125,767)	(950,892)	2,283,081	(64,108)	(1,568,922)
Other financing sources (uses):							
Operating transfers in	1,019,162	-	5,326,000	1,032,662	-	60,179	7,438,003
Operating transfers out	-	(1,595,034)	(456,790)	(60,179)	(5,326,000)	-	(7,438,003)
Total other financing sources (uses), net	1,019,162	(1,595,034)	4,869,210	972,483	(5,326,000)	60,179	-
Net change in fund balances	(340,980)	(946,128)	2,743,443	21,591	(3,042,919)	(3,929)	(1,568,922)
Fund balances at beginning of year	346,695	8,582,956	424,180	470,333	28,242,600	3,929	38,070,693
Fund balances at end of year	\$ 5,715	\$ 7,636,828	\$ 3,167,623	\$ 491,924	\$ 25,199,681	\$ -	\$ 36,501,771

See accompanying notes to basic financial statements.

RONGELAP ATOLL 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, 2014

Net change in fund balances - total governmental funds \$ (1,568,922)

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	\$ 248,350	
Depreciation, net	<u>(620,618)</u>	
		(372,268)

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 position. For the current year, these amounts consist of:

Repayment of USDA loans	30,884
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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>2,344</u>
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Change in net position of governmental activities	<u>\$ (1,907,962)</u>
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See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(1) Organization

The Rongelap Atoll Local Government (RALGOV) was established pursuant to Public Law 1981-2, the Local Government Act of the Republic of the Marshall Islands (RepMar), and operates under the Constitution of the Rongelap Atoll Local Government. RALGOV is governed by an elected mayor and a thirteen-member council.

(2) Summary of Significant Accounting Policies

The accompanying financial statements of RALGOV 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 RALGOV's accounting policies are described below.

A. Government-Wide Financial Statements

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

The Statement of Net Position presents all of RALGOV's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets 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 position - 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 expanded or added to the principal.
- Restricted net position - expendable consists of resources in which RALGOV 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 position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(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 RALGOV's major funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards.

RALGOV 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 RALGOV 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, RALGOV 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(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. RALGOV reports the following major funds:

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

Resettlement Trust Fund - a special revenue fund that accounts for United States Congress appropriations under United States Public Law 99-239 and 102-154, and which were 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 RALGOV to assist in the resettlement of Rongelap Atoll by the people of Rongelap.

Local Distribution Authority Fund - a special revenue fund that accounts for funds received under the Rongelap Claims Trust Fund and which are distributed by RALGOV to the people of Rongelap based on an approved distribution scheme.

Resettlement Phase One Fund - a capital projects fund that accounts for funds received from the Resettlement Trust Fund under the agreement between the United States Department of the Interior and RALGOV regarding Phase I activities for the resettlement in Rongelap Atoll.

Claims Trust Fund - a permanent fund that accounts for funds received under Article II, Section 4, 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, RALGOV executed the Rongelap Claims Trust Agreement. Under the agreement, the Claims Trust Fund received a total of \$37,500,000 over a period of 15 years as compensation for loss or damage to property and person of the people of Rongelap. The final payment was received on October 2001. Pursuant to Section 7.2(2) of the Agreement, after the final payment is received, the Claims Trust Fund is required to distribute annually to the people of Rongelap, through the Local Distribution Authority, between 15% and 70% of its net income. The remaining 30% to 85% shall be retained and added to the corpus of the Claims Trust Fund. In addition, pursuant to Section 8.1 of the trust agreement, RALGOV 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 RALGOV, in order to prevent hardship to the people of Rongelap. An invasion of the corpus shall not occur more frequently than once every three years. On June 9, 2009, RALGOV executed an amended trust agreement whereby the annual distribution payment to the people of Rongelap shall be \$2,663,000. In the event that the value of the corpus of the Claims Trust Fund falls below \$20,000,000, the annual distribution payment shall be reduced to \$1,331,500. All other terms and conditions of the initial trust agreement remain.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

D. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by RALGOV. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net position/balance sheet.

E. Investments

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.

An investment of 20% or more of the voting stock of an investee is presumed to give the investor significant influence. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

F. Receivables

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 estimated allowances for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts. Reimbursements due to RALGOV for expenditures on federally funded reimbursement and grant programs are included as receivables on the governmental fund balance sheet.

Receivables as of September 30, 2014, for the primary government's individual major governmental funds, including applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	Resettlement <u>Trust</u>	Local Distribution <u>Authority</u>	Resettlement <u>Phase One</u>	Claims <u>Trust</u>	Other Governmental <u>Funds</u>	<u>Total</u>
Receivables:							
Employee	\$ 88,571	\$ -	\$ 16,670	\$ 13,730	\$ -	\$ 2,031	\$ 121,002
Loans	-	350,000	864,825	-	-	-	1,214,825
Federal agencies	-	-	-	132,516	-	-	132,516
Interest	-	9,235	-	-	24,166	-	33,401
Other	<u>78,668</u>	<u>-</u>	<u>71,331</u>	<u>291,537</u>	<u>3,438</u>	<u>40,848</u>	<u>485,822</u>
	167,239	359,235	952,826	437,783	27,604	42,879	1,987,566
Allowance for uncollectible accounts	<u>(101,262)</u>	<u>(350,000)</u>	<u>(908,249)</u>	<u>(292,688)</u>	<u>-</u>	<u>(4,025)</u>	<u>(1,656,224)</u>
	<u>\$ 65,977</u>	<u>\$ 9,235</u>	<u>\$ 44,577</u>	<u>\$ 145,095</u>	<u>\$ 27,604</u>	<u>\$ 38,854</u>	<u>\$ 331,342</u>

G. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

H. Interfund Receivables/Payables

During the course of its operations, RALGOV 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 combined balance sheet.

Interfund receivables/payables have been eliminated from the statement of net position.

I. Restricted Assets

Certain assets of RALGOV are classified as restricted assets because their use is completely restricted by trust agreements, loan agreements, or enabling legislation. Investments recorded in the Resettlement Trust Fund and the Claims Trust Fund of \$7,627,593 and \$25,172,077, respectively, are restricted by trust agreements in that they are not available to be used in current operations.

J. 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:

Airport and dock	30 - 40 years
Roads	30 years
Buildings/facility and improvements	5 - 10 years
Other equipment	3 years
Motor vehicles	3 years
Office equipment	3 years
Furniture and fixtures	1 - 3 years

K. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. RALGOV has no items that qualify for reporting in this category.

L. 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

M. 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.

N. Compensated Absences

RALGOV recognizes expenditures for annual leave and sick leave when leave is actually taken. Accordingly, unused annual leave and sick leave are not included as an obligation within the governmental funds balance sheet. The estimated accumulated amount of unused sick leave at September 30, 2014 is presently not determinable.

O. Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. RALGOV has no items that qualify for reporting in this category.

P. Fund Balances

Fund balance classifications are based on the extent to which RALGOV is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Amounts are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes negative fund balances in other governmental funds.

RALGOV has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of RALGOV is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards

During fiscal year 2014, RALGOV implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposal of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement No. 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(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.

RALGOV does not have formal deposit and investment policies. Investments in Resettlement Trust Fund and 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, RALGOV'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. RALGOV does not have a deposit policy for custodial credit risk.

As of September 30, 2014, the carrying amount of the RALGOV's total cash and cash equivalents and time certificates of deposit were \$2,566,478 and the corresponding bank balances were \$2,703,425. Of the bank balance amounts, \$2,677,915 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014, bank deposits in the amount of \$250,000 were FDIC insured. Bank deposits of \$25,510 are maintained in financial institutions not subject to depository insurance. RALGOV 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, 2014, investments at fair value are as follows:

Resettlement Trust Fund:

Fixed income	\$ 2,387,114
Cash management	309,174
Domestic equities	4,538,538
Foreign equities	<u>392,767</u>
	<u>7,627,593</u>

Claims Trust Fund:

Fixed income	4,151,873
Cash management	979,383
Domestic equities	11,926,857
Foreign equities	993,980
Partnership alternative investment	4,874,794
Mutual fund	2,108,723
Other	<u>136,466</u>
	<u>25,172,077</u>

\$ 32,799,670

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, RALGOV will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. RALGOV'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 RALGOV's name by RALGOV's custodial financial institutions at September 30, 2014.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(3) Deposits and Investments, Continued

B. Investments, Continued

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. RALGOV 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 RALGOV. As of September 30, 2014, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2014, the Resettlement Trust Funds' investment in debt securities was as follows:

	Moody's Credit Rating	Investment Maturities (In years)				Fair Value
		Less than 1	1 to 5	6 to 10	Greater than 10	
US Treasury Obligations	AAA	\$ 550,583	\$ 820,430	\$ 51,275	\$ 52,275	\$ 1,474,563
Corporate notes	AA1	-	-	84,165	-	84,165
Corporate notes	AA2	-	67,332	-	-	67,332
Corporate notes	AA3	-	142,427	-	-	142,427
Corporate notes	A1	-	108,442	-	-	108,442
Corporate notes	A2	-	68,529	-	-	68,529
Corporate notes	A3	-	141,376	75,486	-	216,862
Corporate notes	BAA1	-	127,428	97,366	-	224,794
		<u>\$ 550,583</u>	<u>\$ 1,475,964</u>	<u>\$ 308,292</u>	<u>\$ 52,275</u>	<u>\$ 2,387,114</u>

As of September 30, 2014, the Claims Trust Funds' investment in debt securities was as follows:

	Moody's Credit Rating	Investment Maturities (In years)				Fair Value
		Less than 1	1 to 5	6 to 10	Greater than 10	
US Treasury Obligations	AAA	\$ 647,686	\$ 1,319,936	\$ 365,374	\$ -	\$ 2,332,996
Corporate notes	AA1	-	-	136,267	-	136,267
Corporate notes	AA2	-	88,654	-	-	88,654
Corporate notes	AA3	-	88,415	-	-	88,415
Corporate notes	A1	-	137,032	-	-	137,032
Corporate notes	A2	-	93,004	91,463	-	184,467
Corporate notes	A3	-	314,442	134,307	-	448,749
Corporate notes	BAA1	-	-	228,599	-	228,599
Corporate notes	BAA2	89,234	-	-	-	89,234
Foreign bonds	AA3	-	94,476	-	-	94,476
Foreign bonds	A1	-	93,751	-	-	93,751
Foreign bonds	A2	-	91,367	-	-	91,367
Foreign bonds	A3	-	137,866	-	-	137,866
		<u>\$ 736,920</u>	<u>\$ 2,458,943</u>	<u>\$ 956,010</u>	<u>\$ -</u>	<u>\$ 4,151,873</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(3) Deposits and Investments, Continued

B. Investments, Continued

General Fund:

RALGOV holds an investment in a life insurance contract, which is recorded at fair value. As of September 30, 2014, the cash surrender value of this life insurance contract is \$55,067. In addition, RALGOV holds a 49.1% ownership equity in Rongelap Tourism Company, Inc. (RTCI), which engages in tourism activities in the Republic of the Marshalls Islands. As of September 30, 2014, the investment is accounted for on the equity method. RTCI ceased operations in February 2006 following significant losses from prior years. At September 30, 2014, RALGOV's investment in RTCI amounted to \$0.

Local Distribution Authority Fund:

RALGOV holds a 25% equity ownership in Atoll Marine Aquaculture (AMA), which engages in the export of live aquaria in the Republic of the Marshall Islands to international markets and which is considered a related party as the Mayor is a member of the Board of Directors. As of September 30, 2014, the investment in AMA of \$300,000 is accounted for on the equity method.

In addition, RALGOV owns 1,000 shares of common stock of Marshall Islands Service Corporation, which provides all aspects of service activities in the Marshall Islands. As of September 30, 2014, the investment is accounted for at cost in the amount of \$10,000 since the fair market value is not readily available.

Finally, RALGOV holds an equity ownership in AcionMobile, Inc., a Nevada corporation, which engages in communications activities. As of September 30, 2014, the investment is accounted at cost in the amount of \$750 since the fair market value is not readily available.

Resettlement Phase One Fund:

RALGOV holds 40% of outstanding preferred stock and 13.27% of outstanding common stock in Ajejdrikdrik Inc., which engages in consumer loan services in the Republic of the Marshall Islands and which is considered a related party as the Mayor is a member of the Board of Directors. As of September 30, 2014, the investment is accounted for at cost in the amount of \$587,090 since the fair market value is not readily available. Dividends of \$24,325 were received from the investee during the year ended September 30, 2014.

In addition, RALGOV holds 51% equity ownership in Aquaculture Technologies of the Marshall Islands, which specializes in raising and sale of fish delicacies for both the domestic and Hawaiian markets and which is considered a related party as the Mayor is a member of the Board of Directors. As of September 30, 2014, the investment is accounted for at cost in the amount of \$51,104 since the fair market value is not readily available.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(4) Loans Receivable

Loans receivable of the primary government are summarized as follows:

Resettlement Trust Fund:

Loan receivable advanced to Aquaculture Technologies of the Marshall Islands, Inc. (ATMI) in 2013, no formal terms and conditions of repayment, uncollateralized. The advance has been fully provided for in the allowance for uncollectible accounts. \$ 350,000

Local Distribution Authority Fund:

Rongelap Multi-Purpose Cooperative, Inc. (RMPC):

<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
January 14, 2014	4%	January 13, 2015	\$ 50,000
February 14, 2014	4%	February 13, 2015	50,000
April 2, 2014	4%	April 1, 2015	50,000
July 31, 2014	4%	July 30, 2015	<u>100,000</u>
			250,000

RMPC is considered a related party as certain RALGOV employees are members of the Board of Directors. Principal and interest on the abovementioned notes receivable are due and payable at maturity and are uncollateralized. These notes have been fully provided for in the allowance for uncollectible accounts.

AcionMobile, Inc.:

Note receivable dated January 8, 2010 in the amount of \$400,000, due January 8, 2012, interest at 12% per annum payable annually, with principal due at maturity, uncollateralized. This note has been fully provided for in the allowance for uncollectible accounts. 400,000

Aquaculture Technologies of the Marshall Islands, Inc. (ATMI):

Loan receivable advanced to ATMI in 2014, no formal terms and conditions of repayment, uncollateralized. The advance has been fully provided for in the allowance for uncollectible accounts. 214,825

\$ 864,825

(5) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2014, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Local Distribution Authority	General	\$ 313,016
General	Resettlement Phase One	312,558
Resettlement Phase One	Other governmental funds	<u>47,764</u>
		\$ <u>673,338</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(6) Capital Assets

Capital asset activities for the year ended September 30, 2014, are as follows:

	Balance October <u>1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2014</u>
Airport and dock	\$ 5,030,372	\$ -	\$ -	\$ 5,030,372
Roads	2,393,680	-	-	2,393,680
Buildings/facility and improvements	2,566,420	3,563,514	-	6,129,934
Motor vehicles	482,223	42,000	(27,495)	496,728
Other equipment	1,509,354	212,951	-	1,722,305
Office equipment	23,566	-	-	23,566
Furniture and fixtures	<u>8,647</u>	<u>-</u>	<u>-</u>	<u>8,647</u>
	12,014,262	3,818,465	(27,495)	15,805,232
Less accumulated depreciation	<u>(5,623,518)</u>	<u>(620,618)</u>	<u>10,081</u>	<u>(6,234,055)</u>
	6,390,744	3,197,847	(17,414)	9,571,177
Construction in Progress	<u>3,552,701</u>	<u>10,813</u>	<u>(3,563,514)</u>	<u>-</u>
	\$ <u>9,943,445</u>	\$ <u>3,208,660</u>	\$ <u>(3,580,928)</u>	\$ <u>9,571,177</u>

Depreciation expense was charged to functions/programs as follows:

Finance	\$ 233
Phase-1 Engineering	7,420
Social services	1,262
Resettlement program	604,597
Office of the Mayor	<u>7,106</u>
	\$ <u>620,618</u>

During the year ended September 30, 2014, RALGOV received a capital grant from the U.S. Department of the Interior of \$210,000 for the Community Based Fish Feed Mill Project. The grant funds were used to acquire fish feed mill equipment in the amount of \$199,855. The equipment is used by Aquaculture Technologies of the Marshall Islands, Inc. (ATMI), a RALGOV affiliate, in the Moi fish feed preparation process. The use of the equipment by ATMI has not been formally documented in a written agreement.

(7) Notes Payable

Represents notes payable for housing loans obtained by eligible Rongelapese under RALGOV housing projects with the United States Department of Agriculture's Rural Development Program. Individual Rongelapese were named as borrowers but RALGOV is ultimately liable for loan repayment. Promissory notes are payable in 32 to 35 years with interest rates between 4.875% and 6.38% per annum.

The change in notes payable during the year ended September 30, 2014, is as follows:

Balance October 1, 2013	<u>Additions</u>	<u>Payments</u>	Balance September 30, 2014	Due Within <u>12 months</u>
\$ <u>913,641</u>	\$ <u>-</u>	\$ <u>(30,884)</u>	\$ <u>882,757</u>	\$ <u>20,148</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(7) Notes Payable, Continued

Annual loan repayments to maturity for principal and interest are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 20,148	\$ 51,660	\$ 71,808
2016	21,201	50,607	71,808
2017	22,635	49,173	71,808
2018	24,013	47,795	71,808
2019	25,476	46,332	71,808
2020 - 2024	152,383	206,657	359,040
2025 - 2029	205,062	153,978	359,040
2030 - 2034	228,402	88,554	316,956
2035 - 2039	142,124	26,218	168,342
2040 - 2044	<u>41,313</u>	<u>6,646</u>	<u>47,959</u>
	<u>\$ 882,757</u>	<u>\$ 727,620</u>	<u>\$ 1,610,377</u>

(8) Loan Payable

In 2010, RALGOV entered into a \$5,326,000 term loan agreement with a bank for the purpose of funding claim beneficiary payments to eligible Rongelapese in lieu of liquidating securities of the Claims Trust Fund. The loan is secured by a first priority lien over future earning and distribution payments made from the Claims Trust Fund. In 2012, RALGOV renegotiated the terms of the term loan agreement, which bears interest at a fixed rate of 2.44% per annum, due in quarterly installments commencing April 1 and principal due at maturity on December 9, 2013. On December 9, 2013, RALGOV renegotiated the terms of the term loan agreement, which bears interest at a fixed rate of 1.928% per annum, due in quarterly installments commencing April 1 and principal due at maturity on December 9, 2015 (see Note 14).

The change in loan payable during the year ended September 30, 2014, is as follows:

<u>Balance</u> <u>October 1, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>September 30, 2014</u>	<u>Due Within</u> <u>12 months</u>
<u>\$ 5,326,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,326,000</u>	<u>\$ -</u>

(9) Transfers In/Out

Operating transfers in/out for all major fund types, for the year ended September 30, 2014, are as follows:

<u>Fund</u>	<u>Recipient</u>	<u>Transfer</u> <u>Out</u>	<u>Transfer</u> <u>In</u>
Resettlement Trust	Resettlement Phase One	\$ 1,032,662	\$ 1,032,662
Resettlement Trust	General	562,372	562,372
Claims Trust	Local Distribution Authority	5,326,000	5,326,000
Local Distribution Authority	General	456,790	456,790
Resettlement Phase One	Other governmental funds	<u>60,179</u>	<u>60,179</u>
		<u>\$ 7,438,003</u>	<u>\$ 7,438,003</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(10) Fund Balances

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	General	Resettlement Trust	Local Distribution Authority	Resettlement Phase One	Claims Trust	Other Governmental Funds	Total
Nonspendable:							
Life insurance contract	\$ 55,067	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,067
Atoll Marine Aquaculture	-	-	300,000	-	-	-	300,000
Marshall Islands Service Corporation	-	-	10,000	-	-	-	10,000
AcionMobile, Inc.	-	-	750	-	-	-	750
Ajejdrikdik, Inc.	-	-	-	587,090	-	-	587,090
Aquaculture Technologies of the Marshall Islands, Inc.	-	-	-	51,104	-	-	51,104
Restricted:							
Claims	-	-	2,856,873	-	25,199,681	-	28,056,554
Resettlement	-	7,636,828	-	-	-	-	7,636,828
Committed:							
Rongelap Museum	100,000	-	-	-	-	-	100,000
Unassigned	<u>(149,352)</u>	<u>-</u>	<u>-</u>	<u>(146,270)</u>	<u>-</u>	<u>-</u>	<u>(295,622)</u>
	<u>\$ 5,715</u>	<u>\$ 7,636,828</u>	<u>\$ 3,167,623</u>	<u>\$ 491,924</u>	<u>\$ 25,199,681</u>	<u>\$ -</u>	<u>\$ 36,501,771</u>

(11) Commitments and Contingencies

Continuing Appropriation:

On December 28, 2008, RALGOV entered into an agreement with the Government of RepMar whereby RepMar provided funding in the amount of \$100,000 for the construction of the Rongelap Museum. As of September 30, 2014, construction of the museum has yet to commence.

Lease Commitments:

RALGOV entered into land lease agreements with various landowners for its office building and Rongelap Museum in Majuro Atoll and Rongelap Bungalows in Rongelap Atoll. Lease terms range from 10 years to 26 years, with options to renew.

Future minimum rental payments are as follows:

Year ending <u>September 30,</u>	
2015	\$ 10,400
2016	10,400
2017	10,400
2018	10,400
2019	10,400
2020 - 2024	42,400
2025 - 2029	23,067
2030 - 2034	<u>9,200</u>
	<u>\$ 126,667</u>

Questioned Costs:

RALGOV receives Compact Section 177 federal funds for its distribution to eligible individuals. Federally assisted funds can be subject to financial and compliance audits to ascertain if federal and other laws and guidelines have been followed. Cumulative questioned costs of \$5,227,944 have been set forth in prior year Single Audit reports of RALGOV. The ultimate disposition of these questioned costs can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2014

(11) Commitments and Contingencies, Continued

Litigation:

RALGOV is a party to an action filed on February 8, 2007 in the High Court of the Marshall Islands concurring rights to a leasehold interest in Rongelap Atoll, claims for rental payments from and after December 16, 2005. The suit also seeks a sublease where RALGOV is to provide, in the first year, over \$14 million to the claimant and a total of \$38 million, over the lease term of 25 years. However, the case was dismissed in 2015 due to lack of prosecution.

Aquaculture Technologies of the Marshall Islands, Inc. (ATMI):

During the year ended September 30, 2014, RALGOV paid \$49,998 of various expenditures in support of ATMI operations from the Resettlement Phase One Fund. Management anticipates that ATMI will not be required to reimburse RALGOV for these expenditures.

(12) Related Party Transactions

For the year ended September 30, 2014, RALGOV received a capital grant from the U.S. Department of the Interior amounting to \$210,000 in support of Community Based Fish Feed Mill Project. The proceeds were used to purchase two fish feed mill equipment with a cost of \$177,855 and \$22,000, respectively, and \$18,380 of professional fees for an environmental assessment. The equipment are used in the fish feed preparation for Moi fish that is currently being raised by Aquaculture Technologies of the Marshall Islands (ATMI), an affiliated company of RALGOV. The use of equipment in support for ATMI's operation have not been documented in a formal written agreement.

RALGOV paid \$77,114 of various costs in support for ATMI operations for the year ended September 30, 2014. Of the total amount, \$27,116 was collected during the year. The remaining \$49,998 is presented as a component of resettlement program expenditures in Resettlement Phase One and no corresponding receivables were recognized as of September 30, 2014.

RALGOV incurred \$13,601 of various costs that were paid for by ATMI for the year ended September 30, 2014, which were offset against outstanding receivables due from ATMI.

(13) Risk Management

RALGOV 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. RALGOV has elected to purchase commercial insurance from independent third parties for the risks of loss to which it believes it to be exposed with the exception of its properties and projects in Rongelap Atoll, for which RALGOV believes it is more economical to manage its risk internally. Settled claims have not exceeded this commercial coverage in any of the past three years. Additionally, no material losses have resulted from RALGOV's risk management activities during the years ended September 30, 2014, 2013 and 2012.

(14) Subsequent Event

On December 9, 2015, RALGOV renegotiated the loan payable to bank of \$5,326,000 with interest of 2.759% per annum and extended the maturity date to December 9, 2017.

RONGELAP ATOLL LOCAL GOVERNMENT

**REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING**

YEAR ENDED SEPTEMBER 30, 2014

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual - General Fund
Year Ended September 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Federal and other grants	\$ -	\$ -	\$ 71,681	\$ 71,681
Other	<u>-</u>	<u>-</u>	<u>46,944</u>	<u>46,944</u>
Total revenues	<u>-</u>	<u>-</u>	<u>118,625</u>	<u>118,625</u>
Expenditures:				
Salaries and employee benefits	750,760	750,760	627,309	123,451
Travel	115,000	115,000	100,331	14,669
Rental and charters	32,250	32,250	128,134	(95,884)
Utilities	71,000	71,000	26,325	44,675
Equipment	10,000	10,000	49,743	(39,743)
Supplies	20,000	20,000	16,653	3,347
Supplemental food program	60,000	60,000	116,255	(56,255)
Donations	60,000	60,000	81,362	(21,362)
Scholarships and training	55,000	55,000	32,000	23,000
Maintenance	40,000	40,000	52,904	(12,904)
Representations	42,000	42,000	51,094	(9,094)
Land lease	100,000	100,000	112,000	(12,000)
Insurance	-	-	10,791	(10,791)
Housing and other allowances	50,000	50,000	40,854	9,146
Miscellaneous	<u>127,200</u>	<u>127,200</u>	<u>33,012</u>	<u>94,188</u>
Total expenditures	<u>1,533,210</u>	<u>1,533,210</u>	<u>1,478,767</u>	<u>54,443</u>
Deficiency of revenues under expenditures	(1,533,210)	(1,533,210)	(1,360,142)	173,068
Other financing sources:				
Operating transfers in	<u>1,533,210</u>	<u>1,533,210</u>	<u>1,019,162</u>	<u>(514,048)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (340,980)</u>	<u>\$ (340,980)</u>

See accompanying notes to required supplementary information - budgetary reporting

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2014

Budgetary Information

The RALGOV 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 RALGOV Council review and recommend changes to the proposed budget during the budget deliberation prior to presentation to the Council. RALGOV 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 Local Government Council.

The Appropriation Ordinance for fiscal year 2014, Ordinance No. 2014-01, was passed by the Council on August 15, 2013. 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 RALGOV Constitution. All annual appropriations lapse at fiscal year end 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.

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

Mayor James Matayoshi
Rongelap Atoll Local Government
Republic of the Marshall Islands:

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise RALGOV's basic financial statements, and have issued our report thereon dated July 3, 2018. Our report includes a qualification regarding inadequacies in RALGOV's accounting records and an investment in a majority-owned subsidiary not consolidated.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RALGOV's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RALGOV's internal control. Accordingly, we do not express an opinion on the effectiveness of RALGOV's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 through 2014-006, 2014-008, and 2014-010 through 2014-012 to be material weaknesses.

Compliance and Other Matters

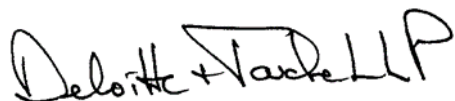
As part of obtaining reasonable assurance about whether RALGOV's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2014-007, 2014-009 and 2014-010.

RALGOV's Responses to Findings

RALGOV's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RALGOV's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

July 3, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Mayor James Matayoshi
Rongelap Atoll Local Government
Republic of the Marshall Islands:

Report on Compliance for Each Major Federal Program

We have audited the Rongelap Atoll Local Government's (RALGOV's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of RALGOV's major federal programs for the year ended September 30, 2014. RALGOV's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of RALGOV's major federal programs based on our audit of the types of compliance requirements referred to above. 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 RALGOV'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 on compliance for each major federal program. However, our audit does not provide a legal determination of RALGOV's compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in items 2014-006 and 2014-008 in the accompanying Schedule of Findings and Questioned Costs, RALGOV did not comply with requirements regarding allowable costs/cost principles that are applicable to its Compact of Free Association Section 177 (CFDA # 15.875) major program. Compliance with such requirements is necessary, in our opinion, for RALGOV to comply with the requirements applicable to that program.

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, RALGOV complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-010. Our opinion on each major federal program is not modified with respect to this matter.

RALGOV's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RALGOV's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of RALGOV is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RALGOV's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RALGOV's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

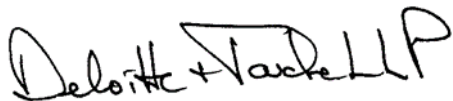
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2014-006, 2014-008 and 2014-010 to be material weaknesses.

RALGOV's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. RALGOV's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise RALGOV's basic financial statements. We issued our report thereon dated July 3, 2018, which report was qualified with respect to inadequacies in RALGOV's accounting records and an investment in a majority-owned subsidiary not consolidated. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



July 3, 2018

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards
Compact of Free Association, Public Law 99-239
Year Ended September 30, 2014

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Prior Year Fund Carried Over October 1, 2013</u>	<u>Net Earnings on Funds</u>	<u>Federal Expenditures</u>	<u>Available Funds September 30, 2014</u>
	<u>U.S. Department of the Interior</u>				
	Funds passed through the Republic of the Marshall Islands:				
15.875	The Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association	\$ 28,242,600	\$ 2,563,052	\$ 5,605,971	\$ 25,199,681

Of funds received per the agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association, the cumulative amount of \$25,199,681 remains invested in the Rongelap Claims Trust Fund, a permanent fund of RALGOV. Funds expended during the year ended September 30, 2014, are represented by fund manager fees of \$171,379, interest expense of outstanding loan of \$108,592, and a transfer out to the Local Distribution Authority Fund of \$5,326,000 for distributions.

See accompanying notes to schedule of expenditures of federal awards.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards
U.S. Federal Grants
Year Ended September 30, 2014

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at September 30, 2013	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2014
	<u>U.S. Department of Agriculture</u>				
	Fund passed through the Republic of the Marshall Islands:				
10.582	Commodity Assistance Program	\$ -	\$ 71,681	\$ 71,681	\$ -
	<u>U.S. Department of the Interior</u>				
	Fund passed through the Republic of the Marshall Islands:				
15.875	Rongelap Atoll Tourism Promotion Project	\$ (5,876)	\$ -	\$ -	\$ (5,876)
	Direct award:				
15.875	Community Based Fish Feed Mill Project	-	210,000	210,000	-
15.875	Rongelap Visitors Compound Project	138,392	-	-	138,392
	Total U.S. Department of the Interior	<u>\$ 132,516</u>	<u>\$ 210,000</u>	<u>\$ 210,000</u>	<u>\$ 132,516</u>
	<u>U.S. Department of Energy</u>				
	Direct award:				
81.XXX	Environmental Monitoring Support Plan	\$ -	\$ 19,500	\$ 19,500	\$ -
	 TOTAL U.S. FEDERAL GRANTS	 <u>\$ 132,516</u>	 <u>\$ 301,181</u>	 <u>\$ 301,181</u>	 <u>\$ 132,516</u>

See accompanying notes to schedule of expenditures of federal awards.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

(1) Scope of Audit

The Rongelap Atoll Local Government (RALGOV) is a governmental entity governed by its own Constitution. All significant operations of RALGOV 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 RALGOV's cognizant agency for the Single Audit.

a. Programs Subject to Single Audit

The accompanying Schedule of Expenditures of Federal Awards presents each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Energy
- U.S. Department of the Interior

b. Section 177 of the Compact of Free Association (the Compact)

RALGOV is the subrecipient of funds received through Section 177 of the Compact of Free Association from the Republic of the Marshall Islands (RepMar). These funds must be distributed in accordance with the agreement concerning procedures for the implementation of United States economic assistance, programs and services provided in the Compact of Free Association between the Government of the United States and the Government of the Marshall Islands, dated July 31, 1986. It has been determined these funds are not subject to general U.S. federal requirements such as OMB's Circular A-87 and Circular A-102, but rather must be expended in compliance with local laws and regulations and Compact intent.

(2) Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting, consistent with the manner in which RALGOV maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. The information in the Schedule of expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

Indirect Cost Allocation

RALGOV has not entered into an approved indirect cost negotiation agreement covering fiscal year 2014. RALGOV did not charge federal programs for indirect costs during fiscal year 2014.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

- | | | |
|--|--|---------------|
| 1. Type of auditors' report issued: | | Qualified |
| Internal control over financial reporting: | | |
| 2. Material weakness(es) identified? | | Yes |
| 3. Significant deficiency(ies) identified? | | None reported |
| 4. Noncompliance material to the financial statements noted? | | Yes |

Federal Awards

- | | | |
|---|---|---------------|
| Internal control over major programs: | | |
| 5. Material weakness(es) identified? | | Yes |
| 6. Significant deficiency(ies) identified? | | None reported |
| 7. Type of auditors' report issued on compliance for major programs: | | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | | Yes |
| 9. RALGOV's major programs were as follows: | | |
| <u>CFDA #</u> | <u>Name of Federal Program</u> | |
| 15.875 | Economic, Social and Political Development of the Territories and the Freely Associated States:
Section 177 of the Compact of Free Association | |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | | \$ 300,000 |
| 11. Auditee qualified as a low-risk auditee? | | No |

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2014-001	Cash and Investments
2014-002	Distributions
2014-003	Employee Advances and Other Receivables
2014-004	Loan Receivable
2014-005	Investments/Loan Receivable
2014-006	Distributions
2014-007	Legal Services/Procurement
2014-008	Loans Receivable
2014-009	RMI Procurement Code
2014-010	Allowable Costs/Cost Principles RMI Procurement Code
2014-011	Minutes of Council Meetings
2014-012	Documentation and File Maintenance

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2014-006	15.875	Allowable Costs/Cost Principles	\$ 456,790
2014-008	15.875	Allowable Costs/Cost Principles	464,825
2014-010	15.875	Allowable Costs/Cost Principles Procurement and Suspension and Debarment	<u>210,000</u>
			<u>\$ 1,131,615</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-001
Area: Cash and Investments

Criteria: In accordance with Council Resolutions 2010-01 and 2010-05, RALGOV authorized the purchase of 25% of the shares of Atoll Marine Aquaculture (AMA) at a cost of \$300,000. Furthermore, Council resolution 2010-05 indicates that AMA agreed to provide RALGOV an investment rate of return of at least 10% per annum. RALGOV has collateralized a bank loan for AMA with a time certificate of deposit in accordance with Council Resolution 2010-06, which indicates that AMA agreed to pay RALGOV interest in the amount of 4.42% per annum for the use of RALGOV's time certificate of deposit.

Condition: RALGOV acquired a 25% equity interest in AMA for \$300,000. RALGOV's investment in AMA was supported by a stock certificate indicating 100,000 shares of common stock, which equates to \$100,000 based on a par value of \$1.00 per share per AMA's articles of incorporation. No explanation was available supporting the \$200,000 variance. No financial statements of AMA were available for the year ended September 30, 2014. Accordingly, we were unable to ascertain whether the \$200,000 variance was recorded as additional paid in capital and whether an investment loss should be recorded. Furthermore, RALGOV has not received dividends from AMA that equate to an investment rate of return of at least 10% per annum on RALGOV's equity investment of \$300,000. RALGOV has not received or recorded interest income from AMA for the use of RALGOV's time certificate of deposit as of September 30, 2014. Finally, Council Resolution 2010-06 indicates that all AMA assets will be pledged to RALGOV as security for RALGOV's time certificate of deposit. No formal procedures appear to have been initiated to document the pledge of AMA assets.

Cause: The cause of the above condition is the lack of evidential documentation supporting the \$200,000 variance, the absence of accounting for the investment on the equity method, and the lack of an agreement between RALGOV and AMA formalizing the documented arrangement.

Effect: The effect of the above condition is a scope limitation resulting in an opinion modification on investments and a potential loss or an impairment of RALGOV assets and the lack of maximizing RALGOV's investment rate of return on assets. Currently, the interest rate on RALGOV's time certificate of deposit collateralizing AMA's bank loan is at 0.58% per annum in comparison with 6% per annum offered by another financial institution.

Recommendation: We recommend that RALGOV document the \$200,000 variance and account for the investment on the equity method. Further, we recommend that RALGOV formalize the above arrangements in a written agreement and require that agreed-upon investment rates of return be adhered to.

Prior Year Status: The lack of evidential documentation supporting the \$200,000 variance as well as the lack of a formal agreement between RALGOV and was reported as a finding in prior single audits as items 2010-004, 2011-001, 2012-001 and 2013-001.

Auditee Response and Corrective Action Plan: As response to the Finding no. 2014-01 and the corresponding recommendation, RALGov met a couple of times with AMA management demanding the interests on collateralized AMA loan at Bank of Guam, and dividends relating to the Investment.

AMA's claim is that the 100,000 shares, \$1.00 per share par value, was issued to RALGov with a premium of \$2.00 per share, which made RALGov's total investment cost of \$300,000.00. AMA agreed to issue replacement stocks certificate worth the actual investment of RALGov clearly specifying both the par value and issuance price. A reconstruction of RALGov claims from AMA, to possibly increase RALGov's ownership shares was proposed by AMA but which RALGov rejected and believed that is not the best solution to resolve the issue at hand.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-002
Area: Distributions

Criteria: Financial Management Act, Section 10 requires that RALGOV maintain a check register detailing acknowledgment of receipt of check vouchers by the recipient. In addition, names and numbers of shares should agree to the Distribution listing; otherwise, changes should be supported by application of name change or birth/death certificates. Moreover, rate per share should be based on \$300,000 less \$5,000 divided by 3,920 shares (for regular quarterly payments) or \$300,000 divided by 3,920 shares (for special quarterly payments).

Condition: Of seventy-five (75) disbursements to the people of Rongelap tested, we noted the following in relation to compliance with above criteria:

1. Seven claims checks did not have a signature on the check register evidencing the recipient's actual receipt.
2. Ten were released to representatives without adequate authorization letters on file.
3. The quarterly distributions that occurred in July were not supported by a check register evidencing signatures as acknowledgment of receipt of check.
4. Fifteen indicated a rate per special distribution shares that was not updated.
5. One indicated a different number of shares between the distribution check and the distribution listing.
6. Six noted a change in the number of shares but were not supported by adequate documentation.

In addition, a number of Rongelapese died during the year and the total number of listed Rongelapese (3,920) entitled to quarterly and special distribution payments was not updated.

Cause: The cause of the above condition is a potential lack of adequate controls over per capita and food distribution payments.

Effect: The effect of the above condition is a potential inability to determine whether the designated payees actually received per capita and food distribution payments and whether the per capita and food distribution payments were executed in accordance with prescribed policies and procedures.

Recommendation: We recommend that management obtain written authorization and that such be kept on file before per capita and food distribution checks are released to anyone other than the designated payee. In addition, we recommend that the designated payee, upon receipt, acknowledge receipt of the disbursement in writing. Furthermore, we recommend that management document the eligibility of recipients of food distribution payments by obtaining a copy of valid documentation such as birth certificate, passport or drivers' license.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-002, Continued
Area: Distributions

Prior Year Status: The potential lack of adequate controls over per capita and food distribution payments was reported as a finding in prior single audits as items 2010-002, 2011-002, 2012-002 and 2013-002.

Auditee Response and Corrective Action Plan: RALGov agrees that proper written authorization should be obtained and kept on file for checks released to anyone other than the designated payees; and RALGov finance office disbursement list should be properly acknowledged and signed by the authorized receiver / payee. All requests for payee change name in any case are being required to be done in writing, by the actual payee only or his / her authorized representative.

RALGov already obtained some copies of valid identifications and documents from some of Food Distribution eligible recipients to support eligibility; and is continuing to complete the aforesaid supporting documents.

Ralgov's disbursement in-charge started to strictly implement proper and authorized receiving of the checks back in the late part of FY2014; to ensure that only payees themselves or their authorized person would receive the checks. Improvement on this particular aspect can be noticed from FY2015 onwards. Further, undistributed funds from FY2012 to FY2015 as a result of discrepancies due to un-updated distribution per share, were paid to the recipients in a way of Special Distribution on June 2017.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003
Area: Employee Advances and Other Receivables

Criteria: Effective internal control necessitates that employee advances and other receivables be collected in a timely manner to facilitate efficient governmental operations and minimize possible losses through noncollection.

Condition:

1. At September 30, 2014, RALGOV recorded the following employee advances and other receivables:

	Employee Advances	Other Receivables	Allowance
General Fund	\$ 88,571	\$ 78,668	\$ (101,262)
Resettlement Phase One Fund	\$ 13,730	\$ 424,053	\$ (292,688)
Local Distribution Authority Fund	\$ 16,670	\$ 71,331	\$ (43,424)

2. One employee had an outstanding balance of \$11,225 but the payroll deduction is \$200 per year. The payroll deduction is not adequate to settle the outstanding receivable.
3. A former project manager had an advance of \$22,000 anticipating a new project to allow repayment. No project materialized and the receivable was not collected. Accordingly, an allowance for uncollectible accounts was established.
4. Accounts receivable were not timely reconciled including incorrect presentation of individual creditors.
5. No documentation was present to support that RALGOV performs a periodic allowance assessment.

Cause: The cause of the above condition is the lack of adequate internal control governing proper approval of advances and enforcement of timely collection and monitoring of receivables.

Effect: The effect of the above condition potentially impacts RALGOV's ability to facilitate efficient government operations due to noncollection of outstanding employee advances and other receivables.

Recommendation: We recommend that RALGOV implement collection procedures over outstanding employee advances and other receivables. Furthermore, we recommend that RALGOV establish formal policies approved by the Executive Council over employee advances.

Prior Year Status: The lack of adequate controls over approval of advances and enforcement of timely collection and monitoring of receivables was reported as a finding in the prior single audit as item 2013-003.

Auditee Response and Corrective Action Plan: RALGov Finance Department has already collected on most of long outstanding advances, we are able to increase collections by imposing regular Bi-weekly, Quarterly, and Yearly deductions. Controls to minimize and/or limit advances from employees & other check recipients are being implemented to improve funds proper utilization. Separate advances monitoring schedule is now being maintained by RALGov Accountant for proper monitoring.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-004
Area: Loan Receivable

Criteria: In accordance with the Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association (the "Agreement"), the Rongelap Local Distribution Authority shall receive and distribute, invest, or otherwise expend proceeds from the Claims Trust Fund. Such shall be in accordance with customary law and traditional practice of the Marshall Islands, the Constitution of the Republic of the Marshall Islands, and this Agreement. RALGOV authorized the investment of \$4,726,000 in loan proceeds collateralized by Claims Trust Fund investments in time certificates of deposit with interest rates higher than the loan interest rate (2.46% per annum) and in higher yielding securities such as stocks and bonds in accordance with Council Resolution 2010-01.

Condition: In 2010, RALGOV acquired a \$5,000 equity interest in AcionMobile, Inc., a Nevada corporation, and entered into an unsecured \$400,000 loan with that corporation with interest at 12% per annum for a period of two years maturing on January 8, 2012. As of September 30, 2014, the equity share was valued at \$750 after sale of 85% of the shares originally acquired.

No interest has been received by RALGOV per this agreement and repayment of the loan has not occurred as of September 30, 2014. This agreement does not appear to meet the criteria outlined in Council Resolution 2010-01. Based on the Nevada Secretary of State website, this corporation's Nevada business license has been revoked. This unsecured loan was provided with an allowance of \$400,000 as of September 30, 2014. As the \$750 equity interest is not considered material to the financial statements, no audit adjustment was proposed.

Cause: The cause of the above condition is entering into an unsecured loan with AcionMobile, Inc., which does not appear to meet investment guidelines outlined in Council Resolution 2010-01.

Effect: The effect of the above condition is potential noncompliance with the Agreement and Council Resolution 2010-01.

Recommendation: We recommend that RALGOV comply with requirements per the Agreement and Council Resolution 2010-01.

Prior Year Status: The potential noncompliance with the Agreement and Council Resolution 2010-01 was reported as a finding in prior single audits as items 2010-005, 2011-004, 2012-004 and 2013-004.

Auditee Response and Corrective Action Plan: RALGov commits to be more cautious in entering future investments and on the validity of all the relevant documentations and agreements, to avoid instances like that of AcionMobile, Inc.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-005
Area: Investments/Loan Receivable

Criteria: Generally accepted accounting principles (GAAP) requires that an investment of more than 50 percent of the voting stock of an investee should lead to a presumption that, in the absence of evidence to the contrary, an investor has the ability to control the activities of an investee and thus be consolidated and presented as a single economic entity. In addition, effective internal control necessitates that transactions be adequately documented and approved.

Condition: In 2013, RALGOV paid \$51,104 and acquired a 51% equity interest in Aquaculture Technologies of the Marshall Islands, Inc. (ATMI). RALGOV has accounted for this equity investment at cost since audited financial statements were not available to assist RALGOV in accounting for such on the consolidation basis of accounting. In addition, RALGOV provided a \$350,000 loan to ATMI from the Resettlement Trust Fund. Loan documentation, including Executive Council minutes evidencing approval of the loan, have not been provided. Accordingly, we were unable to verify the contents and underlying terms and conditions of the loan.

Cause: The cause of the above condition is the lack of audited financial statements of ATMI and the lack of internal control policies on maintenance of documents supporting the authorization and Council approval of RALGOV financial transactions.

Effect: The effect of the above condition is a departure from GAAP resulting in an opinion modification on investments and an inability to ascertain repayment terms and conditions of the loan resulting in a proposed audit adjustment to recognize a corresponding allowance for uncollectible accounts.

Recommendation: We recommend that RALGOV account for the investment in ATMI on the consolidation basis of accounting and maintain appropriate source documentation evidencing the approval of this financial transaction as well as the repayment terms and conditions of the ATMI loan.

Auditee Response and Corrective Action Plan: On RALGov's annual budget meeting held on the first week of September 2013, at Riwut Corner, Majuro; the Executive Committee approved to extend support to ATMI funding thru loans and other grant outsourcing. An initial \$350,000 loan from RTF was approved and was drawn from the trust fund in favor of ATMI, in September 30, 2013. Related document to support the loan extended to ATMI was duly signed and acknowledged by ATMI authority. Ralgov leadership believes that ATMI's conduct of fisheries operations and eventual success will play essential parts to improve employment and will help facilitate resettlement to Rongelap.

RALGov plans to record its investment in ATMI using consolidation basis of accounting as soon as ATMI's financial statements are available, in compliance to the generally accepted accounting standards.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-006
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, Section 177
Area: Distributions and Allowable Costs/Cost Principles
Questioned Costs: \$456,790

Criteria: Section 4.1 of the Amended Trust Agreement states that the Trustee, as instructed by the Rongelap Local Distribution Authority, shall distribute fund payments sufficient to enable the Rongelap Local Distribution Authority to continue to provide annual compensation to the beneficiaries of the Trust.

Condition: During the year ended September 30, 2014, a \$456,790 transfer out of the Local Distribution Authority was utilized to fund General Fund operations rather than annual compensation payments to the people of Rongelap. No written approval was provided authorizing the use of Local Distribution Authority funds for General Fund operations.

Cause: The cause of the above condition is the lack of written approval authorizing the use of Local Distribution Authority funds for General Fund operations.

Effect: The effect of the above condition is possible noncompliance with the Amended Trust Agreement and questioned costs of \$456,790.

Recommendation: We recommend that RALGOV adhere to the terms of Amended Trust Agreement requiring Local Distribution Authority funds be utilized for the purpose of providing annual compensation payments to the people of Rongelap.

Prior Year Status: The potential noncompliance with the Amended Trust Agreement was reported as a finding in prior single audits as items 2011-005, 2012-006 and 2013-006.

Auditee Response and Corrective Action Plan: Utilization of Claims Trust Fund to partially fund the Local Government's conduct of normal operations and addressing some basic needs of its constituents are being approved by RALGov's Executive Committee, through the Annual Local Government Budget being passed every Fiscal Year in which Budget Ordinance is being issued.

This includes funds used to partially support Mejjatto Elementary School's needs, minimal scholarship assistance provided to listed Rongelapese college students, medical assistance provided to elderly Rongelapese, death donations to EXPOSED and 177 distribution listed Rongelapese, houses roofing and community facilities repairs, and basic costs for the local government's normal conduct of operations, among others.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-007
Area: Legal Services/Procurement

Criteria: Section 118 (2) of 44 MIRC Chapter 1 of the RMI Procurement Code states that no contract for the services of legal counsel may be awarded without the approval of the Attorney-General.

Condition: During the year ended September 30, 2014, RALGOV incurred contractual services of \$134,633 for independent legal counsel. No documentation was provided by RALGOV to indicate that these services were approved by the Attorney-General.

Cause: The cause of the above condition is the lack of adequate controls over the procurement of legal services in accordance with the RMI Procurement Code.

Effect: The effect of the above condition is potential noncompliance with the RMI Procurement Code regarding authority to contract for certain services.

Recommendation: We recommend that management comply with the RMI Procurement Code and obtain written approval of the Attorney-General for contracts for the services of independent legal counsel.

Prior Year Status: The lack of internal controls over the procurement of legal services was reported as a finding in prior single audits as items 2011-006, 2012-007 and 2013-007.

Auditee Response and Corrective Action Plan: RALGov will write a letter to the Atty. General to get an approval of John Masek as RALGov legal counsel.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-008
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, Section 177
Area: Loans Receivable and Allowable Costs/Cost Principles
Questioned Costs: \$464,825

Criteria: In accordance with the Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association (the "Agreement"), the Rongelap Local Distribution Authority shall receive and distribute, invest, or otherwise expend proceeds from the Claims Trust Fund. Such shall be in accordance with customary law and traditional practice of the Marshall Islands, the Constitution of the Republic of the Marshall Islands, and this Agreement.

Condition: During the year ended September 30, 2014, RALGOV provided a \$214,825 loan to Aquaculture Technologies of the Marshall Islands, Inc. (ATMI) from the Local Distribution Authority Fund. Loan documentation, including Executive Council minutes evidencing approval of the loan, were not made available. Accordingly, we were unable to verify the contents and underlying terms and conditions of the loan. In addition, RALGOV executed the following notes receivable with Rongelap Multi-Purpose Cooperative (RMPC):

<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
January 14, 2014	4%	January 13, 2015	\$ 50,000
February 14, 2014	4%	February 13, 2015	50,000
April 2, 2014	4%	April 1, 2015	50,000
July 31, 2014	4%	July 30, 2015	<u>100,000</u>
			\$ <u>250,000</u>

Cause: The cause of the above condition is that the unsecured loans with ATMI and RMPC do not appear to meet the intent of the Agreement.

Effect: The effect of the above condition is potential noncompliance with the Agreement and questioned costs of \$464,825.

Recommendation: We recommend that RALGOV comply with requirements under the Agreement.

Auditee Response and Corrective Action Plan: Ralgov in its meeting last September 2013 approved extending support to ATMI's funding thru loans and other grant outsourcing, loans extended to ATMI by RALGov were interest bearing and all recorded accordingly in the books. Further RALGov and ATMI were able to secure numerous grants to support ATMI's conduct of operations.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-009
Area: RMI Procurement Code

Criteria: 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. 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.

Conditions: Of \$834,265 in non-payroll expenditures for the Resettlement Phase One Fund, thirty-one (31) items totaling \$676,039 were tested. For the following items, supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>GL Code</u>	<u>GL Account</u>	<u>Check #</u>	<u>Amount</u>
1	6024	Charters	08062	\$ 37,200
2	6024	Charters	08270	<u>37,200</u>
				<u>\$ 74,400</u>

Of \$821,901 in non-payroll expenditures for the General Fund, forty-four (44) items totaling \$280,324 were tested. For one item (Check # 46208 for \$28,500) for the purchase of a vehicle, supporting documentation was inadequate to evidence the procurement process.

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

Effect: The effect of the above condition is noncompliance with the RMI Procurement Code.

Recommendation: We recommend that RALGOV require that documentation be adequate to comply with the RMI Procurement Code. Specifically, documentation should indicate the history of procurement, including the rationale for contractor selection.

Auditee Response and Corrective Action Plan: RALGov implements the required procurement requirements in its purchasing dealing, however, there are cases when the needed goods or services is only available from 1 source based on the local government’s target schedules and requirements. Boat charters for instance are only serviceable by MISC and Lady E boat based on RALGov’s requirements and purpose of charters.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-010
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Community Based Fish Feed Mill Project
Area: Allowable Costs/Cost Principles
Procurement and Suspension and Debarment
Questioned Costs: \$210,000

Criteria: Federal program expenditures should be in accordance with allowable costs/cost principles requirements and should be directly related to, and in accordance with, program intent and objectives. Furthermore, Section 12.76 of 43 CFR Part 12, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that RALGOV may use its own procedures for procurement, whether done by the government or by its Sub-Grantees, provided that they meet the standards identified in this section.

The RMI Procurement Code provides regulations for the procurement of goods and services, which states the following:

- (b) 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. 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.

Conditions:

1. RALGOV was awarded grant funding to support Rongelap's Community Based Fish Feed Mill Project. A copy of the Federal grant award TAP-RMI-Fish Feed Project-2013-10 for \$210,000 was not on file. Accordingly, we were unable to verify grant terms and conditions. Furthermore, documentation of the grantor's approval on the reallocation of funds in relation to the original project budget was not on file.
2. RALGOV was not the signing party to a \$18,380 Environmental Impact Assessment service contract agreement. Instead, the signatory to the contract was Aquaculture Technologies of the Marshall Islands, Inc. (ATMI), a corporation in which RALGOV holds a 51% equity ownership. Furthermore, supporting documentation was inadequate indicating the history of procurement, including the rationale for contractor selection.
3. RALGOV reimbursed ATMI for the acquisition of two feed machines totaling \$199,855, of which \$191,620 was funded by the federal grant. Documentation such as vendor invoices provided by ATMI to RALGOV was insufficient to support the acquisition. Furthermore, supporting documentation was inadequate indicating the history of procurement, including the rationale for vendor selection.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-010, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Community Based Fish Feed Mill Project
Area: Allowable Costs/Cost Principles
Procurement and Suspension and Debarment
Questioned Costs: \$210,000

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring that: (1) federal grantor award documents be maintained on file; (2) federal program expenditures be supported by underlying vendor invoices; and (3) documentation of procurement procedures be maintained to satisfy compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles and procurement requirements and questioned costs of \$210,000 result.

Recommendation: We recommend that RALGOV require that documentation be adequate to comply with allowable costs/cost principles and federal procurement standards. Specifically, documentation should support the acquisition cost and should indicate the history of procurement, including the rationale for vendor selection.

Auditee Response and Corrective Action Plan: US DOI – Office of the Insular Affairs awarded to RALGov a Technical Assistance Grant (TAP-RMI-Fish Feed Project-2013-10. The grant is of a reimbursement type and DOI fully reimbursed RALGov after the approval of the submitted necessary grant reports and reimbursement request. RALGov will communicate the matter to DOI and request a copy of the Grant Award document.

RALGov’s current management ensures grant files are intact and maintained properly.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-011
Area: Minutes of Council Meetings

Criteria: Resolutions and minutes of Council meetings are a primary means by which regulatory agencies document the administration of RALGOV operations.

Conditions: With the exception of the Council resolution for appropriation ordinance approval, no other resolutions or minutes of Council meetings were available.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to documentation of Council minutes and resolutions.

Effect: The effect of the above condition is the possibility that directives of the Council are not properly disclosed or recorded in the financial statements.

Recommendation: We recommend that the RALGOV Council require that all resolutions and minutes of Council meetings be formally documented by the Council Clerk and reapproved by the Mayor.

Prior Year Status: The lack of established policies and procedures relating to documentation of Council minutes and resolutions was reported as a finding in prior single audits as items 2011-008, 2012-009 and 2013-008.

Auditee Response and Corrective Action Plan: RALGov understands the importance of documenting every official Executive meeting & Council Meeting. The local government is addressing this issue and intends to be consistently documenting the minutes of meetings in the future by adopting measures necessary.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-012
Area: Documentation and File Maintenance

Criteria: Adequate internal control policies should be adopted and established to facilitate reliable and relevant accounting records.

Condition: During the year ended September 30, 2014, two General Fund check disbursements (check #s 46076 and 46190) for \$5,682 and \$8,058 were paid to a financial institution as payment of an individual's \$85,000 loan. Executive Council authorization was not available evidencing approval of this arrangement.

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures for filing and maintaining accounting records.

Effect: The effect of the above condition is a potential inability to support the authenticity and correctness of recorded disbursement transactions.

Recommendation: We recommend that management establish and implement appropriate internal control policies and procedures that facilitate efficient filing.

Auditee Response and Corrective Action Plan: RALGov current management agrees to adopt measures and procedures to improve effectiveness in the internal control including proper documentation and efficient filing.

RONGELAP ATOLL LOCAL GOVERNMENT

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2014

Unresolved Prior Year Findings

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

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2014:

Questioned costs of RALGOV, as previously reported:

Fiscal year 2006 Single Audit	\$ 295,892
Fiscal year 2010 Single Audit	605,000
Fiscal year 2011 Single Audit	1,233,872
Fiscal year 2012 Single Audit	994,683
Fiscal year 2013 Single Audit	<u>966,882</u>

4,096,329

Questioned costs for fiscal year 2014 Single Audit

1,131,615

Unresolved questioned costs of RALGOV at September 30, 2014

\$ 5,227,944