

RONGELAP ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2012

RONGELAP ATOLL LOCAL GOVERNMENT

Table of Contents
Year Ended September 30, 2012

	<u>Page</u>
I. Independent Auditors' Report	1
II. Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Governmental Fund Financial Statements:	
Balance Sheet	5
Statement of Revenues, Expenditures, and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Notes to the Basic Financial Statements	8
III. Required Supplementary Information - Other than Management's Discussion and Analysis:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	24
Notes to the Required Supplementary Information - Budgetary Reporting	25
IV. Independent Auditors' Reports on Internal Control and on Compliance:	
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 <i>Government Auditing Standards</i>	26
Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	28
Schedule of Expenditures of Federal Awards	30
Notes to Schedule of Expenditures of Federal Awards	32
Schedule of Findings and Questioned Costs	33
Unresolved Prior Year Findings and Questioned Costs	45

INDEPENDENT AUDITORS' REPORT

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

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, 2012, which collectively comprise RALGOV's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of RALGOV. Our responsibility is to express an opinion on the respective financial statements based on our audit.

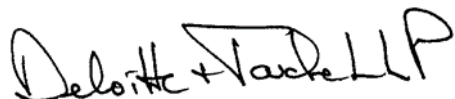
Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RALGOV's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had investments recorded by the governmental activities and the Local Distribution Authority Fund been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Rongelap Atoll Local Government as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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.

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

July 3, 2018

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Net Position September 30, 2012

ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,574,226
Time certificate of deposit	49,921
Receivables, net of allowance for uncollectibles of \$813,613	1,130,013
Prepaid items	<u>24,372</u>
Total current assets	<u>2,778,532</u>
Noncurrent assets:	
Investments	945,909
Restricted assets:	
Time certificate of deposit	262,366
Investments	37,168,036
Capital assets:	
Nondepreciable capital assets	3,231,403
Other capital assets, net of accumulated depreciation	<u>6,770,561</u>
Total noncurrent assets	<u>48,378,275</u>
Total assets	<u>\$ 51,156,807</u>

LIABILITIES

Current liabilities:	
Current portion of notes payable	\$ 19,650
Accounts payable	456,296
Interest payable	3,204
Other liabilities and accruals	<u>51,051</u>
Total current liabilities	530,201
Noncurrent liabilities:	
Notes payable, net of current portion	898,271
Loan payable	<u>5,326,000</u>
Total liabilities	<u>6,754,472</u>

Commitments and contingencies

NET POSITION

Net investment in capital assets	10,001,964
Restricted for:	
Nonexpendable:	
Claims	21,659,773
Expendable:	
Resettlement	9,313,754
Claims	3,046,917
Other	100,000
Unrestricted	<u>279,927</u>
Total net position	<u>44,402,335</u>
Total liabilities and net position	<u>\$ 51,156,807</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Operating Grants and Contributions</u>	
<u>Functions/Programs</u>			
Government activities:			
Council	\$ 37,792	\$ -	\$ (37,792)
Education	112,751	-	(112,751)
Finance	412,287	-	(412,287)
Health and sanitation	65,889	-	(65,889)
Office of the Mayor	473,971	-	(473,971)
Phase 1 - engineering	40,971	-	(40,971)
Public safety	101,049	-	(101,049)
Social services	341,808	72,177	(269,631)
Transportation and communication	125,597	-	(125,597)
Resettlement program	1,633,332	-	(1,633,332)
Nuclear claims related	1,993,141	-	(1,993,141)
Rongelap bungalows	81,962	-	(81,962)
Unallocated interest - long-term debt	<u>162,720</u>	<u>-</u>	<u>(162,720)</u>
	<u>\$ 5,583,270</u>	<u>\$ 72,177</u>	(5,511,093)
General revenues:			
Investment earnings			1,242,635
Other			<u>192,387</u>
Total general revenues			1,435,022
Contributions from permanent fund			<u>2,767,914</u>
Total general revenues and contributions			<u>4,202,936</u>
Change in net position			(1,308,157)
Net position at the beginning of the year			<u>45,710,492</u>
Net position at the end of the year			<u>\$ 44,402,335</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2012

	<u>Special Revenue</u>			<u>Capital</u>	<u>Permanent</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u>
	<u>General</u>	<u>Resettlement</u>	<u>Local</u>	<u>Resettlement</u>	<u>Claims</u>		
		<u>Trust</u>	<u>Distribution</u>	<u>Phase One</u>	<u>Trust</u>		
<u>ASSETS</u>			<u>Authority</u>				
Cash and cash equivalents	\$ 30,822	\$ -	\$ 1,539,052	\$ 3,176	\$ -	\$ 1,176	\$ 1,574,226
Time certificate of deposit	-	-	49,921	-	-	-	49,921
Investments	48,069	-	310,750	587,090	-	-	945,909
Receivables, net	145,863	17,310	900,000	29,643	35,306	1,891	1,130,013
Prepaid items	19,572	-	-	-	-	4,800	24,372
Restricted assets:							
Time certificate of deposit	-	-	262,366	-	-	-	262,366
Investments	-	10,214,365	-	-	26,953,671	-	37,168,036
	<u>\$ 244,326</u>	<u>\$ 10,231,675</u>	<u>\$ 3,062,089</u>	<u>\$ 619,909</u>	<u>\$ 26,988,977</u>	<u>\$ 7,867</u>	<u>\$ 41,154,843</u>
 <u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$ 81,225	\$ -	\$ 14,977	\$ 357,708	\$ -	\$ 2,386	\$ 456,296
Other liabilities and accruals	29,245	-	195	21,611	-	-	51,051
Total liabilities	110,470	-	15,172	379,319	-	2,386	507,347
Fund balances:							
Nonspendable	48,069	-	1,210,750	587,090	-	-	1,845,909
Restricted	-	10,231,675	1,836,167	-	26,988,977	-	39,056,819
Committed	100,000	-	-	-	-	-	100,000
Unassigned	(14,213)	-	-	(346,500)	-	5,481	(355,232)
Total fund balances	133,856	10,231,675	3,046,917	240,590	26,988,977	5,481	40,647,496
Total liabilities and fund balances	<u>\$ 244,326</u>	<u>\$ 10,231,675</u>	<u>\$ 3,062,089</u>	<u>\$ 619,909</u>	<u>\$ 26,988,977</u>	<u>\$ 7,867</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

10,001,964

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	\$ (917,921)
Loan payable	(5,326,000)
Accrued interest payable	(3,204)

(6,247,125)

Net position of governmental activities

\$ 44,402,335

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, 2012

	Special Revenue			Capital Projects	Permanent	Other Governmental Funds	Total
	General	Resettlement Trust	Local Distribution Authority	Resettlement Phase One	Claims Trust		
Revenues:							
Federal and other grants	\$ 72,177	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,177
Dividends and interest	-	247,288	-	22,042	685,887	-	955,217
Net change in the fair value of investments	-	1,042,505	-	-	2,261,224	-	3,303,729
Other	22,522	10,791	53,225	86,228	1,075	30,412	204,253
Total revenues	94,699	1,300,584	53,225	108,270	2,948,186	30,412	4,535,376
Expenditures:							
Current:							
Council	37,792	-	-	-	-	-	37,792
Education	112,751	-	-	-	-	-	112,751
Finance	357,166	-	44,953	-	-	-	402,119
Health and sanitation	65,889	-	-	-	-	-	65,889
Office of the Mayor	481,150	-	-	-	-	-	481,150
Phase I - Engineering	33,551	-	-	-	-	-	33,551
Public safety	101,049	-	-	-	-	-	101,049
Social services	340,545	-	-	-	-	-	340,545
Transportation and communication	125,597	-	-	-	-	-	125,597
Resettlement program	50,357	-	-	1,523,940	-	-	1,574,297
Pearl farming	12,000	-	-	-	-	-	12,000
Nuclear claims related	-	-	1,993,141	-	-	-	1,993,141
Investment management	-	79,991	-	-	180,272	-	260,263
Rongelap Bungalows	-	-	-	-	-	81,962	81,962
Debt service	-	-	-	56,080	127,926	-	184,006
Total expenditures	1,717,847	79,991	2,038,094	1,580,020	308,198	81,962	5,806,112
Excess (deficiency) of revenues over (under) expenditures	<u>(1,623,148)</u>	<u>1,220,593</u>	<u>(1,984,869)</u>	<u>(1,471,750)</u>	<u>2,639,988</u>	<u>(51,550)</u>	<u>(1,270,736)</u>
Other financing sources (uses):							
Operating transfers in	1,698,903	-	5,326,000	1,952,090	-	57,031	9,034,024
Operating transfers out	-	(2,473,591)	(779,263)	(239,750)	(5,541,420)	-	(9,034,024)
Total other financing sources (uses), net	1,698,903	(2,473,591)	4,546,737	1,712,340	(5,541,420)	57,031	-
Net change in fund balances	75,755	(1,252,998)	2,561,868	240,590	(2,901,432)	5,481	(1,270,736)
Fund balances at beginning of year	58,101	11,484,673	485,049	-	29,890,409	-	41,918,232
Fund balances at end of year	\$ 133,856	\$ 10,231,675	\$ 3,046,917	\$ 240,590	\$ 26,988,977	\$ 5,481	\$ 40,647,496

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, 2012

Net change in fund balances - total governmental funds \$ (1,270,736)

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	\$ 472,504	
Depreciation expense	<u>(531,211)</u>	
		(58,707)

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	16,593
-------------------------	--------

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>4,693</u>
------------------------------------	--------------

Change in net position of governmental activities	<u>\$ (1,308,157)</u>
---	-----------------------

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(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 such 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, 2012

(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; when they are generally 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, 2012

(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, 2012

(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, 2012, 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	\$ 97,706	\$ -	\$ 9,023	\$ 11,092	\$ -	\$ 1,891	\$ 119,712
Loans	-	-	1,300,000	-	-	-	1,300,000
Federal agencies	-	-	-	132,516	-	-	132,516
Interest	-	17,310	-	-	31,868	-	49,178
Other	<u>121,634</u>	<u>-</u>	<u>34,400</u>	<u>178,723</u>	<u>3,438</u>	<u>4,025</u>	<u>342,220</u>
	219,340	17,310	1,343,423	322,331	35,306	5,916	1,943,626
Allowance for uncollectible accounts	<u>(73,477)</u>	<u>-</u>	<u>(443,423)</u>	<u>(292,688)</u>	<u>-</u>	<u>(4,025)</u>	<u>(813,613)</u>
	<u>\$ 145,863</u>	<u>\$ 17,310</u>	<u>\$ 900,000</u>	<u>\$ 29,643</u>	<u>\$ 35,306</u>	<u>\$ 1,891</u>	<u>\$ 1,130,013</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, 2012

(2) Summary of Significant Accounting Policies, Continued

H. 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. Specifically, a time certificate of deposit recorded in the Local Distribution Authority of \$262,366 is restricted in that it collateralizes a bank loan of Atoll Marine Aquaculture. In addition, investments recorded in the Resettlement Trust Fund and the Claims Trust Fund of \$10,214,365 and \$26,953,671, respectively, are restricted by trust agreements in that they are not available to be used in current operations.

I. Capital Assets

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

The estimated useful lives of these assets are as follows:

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

J. 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.

K. 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.

L. 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(2) Summary of Significant Accounting Policies, Continued

M. 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, 2012 is presently not determinable.

N. 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.

O. 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, 2012

(2) Summary of Significant Accounting Policies, Continued

P. New Accounting Standards

During fiscal year 2012, RALGOV implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. 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, 2012

(2) Summary of Significant Accounting Policies, Continued

P. New Accounting Standards, Continued

In April 2012, GASB issued 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 provisions of this statement are effective for periods beginning after December 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. 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.

(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, 2012, the carrying amount of the RALGOV's total cash and cash equivalents and time certificates of deposit were \$1,886,513 and the corresponding bank balances were \$2,002,466. Of the bank balance amounts, \$1,971,557 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012, bank deposits in the amount of \$250,000 were FDIC insured. Bank deposits of \$30,909 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(3) Deposits and Investments, Continued

B. Investments

As of September 30, 2012, investments at fair value are as follows:

Resettlement Trust Fund:

Fixed income	\$ 5,016,577
Cash management	397,208
Domestic equities	4,291,378
Foreign equities	351,530
Other	<u>157,672</u>
	<u>10,214,365</u>

Claims Trust Fund:

Fixed income	8,382,164
Cash management	1,455,294
Domestic equities	11,273,879
Foreign equities	533,494
Private equity	4,879,115
Other	<u>429,725</u>
	<u>26,953,671</u>

\$ 37,168,036

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, 2012.

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, 2012, there were no investments in any one issuer that exceeded 5% of total investments.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(3) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2012, the Resettlement Trust Funds' investment in debt securities was as follows:

	Moody's Credit Rating	Investment			Maturities	(In years) Greater than 10	Fair Value
		Less than 1	1 to 5	6 to 10			
US Treasury Obligations	AAA	\$ -	\$ 2,817,951	\$ 158,827	\$ -	\$ 2,976,778	
Corporate notes	AA1	-	-	261,387	-	261,387	
Corporate notes	AA3	-	209,685	-	-	209,685	
Corporate notes	A1	-	103,938	213,316	-	317,254	
Corporate notes	A2	-	208,666	-	-	208,666	
Corporate notes	A3	-	573,894	261,694	-	835,588	
Corporate notes	BAA1	-	102,734	104,485	-	207,219	
		<u>\$ -</u>	<u>\$ 4,016,868</u>	<u>\$ 999,709</u>	<u>\$ -</u>	<u>\$ 5,016,577</u>	

As of September 30, 2012, the Claims Trust Funds' investment in debt securities was as follows:

	Moody's Credit Rating	Investment			Maturities	(In years) Greater than 10	Fair Value
		Less than 1	1 to 5	6 to 10			
US Treasury Obligations	AAA	\$ 597,442	\$ 1,808,457	\$ 260,716	\$ -	\$ 2,666,615	
Corporate notes	AA1	-	1,460,668	431,359	-	1,892,027	
Corporate notes	AA3	-	345,010	-	-	345,010	
Corporate notes	A1	-	174,280	346,259	-	520,539	
Corporate notes	A2	-	341,360	-	-	341,360	
Corporate notes	A3	-	779,306	625,591	-	1,404,897	
Corporate notes	BAA1	-	-	173,466	-	173,466	
Corporate notes	BAA2	-	169,458	-	-	169,458	
Foreign bonds	AA3	-	350,257	-	-	350,257	
Foreign bonds	A2	-	181,322	-	-	181,322	
Foreign bonds	A3	-	163,049	-	-	163,049	
Foreign bonds	BAA3	-	174,164	-	-	174,164	
		<u>\$ 597,442</u>	<u>\$ 5,947,331</u>	<u>\$ 1,837,391</u>	<u>\$ -</u>	<u>\$ 8,382,164</u>	

General Fund:

RALGOV holds an investment in a life insurance contract, which is recorded at fair value. As of September 30, 2012, the cash surrender value of this life insurance contract is \$48,069. 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. The investment is accounted for on the equity method. RTCI ceased operations in February 2006 following significant losses from prior years. At September 30, 2012, 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, 2012, 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, 2012, the investment is accounted for at cost in the amount of \$10,000 since the fair market value is not readily available.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(3) Deposits and Investments, Continued

B. Investments, Continued

Local Distribution Authority Fund, Continued:

Finally, RALGOV holds an equity ownership in AcionMobile, Inc., a Nevada corporation, which engages in communications activities. As of September 30, 2012, 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, 2012, the investment is accounted for at cost in the amount of \$587,090 since the fair market value is not readily available. Dividends of \$22,042 were received from the investee during the year ended September 30, 2012.

(4) Loans Receivable

As of September 30, 2012, loans receivable of the primary government are summarized as follows:

Local Distribution Authority Fund:

Ajejdrikdrik, Inc.:

<u>Execution Date</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
January 5, 2012	7%	April 1, 2013	\$ 300,000
February 21, 2012	7%	February 20, 2013	200,000
March 13, 2012	7%	March 13, 2013	200,000
June 1, 2012	7%	June 1, 2013	100,000
July 2, 2012	7%	July 2, 2013	<u>100,000</u>
			900,000

Principal and interest on the abovementioned notes receivable are due and payable at maturity and are uncollateralized.

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
\$ 1,300,000

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(5) Capital Assets

Capital asset activities for the year ended September 30, 2012, are as follows:

	Balance October <u>1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2012</u>
Airport and dock	\$ 5,030,372	\$ -	\$ -	\$ 5,030,372
Roads	2,393,680	-	-	2,393,680
Buildings/facility and improvements	2,566,420	-	-	2,566,420
Motor vehicles	439,145	31,905	(45,771)	425,279
Other equipment	1,534,734	12,000	(37,380)	1,509,354
Office equipment	23,566	-	-	23,566
Furniture and fixtures	<u>8,647</u>	<u>-</u>	<u>-</u>	<u>8,647</u>
	11,996,564	43,905	(83,151)	11,957,318
Less accumulated depreciation	<u>(4,738,697)</u>	<u>(531,211)</u>	<u>83,151</u>	<u>(5,186,757)</u>
	7,257,867	(487,306)	-	6,770,561
Construction in Progress	<u>2,802,804</u>	<u>428,599</u>	<u>-</u>	<u>3,231,403</u>
	\$ <u>10,060,671</u>	\$ <u>(58,707)</u>	\$ <u>-</u>	\$ <u>10,001,964</u>

Depreciation expense was charged to functions/programs as follows:

Finance	\$ 10,168
Phase-1 Engineering	7,420
Social services	1,263
Resettlement program	487,634
Office of the Mayor	<u>24,726</u>
	\$ <u>531,211</u>

(6) 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, 2012, is as follows:

Balance October 1, 2011	<u>Additions</u>	<u>Payments</u>	Balance September 30, 2012	Due Within <u>12 months</u>
\$ <u>934,514</u>	\$ <u>-</u>	\$ <u>(16,593)</u>	\$ <u>917,921</u>	\$ <u>19,650</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(6) Notes Payable, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 19,650	\$ 52,158	\$ 71,808
2014	19,286	52,522	71,808
2015	20,275	51,533	71,808
2016	21,368	50,440	71,808
2017	22,812	48,996	71,808
2018 - 2022	136,563	222,477	359,040
2023 - 2027	183,661	175,379	359,040
2028 - 2032	227,761	113,223	340,984
2033 - 2037	223,899	41,699	265,598
2038 - 2042	38,890	6,483	45,373
2043 - 2045	<u>3,756</u>	<u>143</u>	<u>3,899</u>
	<u>\$ 917,921</u>	<u>\$ 815,053</u>	<u>\$ 1,732,974</u>

(7) 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. During the year ended September 30, 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 (see Note 12).

The change in loan payable during the year ended September 30, 2012, is as follows:

<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance September 30, 2012</u>	<u>Due Within 12 months</u>
<u>\$ 5,326,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,326,000</u>	<u>\$ -</u>

(8) Transfers In/Out

Operating transfers in/out for all major fund types, for the year ended September 30, 2012, are as follows:

<u>Fund</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Resettlement Trust	Resettlement Phase One	\$ 1,952,090	\$ 1,952,090
Resettlement Trust	General	521,501	521,501
Claims Trust	General	215,420	215,420
Claims Trust	Local Distribution Authority	5,326,000	5,326,000
Local Distribution Authority	General	779,263	779,263
Resettlement Phase One	General	182,719	182,719
Resettlement Phase One	Other governmental funds	<u>57,031</u>	<u>57,031</u>
		<u>\$ 9,034,024</u>	<u>\$ 9,034,024</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(8) Transfers In/Out, Continued

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.

(9) 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:

	<u>General</u>	<u>Resettlement Trust</u>	<u>Local Distribution Authority</u>	<u>Resettlement Phase One</u>	<u>Claims Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:							
Life insurance contract	\$ 48,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,069
Atoll Marine Aquaculture	-	-	300,000	-	-	-	300,000
AcionMobile, Inc.	-	-	750	-	-	-	750
Marshall Islands Service Corporation	-	-	10,000	-	-	-	10,000
Ajejdrikdrik, Inc.	-	-	900,000	587,090	-	-	1,487,090
Restricted:							
Claims	-	-	1,836,167	-	26,988,977	-	26,988,977
Resettlement	-	10,231,675	-	-	-	-	10,231,675
Committed:							
Rongelap Museum	100,000	-	-	-	-	-	100,000
Unassigned	<u>(14,213)</u>	<u>-</u>	<u>-</u>	<u>(346,500)</u>	<u>-</u>	<u>5,481</u>	<u>(355,232)</u>
	\$ <u>133,856</u>	\$ <u>10,231,675</u>	\$ <u>3,046,917</u>	\$ <u>240,590</u>	\$ <u>26,988,977</u>	\$ <u>5,481</u>	\$ <u>40,647,496</u>

(10) 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, 2012, 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>	
2013	\$ 21,200
2014	11,600
2015	11,600
2016	9,100
2017	5,600
2018 - 2022	28,000
2023 - 2027	16,000
2028 - 2030	<u>9,600</u>
	\$ <u>112,700</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2012

(10) Commitments and Contingencies, Continued

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 \$3,129,447 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.

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.

(11) 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, 2012, 2011 and 2010.

(12) Subsequent Event

On December 9, 2013, RALGOV renegotiated the loan payable to bank of \$5,326,000 with interest of 2.447% per annum and extended the maturity date to December 9, 2015.

RONGELAP ATOLL LOCAL GOVERNMENT

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2012

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended September 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Federal and other grants	\$ 79,192	\$ 79,192	\$ 72,177	\$ (7,015)
Other	<u>43,611</u>	<u>43,611</u>	<u>22,522</u>	<u>(21,089)</u>
Total revenues	<u>122,803</u>	<u>122,803</u>	<u>94,699</u>	<u>(28,104)</u>
Expenditures:				
Salaries and employee benefits	696,938	696,938	638,213	58,725
Travel	115,000	115,000	178,168	(63,168)
Per diem	32,250	32,250	37,814	(5,564)
Rental and charters	71,000	71,000	58,888	12,112
Utilities	-	-	41,397	(41,397)
Equipment	20,000	20,000	32,620	(12,620)
Supplies	70,000	70,000	110,579	(40,579)
Supplemental food program	60,000	60,000	161,322	(101,322)
Donations	60,000	60,000	110,933	(50,933)
Scholarships and training	42,000	42,000	61,171	(19,171)
Maintenance	40,000	40,000	56,595	(16,595)
Insurance	40,000	40,000	76,973	(36,973)
Housing and other allowances	-	-	35,025	(35,025)
Land lease	-	-	13,450	(13,450)
Bad debts	-	-	54,245	(54,245)
Miscellaneous	<u>51,000</u>	<u>51,000</u>	<u>50,454</u>	<u>546</u>
Total expenditures	<u>1,298,188</u>	<u>1,298,188</u>	<u>1,717,847</u>	<u>(419,659)</u>
Deficiency of revenues under expenditures	(1,175,385)	(1,175,385)	(1,623,148)	(447,763)
Other financing sources:				
Operating transfers in	<u>1,175,385</u>	<u>1,175,385</u>	<u>1,698,903</u>	<u>523,518</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,755</u>	<u>\$ 75,755</u>

See accompanying notes to required supplementary information - budgetary reporting

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2012

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 2012, Ordinance No. 2012-01, was passed by the Council on September 20, 2011. 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 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, 2012, 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. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of RALGOV is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered RALGOV's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RALGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

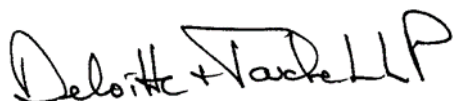
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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 2012-001 through 2012-005, 2012-008 and 2012-009 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RALGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-006 and 2012-007.

RALGOV's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit RALGOV's responses and, accordingly, we express no opinion on them.

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

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

July 3, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the Rongelap Atoll Local Government's (RALGOV) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on RALGOV's one major federal program for the year ended September 30, 2012. RALGOV's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of RALGOV's management. Our responsibility is to express an opinion on RALGOV's compliance based on our audit.

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

As described in item 2012-006 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.

In our opinion, except for the noncompliance described in the preceding paragraph, RALGOV complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Compact of Free Association Section 177 (CFDA #15.875) major program.

Internal Control Over Compliance

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

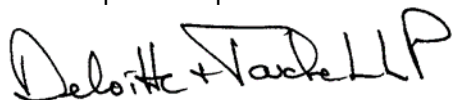
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been 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 2012-006 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of RALGOV as of and for the year ended September 30, 2012, and have issued our report thereon dated July 3, 2018. Our report includes a qualification regarding inadequacies in RALGOV's accounting records. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise RALGOV's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of RALGOV. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



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, 2012

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Prior Year Fund Carried Over October 1, 2011</u>	<u>Net Earnings on Funds</u>	<u>Federal Expenditures</u>	<u>Available Funds September 30, 2012</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	<u>\$ 29,890,409</u>	<u>\$ 2,948,186</u>	<u>\$ 5,849,618</u>	<u>\$ 26,988,977</u>

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 \$26,988,977 remains invested in the Rongelap Claims Trust Fund, a permanent fund of RALGOV. Funds expended during the year ended September 30, 2012, are represented by fund manager fees of \$180,272, interest expense of outstanding loan of \$127,926, a transfer out to the General Fund of \$215,420 for operations, 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, 2012

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at September 30, 2011	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2012
	<u>U.S. Department of Agriculture</u>				
	Fund passed through the Republic of the Marshall Islands:				
10.582	Commodity Assistance Program	\$ -	\$ 72,177	\$ 72,177	\$ -
	<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	Rongelap Visitors Compound Project	138,392	-	-	138,392
	Total U.S. Department of the Interior	<u>\$ 132,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,516</u>
	<u>U.S. Department of Energy</u>				
	Direct award:				
81.XXX	Environmental Monitoring Support Plan	\$ -	\$ 16,500	\$ 16,500	\$ -
	TOTAL U.S. FEDERAL GRANTS	<u>\$ 132,516</u>	<u>\$ 88,677</u>	<u>\$ 88,677</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, 2012

(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 2012. RALGOV did not charge federal programs for indirect costs during fiscal year 2012.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

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 |

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2012-001	Cash and Investments
2012-002	Distributions
2012-003	Documentation and File Maintenance
2012-004	Loan Receivable
2012-005	Investments
2012-006	Distributions/Claims Trust Fund Withdrawals
2012-007	Legal Services/Procurement
2012-008	Employee Advances and Other Receivables
2012-009	Minutes of Council Meetings

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2012-006	15.875	Allowable Costs/Cost Principles	\$ 994,683

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-001
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. RALGOV has provided unaudited financial statements of AMA for the year ended September 30, 2012. Based on those financial statements, the \$200,000 variance was not recorded as additional paid in capital and an investment loss of \$174,781 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, 2012. 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 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 was reported as a finding in prior single audits as items 2010-004 and 2011-004. Further, the lack of a formal agreement between RALGOV and AMA was reported as a finding in prior single audits as items 2010-001 and 2011-001.

Auditee Response and Corrective Action Plan: As response to the Finding no. 2012-1 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, 2012

Finding No.: 2012-002
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, name and number of share should agree to the Distribution listing; otherwise, changes should be supported by application of name change or birth/death certificate. 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 3,920 shares (for special quarterly payments).

Condition: Of seventy-five (75) disbursements to the people of Rongelap tested, the following exceptions were noted:

1. Eighteen regular distribution checks lack evidence of the acknowledgement of the receipt of the check.
2. Six receipts showed that checks were released to representatives of the recipients. However, no evidence of authorization to release the checks to these representatives was on file.
3. Three had a change in name and in the number of shares per the distribution register. A supporting birth certificate and approved application of transfer were not on file.
4. Undisbursed special distributions amounted to \$15,000 due to the rate not being updated.
5. Six quarterly food distribution checks were not supported by a check register to evidence acknowledgment of receipt by the payees.
6. Three quarterly food distributions were not supported by supporting checks.

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 or 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 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 certificates, passports or drivers' licenses.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-002, 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 and 2011-002.

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.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-003
Area: Documentation and File Maintenance

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

Conditions:

1. Of fifty-two Resettlement Phase I Fund expenditures tested, five were not supported by adequate checks, invoices, and billing statements. Unsupported transactions amounted to \$23,786.
2. RALGOV purchased a \$18,000 house in October 2011 and leased the land for 20 years. Over a year after, the house was demolished. The leased land was left vacant. We were not provided with a Council resolution documenting the authorization of these transactions.
3. Of seventy-five General Fund expenditures tested, one was not supported by a check and death certificate. The unsupported transaction amounted to \$3,000.
4. Of eighteen Rongelap Bungalow, Inc. expenditures tested, four were not adequately supported by invoices and checks. The unsupported transactions amounted to \$10,656.

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

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

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

Prior Year Status: The potential lack of adequate controls over filing and maintaining accounting records was reported as a finding in the prior single audit as item 2011-003.

Auditee Response and Corrective Action Plan: RALGov current management is monitoring in a regular manner, implementation of established procedures on filing of check vouchers and other related documents supporting disbursements. In doing such, we expect that misfiling and missing documents can be minimized to acceptable limit or better be avoided.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-004
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 this corporation with interest at 12% per annum for a period of two years maturing on January 8, 2012. As of September 30, 2012, the equity share was valued at \$750 after selling 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, 2012. 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 business state license has been revoked. This unsecured loan was provided with an allowance of \$400,000 as of September 30, 2012. As the \$750 equity interest is not considered material to the financial statements, no related audit adjustment was proposed.

Cause: The cause of the above condition is that the unsecured loan with AcionMobile, Inc., 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 of 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 and 2011-004.

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, 2012

Finding No.: 2012-005
Area: Investments

Criteria: Trust fund reporting necessitates adequate documentation to facilitate validation of financial transactions and determination of authorization process.

Condition: Claims Trust Fund investment statements include disbursements for ACH withdrawals and bill payments. These deductions were separately presented from investment management fees. During the year ended September 30, 2012, these disbursements amounted to \$19,941. Adequate documentation was not available to support these withdrawals. Instead, the amounts were recorded as bank fees.

In addition, credit card purchases were charged to the Claims Trust Fund investment account. No formal policies covering the extent of credit card usage were provided.

Further, Purchase Requisition # 5700 (PR5700) for reimbursement of travel-related credit card advances and purchases included a \$2,041 purchase of two ipads with accessories for the Mayor and City Manager's offices. The general ledger journal entry for these purchases did not provide an adequate transaction description.

Interest income of \$27,940 and management fees of \$7,423 were recorded in the February 2012 Resettlement Trust Fund. These transactions lack investment statements to support recorded balances.

The Resettlement Trust Fund transferred its investment manager effective January 1, 2012. Executive Council minutes was not available to support the approval of this action.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures governing use of credit card, documentation of trust fund withdrawals, and documentation of Executive Council decisions.

Effect: The effect of the above condition is potential improper classification of investment fund transactions due to insufficient documentation and potential unauthorized transactions.

Recommendation: We recommend that RALGOV maintain adequate documentation of investment fund transactions to facilitate accurate reporting, approval of significant decisions, and availability for examination of government expenditures.

Auditee Response and Corrective Action Plan: RALGov records Trust Fund Investments in a timely manner, online access was requested to and granted by the Trustee to RALGov accountant, for ease of access & regularly download investment reports as needed. Further, RALGov maintains monthly Trust Funds investment schedules and reports which summarizes the investments.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-006
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, Section 177
Area: Distributions/Claims Trust Fund Withdrawals
and Allowable Costs/Cost Principles
Questioned Costs: \$994,683

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, 2012, distributions from the Claims Trust Fund of \$215,420 were 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 Claims Trust Fund distributions for General Fund operations. Furthermore, General Fund operations were also funded by a \$779,263 transfer from the Local Distribution Authority.

Cause: The cause of the above condition is the lack of written approval authorizing the use of Claims Trust Fund distributions and 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 \$994,683.

Recommendation: We recommend that RALGOV adhere to the terms of Amended Trust Agreement requiring Claims Trust Fund distributions 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 the prior single audit as item 2011-005.

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 Mejatto 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, 2012

Finding No.: 2012-007
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, 2012, RALGOV incurred contractual services totaling \$128,876 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 related to of independent legal counsel.

Prior Year Status: The lack of internal controls over the procurement of legal services was reported as a finding in the prior single audit as item 2011-006.

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, 2012

Finding No.: 2012-008
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, 2012, RALGOV recorded the following employee advances and other receivables:

	<u>Employee Advances</u>	<u>Other Receivables</u>	<u>Allowance</u>
General Fund	\$ 97,706	\$ 121,634	\$ (73,477)
Resettlement Phase One Fund	\$ 11,092	\$ 311,239	\$ (292,688)
Local Distribution Authority Fund	\$ 9,023	\$ 34,400	\$ (43,423)

2. One employee had an outstanding balance of \$11,418 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.

Auditee Response and Corrective Action Plan: As for now, 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-009
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 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 approved 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 the prior single audit as item 2011-008.

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

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

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, 2012:

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	<u>1,233,872</u>
	2,134,764
Questioned costs for fiscal year 2012 Single Audit	<u>994,683</u>
Unresolved questioned costs of RALGOV at September 30, 2012	\$ <u>3,129,447</u>