

**UTRŌK ATOLL LOCAL GOVERNMENT**

---

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

---

**YEAR ENDED SEPTEMBER 30, 2012**

# UTRŌK ATOLL LOCAL GOVERNMENT

Table of Contents  
Year Ended September 30, 2012

	<u>Page</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	3
III. Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Governmental Fund Financial Statements:	
Balance Sheet	9
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Notes to the Basic Financial Statements	12
IV. Required Supplementary Information - Other than Management's Discussion and Analysis:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual - General Fund	23
Notes to the Required Supplementary Information - Budgetary Reporting	24
V. Independent Auditors' Report 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>	25
Schedule of Findings and Responses	27
Unresolved Prior Year Findings	39

## **INDEPENDENT AUDITORS' REPORT**

Mayor Tobin Kaiko  
Utrök Atoll Local Government  
Republic of the Marshall Islands:

We have audited the accompanying financial statements of the Utrök Atoll Local Government's (UALGOV) Claims Trust Fund as of and for the year ended September 30, 2012, and were engaged to audit the respective financial statements of UALGOV's governmental activities, General Fund and Local Distribution Authority Fund, which collectively comprise UALGOV's basic financial statements as set forth in Section III of the foregoing table of contents. These financial statements are the responsibility of the management of UALGOV. Our responsibility is to express an opinion on the financial statements of UALGOV's Claims Trust Fund based on our audit.

We conducted our audit of UALGOV's Claims Trust Fund 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 of UALGOV's Claims Trust Fund 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 UALGOV's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

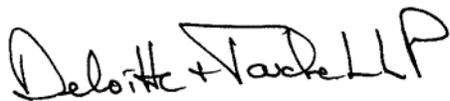
Because of inadequacies in UALGOV's accounting records whereby certain records and supporting data were not available for our audit, we were unable to obtain sufficient appropriate audit evidence regarding assets, liabilities, revenues and expenses/expenditures recorded by UALGOV's governmental activities, General Fund and Local Distribution Authority Fund as of September 30, 2012 and for the year then ended.

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of UALGOV's governmental activities, General Fund and Local Distribution Authority Fund as of and for the year ended September 30, 2012.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of UALGOV's Claims Trust Fund as of September 30, 2012, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2020, on our consideration of UALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of UALGOV's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 6, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual - General Fund and notes thereto, on pages 23 and 24, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

August 12, 2020

## **UTRÖK ATOLL LOCAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2012

This Management Discussion and Analysis (MD&A) is provided by Utrök Atoll Local Government (UALG) as an overview to the financial statements for fiscal year 2012 in compliance with Government Accounting Standards Board (GASB). It is intended to present the result of activities and changes from October 1, 2011 through September 30, 2012 and future financial plans and outlook for the following year.

### **FUNDS AND ITS SOURCES**

The following are the three Funds maintained by the local government to account for the activities per category:

- Claims Trust Fund (UCTF). This fund is awarded to Utrök Local Distribution Authority (LDA) through the Nuclear Claims Tribunal for the purpose of compensating the people of Utrök who are listed in LDA. The corpus of this trust is not expendable. The income generated by the trust fund may be used for distribution to the people; however, only 70% of such income is allowed to be disbursed as stated in the Claims Trust Fund.
- Local Distribution Fund. This fund obtains funding from the income of CTF. This is used for distribution of payments to the quarterly and land compensation LDA recipients.
- General Fund. This fund sources its money from income of CTF. This is used for operations of the local government and local distribution authority.

### **FINANCIAL HIGHLIGHTS**

- The Claims Trust Fund (CTF) earned \$1,289,505 during the year ended September 30, 2012, made debt service payments of \$883,020, paid investment manager fees of \$85,990 and transferred out \$815,130 for General Fund operations to end at \$9,493,360 at the end of fiscal year 2012.
- UALGOV total net assets decreased by \$373,486 as compared to FY2011 balances.
- UALGOV ended FY2012 with net assets of \$9,648,968 down from \$10,022,454 at the end of FY2011.
- Total assets decreased by \$1,280,572 and total liabilities decreased by \$907,086 of last year's balances.
- Revenues for the fiscal year increased by \$999,966 from previous year's balance.
- Expenses for the year decreased by \$363,284 from previous year's balance.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

UALGOV's financial statements report information about UALGOV as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the local government's assets and liabilities. The statement of activities accounts for the current year's revenues and expenses regardless of when cash is received or paid. These two statements, reporting UALGOV's net assets and liabilities, is one way to measure UALGOV's financial position. Over time increases or decrease in UALGOV's net assets are indicators of whether its financial condition is improving or deteriorating.

### **FUND FINANCIAL STATEMENTS.**

The fund financial statements provide more detailed information about UALGOV's most significant funds. Funds are accounting devices that UALGOV uses to keep track of specific sources of funding and spending for particular purposes.

## UTRŌK ATOLL LOCAL GOVERNMENT

### Management's Discussion and Analysis September 30, 2012

Some funds are required by agreements. UALGOV establishes other funds to control and manage money for particular purpose.

#### FINANCIAL ANALYSIS OF UALGOV

In reference to Summary of Statement of Net Assets and Summary of Revenues, Expenses and Changes in Net Assets for FY2012 and FY2011 shown below, the following are presented to provide an overview to UALG's basic financial statements and to give the readers a better understanding of the financial condition and activities of UALGOV.

Net assets may serve over time as useful indicator of a government's financial position. At the end of Fiscal Year 2012, UALGOV's total assets exceed liabilities by \$9,698,968; however, it should be noted that \$9,493,360 is restricted for nuclear claims related distribution payments as well as \$213,515 being invested in capital assets.

The summary of UALGOV's net assets for FY2012 as compared to FY2011 follows:

#### UALGOV's Net Assets As of September 30

	Governmental Activities 2012	Governmental Activities 2011	Total Percentage Change 2012-2011
Current and other assets	\$ 9,741,830	\$ 11,004,658	(11)%
Capital assets	213,515	231,259	(8)%
<b>Total assets</b>	<b>9,955,345</b>	<b>11,235,917</b>	<b>(11)%</b>
Long-term debt outstanding	-	865,534	(100)%
Current and other liabilities	306,377	347,929	(12)%
<b>Total liabilities</b>	<b>306,377</b>	<b>1,213,463</b>	<b>(75)%</b>
Net assets:			
Invested in capital assets, net of related debt	213,515	231,259	(8)%
Restricted	9,493,360	9,581,084	(1)%
Unrestricted	(57,907)	210,111	(128)%
<b>Total net assets</b>	<b>\$ 9,648,968</b>	<b>\$ 10,022,454</b>	<b>(4)%</b>

Current and other assets significantly decreased by \$1,262,828 from FY2011 balances of \$11,004,658.

The decrease is brought about by a decrease of investments from FY2012 due to continued withdrawals to fund distributions and general operations and the low performance of the Claims Trust Fund and the volatility of the overall U.S stock market.

Capital assets, net of depreciation, decreased by \$17,744 from last year's balances.

At the end of FY2012, UALGOV's net assets decreased by \$373,486 from \$10,022,454 at the close of FY2011 down to \$9,648,968 at the end of FY2012.

Activities for the year included an increase in contributions from the Claims Trust Fund of \$1,012,847 from last year's figure from \$190,668 to \$1,203,515 in FY2012. Revenues decreased slightly by \$12,881 from last year's figure from \$261,242 to \$248,361 in FY2012.

Expenses decreased by \$363,284 from \$2,188,646 end of FY2011 to \$1,825,362 end of FY2012.

## UTRŌK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2012

The summary of UALGOV's change in net assets for FY2012 as compared to FY2011 follows:

	Governmental Activities 2012	Governmental Activities 2011	Total Percentage Change 2012-2011
<b>UALGOV's Change in Net Assets Year Ended September 30</b>			
<b>Revenues:</b>			
Program revenues:			
Operating grants and contributions	\$ 121,856	\$ 133,579	(9)%
Capital grants and contributions	<u>85,995</u>	<u>38,442</u>	124%
	<u>207,851</u>	<u>172,021</u>	21%
General revenues:			
Investment earnings	29,077	81,326	(64)%
Other	<u>11,433</u>	<u>7,895</u>	45%
	<u>40,510</u>	<u>89,221</u>	(55)%
<b>Total revenues</b>	<b><u>248,361</u></b>	<b><u>261,242</u></b>	<b>(5)%</b>
<b>Expenses:</b>			
Mayor and council	199,969	265,680	(25)%
Administration and finance	556,341	636,238	(13)%
Public safety	21,188	21,731	(2)%
Food program	115,272	63,882	80%
Interest on long-term debt	17,486	44,891	(61)%
Nuclear claims related	<u>915,106</u>	<u>1,156,224</u>	(21)%
<b>Total expenses</b>	<b><u>1,825,362</u></b>	<b><u>2,188,646</u></b>	<b>(17)%</b>
	(1,577,001)	(1,927,404)	(18)%
Contributions from permanent fund	<u>1,203,515</u>	<u>190,668</u>	531%
<b>Change in net assets</b>	<b>(373,486)</b>	<b>(1,736,736)</b>	<b>(78)%</b>
<b>Net assets at beginning of the year</b>	<b><u>10,022,454</u></b>	<b><u>11,759,190</u></b>	<b>(15)%</b>
<b>Net assets at end of the year</b>	<b><u>\$ 9,648,968</u></b>	<b><u>\$ 10,022,454</u></b>	<b>(4)%</b>

### Highlight of changes in net assets is as follows:

The increase in program revenues for the year was brought about by US DOI-Fiscal Management Improvement Project Grant. The Local Government Fund grant from Ministry of Internal Affairs has been recorded as additional source of fund for the fiscal year amounting to \$14,500. Total USDA Food Program grant recorded this year amounted to \$82,586.

Dividends and interest earned decreased by \$52,249 from FY2011 \$81,326 to end of FY2012 of \$29,077.

The increase in contributions from permanent fund for the year was due mainly to the realized and unrealized gains in the value of the UALGOV Claims Trust Fund invested in the U.S. stock market.

The decrease in expenses by \$363,284 from FY2011 of \$2,188,646 to \$1,825,362 end of FY2012 was due mainly to a decrease in quarterly distribution and land compensation payments to the Utrokese community.

## **UTRŌK ATOLL LOCAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2012

### **FINANCIAL ANALYSIS OF UALGOV'S FUNDS**

As noted earlier, UALGOV uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. As of the end of fiscal year 2012, UALGOV's governmental funds reported a combined fund balance of \$9,435,453, a decrease of \$1,221,276 from the \$10,656,729 fund balance at the beginning of fiscal year.

### **GENERAL FUND BUDGET ANALYSIS**

For the fiscal year 2012, the budget for the General Fund was \$814,477 to be funded primarily by drawdown from the Claims Trust Fund. During the year ended September 30, 2012, the deficiency of revenues under expenditures for the General Fund was \$652,502 prior to net transfers in of \$384,484.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

UALGOV's investment in capital assets for its governmental activities as of September 30, 2012 amounted to \$318,486, net of accumulated depreciation of \$104,971, leaving a net book value of \$213,515. This represents a decrease of \$17,744 from the \$231,259 reported in the prior year. UALGOV's capital assets include Utrik airport terminal, buildings, motor vehicles and other equipment. During the year ended September 30, 2012, no capital asset additions occurred other than the completion of the UALGOV community hall funded by the Japan Embassy grassroots program.

Additional information on UALGOV's capital assets can be found in note 4 to the financial statements.

#### **Long-term Debt**

In 2011, UALGOV entered into a loan agreement in the amount of \$1,220,000, which represented the renegotiation of previous long-term debt that was originally issued for the purpose of funding distribution payments to eligible Utrokese. This loan was fully paid during the year ended September 30, 2012.

Additional information on UALGOV's long-term debt can be found in note 5 to the financial statements.

### **FINANCIAL PLAN AND OUTLOOK**

UALGOV's FY2013 budget amounts to \$1,083,094 which is slightly lower than FY2012 budget by \$970,273. Of this amount \$523,099 is allotted for the General Fund, which represents the decrease of \$291,378 compared with the allotment for the General Fund of \$814,477 for FY2012.

For FY2013, UALGOV budgeted \$359,995 for the Local Distribution Authority, of which \$89,999 is intended for four quarterly distributions and \$200,000 for end calendar year land distribution.

### **CONTACTING UALGOV'S MANAGEMENT**

This financial report is designed to provide our constituents, donors and customers with a general overview of UALGOV's finances and to demonstrate transparency and accountability for the money it is entrusted to manage. If you have any questions about this report or need additional information, contact the Mayor at P.O. Box 1499, Majuro, Marshall Islands, MH 96960, telephone number (692) 625-3749.

# UTRŌK ATOLL LOCAL GOVERNMENT

## Statement of Net Assets September 30, 2012

### ASSETS

Current assets:	
Cash	\$ 190,566
Receivables, net	<u>57,904</u>
Total current assets	<u>248,470</u>
Noncurrent assets:	
Restricted assets:	
Investments	9,493,360
Capital assets:	
Capital assets, net of accumulated depreciation	<u>213,515</u>
Total noncurrent assets	<u>9,706,875</u>
Total assets	<u>\$ 9,955,345</u>

### LIABILITIES

Current liabilities:	
Distributions payable	\$ 39,874
Social security taxes payable	204,713
Other liabilities and accruals	<u>61,790</u>
Total liabilities	<u>306,377</u>
Commitments and contingencies	

### NET ASSETS

Invested in capital assets, net of related debt	213,515
Restricted for:	
Nonexpendable:	
Claims	9,493,360
Unrestricted	<u>(57,907)</u>
Total net assets	<u>9,648,968</u>
Total liabilities and net assets	<u>\$ 9,955,345</u>

See accompanying notes to basic financial statements.

**UTRÖK ATOLL LOCAL GOVERNMENT**

Statement of Activities  
Year Ended September 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Operating Grants and Contributions	Capital Grants and Contributions		
<u>Functions/Programs</u>				
Governmental activities:				
Mayor and council	\$ 199,969	\$ -	\$ -	\$ (199,969)
Administration and finance	556,341	39,270	-	(517,071)
Public safety	21,188	-	-	(21,188)
Food program	115,272	82,586	-	(32,686)
Community hall	-	-	85,995	85,995
Interest on long-term debt	17,486	-	-	(17,486)
Nuclear claims related	915,106	-	-	(915,106)
	<u>\$ 1,825,362</u>	<u>\$ 121,856</u>	<u>\$ 85,995</u>	<u>(1,617,511)</u>
General revenues:				
Investment earnings				29,077
Other				11,433
				<u>40,510</u>
Contributions from permanent fund				<u>1,203,515</u>
				<u>1,244,025</u>
				(373,486)
				<u>10,022,454</u>
				<u>\$ 9,648,968</u>

See accompanying notes to basic financial statements.

**UTRÖK ATOLL LOCAL GOVERNMENT**

Balance Sheet  
Governmental Funds  
September 30, 2012

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Local Distribution Authority</u>	<u>Permanent Claims Trust</u>	<u>Total</u>
Cash	\$ 190,566	\$ -	\$ -	\$ 190,566
Receivables, net	15,040	42,864	-	57,904
Due from other funds	-	17,525	-	17,525
Restricted assets:				
Investments	-	-	9,493,360	9,493,360
	<u>\$ 205,606</u>	<u>\$ 60,389</u>	<u>\$ 9,493,360</u>	<u>\$ 9,759,355</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>				
Liabilities:				
Distributions payable	\$ 271	\$ 39,603	\$ -	\$ 39,874
Social security taxes payable	204,713	-	-	204,713
Other liabilities and accruals	41,004	20,786	-	61,790
Due to other funds	17,525	-	-	17,525
Total liabilities	<u>263,513</u>	<u>60,389</u>	<u>-</u>	<u>323,902</u>
Fund balances (deficit):				
Nonspendable	201,784	40,114	-	241,898
Restricted:				
Claims	-	-	9,493,360	9,493,360
Unassigned	<u>(259,691)</u>	<u>(40,114)</u>	<u>-</u>	<u>(299,805)</u>
Total fund balances (deficit)	<u>(57,907)</u>	<u>-</u>	<u>9,493,360</u>	<u>9,435,453</u>
Total liabilities and fund balances (deficit)	<u>\$ 205,606</u>	<u>\$ 60,389</u>	<u>\$ 9,493,360</u>	
Amounts reported for governmental activities in the statement of net assets is different because:				
Capital assets used in governmental activities are financial resources and, therefore, are not reported in the funds				<u>213,515</u>
Net assets of governmental activities				<u>\$ 9,648,968</u>

See accompanying notes to basic financial statements.

**UTRÖK ATOLL LOCAL GOVERNMENT**

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
 Governmental Funds  
 Year Ended September 30, 2012

	<u>General</u>	<u>Special Revenue Local Distribution Authority</u>	<u>Permanent Claims Trust</u>	<u>Total</u>
Revenues:				
Federal and other grants	\$ 207,851	\$ -	\$ -	\$ 207,851
Net change in the fair value of investments	-	-	1,289,290	1,289,290
Dividends and interest	3,240	25,837	-	29,077
Other	<u>11,433</u>	<u>-</u>	<u>215</u>	<u>11,648</u>
Total revenues	<u>222,524</u>	<u>25,837</u>	<u>1,289,505</u>	<u>1,537,866</u>
Expenditures:				
Current:				
Mayor and council	182,225	-	-	182,225
Administration and finance	556,341	-	-	556,341
Public safety	21,188	-	-	21,188
Food program	115,272	-	-	115,272
Nuclear claims related	-	915,106	-	915,106
Investment management	-	-	85,990	85,990
Debt service:				
Principal	-	-	865,534	865,534
Interest	<u>-</u>	<u>-</u>	<u>17,486</u>	<u>17,486</u>
Total expenditures	<u>875,026</u>	<u>915,106</u>	<u>969,010</u>	<u>2,759,142</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(652,502)</u>	<u>(889,269)</u>	<u>320,495</u>	<u>(1,221,276)</u>
Other financing sources (uses):				
Operating transfers in	815,130	430,646	-	1,245,776
Operating transfers out	<u>(430,646)</u>	<u>-</u>	<u>(815,130)</u>	<u>(1,245,776)</u>
Total other financing sources (uses), net	<u>384,484</u>	<u>430,646</u>	<u>(815,130)</u>	<u>-</u>
Net change in fund balances (deficit)	(268,018)	(458,623)	(494,635)	(1,221,276)
Fund balances at beginning of year	<u>210,111</u>	<u>458,623</u>	<u>9,987,995</u>	<u>10,656,729</u>
Fund balances (deficit) at end of year	\$ <u>(57,907)</u>	\$ <u>-</u>	\$ <u>9,493,360</u>	\$ <u>9,435,453</u>

See accompanying notes to basic financial statements.

## UTRŌK ATOLL LOCAL GOVERNMENT

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances (Deficit) of Governmental Funds  
to the Statement of Activities  
Year Ended September 30, 2012

Net change in fund balances (deficit) - total governmental funds \$ (1,221,276)

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

Depreciation expense (17,744)

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

Repayment of long-term debt 865,534

Change in net assets of governmental activities \$ (373,486)

See accompanying notes to basic financial statements.

## UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2012

### (1) Organization

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

### (2) Summary of Significant Accounting Policies

The accompanying financial statements of UALGOV have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental 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 UALGOV's accounting policies are described below.

#### A. Government-Wide Financial Statements

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

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

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

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

## UTRÖK 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 UALGOV's major funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards. UALGOV 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. 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 revenues 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 revenues are 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 UALGOV and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, UALGOV 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. 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.

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.

## UTRÖK 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:

UALGOV reports the following major funds:

- General Fund - this fund is the primary operating fund of UALGOV. It is used to account for all governmental transactions, except those required to be accounted for in another fund.
- Local Distribution Authority Fund - a special revenue fund that accounts for funds received under the Utrök Claims Trust Fund. These funds are distributed by UALGOV to the people of Utrök based on an approved distribution scheme.
- 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, UALGOV executed the Utrök Claims Trust Agreement and established the Claims Trust Fund. Pursuant to Section 4.4 of the trust agreement, the Trustee shall retain and add to the Corpus of the Trust not less than 30% nor more than 85% of the earned income arising from the Corpus of the Trust. In addition, pursuant to Section 5.1 of the trust agreement, UALGOV 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 UALGOV Council, in order to prevent hardship to the people of Utrök. An invasion of the corpus shall not occur more frequently than once every three years. On December 8, 2008, UALGOV executed an amended trust agreement whereby the annual distribution payment to the people of Utrök shall be \$1,220,000. In the event that the value of the corpus of the Claims Trust Fund falls below \$10,000,000, the annual distribution payment shall be reduced to \$610,000. All other terms and conditions of the initial trust agreement remain.

#### D. Cash

Cash includes cash on hand and cash held in demand and savings accounts.

#### 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 and are primarily determined based on quoted market values.

#### 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 as well as amounts due from U.S. federal agencies for expenditures on federally funded reimbursement and grant programs. Receivables are stated net of estimated allowances for uncollectable accounts, which is determined based upon past collection experience and aging of the accounts. Reimbursements due to UALGOV for expenditures on federally funded reimbursement and grant programs are included as receivables on the governmental fund balance sheet.

## UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2012

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

#### F. Receivables, Continued

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>	Local Distribution <u>Authority</u>	Claims <u>Trust</u>	<u>Total</u>
Receivables:				
Due from RepMar	\$ 19,144	\$ -	\$ -	\$ 19,144
Loans	201,784	40,114	-	241,898
Grants	37,885	-	-	37,885
Employee and other	<u>30,445</u>	<u>2,750</u>	<u>-</u>	<u>33,195</u>
	289,258	42,864	-	332,122
Less: Allowance for doubtful accounts	<u>(274,218)</u>	<u>-</u>	<u>-</u>	<u>(274,218)</u>
	<u>\$ 15,040</u>	<u>\$ 42,864</u>	<u>\$ -</u>	<u>\$ 57,904</u>

Loans receivable are uncollateralized and accrue interest at 9% per annum.

#### G. Interfund Receivables/Payables

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

Interfund receivables and payables have been eliminated from the statement of net assets.

#### H. Restricted Assets

Certain assets of UALGOV are classified as restricted assets because their use is completely restricted by trust agreements or enabling legislation. Specifically, investments of \$9,493,360 recorded in the Claims Trust Fund are restricted in that they are not available to be used in current operations.

#### I. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g. roads, docks, airports, water catchments, and other similar items), whether purchased or constructed, are recorded at historical cost. UALGOV capitalizes all capital assets that exceed \$5,000 and have a useful life greater than one year. 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 terminal	25 years
Building/facility and improvement	12 years
Machinery and equipment	10 years
Motor vehicles	3 years

## UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2012

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

#### J. Interfund/Intrafund Transactions

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

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.

#### K. Compensated Absences

UALGOV 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.

#### L. Fund Balances

Fund balance classifications are based on the extent to which UALGOV 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.

UALGOV 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 UALGOV 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.

## UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2012

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

#### M. New Accounting Standards

During fiscal year 2012, UALGOV 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 UALGOV.

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 UALGOV.

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 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 UALGOV.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. 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 UALGOV.

## UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2012

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

#### M. New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of UALGOV.

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 UALGOV.

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 UALGOV.

#### N. Estimates

The preparation of financial statements in accordance 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.

#### O. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with UALGOV's financial statements for the year ended September 30, 2011 from which summarized information was derived.

### (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.

UALGOV does not have formal deposit and investment policies. Investments in the Claims Trust Fund are governed by a trust agreement.

## UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2012

### (3) Deposits and Investments, Continued

#### A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, UALGOV'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. UALGOV does not have a deposit policy for custodial credit risk.

As of September 30, 2012, the carrying amount of the UALGOV's total cash and cash equivalents was \$190,566 and the corresponding bank balance was \$227,391. Of the bank balance amount, \$162,854 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012, bank deposits in the amount of \$162,854 were FDIC insured. Bank deposits of \$64,537 are maintained in financial institutions not subject to depository insurance. UALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

#### B. Investments

Investments of UALGOV as of September 30, 2012, are as follows:

Claims Trust Fund:	
Cash management	\$ 8,182,329
Mutual funds	1,310,966
Equities	<u>        65</u>
	<u>\$ 9,493,360</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, UALGOV will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. UALGOV'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 UALGOV's name by UALGOV'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. UALGOV 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 UALGOV. As of September 30, 2012, there were no investments in any one issuer that exceeded 5% of total investments.

## UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2012

### (4) Capital Assets

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

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance September 30, 2012</u>
Depreciable capital assets:				
Airport terminal	\$ 90,310	\$ -	\$ -	\$ 90,310
Building	-	-	103,259	103,259
Machinery and Equipment	72,422	-	-	72,422
Motor vehicles	<u>52,495</u>	<u>-</u>	<u>-</u>	<u>52,495</u>
	215,227	-	103,259	318,486
Less accumulated depreciation	<u>(87,227)</u>	<u>(17,744)</u>	<u>-</u>	<u>(104,971)</u>
	128,000	(17,744)	103,259	213,515
Nondepreciable capital assets:				
Construction in progress	<u>103,259</u>	<u>-</u>	<u>(103,259)</u>	<u>-</u>
	<u>\$ 231,259</u>	<u>\$ (17,744)</u>	<u>\$ -</u>	<u>\$ 213,515</u>

Depreciation expense of \$17,744 was charged to the Office of the Mayor and Council.

### (5) Loan Payable

In 2009, UALGOV entered into a \$2,440,000 term loan agreement with a bank for the purpose of funding claim beneficiary payments to eligible Utrökese in lieu of liquidating securities of the Claims Trust Fund. The loan is secured by a first priority lien over future earning and distribution payments made from the Claims Trust Fund. In 2011, UALGOV renegotiated the terms of the term loan agreement reducing the loan amount to \$1,220,000, which bears interest at a fixed rate of 1.779% per annum, due in quarterly installments of \$180,000 commencing January 15, 2011 with a final payment of \$680,000 due on December 20, 2011. The loan was fully paid during the year ended September 30, 2012.

During the year ended September 30, 2012, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2012</u>	<u>Balance due in One Year</u>
Bank loans	\$ <u>865,534</u>	\$ <u>-</u>	\$ <u>(865,534)</u>	\$ <u>-</u>	\$ <u>-</u>

## UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2012

### (6) Contingencies

#### Settlement Agreement

In 1997, UALGOV entered into a Settlement Agreement with the Bank of New York, the former trustee for the Utrök Claims Trust Fund. During fiscal year 1996, the Bank transferred \$390,000 of funds to the Utrök Local Distribution Authority (LDA) Fund, which should have been transferred to the Utrök Claims Trust Fund. These funds were subsequently used to fund loans or were otherwise disbursed by the LDA. Under the terms of the Settlement Agreement, the Bank agreed to reimburse the Utrök Claims Trust Fund the money erroneously transferred and UALGOV agreed to repay \$180,000 to the Bank plus any additional amounts that are subsequently identified and collected. As of September 30, 2012, UALGOV repaid \$180,000 pursuant to this agreement. Repayment of the remaining \$210,000 is contingent upon future collection of amounts previously loaned or disbursed by the LDA. UALGOV elected to not record the receivable for the loans amount and the related liability in the accompanying financial statements.

#### Section 177 Compact Funding

UALGOV received its final compensatory payment under the terms of the Compact on October 22, 2001. Management believes that investment income is sufficient to cover future cost of operations and distributions of the General Fund and the Local Distribution Authority Fund, respectively. However, in the event of a decline in future investment income, UALGOV will need to obtain revenue from other sources to be able to support its cost of operations and distributions.

At September 30, 2012, UALGOV is liable to the Marshall Islands Social Security Administration for certain delinquent employee and employer contributions, totaling \$204,713, which includes related penalties and interest (see note 8).

### (7) Risk Management

UALGOV 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. UALGOV has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed to with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, UALGOV has elected not to purchase commercial insurance. Instead, UALGOV management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, UALGOV reports all of its risk management activities in its General Fund.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from UALGOV's risk management activities during the years ended September 30, 2012, 2011 and 2010.

### (8) Subsequent Event

On July 8, 2013, UALGOV entered into a promissory note with the Marshall Islands Social Security Administration relating to delinquent taxes of \$152,490.

**UTRÖK ATOLL LOCAL GOVERNMENT**

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

**YEAR ENDED SEPTEMBER 30, 2012**

**UTRÖK ATOLL LOCAL GOVERNMENT**

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

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues:				
Federal and other grants	\$ 56,821	\$ 56,821	\$ 207,851	\$ 151,030
Interest	56,000	56,000	3,240	(52,760)
Other	-	-	11,433	11,433
Total revenues	<u>112,821</u>	<u>112,821</u>	<u>222,524</u>	<u>109,703</u>
Expenditures:				
Current:				
Salaries, wages and benefits	254,614	254,614	224,920	29,694
Honorarium and sitting fees	131,758	131,758	119,198	12,560
Food stuffs	8,500	8,500	5,834	2,666
Professional services	225,000	225,000	38,046	186,954
Travel and stipends	57,400	57,400	35,884	21,516
Motor vehicle	10,000	10,000	-	10,000
Rental	27,600	27,600	25,190	2,410
Office equipment and supplies	13,000	13,000	7,614	5,386
Communications	16,460	16,460	17,313	(853)
Contractual services	7,000	7,000	12,000	(5,000)
Contributions	19,500	19,500	11,064	8,436
Representation	3,500	3,500	1,500	2,000
Repairs and maintenance	3,200	3,200	4,298	(1,098)
USDA food program	-	-	115,272	(115,272)
Miscellaneous	36,945	36,945	256,893	(219,948)
Total expenditures	<u>814,477</u>	<u>814,477</u>	<u>875,026</u>	<u>(60,549)</u>
Deficiency of revenues under expenditures	<u>(701,656)</u>	<u>(701,656)</u>	<u>(652,502)</u>	<u>49,154</u>
Other financing sources (uses):				
Operating transfers in	656,794	656,794	815,130	158,336
Operating transfers out	-	-	(430,646)	(430,646)
Total other financing sources (uses), net	<u>656,794</u>	<u>656,794</u>	<u>384,484</u>	<u>(272,310)</u>
Net change in fund balance (deficit)	<u>\$ (44,862)</u>	<u>\$ (44,862)</u>	<u>\$ (268,018)</u>	<u>\$ (223,156)</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

## UTRÖK ATOLL LOCAL GOVERNMENT

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

### Budgetary Information

The UALGOV 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 UALGOV Council review and recommend changes to the proposed budget during the budget deliberation prior to presentation to the Council. UALGOV 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.

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 UALGOV 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 Tobin Kaiko  
Utrök Atoll Local Government  
Republic of the Marshall Islands:

We have audited the financial statements of the Utrök Atoll Local Government (UALGOV) Claims Trust Fund, as of and for the year ended September 30, 2012, and were engaged to audit the respective financial statements of UALGOV's governmental activities, General Fund and Local Distribution Authority Fund, which collectively comprise UALGOV's basic financial statements. We have issued our report thereon dated August 12, 2020, which report includes a disclaimer of opinion regarding assets, liabilities, revenues and expenses/expenditures recorded by UALGOV's governmental activities, General Fund and Local Distribution Authority Fund. 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 UALGOV is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered UALGOV'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 UALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UALGOV'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 Responses, 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 Responses as items 2012-02, 2012-05, 2012-07, 2012-09 through 2012-11 to be material weaknesses.

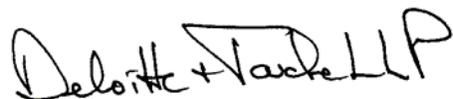
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether UALGOV'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 Responses as items 2012-01, 2012-03, 2012-04, 2012-06 and 2012-08.

We noted certain matters that we reported to management of UALGOV in a separate letter dated August 12, 2020.

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

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

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

August 12, 2020

**UTRÖK ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses  
Year Ended September 30, 2012

Finding No.: 2012-01  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.582 Commodity Supplemental Food Program  
Questioned Costs: \$80,551

Area: Allowable Costs/Cost Principles  
Procurement and Suspension and Debarment

Criteria: Purchases of goods and services by recipients of Federal grant funding are constrained by the concept of "fair procurement practices". Section 3016.36 of 7 CFR 3016, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that grantees and subgrantees will use their own procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Thus, the following guidelines shall be observed based on RepMar's Procurement Code:

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

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

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

In addition, expenditures incurred under federal programs should be in accordance with allowable costs/cost principles requirements and should be directly related to, and in accordance with, program intent and objectives.

Condition: Of \$341,924 in General Fund non-payroll expenditures, we tested twenty-three (23) items totaling \$128,220. We noted seven (7) CFDA # 10.582 federal program expenditures that did not evidence adequate compliance with either formal or informal procurement procedures:

<u>Item #</u>	<u>Check #</u>	<u>Amount</u>
1	2764	\$ 3,447
2	7390	12,488
3	7538	11,105
4	7699	11,000
5	8033	22,906
6	8342	8,105
7	8343	<u>11,500</u>
		\$ <u>80,551</u>

Further, for item #s 1 and 4, the related purchase requisitions, vendor invoices and other pertinent documentation supporting the expenditures were not made available.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-01, Continued  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.582 Commodity Supplemental Food Program  
Questioned Costs: \$80,551

Area: Allowable Costs/Cost Principles  
Procurement and Suspension and Debarment

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to establish compliance with procurement and allowable costs/cost principles requirements.

Effect: The effect of the above condition is noncompliance with procurement and allowable costs/cost principles requirements, which results in questioned costs.

Recommendation: We recommend that UALGOV comply with requisite procurement standards. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audit of UALGOV for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan: Please be informed that these are not Questioned Costs. Only that we did not maintain a photocopy of all the invoices from different suppliers and receipts as well. We all submitted these all to the Ministry of Finance quarterly upon disbursing the amounts we received from them. We did not receive any disallowances of the expenses for the USDA food from all reports we did except that the internal filing management was weak during this period due to the absence of an accountant/staff responsible for safe keeping of files. Also, we will not be able to received succeeding funding's if we didn't comply diligently with the requirements.

Auditor Response: Uniform Guidance definition of 'Questioned Cost' is a cost that is questioned by the auditor because of an audit finding a) which resulted from a violation or a possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds; b) where the costs, at the time of the audit, are not supported by adequate documentation; or c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. UALGOV falls on definition (b).

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-02

Area: Timely Financial Reporting

Criteria: Timely financial reporting should be facilitated by internal control conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: UALGOV did not finalize fiscal year September 30, 2012 financial information (trial balance, subsidiary and general ledgers) until February 1, 2019. Further, UALGOV does not have an established set of policies, procedures and controls in place to timely prepare and review reconciliations and reports. During the year ended September 30, 2012, various accounting records do not appear to have been processed and timely updated as evidenced by the following:

- a. The beginning fund balance did not agree with the FY2011 ending fund balance.
- b. The subsidiary ledger for distributions payable as of September 30, 2012 was not prepared and was not available until November 12, 2019. Furthermore, check nos. 8255, 9134, 0130, 8223 and JV08-039 were recorded in the books, but we could not find detail supporting that these checks actually were released and cannot determine their whereabouts through the use of alternate audit procedures.
- c. Bank reconciliations included reconciling items representing voided checks or items dated more than six months old.
- d. Various allotment payable accounts recorded debit balances.

Cause: The cause of the above condition is the lack of timely closing at year end and the absence of timely review and reconciliation of all significant general ledger accounts.

Effect: The trial balance, general ledger, subsidiary ledgers and reconciliations were not timely prepared for audit purposes resulting in an audit opinion report modification.

Recommendation: We recommend management implement internal control procedures to facilitate timely and accurate general ledger reconciliation processes.

Auditee Response and Corrective Action Plan: We agreed on this and we will make sure in the future that Utrik accounting reports will be done on time and a regular basis.

**UTRÖK ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2012

Finding No.: 2012-03

Area: Local Noncompliance - RMI Procurement Code

Criteria: RepMar's Procurement Code states the following:

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

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

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

Condition: Of \$341,924 in General Fund non-payroll expenditures, we tested twenty-three (23) items totaling \$128,220. Of the samples tested, the below do not evidence compliance with the procurement process set forth in the criteria:

<u>Expense Type</u>	<u>Amount</u>	<u>Check nos.</u>
Charter	\$ 7,000	2962
Professional fee	2,500	7774
Fuel	<u>1,678</u>	6564
	<u>\$ 11,178</u>	

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

Effect: The effect of the above condition is noncompliance with procurement requirements.

Recommendation: We recommend that UALGOV comply with requisite procurement standards. Specifically, supporting documentation should indicate the history of a procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the audit of UALGOV for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan: We are very sure we are complying the RepMar's Procurement Code. Only our problem during the time is our filing system. There is no Accountant and no specific assigned staff to check the filing of documents.

Auditor Response: At the time of the audit, adequate documentation to evidence compliance with procurement process were not made available.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-04

Area: Local Noncompliance - Social Security Act and Health Fund Act  
Social Security Taxes Payable

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, each employer shall submit to Social Security Administration report of wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, and 213, and 214, respectively, and pay into the Fund the contributions due.

Condition: At September 30, 2012, UALGOV recorded social security taxes payable of \$204,713 (GL Acct #s 150-2211 and 150-2213) for which no underlying reconciliation was provided identifying the liability owed for the respective quarters. Furthermore, UALGOV's Employer's Quarterly Tax Returns for the quarters ended December 31, 2011, June 30, 2012 and September 30, 2012 were not available. In addition, UALGOV did not prepare and file Employer's Quarterly Tax Returns or remit social security employer and employee contributions for the quarter ended March 31, 2011.

Cause: The cause of the above condition is a lack of established policies and procedures requiring compliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Effect: The effect of the above condition results in an audit opinion report modification and noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991 resulting in the incurrence of penalties and interest.

Recommendation: We recommend that management comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Prior Year Status: The lack of compliance with RepMar's Social Security Act of 1990 and the Social Security Health Fund Act of 1991 was reported as a finding in the audit of UALGOV for fiscal year 2011.

Auditee Response and Corrective Action Plan: Due to funding constraint, we have difficulty to pay our MISSA remittances on time.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-05

Area: Receivables and Allowance for Doubtful Accounts

Criteria: Adequate internal control policies and procedures should be established requiring that 1) receivables be regularly monitored, timely updated and collected; and 2) determination of the adequacy of the allowance for doubtful accounts be regularly assessed.

Condition: At September 30, 2012, UALGOV recorded loans receivable of \$241,898 (GL Acct #s 150-1100, 150-1121, 250-1121, 550-1119, 550-1120, 550-1121 and 550-1122), which included credit balances of \$173,165 (GL Acct #s 150-1100 and 550-1119), and for which no underlying subsidiary ledger was provided. Furthermore, management did not update the estimated allowance for doubtful accounts.

Cause: The cause of the above condition is the lack of implementation of established policies and procedures requiring that 1) receivables be regularly monitored, timely updated and collected; and 2) the adequacy of the allowance for doubtful accounts be regularly assessed.

Effect: The lack of implementation of established policies and procedures over receivables and the allowance for doubtful accounts results in an audit opinion report modification and may result in accumulating doubtful receivables.

Recommendation: We recommend management implement internal control policies and procedures requiring that 1) receivables be regularly monitored, timely updated and collected; and 2) the adequacy of the allowance for doubtful accounts be regularly assessed.

Auditee Response and Corrective Action Plan: Those receivables are mainly from the advances made for the quarterly distribution payments in 2009, 2010 and 2011. The management of Utrik approved this scheme and instructing the Accounting department to deduct their advances or receivables once the actual distribution payment was made. However, when the actual distribution payments were done, the Accounting department did not deduct or collect their advances. The record showed in the Distribution Expenses that they (employees and Utrik people) still collected checks for the corresponding periods. Nobody in the Accounting department is monitoring the list of receivables. Then up to this period, those receivables are not being collected. This is the major task of the Utrik Accounting Department to be done.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-06

Area: Local Noncompliance - Claims Trust Fund

Criteria: Claims Trust Fund agreement states the following:

(a) Section 4.3 – should the value of the corpus fall below \$10,000,000, UALGOV shall reduce the payments set forth in Section 4.1 by fifty percent (50%).

(b) Section 4.4 - upon receipt of written instructions from UALGOV, the Trustee shall retain and add to the corpus of the Trust not less than 30% but no more than 85% of the earned income arising from the corpus of the Trust.

(c) Section 5.2 - an invasion of corpus shall not occur more frequently than once every three years.

Condition: During the year ended September 30, 2012, we noted the following:

(a) Reduced fund payments set forth in Section 4.3 are \$610,000 (50% of original allowed \$1,220,000 fund payments); however, the total fund payments as of September 30, 2012 are \$915,906, which exceeded the allowable amount by \$305,106.

(b) Net income of the Trust Fund was \$1,203,515, 70% of which amounts to \$842,461 (maximum amount available to be withdrawn from net income). However, total drawdowns for fiscal year 2012 amounted to \$1,698,150, which exceeded the allowable amount that may be withdrawn by \$855,689.

Cause: The cause of the above condition is withdrawal and payment of funds from the Claims Trust Fund in excess of the maximum amount allowed per the trust agreement.

Effect: The effect of the above condition is the possibility of noncompliance with the Claims Trust Fund agreement.

Recommendation: We recommend that UALGOV comply with the trust agreement concerning distributions made from the Claims Trust Fund.

Prior Year Status: The lack of compliance with the Trust Fund agreement was reported as a finding in the audit of UALGOV for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan: We do not have control on the needs of our people so we withdraw beyond the agreement. This was approved by the council and our legal officer.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-07

Area: Distribution Payments

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

Condition: We tested fifty-three (53) LDA distribution payments made to the people of Utrök and noted the following exceptions:

- a. For thirty-nine (39) disbursements, such were remitted to financial institutions or individuals other than the designated recipient but the approved assignment/loan forms were not on file.
- b. For thirty-one (31) disbursements, changes in the original master list (due to the death of the original beneficiaries or added family member) were not formally documented and approved.
- c. For eleven (11) disbursements, supporting checks and a schedule of payments to financial institutions or individuals other than the designated recipient are not available for verification.
- d. For five (5) disbursements, supporting checks were unlocated and not available for verification.
- e. For two (2) disbursements, such did not evidence a recipient's signature as evidence of check receipt.

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

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

Recommendation: We recommend that management establish internal control procedures requiring: (1) check disbursements, authorization and loan forms be adequately safeguarded and filed; (2) changes to master list be formally documented and approved to verify the number of beneficiaries eligible for payment; and (3) release of checks be evidenced by signature of recipients.

Prior Year Status: The lack of adequate controls over LDA distribution payments was reported as a finding in the audit of UALGOV for fiscal year 2011.

Auditee Response and Corrective Action Plan: As we mentioned earlier, we do not have a full time Accountant and no specific assigned person to do our accounting works and filing of documents. We will make sure that in the future we will have a full time Accountant to safeguard our reports.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-08

Area: Local Noncompliance - Income Tax Act

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: At September 30, 2012, UALGOV recorded RMI income taxes payable of \$26,157 for which no reconciliation was provided identifying the detail of the liability. Furthermore, UALGOV's monthly RMI income tax returns for the year ended September 30, 2012 were not provided. Finally, UALGOV did not report and file income tax returns in accordance with the criteria.

Cause: The cause of the above condition is a lack of policies and procedures to monitor safekeeping of returns and to verify timely payments of withheld income taxes.

Effect: The effect of the above condition results in an audit opinion report modification and noncompliance with RepMar's Income Tax Act of 1989, as amended.

Recommendation: We recommend that management reconcile the RMI income taxes liability account and establish policies and procedures to safe keep tax returns to monitor compliance with the RepMar Income Tax Act of 1989, as amended.

Prior Year Status: The lack of compliance with RepMar Income Tax Act of 1989 was reported as a finding in the audit of UALGOV for fiscal years 2010 and 2011.

Auditee Response and Corrective Action Plan: As mentioned also, we have financial difficulty on this fiscal year. However, we also paid our taxes remittances with interest and penalties added on this.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-09

Area: Payroll Expenditures

Criteria Payroll processing should be based upon established internal control policies and procedures requiring the accuracy of information and proper authorization of transactions.

Condition: Of six samples tested during the year ended September 30, 2012, three with an aggregate gross pay of \$1,439 did not have available approved timesheets, timecards or other means of reporting hours worked.

Cause: The cause of the above condition is the lack of established internal control policies and procedures over payroll processing.

Effect: The lack of internal control policies and procedures over payroll processing, specifically over employee work hours, may result in abuse and misuse of government funds.

Recommendation: We recommend that management establish internal control policies and procedures over payroll processing to verify that accurate payroll information is processed and authorized.

Prior Year Status: The lack of internal control policies and procedures over payroll processing was reported as a finding in the audit of UALGOV for fiscal year 2011.

Auditee Response and Corrective Action Plan: We always make sure that there are timesheets or timecards for all our payroll. However, the three (3) mentioned staff which do not have timecards received their salary on a monthly basis. So, we do not require timesheet from them.

Auditor Response: Adequate documentation to evidence that three (3) mentioned staff are exempted to submit timesheet were not made available.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-10

Area: Minutes of Council Meetings

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

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

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

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

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

Auditee Response and Corrective Action Plan: We will make sure that in the future, we will have a copy and file of all the resolutions and minutes of the council.

## UTRÖK ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Responses, Continued Year Ended September 30, 2012

Finding No.: 2012-11

Area: Nonpayroll Expenditures

Criteria: Adequate internal control policies and procedures should be strictly imposed requiring that purchase requisitions, vendor invoices, and other documentation be adequately safeguarded and filed.

Condition: Of twenty-three (23) General Fund non-payroll expenditures tested, we noted the following exceptions:

- a. For six (6) items aggregating \$19,677 (check #s 7283, 7472, 7573, 7769, 8140, and 8177), the purchase requisitions, vendor invoices and other pertinent documents supporting the expenditures were not made available.
- b. For four (4) items aggregating \$22,947 (check #s 2764, 2773, 2962 and 7699), such were not supported by underlying vendor invoices, supplier statements and/or related contracts.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures requiring that underlying supporting documentation be adequately safeguarded and filed.

Effect: The effect of the above condition is potential misstatement of expenditures and noncompliance with grant agreements resulting in an audit opinion report modification.

Recommendation: We recommend that management strictly impose adherence to established internal control procedures requiring that underlying supporting documentation such as purchase requisitions, vendor invoices, and other pertinent documentation be adequately safeguarded and filed.

Auditee Response and Corrective Action Plan: We do not have a fulltime Accountant during this period and no specific assigned person to do our accounting works and filing of documents. We will make sure that in the future we will have a full time Accountant to safeguard our documents and reports.

**UTRÖK ATOLL LOCAL GOVERNMENT**

Unresolved Prior Year Findings  
Year Ended September 30, 2012

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.