

UTRÖK ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED SEPTEMBER 30, 2015

UTRÖK ATOLL LOCAL GOVERNMENT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2015. We were also engaged to audit the respective financial statements of UALGOV's governmental activities, General Fund and Local Distribution Authority Fund, and the related notes to the financial statements, as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on conducting the 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. Because of the matter described in the "Basis for Disclaimer of Opinions on the Governmental Activities, the General Fund and the Local Distribution Authority Fund" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions on the financial statements of UALGOV's governmental activities, General Fund and Local Distribution Authority Fund.

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 are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on UALGOV's Claims Trust Fund.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Disclaimer
General Fund	Disclaimer
Local Distribution Authority Fund	Disclaimer
Claims Trust Fund	Qualified

Basis for Disclaimer of Opinions on the Governmental Activities, the General Fund and the Local Distribution Authority Fund

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, 2015, and for the year then ended.

Disclaimer of Opinions on the Governmental Activities, the General Fund and the Local Distribution Authority Fund

Because of the significance of the matter described in the “Basis for Disclaimer of Opinions on the Governmental Activities, the General Fund and the Local Distribution Authority Fund” paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, opinions on the respective financial statements of UALGOV’s governmental activities, General Fund and Local Distribution Authority Fund as of and for the year ended September 30, 2015.

Basis for Qualified Opinion on the Claims Trust Fund

Because of inadequacies in UALGOV’s accounting records, we were unable to form an opinion regarding the amounts at which revenues and expenditures are recorded by UALGOV’s Claims Trust Fund for the year ended September 30, 2015. In addition, UALGOV’s Claims Trust Fund financial statements do not disclose the composition of investments (stated at \$8,432,652) and the credit quality ratings or information about the interest rate risk of investments in debt securities described in Note 3B as of September 30, 2015, as required by accounting principles generally accepted in the United States of America.

Qualified Opinion on the Claims Trust Fund

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion on the Claims Trust Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of UALGOV’s Claims Trust Fund as of September 30, 2015, 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.

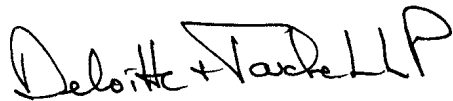
Other Matters

Required Supplementary Information

The Management’s Discussion and Analysis, on pages 4 through 7, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, as set forth in Section IV of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the management of UALGOV. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022, 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.

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

September 20, 2022

UTRÖK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
September 30, 2015

This Management Discussion and Analysis (MD&A) is provided by Utrök Atoll Local Government (UALGOV) as an overview to the financial statements for fiscal year 2015 in compliance with Governmental Accounting Standards Board (GASB). It is intended to present the results of activities and changes from October 1, 2014 through September 30, 2015 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 (CTF). This fund is awarded to the Utrök Local Distribution Authority (LDA) through the Nuclear Claims Tribunal for the purpose of compensating the people of Utrök who receive compensation payments from the 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 the LDA.

FINANCIAL HIGHLIGHTS

- The Claims Trust Fund (CTF) earned \$310,606 during the year ended September 30, 2015, paid investment management fees of \$48,825 and transferred out \$737,067 for General Fund operations to end at \$8,432,652 at the end of fiscal year 2015.
- UALGOV total net position decreased by \$848,093 as compared to FY2014 balances.
- UALGOV ended FY2015 with a net position of \$8,727,027, down from \$9,575,120 at the end of FY2014.
- Total assets decreased by \$754,541 and total liabilities increased by \$93,552 over last year's balance.
- Revenues and permanent fund contributions for FY2015 decreased by \$710,727 from FY2014 balances.
- Expenses for FY2015 decreased by \$5,347 from FY2014 balances.

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 position 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 position and liabilities, is one way to measure UALGOV's financial position. Over time increases or decrease in UALGOV's net position is an indicator of whether its financial condition is improving or deteriorating

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Management's Discussion and Analysis
September 30, 2015

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.

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

FINANCIAL ANALYSIS OF UALGOV

In reference to Summary of Statement of Net Position and Summary of Revenues, Expenses and Changes in Net Position for FY2015 and FY2014 shown below, the following are presented to provide an overview to UALGOV's basic financial statements and to give the readers a better understanding of the financial condition and activities of UALGOV.

Net position may serve over time as a useful indicator of a government's financial position. At the end of Fiscal Year 2015, UALGOV's total assets exceed liabilities by \$8,727,027; however, it should be noted that \$8,432,652 is restricted for nuclear claims related distribution payments as well as \$342,374 being invested in capital assets.

The summary of UALGOV's net position for FY2015 as compared to FY2014 follows:

UALGOV's Net Position As of September 30				
	Governmental Activities 2015	Governmental Activities 2014	Total \$ Change 2015-2014	Total Percentage Change 2015-2014
Current and other assets	\$ 8,735,480	\$ 9,506,412	\$ (770,932)	(8)%
Capital assets	<u>342,374</u>	<u>325,983</u>	<u>16,391</u>	5%
Total assets	<u>9,077,854</u>	<u>9,832,395</u>	<u>(754,541)</u>	(8)%
Current and other liabilities	<u>350,827</u>	<u>257,275</u>	<u>93,552</u>	36%
Total liabilities	<u>350,827</u>	<u>257,275</u>	<u>93,552</u>	36%
Net position:				
Net investment in capital assets	342,374	325,983	16,391	5%
Restricted	8,432,652	8,907,938	(475,286)	(5)%
Unrestricted	<u>(47,999)</u>	<u>341,199</u>	<u>(389,198)</u>	(114)%
Total net position	<u>\$ 8,727,027</u>	<u>\$ 9,575,120</u>	<u>\$ (848,093)</u>	(9)%

Current and other assets decreased by \$770,932 from the FY2014 balance of \$9,506,412.

The decrease is brought about by a decrease in investments from FY2015 due to continued withdrawals to fund distributions and general operations and the low performance of the Claims Trust in U.S stock market.

Capital assets, net of depreciation, increased by \$16,391 from last year's balances. The increase in capital assets was brought about by current year depreciation expense of \$31,520 offset by capital asset additions of \$47,911 during the year.

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Management's Discussion and Analysis September 30, 2015

At the end of FY2015, UALGOV's net position decreased by \$848,093 from \$9,575,120 at the close of FY2014, a decrease to \$8,727,027 at the end of FY2015.

Activities for the year included a decrease in contributions from the Claims Trust Fund of \$677,198 from last year's figure from \$938,979 to \$261,781 in FY2015. Revenues decreased slightly by \$33,529 from last year's figure from \$182,156 to \$148,627 in FY2015.

Expenses decreased by \$5,347 from \$1,263,848 at the end of FY2014 to \$1,258,501 at the end of FY2015.

The summary of UALGOV's change in net position for FY2015 as compared to FY2014 follows:

UALGOV's Change in Net Position Year Ended September 30				
	Governmental Activities 2015	Governmental Activities 2014	Total \$ Change 2015-2014	Total Percentage Change 2015-2014
Revenues:				
Program revenues:				
Operating grants	\$ 90,711	\$ 130,533	\$ (39,822)	(31)%
Capital grants	<u>37,911</u>	<u>44,196</u>	<u>(6,285)</u>	(14)%
	<u>128,622</u>	<u>174,729</u>	<u>(46,107)</u>	(26)%
General revenues:				
Investment	-	279	(279)	(100)%
Other	<u>20,005</u>	<u>7,148</u>	<u>12,857</u>	180%
	<u>20,005</u>	<u>7,427</u>	<u>12,578</u>	169%
Total revenues	<u>148,627</u>	<u>182,156</u>	<u>(33,529)</u>	<u>(18)%</u>
Expenses:				
Mayor and council	183,690	223,529	(39,839)	(18)%
Administration and finance	271,474	219,761	51,713	24%
Public safety	20,120	19,241	879	5%
Food program	51,234	103,016	(51,782)	(50)%
Nuclear claims related	<u>731,983</u>	<u>698,301</u>	<u>33,682</u>	5%
Total expenses	<u>1,258,501</u>	<u>1,263,848</u>	<u>(5,347)</u>	<u>(0)%</u>
	(1,109,874)	(1,081,692)	(28,182)	3%
Contributions from permanent fun	<u>261,781</u>	<u>938,979</u>	<u>(677,198)</u>	(72)%
Change in net position	<u>(848,093)</u>	<u>(142,713)</u>	<u>(705,380)</u>	<u>494%</u>
Net position - beginning	<u>9,575,120</u>	<u>9,717,833</u>	<u>(142,713)</u>	<u>(1)%</u>
Net position - ending	<u>\$ 8,727,027</u>	<u>\$ 9,575,120</u>	<u>\$ (848,093)</u>	<u>(9)%</u>

Highlight of changes in net position is as follows:

Decrease in grants for the year was brought about by a South Korea Grant amounting to \$22,496.

Dividends and interest earned decreased by \$279 from FY2014 to the end of FY2015 of \$0.

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Management's Discussion and Analysis
September 30, 2015

The decrease in contributions from the permanent fund for the year was due mainly to a decrease in 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 \$5,347 from FY2014 of \$1,263,848 to \$1,258,501 at the end of FY2015 was due mainly to a decrease in food program.

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 2015, UALGOV's governmental funds reported a combined fund balance of \$8,384,653, a decrease of \$864,484 from the \$9,249,137 fund balance at the beginning of the fiscal year.

GENERAL FUND BUDGET ANALYSIS

For the fiscal year 2015, the budget for the General Fund was \$615,349 to be funded primarily by drawdown from the Claims Trust Fund. During the year ended September 30, 2015, the deficiency of revenues under expenditures for the General Fund was \$393,676 prior to net transfers in of \$4,478.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

UALGOV's investment in capital assets for its governmental activities as of September 30, 2015 amounted to \$494,725, net of accumulated depreciation of \$152,351, leaving a net book value of \$342,374. This represents an increase of \$16,391 from the \$325,983 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, 2015, capital asset additions of \$47,911 occurred, which represented construction in progress and building.

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

Long-term Debt

UALGOV did not incur new debt during the year ended September 30, 2015.

FINANCIAL PLAN AND OUTLOOK

UALGOV's FY2016 budget amounts to \$822,293 which is lower than the FY2015 budget by \$459,268. Of this amount, \$364,915 is allotted for the General Fund, which represents a decrease of \$250,434 compared with the allotment for the General Fund of \$615,349 for FY2015.

For FY2016, UALGOV budgeted \$432,878 for the Local Distribution Authority.

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.

UTROK ATOLL LOCAL GOVERNMENT

Statement of Net Position September 30, 2015

ASSETS

Current assets:	
Cash	\$ 85,758
Receivables, net	217,070
Total current assets	<u>302,828</u>
Noncurrent assets:	
Restricted assets:	
Investments	8,432,652
Capital assets:	
Nondepreciable capital assets	137,947
Capital assets, net of accumulated depreciation	204,427
Total noncurrent assets	<u>8,775,026</u>
Total assets	<u>\$ 9,077,854</u>

LIABILITIES

Current liabilities:	
Distributions payable	\$ 34,869
Current portion of social security taxes payable	28,673
Other liabilities and accruals	167,819
Total current liabilities	231,361
Social security taxes payable, net of current portion	119,466
Total liabilities	<u>350,827</u>

Commitments and contingencies

NET POSITION

Net investment in capital assets	342,374
Restricted for:	
Nonexpendable	8,432,652
Unrestricted	(47,999)
Total net position	<u>8,727,027</u>
Total liabilities and net position	<u>\$ 9,077,854</u>

See accompanying notes to basic financial statements.

UTROK ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2015

	Program Revenues			
Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Governmental activities:				
Mayor and council	\$ 183,690	\$ -	\$ -	\$ (183,690)
Administration and finance	271,474	43,741	-	(227,733)
Public safety	20,120	-	-	(20,120)
Food program	51,234	46,970	-	(4,264)
Projects	-	-	37,911	37,911
Nuclear claims related	731,983	-	-	(731,983)
	<u>\$ 1,258,501</u>	<u>\$ 90,711</u>	<u>\$ 37,911</u>	<u>(1,129,879)</u>
General revenues:				
Other				20,005
Contributions from permanent fund				261,781
Total general revenues and contributions				281,786
Change in net position				(848,093)
Net position at beginning of the year				9,575,120
Net position at end of the year				<u>\$ 8,727,027</u>

See accompanying notes to basic financial statements.

UTROK ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2015

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Local Distribution Authority</u>	<u>Permanent Claims Trust</u>	<u>Total</u>
Cash	\$ 83,855	\$ 1,903	\$ -	\$ 85,758
Receivables, net	11,930	205,140	-	217,070
Due from other funds	78,753	-	-	78,753
Restricted assets:				
Investments	-	-	8,432,652	8,432,652
	<u>\$ 174,538</u>	<u>\$ 207,043</u>	<u>\$ 8,432,652</u>	<u>\$ 8,814,233</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Distributions payable	\$ 271	\$ 34,598	\$ -	\$ 34,869
Social security taxes payable	148,139	-	-	148,139
Other liabilities and accruals	74,127	93,692	-	167,819
Due to other funds	-	78,753	-	78,753
Total liabilities	<u>222,537</u>	<u>207,043</u>	<u>-</u>	<u>429,580</u>
Fund balances:				
Restricted:				
Claims	-	-	8,432,652	8,432,652
Unassigned	(47,999)	-	-	(47,999)
Total fund balances	<u>(47,999)</u>	<u>-</u>	<u>8,432,652</u>	<u>8,384,653</u>
Total liabilities and fund balances	<u>\$ 174,538</u>	<u>\$ 207,043</u>	<u>\$ 8,432,652</u>	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are financial resources and, therefore, are not reported in the funds				
				<u>342,374</u>
Net position of governmental activities				<u>\$ 8,727,027</u>

See accompanying notes to basic financial statements.

UTRÖK ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2015

	General	Special Revenue Local Distribution Authority	Permanent Claims Trust	Total
Revenues:				
Federal and other grants	\$ 128,622	\$ -	\$ -	\$ 128,622
Net change in the fair value of investments	-	-	310,606	310,606
Other	18,300	1,705	-	20,005
Total revenues	146,922	1,705	310,606	459,233
Expenditures:				
Current:				
Mayor and council	152,170	-	-	152,170
Administration and finance	269,163	2,311	-	271,474
Public safety	20,120	-	-	20,120
Food program	51,234	-	-	51,234
Nuclear claims related	-	731,983	-	731,983
Investment management fees	-	-	48,825	48,825
Capital outlay	47,911	-	-	47,911
Total expenditures	540,598	734,294	48,825	1,323,717
Excess (deficiency) of revenues over (under) expenditures	(393,676)	(732,589)	261,781	(864,484)
Other financing sources (uses):				
Operating transfers in	737,067	732,589	-	1,469,656
Operating transfers out	(732,589)	-	(737,067)	(1,469,656)
Total other financing sources (uses), net	4,478	732,589	(737,067)	-
Net change in fund balances	(389,198)	-	(475,286)	(864,484)
Fund balances at beginning of year	341,199	-	8,907,938	9,249,137
Fund balances at end of year	\$ (47,999)	\$ -	\$ 8,432,652	\$ 8,384,653

See accompanying notes to basic financial statements.

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Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2015

Net change in fund balances - total governmental funds		\$	(864,484)
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:			
Capital outlays	\$	47,911	
Depreciation expense		<u>(31,520)</u>	
			<u>16,391</u>
Change in net position of governmental activities		\$	<u><u>(848,093)</u></u>

See accompanying notes to basic financial statements.

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Notes to Financial Statements
September 30, 2015

(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 27-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 Position 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 Position presents all of UALGOV'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 expended or added to the principal.
- Restricted net position - 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 position consists of net position, which do not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

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

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Notes to Financial Statements
September 30, 2015

(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, 2015

(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.

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, 2015

(2) Summary of Significant Accounting Policies, Continued

F. Receivables, Continued

Receivables as of September 30, 2015, for the primary government's individual major governmental funds, including applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Local Distribution Authority</u>	<u>Claims Trust</u>	<u>Total</u>
Receivables:				
Due from RepMar	\$ 19,144	\$ -	\$ -	\$ 19,144
Loans	163,168	233,203	-	396,371
Grants	37,885	-	-	37,885
Employee and other	<u>17,471</u>	<u>2,702</u>	<u>-</u>	<u>20,173</u>
	237,668	235,905	-	473,573
Less: Allowance for doubtful accounts	<u>(225,738)</u>	<u>(30,765)</u>	<u>-</u>	<u>(256,503)</u>
	<u>\$ 11,930</u>	<u>\$ 205,140</u>	<u>\$ -</u>	<u>\$ 217,070</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 position.

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 \$8,432,652 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	10-12 years
Machinery and equipment	10 years
Motor vehicles	3 years

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2015

(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 as of September 30, 2015, 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, 2015

(2) Summary of Significant Accounting Policies, Continued

M. New Accounting Standards

During the year ended September 30, 2015, UALGOV implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of UALGOV.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. 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, 2015

(2) Summary of Significant Accounting Policies, Continued

M. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. 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, 2014, from which summarized information was derived.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2015

(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.

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, 2015, the carrying amount of the UALGOV's total cash was \$85,758 and the corresponding bank balance was \$84,264. Of the bank balance amount, \$25,053 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015, bank deposits in the amount of \$25,053 were FDIC insured. Bank deposits of \$59,211 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

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 as of September 30, 2015.

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 amounts of investments in any one issuer that represents five percent (5%) or more of total investments for UALGOV. As of September 30, 2015, investments in any one issuer that exceeded 5% of total investments is not determinable.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2015

(4) Capital Assets

Capital asset activities for the year ended September 30, 2015, are as follows:

	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance September 30, 2015</u>
Depreciable capital assets:				
Airport terminal	\$ 90,310	\$ -	\$ -	\$ 90,310
Building	103,259	7,917	29,994	141,170
Machinery and equipment	79,158	-	-	79,158
Motor vehicles	<u>46,140</u>	<u>-</u>	<u>-</u>	<u>46,140</u>
	318,867	7,917	29,994	356,778
Less accumulated depreciation	<u>(120,831)</u>	<u>(31,520)</u>	<u>-</u>	<u>(152,351)</u>
	198,036	(23,603)	29,994	204,427
Nondepreciable capital assets:				
Construction in progress	<u>127,947</u>	<u>39,994</u>	<u>(29,994)</u>	<u>137,947</u>
	<u>\$ 325,983</u>	<u>\$ 16,391</u>	<u>\$ -</u>	<u>\$ 342,374</u>

Depreciation expense of \$31,520 was charged to the Office of the Mayor and Council.

(5) Social Security Taxes Payable

As of September 30, 2015, UALGOV was liable for taxes, including certain delinquent social security taxes, payable to the Marshall Islands Social Security Administration (MISSA) in the amount of \$148,139. In 2013, UALGOV and MISSA entered into a promissory note agreement for delinquent taxes in the amount of \$152,490. The terms of the agreement include monthly payments of \$1,500, inclusive of interest at 12% per annum, commencing July 10, 2013 until the outstanding balance is fully paid.

(6) Loss on Transfer of Investments

On March 2016, UALGOV hired a new fund manager to manage its investment funds and started to transfer its investments on March 16, 2016. Total initial investments transferred to the new fund manager and investment withdrawals from October 2015 through March 2016, do not reconcile to the information maintained by the accounting department and the investment statements provided by the previous fund manager and trustee as of September 30, 2015. Hence, UALGOV recorded a loss on transfer of investments of \$1,178,549 for the year ended September 30, 2015.

(7) 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, 2015, 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.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2015

(7) Contingencies, Continued

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.

(8) 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, 2015, 2014 and 2013.

UTRÖK ATOLL LOCAL GOVERNMENT

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2015

UTROK ATOLL LOCAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund
Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Federal and other grants	\$ 24,500	\$ 75,734	\$ 128,622	\$ 52,888
Other	-	-	18,300	18,300
Total revenues	<u>24,500</u>	<u>75,734</u>	<u>146,922</u>	<u>71,188</u>
Expenditures:				
Current:				
Salaries, wages and benefits	204,522	204,522	180,487	24,035
Honorarium and sitting fees	113,840	113,840	100,301	13,539
Food stuffs	4,200	4,200	5,862	(1,662)
Professional services	100,000	100,000	94,250	5,750
Travel and stipends	16,000	16,000	13,980	2,020
Rental	25,252	25,252	27,560	(2,308)
Office equipment and supplies	5,000	5,000	10,348	(5,348)
Communications	6,000	6,000	7,352	(1,352)
USDA food program	-	51,234	51,234	-
Contingency	150,000	150,000	-	150,000
Miscellaneous	15,035	15,035	1,313	13,722
Capital outlay:				
Development projects	-	-	47,911	(47,911)
Total expenditures	<u>639,849</u>	<u>691,083</u>	<u>540,598</u>	<u>150,485</u>
Deficiency of revenues under expenditures	<u>(615,349)</u>	<u>(615,349)</u>	<u>(393,676)</u>	<u>221,673</u>
Other financing sources (uses):				
Operating transfers in	615,349	615,349	737,067	121,718
Operating transfers out	-	-	(732,589)	(732,589)
Total other financing sources (uses), net	<u>615,349</u>	<u>615,349</u>	<u>4,478</u>	<u>(610,871)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (389,198)</u>	<u>\$ (389,198)</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2015

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 AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Utrök Atoll Local Government (UALGOV) Claims Trust Fund, as of and for the year ended September 30, 2015. We were also engaged to audit the respective financial statements of UALGOV's governmental activities, General Fund and Local Distribution Authority Fund, and the related notes to the financial statements, which collectively comprise UALGOV's basic financial statements. We have issued our report thereon dated September 20, 2022, 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, and which includes a qualified opinion on Claims Trust Fund regarding inadequacies in UALGOV's accounting records and certain omitted footnote disclosures.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2015-02, 2015-05, 2015-06 and 2015-08 through 2015-10 that we consider to be material weaknesses.

Compliance and Other Matters

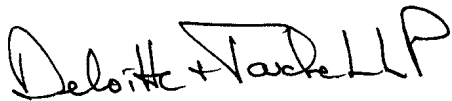
As part of obtaining reasonable assurance about whether UALGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 2015-01, 2015-03, 2015-04 and 2015-07.

UALGOV's Responses to Findings

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

Purpose of this Report

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



September 20, 2022

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Year Ended September 30, 2015

Finding No.: 2015-01
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.582 Commodity Supplemental Food Program
Questioned Costs: \$45,490

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 \$340,434 in General Fund non-payroll expenditures, we tested twenty-four (24) items totaling \$186,453. We noted three (3) 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	11962	\$ 20,000
2	12256	11,976
3	12357	<u>13,514</u>
		\$ <u>45,490</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 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.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2015

Finding No.: 2015-01, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.582 Commodity Supplemental Food Program
Questioned Costs: \$45,490

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

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 audits of UALGOV for fiscal years 2009 through 2014.

Auditee Response and Corrective Action Plan: UALGOV will comply in the future with RepMar's Procurement Code to eradicate this repeated finding.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2015

Finding No.: 2015-02
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, 2015, 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, 2015, various accounting records do not appear to have been processed and timely updated as evidenced by the following:

- a. The subsidiary ledger of distributions payable as of September 30, 2015, was not prepared and was not made available until November 12, 2019. Furthermore, evidence of subsequent payment/ clearance of check nos. 8255, 9134, 0130, 8223 and JV08-039 could not be provided.
- b. Bank reconciliations included reconciling items representing voided checks or items greater than six months old. These were subsequently adjusted to other liabilities.
- c. Evidence of validity and/or subsequent payment of recorded GL 250-2240 Accounts Payable-stale (Others) totaling \$33,780 could not be provided.
- d. As of September 30, 2015, UALGOV recorded allotments payable of \$20,734 (GL Account # 250-2224) for which no underlying subsidiary ledger was provided. Further, subsidiary ledgers of GL Account #s 250-2233 and 250-2245 provided were inaccurate.
- e. Various allotment payable accounts recorded debit balances.

Cause: The cause of the above condition is the lack of timely year end closing and the absence of timely review and reconciliation of 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.

Prior Year Status: The lack of timely financial reporting was reported as a finding in the audits of UALGOV for fiscal years 2012 through 2014.

Auditee Response and Corrective Action Plan: At the time, UALGOV did not have a full-time qualified accountant to prepare these financial reports on time and had to explore for a qualified accountant. We agreed and will make certain that UALGOV accounting reports will be prepared on time and a regular basis.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2015

Finding No.: 2015-003
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, 2015, UALGOV incurred contractual services of \$94,250 for independent legal counsel. No approval was provided by UALGOV to indicate that these services were approved by the Attorney-General.

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

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

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

Auditee Response and Corrective Action Plan: UALGOV will comply with the RepMar's Procurement Code and obtain written approval of the Attorney General for contracts for the services of independent legal counsel.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2015

Finding No.: 2015-04
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, 2015, UALGOV recorded social security taxes payable of \$148,139 (GL Account #s 150-2211 and 150-2213) for which no underlying reconciliation was provided identifying the liability owed and by the respective quarters impacted. Furthermore, UALGOV's Employer's Quarterly Tax Return for the quarter ended June 30, 2015, was not timely filed and paid.

Cause: The cause of the above condition is a lack of established policies and procedures requiring reconciliation of liability accounts and compliance with the Social Security Act of 1990 and 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 reconcile the social security taxes liability account and 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 audits of UALGOV for fiscal years 2011 through 2014.

Auditee Response and Corrective Action Plan: Due to funding constraint, we have difficulty to pay our MISSA remittances on time. In the future, we will set aside funding to pay these taxes on time.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2015

Finding No.: 2015-05
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, 2015, UALGOV recorded loans receivable of \$396,371 (GL Account #s 150-1100, 150-1121, 250-1121, 550-1119, 550-1120, 550-1121 and 550-1122), which included credit balances of \$173,691 (GL Account #s 150-1100, 550-1119 and 550-1122), and for which no underlying subsidiary ledger was provided. Furthermore, management did not update the estimated allowance for doubtful accounts associated with recorded receivables.

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.

Prior Year Status: The lack of internal control policies and procedures over receivables and the related allowance for doubtful accounts was reported as a finding in the audits of UALGOV for fiscal years 2012 through 2014.

Auditee Response and Corrective Action Plan: As mentioned in the previous audits, these receivables are mainly from advances made for the quarterly distribution payments from previous years. An internal policy for such advance is being established to implement collecting and updating these receivables on time.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2015

Finding No.: 2015-06
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 thirty-nine LDA distribution payments to the people of Utrök and noted the following exceptions:

- a. For seventeen disbursements, such were remitted to financial institutions or individuals other than the designated recipients; however, the approved assignment/loan forms were not on file.
- b. For thirty-eight 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 two disbursements, supporting checks were not available for verification.
- d. For two disbursements, recipient signatures were not verified as evidence of check receipt.
- e. Actual LDA distribution payments in excess of the budget amounted to \$90,270. There is a possibility of duplicate payments or duplicate distribution expenditures recorded.

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 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 the master list be formally documented and approved to verify the number of beneficiaries eligible for payment and 3) an analysis of actual against budgeted distribution payments be performed.

Prior Year Status: The lack of adequate controls over LDA distribution payments was reported as a finding in the audits of UALGOV for fiscal years 2011 through 2014.

Auditee Response and Corrective Action Plan: As mentioned in previous audits, shortage of staff constitutes poor filing system. A newly hired staff is being assigned to filing of documentation and check distribution payments.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2015

Finding No.: 2015-07
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, 2015, UALGOV recorded RMI income taxes payable of \$23,652 for which no reconciliation was provided identifying the liability owed and the respective months impacted. Furthermore, UALGOV's income tax returns for the year were filed after the required filing date (except for the month of August 2015 that was filed on time).

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 audits of UALGOV for fiscal years 2010 through 2014.

Auditee Response and Corrective Action Plan: Please refer to response to Finding No. 2015-04. UALGOV will demonstrate conservation of funding, reconcile and strictly monitor payments dues to RepMar Income Tax.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No.: 2015-08
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 five items tested during the year ended September 30, 2015, we noted the following exceptions:

- a. Two, with an aggregate gross pay of \$1,204, are not supported by approved timesheets, timecards or other means of reporting hours worked.
- b. Two, with an aggregate gross pay of \$1,786, are not supported by approved leave forms to support the use of the leave hours.

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 with respect to employee work hours, sick leave or vacation leave 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 audits of UALGOV for fiscal years 2011 through 2014.

Auditee Response and Corrective Action Plan: UALGOV will take on board recommendation to establish internal control policies and procedures over payroll and make sure payroll information is processed and authorized.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No.: 2015-09
Area: Investments

Criteria: Adequate accounting controls necessitate investments be appropriately recorded and monitored. Information maintained by the accounting department and the investment statements should be reconciled.

Condition: During the year ended September 30, 2015, UALGOV recorded investments of \$8,432,652. The following unreconciled differences were noted:

a.	Investment balance per accounting records	\$ 8,432,652
	Investment balance per fund manager investment statement	<u>8,171,934</u>
	Difference	\$ <u>260,718</u>
b.	Investment balance per accounting records	\$ 8,432,652
	Investment balance per trustee investment statement	<u>6,333,502</u>
	Difference	\$ <u>(2,099,150)</u>

Furthermore, recorded investment related revenues and expenses during the year were not supported.

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 significant general ledger accounts.

Effect: The effect of the above condition results in an audit opinion report modification.

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

Auditee Response and Corrective Action Plan: UALGOV will strictly monitor and reconcile the investment account and make sure unreconciled differences are noted and investigated.

UTRŌK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2015

Finding No.: 2015-10
Area: Revenues

Criteria: Adequate accounting controls necessitate that underlying supporting documentation such as grant agreements be adequately safeguarded and filed.

Condition: Of nine paid receipts tested during the year ended September 30, 2015, three, with an aggregate amount of \$29,968, were not supported by documentation such as grant agreements.

Cause: The cause of the above condition is a lack of policies and procedures relating to the safekeeping of grant agreements.

Effect: The effect of the above condition results in an audit opinion report modification.

Recommendation: We recommend that management establish internal control policies and procedures relating to the safekeeping of grant agreements.

Auditee Response and Corrective Action Plan: UALGOV agrees with the recommendation to establish internal control policies and procedures relating to the safekeeping of grant agreements.

UTRŌK ATOLL LOCAL GOVERNMENT

Unresolved Prior Year Findings
Year Ended September 30, 2015

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