

RONGELAP ATOLL LOCAL GOVERNMENT

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

YEAR ENDED SEPTEMBER 30, 2017

RONGELAP ATOLL LOCAL GOVERNMENT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise RALGOV's basic financial statements as set forth in Section II of the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

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

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

We were unable to confirm notes payable aggregating \$806,090 recorded by the governmental activities as of September 30, 2017 and were unable to satisfy ourselves about notes payable through alternative procedures. Furthermore, because of inadequacies in RALGOV's accounting records, we were unable to form an opinion regarding an investment of \$300,000 recorded by the governmental activities and the Local Distribution Authority Fund. Finally, as discussed in Note 3B to the financial statements, an investment in Aquaculture Technologies of the Marshall Islands, Inc. (Corporation), a 51%-owned corporation, is reported at cost by the governmental activities and the Resettlement Phase One Fund. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. Due to the lack of audited financial statements of the Corporation, the effect of that departure from accounting principles generally accepted in the United States of America on the accompanying financial statements of the governmental activities and the Resettlement Phase One Fund are not reasonably determinable.

Qualified Opinions

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions on the Governmental Activities, the Local Distribution Authority Fund and the Resettlement Phase One Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the Local Distribution Authority Fund, and the Resettlement Phase One Fund of the Rongelap Atoll Local Government as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, the Resettlement Trust Fund, the Claims Trust Fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, RALGOV determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position.

Our opinion is not modified with respect to this matter.

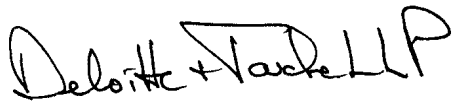
Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2023, on our consideration of RALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



April 19, 2023

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Net Position September 30, 2017

ASSETS

Current assets:	
Cash and cash equivalents	\$ 383,499
Receivables, net of allowance for uncollectibles of \$4,000,118	100,397
Prepaid items	<u>104,109</u>
Total current assets	<u>588,005</u>
Noncurrent assets:	
Investments	1,037,601
Restricted assets:	
Investments	28,393,581
Capital assets:	
Nondepreciable capital assets	100,000
Capital assets, net of accumulated depreciation	<u>7,921,810</u>
Total noncurrent assets	<u>37,452,992</u>
Total assets	<u><u>\$ 38,040,997</u></u>

LIABILITIES

Current liabilities:	
Current portion of notes payable	\$ 24,787
Accounts payable	311,227
Accrued interest payable	2,841
Other liabilities and accruals	<u>103,097</u>
Total current liabilities	441,952
Noncurrent liabilities:	
Notes payable, net of current portion	781,303
Loan payable	<u>6,126,000</u>
Total liabilities	<u>7,349,255</u>
Commitments and contingencies	

NET POSITION

Net investment in capital assets	8,021,810
Restricted for:	
Nonexpendable:	
Claims	18,051,521
Expendable:	
Resettlement	3,450,244
Claims	763,056
Other	100,000
Unrestricted	<u>305,111</u>
Total net position	<u>30,691,742</u>
Total liabilities and net position	<u><u>\$ 38,040,997</u></u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2017

	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
<u>Functions/Programs</u>			
Government activities:			
Council	\$ 50,868	\$ -	\$ (50,868)
Education	123,805	-	(123,805)
Finance	288,291	-	(288,291)
Health and sanitation	82,659	-	(82,659)
Office of the Mayor	459,454	-	(459,454)
Phase 1 - engineering	37,085	-	(37,085)
Public safety	104,866	-	(104,866)
Social services	293,074	125,334	(167,740)
Transportation and communication	107,220	-	(107,220)
Resettlement program	1,475,015	138,890	(1,336,125)
Fish farming	470,000	-	(470,000)
Nuclear claims related	1,725,713	-	(1,725,713)
Rongelap bungalows	76,823	-	(76,823)
Unallocated interest - long-term debt	105,093	-	(105,093)
	<u>\$ 5,399,966</u>	<u>\$ 264,224</u>	(5,135,742)
General revenues:			
Investment earnings			26,165
Other			45,690
Total general revenues			<u>71,855</u>
Contributions from permanent fund			<u>2,279,842</u>
Total general revenues and contributions			<u>2,351,697</u>
Change in net position			(2,784,045)
Net position at the beginning of the year			<u>33,475,787</u>
Net position at the end of the year			<u>\$ 30,691,742</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2017

	Special Revenue			Capital Projects	Permanent	Other Governmental Fund	Total
	General	Resettlement Trust	Local Distribution Authority	Resettlement Phase One	Claims Trust		
ASSETS							
Cash and cash equivalents	\$ 74,224	\$ -	\$ 277,854	\$ 24,747	\$ -	\$ 6,674	\$ 383,499
Investments	55,067	-	310,750	671,784	-	-	1,037,601
Receivables, net	45,945	13,033	-	11,337	30,082	-	100,397
Prepaid items	22,971	-	61,192	15,146	-	4,800	104,109
Due from other funds	54,306	-	179,650	-	-	19,384	253,340
Restricted assets:							
Investments	-	5,043,301	-	-	23,350,280	-	28,393,581
	<u>\$ 252,513</u>	<u>\$ 5,056,334</u>	<u>\$ 829,446</u>	<u>\$ 723,014</u>	<u>\$ 23,380,362</u>	<u>\$ 30,858</u>	<u>\$ 30,272,527</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 168,587	\$ -	\$ 65,898	\$ 49,171	\$ -	\$ 27,571	\$ 311,227
Other liabilities and accruals	64,789	-	492	39,798	-	(1,982)	103,097
Due to other funds	-	-	-	253,340	-	-	253,340
Total liabilities	<u>233,376</u>	<u>-</u>	<u>66,390</u>	<u>342,309</u>	<u>-</u>	<u>25,589</u>	<u>667,664</u>
Fund balances							
Nonspendable	55,067	-	310,750	671,784	-	-	1,037,601
Restricted	-	5,056,334	452,306	-	23,380,362	-	28,889,002
Committed	100,000	-	-	-	-	-	100,000
Unassigned	(135,930)	-	-	(291,079)	-	5,269	(421,740)
Total fund balances	<u>19,137</u>	<u>5,056,334</u>	<u>763,056</u>	<u>380,705</u>	<u>23,380,362</u>	<u>5,269</u>	<u>29,604,863</u>
Total liabilities and fund balances	<u>\$ 252,513</u>	<u>\$ 5,056,334</u>	<u>\$ 829,446</u>	<u>\$ 723,014</u>	<u>\$ 23,380,362</u>	<u>\$ 30,858</u>	

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

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

8,021,810

Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:

Notes payable	\$ (806,090)
Loan payable	(6,126,000)
Accrued interest payable	<u>(2,841)</u>

(6,934,931)

Net position of governmental activities

\$ 30,691,742

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2017

	Special Revenue			Capital Projects	Permanent	Other	Total
	General	Resettlement Trust	Local Distribution Authority	Resettlement Phase One	Claims Trust	Governmental Funds	
Revenues:							
Federal and other grants	\$ 125,334	\$ -	\$ -	\$ 138,890	\$ -	\$ -	\$ 264,224
Dividends and interest	-	125,800	-	21,749	394,030	4,416	545,995
Net change in the fair value of investments	-	440,610	-	-	1,637,861	-	2,078,471
Other	18,000	(6,617)	393	3,825	-	30,089	45,690
Total revenues	143,334	559,793	393	164,464	2,031,891	34,505	2,934,380
Expenditures:							
Current:							
Council	50,868	-	-	-	-	-	50,868
Education	123,805	-	-	-	-	-	123,805
Finance	268,685	-	3,605	156	-	12,160	284,606
Health and sanitation	82,659	-	-	-	-	-	82,659
Office of the Mayor	454,252	-	-	-	-	-	454,252
Phase I - Engineering	29,665	-	-	-	-	-	29,665
Public safety	104,866	-	-	-	-	-	104,866
Social services	293,074	-	-	-	-	-	293,074
Transportation and communication	107,220	-	-	-	-	-	107,220
Resettlement program	82,915	-	-	957,950	-	-	1,040,865
Fish farming	-	-	340,000	130,000	-	-	470,000
Nuclear claims related	-	-	1,725,713	-	-	-	1,725,713
Investment management	-	53,515	-	-	264,944	-	318,459
Rongelap Bungalows	-	-	-	-	-	70,823	70,823
Debt service	-	-	-	49,328	79,109	-	128,437
Total expenditures	1,598,009	53,515	2,069,318	1,137,434	344,053	82,983	5,285,312
Excess (deficiency) of revenues over (under) expenditures	(1,454,675)	506,278	(2,068,925)	(972,970)	1,687,838	(48,478)	(2,350,932)
Other financing sources (uses):							
Loan proceeds	-	800,000	-	-	-	-	800,000
Operating transfers in	1,473,292	-	800,000	772,451	-	29,310	3,075,053
Operating transfers out	-	(2,027,035)	(1,018,708)	(29,310)	-	-	(3,075,053)
Total other financing sources (uses), net	1,473,292	(1,227,035)	(218,708)	743,141	-	29,310	800,000
Net change in fund balances	18,617	(720,757)	(2,287,633)	(229,829)	1,687,838	(19,168)	(1,550,932)
Fund balances at beginning of year	520	5,777,091	3,050,689	610,534	21,692,524	24,437	31,155,795
Fund balances at end of year	\$ 19,137	\$ 5,056,334	\$ 763,056	\$ 380,705	\$ 23,380,362	\$ 5,269	\$ 29,604,863

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended September 30, 2017

Net change in fund balances - total governmental funds \$ (1,550,932)

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

Capital outlays	\$ 136,950	
Depreciation expense	<u>(593,407)</u>	
		(456,457)

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

Loan proceeds	(800,000)	
Repayment of USDA loans	<u>23,344</u>	
		<u>(776,656)</u>

Change in net position of governmental activities \$ (2,784,045)

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(1) Organization

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

(2) Summary of Significant Accounting Policies

The accompanying financial statements of RALGOV have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of RALGOV's accounting policies are described below.

A. Government-Wide Financial Statements

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

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

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(2) Summary of Significant Accounting Policies, Continued

B. Fund Financial Statements

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. 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*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* (an amendment of GASB Statements No. 14 and No. 34), 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(2) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

RALGOV reports the following major funds:

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

Resettlement Trust Fund - a special revenue fund that accounts for United States Congress appropriations under United States Public Law 99-239 and 102-154, and which were paid and distributed in accordance with an agreement between the Government of the United States, the Government of the Republic of the Marshall Islands and RALGOV to assist in the resettlement of Rongelap Atoll by the people of Rongelap.

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

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

Claims Trust Fund - a permanent fund that accounts for funds received under Article II, Section 4, of the agreement between the Government of the United States and the Government of the Republic of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association (the Compact). In accordance with Article II, Section 8, of the Compact, RALGOV executed the Rongelap Claims Trust Agreement. Under the agreement, the Claims Trust Fund received a total of \$37,500,000 over a period of 15 years as compensation for loss or damage to property and person of the people of Rongelap. The final payment was received on October 1, 2001. Pursuant to Section 7.2(2) of the Agreement, after the final payment is received, the Claims Trust Fund is required to distribute annually to the people of Rongelap, through the Local Distribution Authority, between 15% and 70% of its net income. The remaining 30% to 85% shall be retained and added to the corpus of the Claims Trust Fund. In addition, pursuant to Section 8.1 of the trust agreement, RALGOV may also invade up to 3% of the corpus of the Claims Trust Fund. Such invasion may occur in the event of an unforeseen natural disaster or other similar circumstance, as determined by the sole discretion of RALGOV, in order to prevent hardship to the people of Rongelap. An invasion of the corpus shall not occur more frequently than once every three years. On June 9, 2009, RALGOV executed an amended trust agreement whereby the annual distribution payment to the people of Rongelap shall be \$2,663,000. In the event that the value of the corpus of the Claims Trust Fund falls below \$20,000,000, the annual distribution payment shall be reduced to \$1,331,500. All other terms and conditions of the initial trust agreement remain.

D. Cash and Time Certificates of Deposit

Cash includes cash on hand and cash held in demand and savings accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net position/balance sheet.

E. Investments

Investments and related investment earnings are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(2) Summary of Significant Accounting Policies, Continued

E. Investments, Continued

RALGOV categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

Investments of 20% or more of the voting stock of an investee are presumed to give the investor significant influence and are carried using the equity method. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

F. Receivables

Receivables consist of amounts advanced to individuals, on an unsecured basis, substantially all of whom are situated in the Republic of the Marshall Islands. Receivables are stated net of estimated allowances for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts. Reimbursements due to RALGOV for expenditures on federally funded reimbursement and grant programs are included as receivables on the governmental fund balance sheet. Receivables as of September 30, 2017, for the primary government's individual major governmental funds, including applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	Resettlement <u>Trust</u>	Local Distribution <u>Authority</u>	Resettlement <u>Phase One</u>	Claims <u>Trust</u>	Other Governmental <u>Funds</u>	<u>Total</u>
Receivables:							
Employee	\$ 123,280	\$ -	\$ 10,458	\$ 31,608	\$ -	\$ 10,372	\$ 175,718
Loans	15,000	1,150,000	1,014,825	245,000	-	-	2,424,825
Federal agencies	-	-	-	113,073	-	-	113,073
Interest	-	13,033	-	-	30,082	-	43,115
Other	134,976	-	46,188	405,128	-	47,029	633,321
	<u>273,256</u>	<u>1,163,033</u>	<u>1,071,471</u>	<u>794,809</u>	<u>30,082</u>	<u>57,401</u>	<u>3,390,052</u>
Allowance for uncollectible accounts	<u>(227,311)</u>	<u>(1,150,000)</u>	<u>(1,071,471)</u>	<u>(783,472)</u>	<u>-</u>	<u>(57,401)</u>	<u>(3,289,655)</u>
	<u>\$ 45,945</u>	<u>\$ 13,033</u>	<u>\$ -</u>	<u>\$ 11,337</u>	<u>\$ 30,082</u>	<u>\$ -</u>	<u>\$ 100,397</u>

G. Prepaid Items

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

H. Interfund Receivables/Payables

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(2) Summary of Significant Accounting Policies, Continued

I. Restricted Assets

Certain assets of RALGOV are classified as restricted assets because their use is completely restricted by trust agreements, loan agreements, or enabling legislation. Investments recorded in the Resettlement Trust Fund and the Claims Trust Fund of \$5,043,301 and \$23,350,280, respectively, are restricted by trust agreements in that they are not available to be used in current operations.

J. Capital Assets

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

The estimated useful lives of these assets are as follows:

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

K. Deferred Outflows of Resources

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

L. Interfund/Intrafund Transactions

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

M. Long-term Debt

The liabilities reported in the government-wide financial statements include long-term obligations incurred under various housing loans obtained by eligible Rongelapese for which RALGOV is ultimately liable for loan repayment, and a term loan agreement with a bank.

N. Compensated Absences

RALGOV recognizes expenditures for annual leave and sick leave when leave is actually taken. Accordingly, unused annual leave and sick leave are not included as an obligation within the governmental funds balance sheet. The estimated accumulated amount of unused sick leave as of September 30, 2017, is presently not determinable.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(2) Summary of Significant Accounting Policies, Continued

O. Deferred Inflows of Resources

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

P. Fund Balances

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

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

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

A formal minimum fund balance policy has not been adopted.

Q. New Accounting Standards

During the year ended September 30, 2017, RALGOV implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(2) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

- GASB 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*, which addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

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 RALGOV.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(2) Summary of Significant Accounting Policies, Continued

Q. New Accounting Standards, Continued

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 RALGOV.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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 RALGOV.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements of RALGOV.

R. 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.

(3) Deposits and Investments

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

RALGOV does not have formal deposit and investment policies. Investments in Resettlement Trust Fund and Claims Trust Fund are governed by their respective trust agreements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(3) Deposits and Investments, Continued

A. Deposits

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

As of September 30, 2017, the carrying amount of the RALGOV's total cash and cash equivalents was \$383,499 and the corresponding bank balances were \$478,273. Of the bank balance amounts, \$427,841 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017, bank deposits in the amount of \$250,000 were FDIC insured. Bank deposits of \$50,432 are maintained in financial institutions not subject to depository insurance. RALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

As of September 30, 2017, investments at fair value are as follows:

Resettlement Trust Fund:

Fixed income	\$ 2,113,999
Cash and cash equivalents	420,520
Equities	<u>2,508,782</u>
	<u>5,043,301</u>

Claims Trust Fund:

Fixed income	3,864,484
Cash and cash equivalents	681,745
Equities	<u>18,804,051</u>
	<u>23,350,280</u>
	<u>\$ 28,393,581</u>

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, RALGOV will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. RALGOV's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in RALGOV's name by RALGOV's custodial financial institutions as of September 30, 2017.

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(3) Deposits and Investments, Continued

B. Investments, Continued

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 RALGOV. As of September 30, 2017, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2017, investments in debt securities were as follows:

Resettlement Trust Fund:

	Moody's Credit Rating	Investment			Maturities	(In years)	Fair Value
		Less than 1	1 to 5	6 to 10	Greater than 10		
US Treasury Obligations	AA+	\$ -	\$ 234,483	\$ 275,986	\$ -	\$ 510,469	
Corporate notes	AA+	105,876	72,240	-	-	180,116	
Corporate notes	A	-	55,775	-	-	55,775	
Corporate notes	BBB+	93,001	379,539	147,860	-	620,400	
Corporate notes	BBB	-	207,494	-	-	207,494	
Corporate notes	NR	<u>111,580</u>	<u>248,811</u>	<u>179,354</u>	-	<u>539,745</u>	
		\$ <u>310,457</u>	\$ <u>1,200,342</u>	\$ <u>603,200</u>	\$ -	\$ <u>2,113,999</u>	

Claims Trust Fund:

	Moody's Credit Rating	Investment			Maturities	(In years)	Fair Value
		Less than 1	1 to 5	6 to 10	Greater than 10		
US Treasury Obligations	AA+	\$ 320,163	\$ 477,954	\$ 556,531	\$ -	\$ 1,354,648	
Corporate notes	AA+	159,813	80,342	-	-	240,155	
Corporate notes	AA	-	121,731	-	-	121,731	
Corporate notes	AA-	-	80,762	-	-	80,762	
Corporate notes	A	-	78,280	-	-	78,280	
Corporate notes	A-	-	-	120,003	-	120,003	
Corporate notes	BBB+	79,001	554,727	325,347	-	959,075	
Corporate notes	BBB	-	80,571	-	-	80,571	
Corporate notes	BBB-	-	116,362	-	-	116,362	
US Treasury Obligations	NR	-	397,569	-	-	397,569	
Corporate notes	NR	<u>154,720</u>	<u>160,608</u>	-	-	<u>315,328</u>	
		\$ <u>713,697</u>	\$ <u>2,148,906</u>	\$ <u>1,001,881</u>	\$ -	\$ <u>3,864,484</u>	

As of September 30, 2017, the recurring fair value measurements were as follows:

Resettlement Trust Fund:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 510,469	\$ -	\$ 510,469	\$ -
Corporate notes	<u>1,603,530</u>	-	<u>1,603,530</u>	-
	2,113,999	-	2,113,999	-
Equity securities:				
U.S. equities	<u>2,508,782</u>	<u>2,508,782</u>	-	-
Total investments at fair value	4,622,781	\$ <u>2,508,782</u>	\$ <u>2,113,999</u>	\$ -
Investments measured amortized cost:				
Money market fund	<u>420,520</u>			
	\$ <u>5,043,301</u>			

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(3) Deposits and Investments, Continued

B. Investments, Continued

Claims Trust Fund:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 1,731,546	\$ -	\$ 1,752,217	\$ -
Corporate notes	<u>2,112,267</u>	<u>-</u>	<u>2,112,267</u>	<u>-</u>
	<u>3,864,484</u>	<u>-</u>	<u>3,864,484</u>	<u>-</u>
Equity securities:				
U.S. equities	<u>18,804,051</u>	<u>18,804,051</u>	<u>-</u>	<u>-</u>
Total investments at fair value	22,668,535	\$ <u>18,804,051</u>	\$ <u>3,864,484</u>	\$ <u>-</u>
Investments measured amortized cost:				
Money market fund	<u>681,745</u>			
	\$ <u>23,350,280</u>			

General Fund:

RALGOV holds an investment in a life insurance contract, which is recorded at fair value. As of September 30, 2017, the cash surrender value of this life insurance contract is \$55,067. In addition, RALGOV holds a 49.1% ownership equity in Rongelap Tourism Company, Inc. (RTCI), which was engaged in tourism activities in the Republic of the Marshalls Islands. As of September 30, 2017, the investment is accounted for on the equity method. RTCI ceased operations in February 2006 following significant losses from prior years. As of September 30, 2017, RALGOV's investment in RTCI amounted to \$0.

Local Distribution Authority Fund:

RALGOV holds a 25% equity ownership in Atoll Marine Aquaculture (AMA), which engages in the export of live aquaria in the Republic of the Marshall Islands to international markets and which is considered a related party as the Mayor is a member of the Board of Directors. As of September 30, 2017, the investment in AMA of \$300,000 is accounted for on the equity method.

In addition, RALGOV owns 1,000 shares of common stock of Marshall Islands Service Corporation, which provides all aspects of service activities in the Marshall Islands. As of September 30, 2017, the investment is accounted for at cost in the amount of \$10,000 since the fair market value is not readily available.

Finally, RALGOV holds an equity ownership in AcionMobile, Inc., a Nevada corporation, which engages in communications activities. As of September 30, 2017, the investment is accounted at cost in the amount of \$750 since the fair market value is not readily available.

Resettlement Phase One Fund:

RALGOV holds 35.2% of outstanding preferred stock and 13.27% of outstanding common stock in Ajejdrikdrik, Inc., which engages in consumer loan services in the Republic of the Marshall Islands, and which is considered a related party as the Mayor is a member of the Board of Directors. As of September 30, 2017, the investment is accounted for at cost in the amount of \$620,680 since the fair market value is not readily available. Dividends of \$17,524 were earned from the investee during the year ended September 30, 2017, converted to 2,432 preferred shares.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(3) Deposits and Investments, Continued

B. Investments, Continued

Resettlement Phase One Fund, Continued:

In addition, RALGOV holds 51% equity ownership in Aquaculture Technologies of the Marshall Islands, which specializes in raising and sale of fish delicacies for both the domestic and Hawaiian markets. As of September 30, 2017, the investment is accounted for at cost in the amount of \$51,104 since the fair market value is not readily available.

(4) Loan Receivables

Loan receivables of the primary government are summarized as follows:

General Fund:

Loan receivable from Aquaculture Technologies of the Marshall Islands, Inc. (ATMI), dated September 8, 2015, in the amount of \$15,000, due September 7, 2016, interest at 8% per annum, interest and principal due at maturity, uncollateralized. This note has been fully provided for in the allowance for uncollectible accounts.

\$ 15,000

Resettlement Trust Fund:

Loan receivable from ATMI dated September 30, 2013, in the amount of \$350,000, due September 29, 2014, interest at 8% per annum, interest and principal due at maturity, uncollateralized. This note has been fully provided for in the allowance for uncollectible accounts.

350,000

Loan receivable from ATMI dated May 30, 2017, in the amount of \$800,000, due May 29, 2018, interest at 10% per annum, interest and principal due at maturity, uncollateralized. This note has been fully provided for in the allowance for uncollectible accounts.

800,000

1,150,000

Local Distribution Authority Fund:

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

400,000

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

24,825

Loan receivables from Rongelap Multi-Purpose Cooperative, Inc. (RMPC) executed on various dates from January 14, 2014 to July 31, 2014 in various amounts aggregating \$250,000, due one year from date of execution, interest at 4% per annum, interest and principal due at maturity, uncollateralized. RMPC is considered a related party as certain RALGOV employees are members of the Board of Directors. These notes have been fully provided for in the allowance for uncollectible accounts.

250,000

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(4) Loan Receivables, Continued

Local Distribution Authority Fund, Continued:

Loan receivables from ATMI executed on various dates from November 14, 2016 to January 9, 2017 in various amounts aggregating \$340,000, due one year from date of execution, interest at 10% per annum, interest and principal due at maturity, uncollateralized. These notes have been fully provided for in the allowance for uncollectible accounts. 340,000

1,014,825

Resettlement Phase One:

Loan receivables from ATMI executed on various dates from January 29, 2015 to April 20, 2016 in various amounts aggregating \$115,000, due one year from date of execution, interest at 8% per annum, interest and principal due at maturity, uncollateralized. These notes have been fully provided for in the allowance for uncollectible accounts. 115,000

Loan receivables from ATMI executed on various dates from May 17, 2017 to September 13, 2017 in various amounts aggregating \$70,000, due one year from date of execution, interest at 8% per annum, interest and principal due at maturity, uncollateralized. These notes have been fully provided for in the allowance for uncollectible accounts. 70,000

Amounts receivable from ATMI representing loan guarantor payments made on behalf of ATMI to Ajejdrikdrik, Inc. aggregating \$60,000, interest free with no repayment terms and conditions, uncollateralized. These receivables have been fully provided for in the allowance for uncollectible accounts. 60,000

245,000

\$ 2,424,825

(5) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet as of September 30, 2017, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Resettlement Phase One Fund	\$ 54,306
Local Distribution Authority Fund	Resettlement Phase One Fund	179,650
Other governmental funds	Resettlement Phase One Fund	<u>19,384</u>
		\$ <u>253,340</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(6) Capital Assets

Capital asset activities for the year ended September 30, 2017, are as follows:

	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2017</u>
Airport and dock	\$ 5,030,372	\$ -	\$ -	\$ 5,030,372
Roads	2,393,680	-	-	2,393,680
Buildings/facility and improvements	6,129,934	-	-	6,129,934
Motor vehicles	638,774	9,950	-	648,724
Other equipment	1,722,305	27,000	-	1,749,305
Office equipment	23,566	-	-	23,566
Furniture and fixtures	<u>8,647</u>	<u>-</u>	<u>-</u>	<u>8,647</u>
	15,947,278	36,950	-	15,984,228
Less accumulated depreciation	<u>(7,469,011)</u>	<u>(593,407)</u>	<u>-</u>	<u>(8,062,418)</u>
	8,478,267	(556,457)	-	7,921,810
Construction work-in-progress	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
	<u>\$ 8,478,267</u>	<u>\$ (456,457)</u>	<u>\$ -</u>	<u>\$ 8,021,810</u>

Depreciation expense was charged to functions/programs as follows:

Finance	\$ 3,685
Phase-1 Engineering	7,420
Tourism program	6,000
Resettlement program	561,150
Office of the Mayor	<u>15,152</u>
	<u>\$ 593,407</u>

(7) Notes Payable

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

The change in notes payable during the year ended September 30, 2017, is as follows:

<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance September 30, 2017</u>	<u>Due Within 12 months</u>
<u>\$ 829,434</u>	<u>\$ -</u>	<u>\$ (23,344)</u>	<u>\$ 806,090</u>	<u>\$ 24,787</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(7) Notes Payable, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 24,787	\$ 47,021	\$ 71,808
2019	26,297	45,511	71,808
2020	27,776	44,032	71,808
2021	29,593	42,215	71,808
2022	31,397	40,411	71,808
2023 - 2027	188,038	171,002	359,040
2028 - 2032	226,879	108,137	335,016
2033 - 2037	200,243	39,929	240,172
2038 - 2042	40,200	7,511	47,711
2043 - 2044	<u>10,880</u>	<u>568</u>	<u>11,448</u>
	<u>\$ 806,090</u>	<u>\$ 546,337</u>	<u>\$ 1,352,427</u>

(8) Loans Payable

In 2010, RALGOV entered into a \$5,326,000 term loan agreement with a bank for the purpose of funding claim beneficiary payments to eligible Rongelapese in lieu of liquidating securities of the Claims Trust Fund. In 2015, RALGOV renegotiated the terms of the term loan agreement, which bears interest at a fixed rate of 1.928% per annum, due in quarterly installments commencing April 1 and principal due at maturity on December 30, 2017. The loan is secured by a first priority lien over future earning and distribution payments made from the Claims Trust Fund.

On May 15, 2017, RALGOV entered into a loan payable to bank of \$800,000 with interest of 3.02% per annum with maturity date of May 19, 2020. The loan is secured by a first priority lien over future earning and distribution payments made from the Resettlement Trust Fund.

The change in loans payable during the year ended September 30, 2017, is as follows:

<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance September 30, 2017</u>	<u>Due Within 12 months</u>
<u>\$ 5,326,000</u>	<u>\$ 800,000</u>	<u>\$ _____</u>	<u>\$ 6,126,000</u>	<u>\$ _____</u>

(9) Transfers In/Out

Operating transfers in/out for all major fund types, for the year ended September 30, 2017, are as follows:

<u>Fund</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Resettlement Trust Fund	General Fund	\$ 454,584	\$ 454,584
Local Distribution Authority	General Fund	1,018,708	1,018,708
Resettlement Trust Fund	Local Distribution Authority	800,000	800,000
Resettlement Trust Fund	Resettlement Phase One	772,451	772,451
Resettlement Phase One	Other governmental funds	<u>29,310</u>	<u>29,310</u>
		<u>\$ 3,075,053</u>	<u>\$ 3,075,053</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(9) Transfers In/Out, Continued

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

(10) Fund Balances

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

	<u>General</u>	<u>Resettlement Trust</u>	<u>Local Distribution Authority</u>	<u>Resettlement Phase One</u>	<u>Claims Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:							
Life insurance contract	\$ 55,067	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,067
Atoll Marine Aquaculture	-	-	300,000	-	-	-	300,000
Marshall Islands Service Corporation	-	-	10,000	-	-	-	10,000
AcionMobile, Inc.	-	-	750	-	-	-	750
Ajedrikdrik, Inc.	-	-	-	620,680	-	-	620,680
Aquaculture Technologies of the Marshall Islands, Inc.	-	-	-	51,104	-	-	51,104
Restricted:							
Claims	-	-	452,306	-	23,380,362	-	23,832,668
Resettlement	-	5,056,334	-	-	-	-	5,056,334
Committed:							
Rongelap Museum	100,000	-	-	-	-	-	100,000
Unassigned	<u>(135,930)</u>	<u>-</u>	<u>-</u>	<u>(291,079)</u>	<u>-</u>	<u>5,269</u>	<u>(421,740)</u>
	<u>\$ 19,137</u>	<u>\$ 5,056,334</u>	<u>\$ 763,056</u>	<u>\$ 380,705</u>	<u>\$ 23,380,362</u>	<u>\$ 5,269</u>	<u>\$ 29,604,863</u>

(11) Commitments and Contingencies

Continuing Appropriation:

On December 28, 2008, RALGOV entered into an agreement with the Government of RepMar whereby RepMar provided funding in the amount of \$100,000 for the construction of the Rongelap Museum. As of September 30, 2017, construction of the museum has yet to commence.

Lease Commitments:

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

Future minimum rental payments are as follows:

<u>Year ending September 30,</u>	
2018	\$ 4,400
2019	4,400
2020	4,400
2021	4,400
2022	4,400
2023 - 2027	10,200
2028 - 2032	<u>8,000</u>
	<u>\$ 40,200</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2017

(11) Commitments and Contingencies, Continued

Lease Commitments, Continued:

Questioned Costs:

RALGOV receives Compact Section 177 federal funds for its distribution to eligible individuals. Federally assisted funds can be subject to financial and compliance audits to ascertain if federal and other laws and guidelines have been followed. Cumulative questioned costs of \$1,641,041 have been set forth in prior year Single Audit reports of RALGOV. The ultimate disposition of these questioned costs can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Litigation:

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

(12) Risk Management

RALGOV is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. RALGOV has elected to purchase commercial insurance from independent third parties for the risks of loss to which it believes it to be exposed with the exception of its properties and projects in Rongelap Atoll, for which RALGOV believes it is more economical to manage its risk internally. Settled claims have not exceeded this commercial coverage in any of the past three years. Additionally, no material losses have resulted from RALGOV's risk management activities during the years ended September 30, 2017, 2016 and 2015.

(13) Subsequent Events

On July 13, 2018, a transfer of loan agreement was made between RALGOV, RMPC and ATMI stating that ATMI agrees to transfer its loans from RMPC to RALGOV, and RMPC agrees to transfer all its rights over the loans to RALGOV.

On October 17, 2018, RALGOV executive committee members passed a Resolution 2019-04 stating approval of completely writing off the equity and notes related to the investments in AcionMobile, Inc.

On March 11, 2020, the World Health Organization (WHO) declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. On August 8, 2022, community transmission in the Marshall Islands was identified, which may negatively impact RALGOV's business, results of operations, and financial position. However, the effect of the pandemic on RALGOV is uncertain and the related financial impact cannot be reasonably estimated at this time.

RONGELAP ATOLL LOCAL GOVERNMENT

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2017

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual - General Fund
Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget -
				Positive
				(Negative)
Revenues:				
Federal and other grants	\$ 121,000	\$ 121,000	\$ 125,334	\$ 4,334
Other	185,000	185,000	18,000	(167,000)
Total revenues	306,000	306,000	143,334	(162,666)
Expenditures:				
Salaries and employee benefits	834,614	834,614	735,101	99,513
Travel	115,000	115,000	115,877	(877)
Rental and charters	132,250	132,250	132,962	(712)
Utilities	71,000	71,000	19,143	51,857
Equipment	20,000	20,000	13,404	6,596
Supplies	20,000	20,000	20,505	(505)
Supplemental food program	70,000	70,000	80,525	(10,525)
Donations	60,000	60,000	93,864	(33,864)
Scholarships and training	55,000	55,000	33,600	21,400
Maintenance	40,000	40,000	81,710	(41,710)
Legal fees	70,000	70,000	-	70,000
Representations	42,000	42,000	64,849	(22,849)
Housing and other allowances	50,000	50,000	1,565	48,435
Bad debts	-	-	40,330	(40,330)
Miscellaneous	117,200	117,200	164,574	(47,374)
Total expenditures	1,697,064	1,697,064	1,598,009	99,055
Deficiency of revenues under expenditures	(1,391,064)	(1,391,064)	(1,454,675)	(63,611)
Other financing sources:				
Operating transfers in	1,391,064	1,391,064	1,473,292	82,228
Net change in fund balance	\$ -	\$ -	\$ 18,617	\$ 18,617

See accompanying notes to required supplementary information - budgetary reporting

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2017

Budgetary Information

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

The Appropriation Ordinance for fiscal year 2017, Ordinance No. 2017-01, was passed by the Council on September 15, 2016. Formal budget integration is employed as a management control device during the year for all funds. The Executive Council has the authority to reprogram budgeted estimates in accordance with the RALGOV Constitution. All annual appropriations lapse at fiscal year-end unless otherwise specified in the Ordinance. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further ordinance for the matter.

Encumbrance accounting has not been utilized by the General Fund.

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise RALGOV's basic financial statements, and have issued our report thereon dated April 19, 2023. Our report includes a qualification regarding the inability to confirm notes payable, inadequacies in RALGOV's accounting records, and an investment in a majority-owned subsidiary not consolidated.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2017-001 through 2017-006, 2017-008 and 2017-010 to be material weaknesses.

Compliance and Other Matters

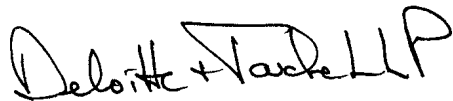
As part of obtaining reasonable assurance about whether RALGOV's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2017-007 and 2017-009.

RALGOV's Responses to Findings

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

Purpose of this Report

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

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

April 19, 2023

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses Year Ended September 30, 2017

Finding No.: 2017-001
Area: Cash and Investments

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

Condition: RALGOV acquired a 25% equity interest in AMA for \$300,000. RALGOV's investment in AMA was supported by a stock certificate indicating 100,000 shares of common stock, which equates to \$100,000 based on a par value of \$1.00 per share per AMA's articles of incorporation. No financial statements of AMA were available for the year ended September 30, 2017. Furthermore, RALGOV has not received dividends from AMA that equate to an investment rate of return of at least 10% per annum on RALGOV's equity investment of \$300,000. RALGOV has not received or recorded interest income from AMA for the use of RALGOV's time certificate of deposit as of September 30, 2017. Finally, Council Resolution 2010-06 indicates that all AMA assets will be pledged to RALGOV as security for RALGOV's time certificate of deposit. No formal procedures appear to have been initiated to document the pledge of AMA assets.

Cause: The cause of the above condition is the absence of accounting for the investment on the equity method, and the lack of an agreement between RALGOV and AMA formalizing the documented arrangement.

Effect: The effect of the above condition is a scope limitation resulting in an opinion modification on investments, a potential loss or an impairment of RALGOV assets and the lack of maximizing RALGOV's investment rate of return on assets.

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

Prior Year Status: The absence of accounting for the investment in equity method as well as the lack of a formal agreement between RALGOV was reported as a finding in the audits of RALGOV for fiscal years 2010 through 2016.

Auditee Response and Corrective Action Plan: Series of talks between Rongelap Atoll Local Government Council and Atoll Marine Aquaculture & the Slingers; resulted in modified debt-to-equity conversion that was agreed upon by the related parties. RALGOV and AMA agreed to convert into additional 96,000 common shares: the \$192,000 of the total \$235,000 dividends due to RALGOV. Said conversion shall result in the transfer of Slingers Family owned 96,000 common shares to RALGOV, at \$1.00 per share Par Value and \$1.00 per share Paid in Capital in excess of Par Value to AMA. After the conversion, ownership shares of RALGOV over AMA shall become 49% from 25%. Dividends balance of \$43,000 due to RALGOV from AMA shall stay as outstanding along with the Interest due related to the \$410,000 RALGOV Time Certificate of Deposit.

RALGOV believes in the earnings potential of its investment in AMA especially since AMA has expanded its operations to include Coral and Giant Clam farming & export, in addition to its Aquaria Fish export. RalGOV further believes that AMA is a unique export-oriented venture, that has the potential to create a new and productive line of business enterprises here in the Marshall Islands. The RMI has very few export products beyond the catch of the foreign fishing fleet. AMA will be raising and selling coral and baby giant clams for aquariums worldwide. It will be doing so with a predominantly Marshallese workforce. While AMA has underperformed in the past, RalGOV is willing to give AMA another chance because of its unique product line. To do so is in the best interests of the RMI and RalGOV. While doing so, RalGOV has upped its share of AMA to 49%, and will be collecting future royalties.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-001, Continued
Area: Cash and Investments

Auditee Response and Corrective Action Plan, Continued:

RALGOV will secure financial statements of AMA and record interest and dividend receivables as well as the conversion of dividend receivables to AMA common shares. RALGOV commits to be more cognizant in the documentation of agreements such as this.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No.: 2017-002
Area: Distributions

Criteria: Financial Management Act, Section 10 requires that RALGOV maintain a check register detailing acknowledgment of receipt of check vouchers by the recipient. In addition, names and numbers of shares should agree to the Distribution listing; otherwise, changes should be supported by application of name change or birth/death certificates. Moreover, rate per share should be based on \$300,000 less \$5,000 divided by 3,893 shares (for regular quarterly payments), based on updated listing as of January 2016 or \$300,000 divided by 3,893 shares (for special quarterly payments).

Condition: Of seventy-three (73) disbursements to the people of Rongelap tested, we noted the following in relation to compliance with above criteria:

1. Checks for four claims did not have a signature on the check register as evidence of the recipient's actual receipt.
2. Two differed between the number of shares cited per the check and the approved distribution listing. The approved distribution listing does not appear to have been updated to reflect current changes.
3. Checks for six claims were received by representatives; however, no authorization letter was on file.
4. One reflected a change during the year and was compared with the approved distribution listing. However, the approved written documentation was not available on file to support the change.
5. One claimant had an allotment deduction; however, the approved allotment form evidencing that the claimant authorized the allotment was not on file.
6. One reflected a change during the year was compared with the approved distribution listing. However, an approved transfer of shares was not available on file to support the change.
7. The indicated rate per special distribution shares was not updated. The audit recalculation indicated the rate per special distribution should have been \$76.53 instead of the \$75.25 actual payment.

In addition, a number of Rongelapese have died in the past and during the year; however, the total number of listed Rongelapese (3,920) entitled to quarterly and special distribution payments was not updated. RALGOV updated the list in January 2016 with 3,893 listed Rongelapese.

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No.: 2017-002, Continued
Area: Distributions

Recommendation: We recommend that management obtain written authorization and that such be kept on file before per capita and food distribution checks are released to anyone other than the designated payee. In addition, we recommend that the designated payee, upon receipt, acknowledge receipt of the disbursement in writing.

Prior Year Status: The potential lack of adequate controls over per capita and food distribution payments was reported as a finding in the audits of RALGOV for fiscal years 2010 through 2016.

Auditee Response and Corrective Action Plan: : RALGOV management is consistent in giving orders to the distribution in-charge on handling and releasing checks to individual recipients. However, from the past, the distribution in-charge repeatedly did not carry her duty as obliged and directed resulting to number of distribution checks issued that was unsigned by the recipient or his/her representative. It should be noted that the Rongelap community is very small. Many of the people coming in to collect checks are personally known and related to RALGOV staff. RALGOV handed over checks to persons who were known to be the proper recipients even without identification. This is a fact situation not anticipated by the US GAAP, as the GAAP is formulated for a society of 300 million people, not a small, intimate community such as Rongelap. No payments went astray or were reported missing by any of the recipients, all funds were successfully delivered to the proper recipients.

Since then, RALGOV Finance and Accounting office adopted and implemented measures necessary to properly document distribution check issuances & receipts, and update distribution payment rates. Recent issuance of distribution checks whether to individual recipients and/or their representatives, as well as those being wired via Western Union and MoneyGram, or deposited to recipients' bank account; were properly signed by the recipients or signed/noted by the distribution in-charge for payments deposited or wired. Hence the issue raised in this audit has already been addressed and solved by RALGOV.

Distribution payments data are regularly updated every quarter, for deaths, transfer of shares and changed payee name as supported by duly signed change payee / payee information form. Changes in payee information like name and number of shares are being recorded as notes in the payroll system as well as in the hard file. Copies of valid identifications of quarterly food recipients were collected until completed.

The distribution rate per share was updated from \$75.25 to \$75.77 effective on January 2016 distribution. Distribution left over from FY2012 to FY2015 budgets were calculated and distributed to the recipients in June 2017 at \$23.06 per share. Distribution left over from FY2016 to FY2018 budgets were also calculated, distribution rate per share was updated to \$77.88 and shall be distributed together with the December 2018 payments.

As of September 30, 2017, the updated number of listed Rongelapese is 3, 829 which shows that the list has been updated accordingly.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-003
Area: Employee Advances and Other Receivables

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

Condition:

1. As of September 30, 2017, RALGOV recorded the following employee advances and other receivables:

	Employee Advances	Other Receivables	Allowance
General Fund	\$ 123,280	\$ 134,976	\$ (212,311)
Resettlement Phase One Fund	\$ 31,608	\$ 518,200	\$ (538,471)
Local Distribution Authority Fund	\$ 10,458	\$ 46,188	\$ (56,646)
Rongelap Bungalows, Inc.	\$ 10,372	\$ 47,029	\$ (57,401)

2. One employee with an outstanding balance of \$16,522 has a payroll deduction of \$30 per pay-period. The payroll deduction is not adequate to settle the outstanding receivable.
3. A former project manager had an advance of \$22,000 in anticipation of a new project to repay this amount. No project materialized and the receivable was not collected. Accordingly, an allowance for uncollectible accounts was established.
4. RALGOV does not appear to perform a periodic allowance assessment.
5. Test of receivables of Rongelap Bungalows, Inc. indicated the following:
 - a. \$36,823 recorded in General Ledger Account # 1300 was not supported by an underlying subsidiary ledger.
 - b. \$10,372 recorded in General Ledger Account # 1330 was not supported by an underlying subsidiary ledger.
 - c. \$10,206 recorded in General Ledger Account # 1331 was not supported by an underlying subsidiary ledger.

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-003, Continued
Area: Employee Advances and Other Receivables

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

Prior Year Status: The lack of adequate controls over approval of advances and enforcement of timely collection and monitoring of receivables was reported as a finding in the audits of RALGOV for fiscal years 2013 through 2016.

Auditee Response and Corrective Action Plan: : Effective Internal controls are in place and have been so for the past 5 years. Updated employee advances and other receivables subsidiary ledgers are now being maintained and regularly reconciled by RALGOV's accountant.

Employees' advances are with corresponding pay deductions, in some instances, applied payment deductions were insufficient for the advances to be collected in full at a reasonable period. However, allotments have increased and adjusted to secure collection of receivables. Present administration is doing its best to avoid recurrence of such advances thru improvement in advances collections while minimizing new advances or stop it if possible.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No.: 2017-004
Area: Loan Receivable

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

Condition: In 2010, RALGOV acquired a \$5,000 equity interest in AcionMobile, Inc., a Nevada corporation, and entered into an unsecured \$400,000 loan with that corporation with interest at 12% per annum for a period of two years maturing on January 8, 2012. As of September 30, 2017, the equity share was valued at \$750 after sale of 85% of the shares originally acquired.

No interest has been received by RALGOV per this agreement and repayment of the loan has not occurred as of September 30, 2017. This agreement does not appear to meet the criteria outlined in Council Resolution 2010-01. Based on the Nevada Secretary of State website, this corporation's Nevada business license has been revoked. This unsecured loan was provided an allowance of \$400,000 as of September 30, 2017. As the \$750 equity interest is not considered material to the financial statements, no audit adjustment was proposed.

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

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

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

Prior Year Status: The potential noncompliance with the Agreement and Council Resolution 2010-01 was reported as a finding in the audits of RALGOV for fiscal years 2010 through 2016.

Auditee Response and Corrective Action Plan: This investment was a very small percentage of RALGOV's investments, which generated millions of dollars in returns for the benefit of the Rongelap people in 2017. This matter has been resolved and written off over 4 YEARS AGO. On October 17, 2018, RALGOV passed Resolution 2019- 04 acknowledging Acionmobile, Inc. investment as Bad Investment and to completely write-off from RALGOV books related equity and notes investments.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No.: 2017-005
Area: Investments/Loans Receivable

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

Condition: In 2013, RALGOV paid \$51,104 and acquired a 51% equity interest in Aquaculture Technologies of the Marshall Islands, Inc. (ATMI). RALGOV has accounted for this equity investment at cost since audited financial statements were not available to assist RALGOV in accounting for such on the consolidation basis of accounting. Furthermore, RALGOV has provided the following unsecured loans to ATMI which remain uncollected:

Loan receivable dated September 8, 2015, in the amount of \$15,000, due September 7, 2016, interest at 8% per annum, interest and principal due at maturity, uncollateralized.

Loan receivable dated September 30, 2013, in the amount of \$350,000, due September 29, 2014, interest at 8% per annum, interest and principal due at maturity, uncollateralized.

Loan receivable dated May 30, 2017, in the amount of \$800,000, due May 29, 2018, interest at 10% per annum, interest and principal due at maturity, uncollateralized.

Loan receivable advanced in 2014 in the amount of \$24,825, no formal terms and conditions of repayment, uncollateralized.

Loan receivables executed on various dates from November 14, 2016 to January 9, 2017 in various amounts aggregating \$340,000, due one year from date of execution, interest at 10% per annum, interest and principal due at maturity, uncollateralized.

Loan receivables executed on various dates from January 29, 2015 to April 20, 2016 in various amounts aggregating \$115,000, due one year from date of execution, interest at 8% per annum, interest and principal due at maturity, uncollateralized.

Loan receivables executed on various dates from May 17, 2017 to September 13, 2017 in various amounts aggregating \$70,000, due one year from date of execution, interest at 8% per annum, interest and principal due at maturity, uncollateralized.

Amounts receivable representing loan guarantor payments made on behalf of ATMI to Ajejdrikdrik, Inc. aggregating \$60,000, interest free with no repayment terms and conditions, uncollateralized.

These unsecured loans were provided with an allowance of \$1,774,825 as of September 30, 2017.

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No.: 2017-005, Continued
Area: Investments/Loans Receivable

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

Prior Year Status: The lack of accounting for the ATMI investment on the consolidation basis of accounting and appropriate source documentation evidencing loans to ATMI was reported as a finding in the audits of RALGOV for fiscal years 2014 through 2016.

Auditee Response and Corrective Action Plan: RALGOV Executive Committee, in its September 5, 2013 meeting, approved to extend support to ATMI funding thru loans and other grant outsourcing. To date, a loan agreement between RALGOV and ATMI for the \$350,000 was already executed and acknowledged dated September 30, 2013; all other loans extended to ATMI after FY2013 were documented; supplemental loan agreement was also issued in October 17, 2018 collateralizing ATMI's properties against the loans.

While not strictly an accounting issue, RALGOV wishes to note and include as part of its response, that ATMI Inc., has spearheaded groundbreaking research and development in the budding business of Aquaculture. Aquaculture or 'fish farming' is a multi-billion-dollar industry in Asia. Rising demand for sea food has spurred the expansion of fish farming throughout the world. The Marshall Islands is home to clean, warm, calm, waters ideal for fish farming. This is perhaps the only business in which the RMI holds a natural competitive advantage. ATMI has proven that Moi fish can be successfully raised in the Marshall Islands. ATMI is doing research into other fish species as well, proving that a variety of fish species may be successfully raised in the RMI.

It should be noted that 1/3 of the Marshallese population no longer lives in the Marshall Islands. It is projected that in a few years, 1/2 the RMI population will no longer be in the Marshall Islands. Unless Majuro is to become a 'ghost town' new economic opportunities need to be created.

The Rongelap Resettlement Fund was established for the purpose of supporting the Resettlement of Rongelap Atoll. While a considerable amount of infrastructure was built on Rongelap, there are no employment opportunities on the Atoll. The loan to ATMI was in part to seek possible job creation via fish farming. The loan was approved by the US Dept. of the Interior as meeting the criteria of purposes for the Fund. In addition, ATMI received substantial support from the US Embassy, USAID, other grantor agencies, as well as the RMI National Govt. The opportunities afforded by ATMI for Rongelapese to acquire the skills and know how in the field of fish farming cannot be underestimated. If the purpose of the Resettlement Trust Fund is ever to be realized, then, the skills imparted by ATMI will be crucial for economic development. For these reasons, support and investment in ATMI by RALGOV was undertaken. Creation of opportunities for the Rongelap people in the Marshall Islands is viewed as a fundamental responsibility of RALGOV. RALGOV has and will continue to seek opportunities for its people.

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-006
Area: Notes Payable

Criteria: Adequate accounting controls necessitate that notes payable be appropriately recorded and monitored. Information maintained by the accounting department should be supported and reconciled with notes payable statements.

Condition: During the year ended September 30, 2017, RALGOV recorded notes payable of \$806,090 which was not supported and reconciled with notes payable statements.

Cause: The cause of the above condition is the absence of obtaining notes payable statements and lack of timely reconciliation of general ledger account.

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 notes payable reconciliation processes.

Auditee Response and Corrective Action Plan: This was addressed and solved years ago. Note payable are regularly and consistently reconciled as of this timing of this response. RALGOV commit to establish and implement appropriate internal control policies and procedures to facilitate timely and accurate notes payable reconciliation processes.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No.: 2017-007
Area: Legal Services/Procurement

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

Condition: During the year ended September 30, 2017, RALGOV incurred contractual services of \$68,145 for independent legal counsel. No approval was provided by RALGOV to indicate that these services were approved by the Attorney-General.

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

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

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

Prior Year Status: The lack of internal controls over the procurement of legal services was reported as a finding in the audits of RALGOV for fiscal years 2011 through 2016.

Auditee Response and Corrective Action Plan: Mr. Masek was authorized by HE President Amata Kabua (deceased) with the approval of then Attorney General Gerald Zackios to work with RALGOV. This has been repeatedly stated to the auditors.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued Year Ended September 30, 2017

Finding No.: 2017-008
Area: Loans Receivable

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

Condition: In 2014, RALGOV executed the following unsecured notes receivable with Rongelap Multi-Purpose Cooperative (RMPC), which remain uncollected:

Loan receivables executed on various dates from January 14, 2014 to July 31, 2014 in various amounts aggregating \$250,000, due one year from date of execution, interest at 4% per annum, interest and principal due at maturity, uncollateralized.

These unsecured loans were provided with an allowance of \$250,000 as of September 30, 2017.

Cause: The cause of the above condition is that unsecured loans with RMPC was entered into which do not appear to meet the intent of the Agreement.

Effect: The effect of the above condition is potential noncompliance with the Agreement.

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

Prior Year Status: The potential noncompliance with the Agreement was reported as a finding in the audits of RALGOV for fiscal years 2014 through 2016.

Auditee Response and Corrective Action Plan: The "potential" noncompliance never materialized. This issue was resolved in the 2018, over 4 years prior to the date of this finding. During the fiscal year 2014, RALGOV loaned to Rongelap Multi-Purpose Cooperative, four (4) times with a total of \$250,000 as follows:

Jan. 14, 2014	\$ 50,000
Feb. 20, 2014	\$ 50,000
Apr. 2, 2014	\$ 50,000
Jul. 31, 2014	\$100,000

These amounts were loaned out by Rongelap Multi-Purpose Cooperative to ATMI immediately thereafter. Since the ultimate recipient and beneficiary of these loans is the ATMI, the Executive Committee decided to discontinue the practice, and instead all succeeding loans to ATMI were done directly from RALGOV to ATMI.

Supplemental loan agreement to nullify the loans extended by RALGov to Rongelap Multi-Purpose Cooperative; and in which transfers those loans to ATMI, was already executed and signed by all parties in July 2018 to address the issue.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-009
Area: RMI Procurement Code

Criteria: Procurement of goods and services should be in accordance with the RMI Procurement Code, which states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar’s Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Conditions: Of \$575,164 in non-payroll expenditures for Resettlement Phase One Fund, thirty-one items totaling \$358,394 were tested. Fifteen items tested lacked supporting documentation evidencing compliance with RMI Procurement Code:

Charters	\$ 111,000
Fuels and Oils	84,513
Supplies	8,371
Rentals	4,000
Others	<u>779</u>
	<u>\$208,663</u>

One fixed asset addition for the purchase of other equipment (PR #14028; \$27,000) lacks supporting documentation and did not go through competitive bidding evidencing compliance with the RMI Procurement Code.

The purchase of various supplies (PR #13984; \$20,771) lacks supporting documentation evidencing compliance with the RMI Procurement Code.

Of \$731,939 in non-payroll expenditures for General Fund, thirty-six items totaling \$59,732 were tested. Five items tested lacked supporting documentation evidencing compliance with the RMI Procurement Code:

Insurance	\$ 3,934
Travel	2,072
Housing	1,565
Maintenance	<u>1,582</u>
	<u>\$ 9,153</u>

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-009, Continued
Area: RMI Procurement Code

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

Prior Year Status: The lack of compliance with the RMI Procurement Code was reported as a finding in the audits of RALGOV for fiscal years 2014 through 2016.

Auditee Response and Corrective Action Plan: This issue was resolved before the date of this finding. On October 20, 2022, RALGOV passed a Resolution for Small Purchases that procurement below \$10,000.00 need not to be supported by 3 quotations.

RALGOV implements the required procurement requirements in its purchasing dealings, however, there are cases when the needed goods or services are only available from one source based on the local government's target schedules and product requirements.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-010
Area: Minutes of Council Meetings

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

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

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

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

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

Prior Year Status: The lack of established policies and procedures relating to documentation of Council minutes and resolutions was reported as a finding in the audits of RALGOV for fiscal years 2011 through 2016.

Auditee Response and Corrective Action Plan: RALGOV understand the important of documenting every official Executive & Council Meeting. The local government is addressing the issue and aims to be consistent in this aspect of documentation improvement.

RONGELAP ATOLL LOCAL GOVERNMENT

Unresolved Prior Year Findings
Year Ended September 30, 2017

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

April 19, 2023

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

Dear Mayor Matayoshi:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV) for the year ended September 30, 2017, which collectively comprise RALGOV's basic financial statements and on which we have issued our report dated April 19, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered RALGOV's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RALGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to RALGOV's internal control over financial reporting and other matters as of September 30, 2017 that we wish to bring to your attention.

We have also issued a separate report to RALGOV, also dated April 19, 2023 on our consideration of RALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

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

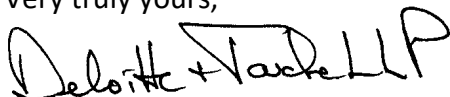
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

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

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

Very truly yours,

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

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving RALGOV's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

(1) Capital Assets

Documentation supporting RALGOV's performance of fixed asset inventories was not available. In addition, government-owned vehicles and equipment lack a RALGOV seal. We recommend management establish internal control policies and procedures requiring the performance of periodic physical capital asset counts, the maintenance of supporting count documentation, and consider identifying RALGOV vehicles and equipment with the RALGOV seal. This matter was discussed in our previous letters to management for the audits of fiscal years 2012 through 2016.

(2) Bank Reconciliations

As of September 30, 2017, bank reconciliations included outstanding checks of \$203,401, which included items amounting to \$99,408 that represented stale-dated checks. Furthermore, bank reconciliations were not timely reviewed to facilitate agreement with general ledger balances. We recommend management establish internal control policies and procedures requiring the performance of timely bank reconciliations and investigate long outstanding checks to determine an appropriate course of action. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2016.

(3) Expenditures

Tests of non-payroll expenditures for the year ended September 30, 2017 noted the following:

- General Fund:
 - a. TA797-B for vehicle rental of \$300 lacked supporting documents, including relevant invoice and receipt.
 - b. Travel Authorization Forms TA811 and TA779-A lacked signature of approver evidencing approval of travel request.
 - c. Check # 49879 issued for a death donation of \$5,000 lacked a copy of the death certificate to support the claim request. Further, the transaction lacked documentation such as a remittance slip evidencing that the donation was received by the beneficiary.
 - d. For three of thirty-six non-payroll expenditures tested, purchase requisitions lacked an independent reviewer's signature.
 - e. The Mayor is entitled to an annual housing allowance of \$12,000; however Section 102h (iii) of the RepMar Income Tax Act of 1989 requires that housing allowances in excess of \$9,000 be subject to the withholding of tax. Documentation supporting the withholding and payment of the required tax was not available.
- Resettlement Phase One:
 - a. For seven of thirty-one non-payroll expenditures tested, purchase requisitions lacked an independent reviewer's signature.

We recommend management establish internal control policies and procedures requiring expenditures be approved by independent review and be supported by pertinent documentation evidencing the nature of the transaction

SECTION I - CONTROL DEFICIENCIES, CONTINUED**(4) Payroll**

Tests of payroll expenditures for the year ended September 30, 2017 noted the following:

- a. RALGOV does not maintain timesheets to evidence employee working hours. Furthermore, employee absences are not supported by exception reports on job performance. Accordingly, we were unable to verify appropriate monitoring of personnel working hours as an alternative basis for not preparing timesheets.
- b. Salaries costs of \$1,630 were charged to a federal grant under a subgrantee agreement but lacked timesheets.
- c. Three RALGOV employees were designated under the pearl farm project. However, these employees worked for the fishing project operated by Aquaculture Technologies of the Marshall Islands (ATMI), an affiliated company. Adequate written documentation including terms and scope of RALGOV's employees' participation with ATMI's operation were not available for examination.
- d. Of twelve Personnel Action Forms tested, eight did not evidence approval of a pay rate increase.

Written exception reports on job performance were not available. Thus, we were not able to verify appropriate monitoring of personnel working hours as an alternative basis for not preparing timesheets. Executive memo 2008-01 orders submission of exception reports on employee job performance on a monthly basis.

We recommend management revisit the payroll process and verify that payroll processing is adequately documented and properly filed. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2016.

(5) Allowance for Doubtful Accounts

Adequate documentation evidencing that RALGOV performs a periodic assessment of doubtful accounts was not on file. We recommend RALGOV perform assessments of doubtful accounts to determine the adequacy of allowance provision. This matter was discussed in our previous letters to management for the audits of fiscal years 2014 through 2016.

(6) Rongelap Bungalows

Rongelap Bungalows did not record inventories at year-end. Cost of sales were not properly recognized. Store supplies were directly recognized as an expenditure upon purchase without monitoring of unsold items at year-end. We recommend management establish internal control policies and procedures requiring the recording of inventories and the recognition of cost of sales. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2016.

(7) Journal Entries

Manual journal entries lack preparer's and/or reviewer's signatures to support independent review. We recommend management establish internal control policies and procedures over the preparation and review of journal entries. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2016.

(8) Distributions

Additional names were included in the original list of exposed Rongelapese; however, no documentation was available to support approval of Executive Council to amend the original list. We recommend management establish internal control policies and procedures over the approval process for changes made on the original list of exposed Rongelapese. This matter was discussed in our previous letters to management for the audits of fiscal years 2014 through 2016.

SECTION I - CONTROL DEFICIENCIES, CONTINUED**(9) Loan Guarantee**

During the year ended September 30, 2017, RALGOV repaid two Ajejdrikdrik loans for \$50,000 and \$10,000, for which RALGOV was a guarantor, on behalf of ATMI. No loan agreement as to payment terms and conditions together with executive council approval associated with the guarantee was available. We recommend that loan guarantees be approved by the executive council prior to execution.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

(1) Segregation of Duties

RALGOV's current level of staffing limits the number of personnel available for accounting duties. Accordingly, appropriate segregation of duties is not always possible which may result in a weakness in internal controls, specifically in the role of the City Manager who has access to assets, has approving authority for disbursements, and also has full access to accounting records. To mitigate this weakness, a critical element in RALGOV's internal control system is the close involvement of management in the day-to-day operations and close review of accounting activities and financial reports.

Furthermore, certain duties of the Chief Accountant are incompatible such as processing checks for claims payments and distribution of such to payees. We recommend that management establish controls to require rotation of the check distribution function among RALGOV staff.

We encourage close involvement of management on a continuing basis and thorough review of accounting activities and financial reports as a means to maintain effective internal controls until a more structured control environment becomes cost effective. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2016.

(2) Sick Leave and Annual Leave Policy

There are currently no policies and procedures governing employee absences including sick leave and vacation leave. Employee paid time off is usually allowed by management. However, no policies are in place that establish limits and authorizations. Furthermore, mandatory vacation policy may be especially beneficial to RALGOV, being a small entity where certain employees may be handling incompatible duties. This would allow management to observe if there is any noticeable change while another person is performing the duties. We recommend that management establish vacation and sick leave policies. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2016.

(3) Amendments to Claims Trust Agreement

The original Trust Agreement was approved by the Government of the Marshall Islands (RepMar) through the Ministry of Finance and the Attorney General, as consistent with the Rongelap Agreed Minute, pursuant to Section 8 of the Article II of the Compact Section 177 Agreement. However, it appears that such approval was not obtained for the Amended Claims Trust Agreement. We recommend that management consult with legal counsel as to the need to obtain approval of the Amended Trust from RepMar. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2016.

SECTION II - OTHER MATTERS, CONTINUED**(4) Reporting**

Management reports were not available. We recommend management consider preparing management reports that assist management and executive officers to monitor financial transactions and that support a relevant and well-informed decision-making process. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2016.

(5) Investments

RALGOV investment in insurance policy of \$55,067 lacks documentation verifying the cash surrender value supporting the outstanding balance as of September 30, 2017. We recommend management obtain and maintain on file investment statements supporting the cash surrender value of RALGOV's investment in insurance policy. This matter was discussed in our previous letters to management for the audits of fiscal years 2013 through 2016.

(6) Employee Life Insurance

As of September 30, 2017, RALGOV deducted an amount aggregating \$53,587 from employees' salaries for purpose of employee life insurance, which was not yet paid/ remitted to an insurance company. No formal agreement was executed between RALGOV and its employees. We recommend management execute a formal agreement with the employees regarding the life insurance salary deduction.

SECTION III - DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

RALGOV's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.