

RONGELAP ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2011

RONGELAP ATOLL LOCAL GOVERNMENT

Table of Contents
Year Ended September 30, 2011

	<u>Page</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	3
III. Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Governmental Fund Financial Statements:	
Balance Sheet	11
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Notes to the Basic Financial Statements	14
IV. Required Supplementary Information - Other than Management's Discussion and Analysis:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual - General Fund	31
Notes to the Required Supplementary Information - Budgetary Reporting	32
V. Independent Auditors' Reports on Internal Control and on Compliance:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	33
Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	35
Schedule of Expenditures of Federal Awards	37
Notes to Schedule of Expenditures of Federal Awards	39
Schedule of Findings and Questioned Costs	40
Unresolved Prior Year Findings and Questioned Costs	50

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV), as of and for the year ended September 30, 2011, which collectively comprise RALGOV's basic financial statements as set forth in Section III of the foregoing table of contents. These financial statements are the responsibility of the management of RALGOV. Our responsibility is to express an opinion on the respective financial statements based on our audit.

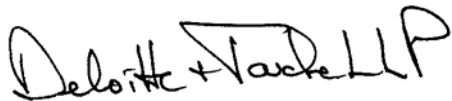
Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United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

Because of inadequacies in RALGOV's accounting records, we were unable to form an opinion regarding an investment of \$300,000 recorded by the governmental activities and the Local Distribution Authority Fund, expenses/expenditures of \$522,965 recorded by the governmental activities and the Resettlement Phase One Fund, and expenditures of \$103,807 recorded by the aggregate remaining fund information.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had investments recorded by the governmental activities and the Local Distribution Authority Fund, expenses/expenditures recorded by the governmental activities and the Resettlement Phase One Fund, and expenditures recorded by the aggregate remaining fund information been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government as of September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2017, on our consideration of the RALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages 3 through 8, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance (Deficit) - Budget and Actual - General Fund and notes thereto, as set forth in Section IV of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the management of RALGOV. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

December 29, 2017

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis Year Ended September 30, 2011

This Management's Discussion and Analysis (MD&A) is prepared by the Finance Department of the Rongelap Atoll Local Government (RALGov) in compliance with Governmental Accounting Standards Board (GASB). This MD&A is a narrative overview of the activities of the local government for the fiscal year ended September 30, 2011. This analysis is a required supplementary information (RSI) to the accompanying financial statements and notes to financial statements. It is intended to serve as an introduction to RALGov's basic financial statements and should assist readers of these financial statements in understanding the results of operations of RALGov.

Financial Highlights

1. The Claims Trust Fund (CTF) lost \$63,854 or 0.20%, net of investment management fees of \$241,285, to end at \$29,890,409 at the end of fiscal year 2011. Total drawdowns during the year amounted to \$1,333,994.
2. The Resettlement Trust Fund (RTF) earned \$267,501 or 1.65%, net of investment management fees of \$108,533, to end at \$11,484,673 at the end of fiscal year 2011. Total drawdowns during the year amounted to \$4,970,208.
3. RALGov's total net assets decreased by \$4,258,725 (or 8.5%) during the fiscal year.
4. Total Local Distribution Authority (LDA) payments to claimants during the fiscal year were \$2,017,103 for distribution and food.
5. Total Resettlement and operational activities expenditures were \$6,306,109.
6. RALGov ended FY2011 with net assets of \$45,710,492 down 8.5% from \$49,969,217 at the end of FY2010.

RALGov's Financial Statements

RALGov's basic financial statements comprise of three components 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to financial statements. The report also contains additional required supplementary information in the form of a budgetary schedule that is prepared on the budgetary basis of accounting in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of RALGov's finances, similar in format to a financial statement of a private sector business. The government-wide statements provide short and long-term information about RALGov's financial status as a whole. The statement of net assets presents all of the local government's assets and liabilities. Net assets is the difference between total assets and total liabilities. The statement of activities accounts for the current year's revenues and expenses regardless of when cash is received or paid.

The two government-wide statements report RALGov's net assets and how such has changed. Measuring net assets is one way to gauge RALGov's financial condition. Over time, increases or decreases in RALGov's net assets is an indicator of whether its financial condition is improving or deteriorating.

The government-wide financial statements can be found on pages 9 and 10 of this report.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
Year Ended September 30, 2011

Fund Financial Statements

The fund financial statements provide more detailed information about RALGov's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. RALGov, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

Governmental Funds – These are used to account for those functions reported as governmental activities in the government-wide financial statements. RALGov's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance RALGov's programs. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The basic governmental financial statements can be found on pages 11 and 12 of this report.

Notes to Financial Statements

The notes provide additional information that is asserted to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 through 29 of this report.

RALGov's Trust Funds

1. Resettlement Trust Fund (RTF) - This fund was established to account for funds awarded to RALGov by the United States of America for the purpose of rehabilitating Rongelap Atoll and the resettlement of its people back to Rongelap Atoll. The RTF finances the General Fund and the Resettlement Phase One Fund (Capital Project Fund).
2. Claims Trust Fund (CTF) - This fund was established to be the depository of the claims awards by the Nuclear Claims Tribunal to the Local Distribution Authority (LDA) for compensating the Rongelapese affected by the BRAVO thermonuclear hydrogen-bomb testing in the Marshall Islands on March 1, 1954. It has one sub-fund account maintained locally to account for the distribution of claims to Rongelapese exposed to the test and their downline family members "listed" in the LDA list.
 - LDA Fund. This sub-fund account receives its funding from the CTF. It was established to account for the distribution to entitled beneficiaries of the LDA.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons. Required supplementary information can be found on pages 30 through 32 of this report.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
Year Ended September 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2011, RALGov's assets exceeded liabilities by \$45,710,492; however, it should be noted that \$35,591,720 is restricted for resettlement and nuclear claims related distribution payments as well as \$10,060,671 being invested in capital assets. The summary of RALGov's net assets for 2011 as compared with 2010 follows:

Summary of Statements of Net Assets

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Current and other assets	\$ 42,963,573	\$ 50,374,694	(14.7%)
Capital assets, net of depreciation	<u>10,060,671</u>	<u>6,768,010</u>	48.7%
Total assets	\$ <u>53,024,244</u>	\$ <u>57,142,704</u>	(7.2%)
Current and other liabilities	\$ 1,987,752	\$ 1,847,487	7.5%
Long-term obligations	<u>5,326,000</u>	<u>5,326,000</u>	0%
Total liabilities	<u>7,313,752</u>	<u>7,173,487</u>	1.9%
Net assets:			
Invested in capital assets	10,060,671	6,768,010	48.7%
Unrestricted	(41,899)	(417,691)	90.0%
Restricted	<u>35,691,720</u>	<u>43,618,898</u>	-18.2%
Total net assets	<u>45,710,492</u>	<u>49,969,217</u>	-8.5%
	\$ <u>53,024,244</u>	\$ <u>51,142,704</u>	

1. Current and other assets decreased by \$7,411,121. The decrease in current and other assets was mainly brought about by the FY2011 budget utilization and additional invested capital assets through equipment and house construction at Rongelap Island.
2. Capital assets, net of depreciation, increased by \$3,292,661. The increase in capital assets was brought about by the year's depreciation of \$365,847 and additions of \$3,658,508 mainly on equipment and Houses Construction Project at Rongelap Island during the year.
3. Unrestricted net asset deficiency decreased by \$375,792. The decrease was brought about by the fiscal year's utilization of net assets thru LDA, Resettlement and Operations activities including the effect of budget drawdowns, net of revenues from trust fund investments.
4. Restricted net assets decreased by \$7,927,178. The decrease in restricted net assets (or the trust funds) was brought about by budget drawdowns, trust fund expenses and the effect of investment performance in the market.
5. At the end of FY2011, RALGov's net assets decreased by \$4,258,725 from \$49,969,217 at the close of FY2010 to end at \$45,710,492 in FY2011. Again, the decrease was caused by utilization of net assets thru LDA, Resettlement and Operations activities net of trust fund drawdowns and financial performance.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
Year Ended September 30, 2011

Changes in Net Assets

Governmental activities for the year ended September 30, 2011 decreased RALGov's net assets by \$4,258,725. Key elements of the decrease were the fund utilization increase in connection with the Resettlement Program activities for FY2011. RALGov's governmental activities revenues decreased by \$4,089,164; from \$4,923,157 in FY2010 to \$833,993 in FY2011. Below is the comparative statement of activities for FY2010 and FY2011.

Summary of Statements of Activities

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Revenues:			
Operating grants	\$ 60,435	\$ 48,864	24%
Investment earnings	288,291	1,790,192	(84%)
Contributions from (to) permanent fund	(63,854)	3,012,410	(102%)
Other	<u>549,121</u>	<u>71,691</u>	(666%)
Total revenues	<u>833,993</u>	<u>4,923,157</u>	(83%)
Expenses:			
Council	48,142	50,447	(5%)
Education	127,735	77,764	64%
Finance	253,470	248,705	2%
Health and sanitation	46,398	28,824	61%
Office of the Mayor	452,806	948,732	(52%)
Engineering	177,152	28,201	528%
Public safety	79,087	54,185	46%
Social services	280,457	254,516	10%
Transportation and communication	114,659	89,895	28%
Resettlement program	1,048,354	2,160,697	(51%)
Nuclear claims related	2,017,103	2,985,326	(32%)
Rongelap bungalows and tourism	228,909	53,012	332%
Pearl farming	69,073	-	100%
Livestock	30,946	-	100%
Interest	<u>118,427</u>	<u>140,342</u>	(16%)
Total expenses	<u>5,092,718</u>	<u>7,120,646</u>	(28%)
Change in Net Assets	(4,258,725)	(2,197,489)	94%
Beginning Net Assets	<u>49,969,217</u>	<u>52,166,706</u>	(4%)
Ending Net Assets	\$ <u>45,710,492</u>	\$ <u>49,969,217</u>	(8%)

Highlight of changes in net assets is as follows:

- Unrestricted earnings received from investments decreased by \$1,501,901 as market values of investments dropped, as a result of the U.S. and Global Market crash of 2011.
- Decrease of \$3,076,264 in the value of investments of the CTF was due to realized gains and unrealized losses in the value of RALGov trust funds in the United States stock market as a result of U.S. and Global Market crash of 2011.
- Increase of \$148,951 in Engineering expenses was brought about by more general maintenance and engineering activities in FY2011.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
Year Ended September 30, 2011

- Increase of \$175,897 in Rongelap Bungalows & Tourism expenses was brought about by the overhauling of tourism boat and increased bungalows and tourism activities in FY2011.
- Interest expense of \$118,427 is associated with the \$5,326,000 term loan with a bank.

FINANCIAL ANALYSIS OF RALGOV FUNDS

As noted earlier, RALGov uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. As of the end of fiscal year 2011, RALGov's governmental funds reported a combined fund balance of \$41,918,232, a decrease of \$7,590,712 or 15.33% of the \$49,508,944 fund balance at the beginning of fiscal year. The decrease is primarily due to the decline in value of trust funds investment brought about by the drop in market values, acquisition of fixed assets and normal utilization of funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, RALGov did not have any amendments to its original budget ordinance pertaining to the general fund.

Actual revenues and financing sources totaling \$2,135,540 were more than the budgeted revenues and financing sources totaling \$1,412,071 primarily because drawdown of previous fiscal year's operational budget was received on FY2011. Expenditures were held in check to comply with budgetary requirements, resulting in actual expenditures of \$1,678,030 from budgeted amounts of \$1,412,071. The excess of revenues and other financing sources over expenditures amounted to \$457,510 at the end of the fiscal year. However, due to carry over fund deficit of \$399,409 at the beginning of fiscal year, total fund balance at the end of fiscal year is \$58,101.

CAPITAL ASSETS AND DEBT ADMINISTRATION

RALGov's investment in capital assets for its governmental activities as of September 30, 2011 amounted to \$14,799,368 with accumulated depreciation of \$4,738,697 or a net book value of \$10,060,671. During FY2011, \$3,658,508 additions were made, of which \$731,582 is for Other Equipment and \$2,729,081 is for houses construction-in-progress at Rongelap Island. Details of fixed assets follow:

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Airport and Dock	\$ 5,030,372	\$ 5,030,372	\$ -
Roads	2,393,680	2,393,680	-
Buildings/facility and improvements	2,566,420	2,529,579	36,841
Motor vehicles	439,145	278,141	161,004
Other Equipment	1,534,734	803,152	731,582
Office equipment	23,566	23,566	-
Furniture and fixtures	<u>8,647</u>	<u>8,647</u>	<u>-</u>
 Total Fixed Assets	 11,996,564	 11,067,137	 929,427
Less accumulated depreciation	<u>(4,738,697)</u>	<u>(4,372,850)</u>	<u>(365,847)</u>
	7,257,867	6,694,287	563,580
Construction in Progress	<u>2,802,804</u>	<u>73,723</u>	<u>2,729,081</u>
Total Capital Assets	\$ <u>10,060,671</u>	\$ <u>6,768,010</u>	\$ <u>3,292,661</u>

For additional information concerning RALGov's capital assets, please refer to note 6 to the financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
Year Ended September 30, 2011

RALGov has \$934,514 in long-term debt from USDA rural housing development program. These loans carry interest of 4.875% to 6.38% per annum with maturities of 32 to 35 years. During FY2010, RALGov incurred \$5,326,000 in additional long-term debt associated with a term loan from a bank for the purpose of funding distribution payments from the LDA Fund.

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
USDA notes payable	\$ 934,514	\$ 953,713	\$ (19,199)
Term loan	<u>5,326,000</u>	<u>5,326,000</u>	<u>-</u>
Total long-term obligations	\$ <u>6,260,514</u>	\$ <u>6,279,713</u>	\$ <u>(19,199)</u>

For additional information concerning RALGov's long-term debt, please refer to notes 7 and 8 to the financial statements.

NEXT YEAR'S BUDGET

For FY2012, RALGov's total budget is \$5,010,204, \$1,298,188 of which is allocated for the General Fund.

For Resettlement Fund, RALGov budgeted in FY2012 a total of \$1,380,613, part of which will be used for soil remediation, budgeted at \$50,000.

FY2012 budget for Local Distribution Authority Fund amounts to \$2,014,600 intended for Six (6) months distributions and Four (4) quarterly food payments to entitled beneficiaries.

CONTACTING RALGOV'S MANAGEMENT

This financial report is designed to provide our constituents, donors and customers with a general overview of RALGov's finances and to demonstrate its transparency and accountability for the money it is entrusted to manage. If you have questions about this report or need additional information, you may contact the City Manager at P.O. Box 1766, Majuro MH 96960, telephone number (692) 625-7099.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Net Assets September 30, 2011

ASSETS

Current assets:	
Cash and cash equivalents	\$ 92,697
Time certificate of deposit	14,069
Receivables, net of allowance for uncollectibles of \$783,971	337,992
Prepaid items	<u>33,100</u>
Total current assets	<u>477,858</u>
Noncurrent assets:	
Investments	894,054
Restricted assets:	
Time certificate of deposit	321,340
Investments	41,270,321
Capital assets:	
Nondepreciable capital assets	2,802,804
Other capital assets, net of accumulated depreciation	<u>7,257,867</u>
Total noncurrent assets	<u>52,546,386</u>
Total assets	<u>\$ 53,024,244</u>

LIABILITIES

Current liabilities:	
Current portion of notes payable	\$ 16,593
Accounts payable	988,317
Interest payable	7,897
Other liabilities and accruals	<u>57,024</u>
Total current liabilities	1,069,831
Noncurrent liabilities:	
Notes payable, net of current portion	917,921
Loan payable	<u>5,326,000</u>
Total liabilities	<u>7,313,752</u>
Commitments and contingencies	

NET ASSETS

Invested in capital assets, net of related debt	10,060,671
Restricted for:	
Nonexpendable:	
Claims	24,556,512
Expendable:	
Resettlement	10,550,159
Claims	485,049
Other	100,000
Unrestricted	<u>(41,899)</u>
Total net assets	<u>45,710,492</u>
Total liabilities and net assets	<u>\$ 53,024,244</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2011

	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
<u>Functions/Programs</u>			
Government activities:			
Council	\$ 48,142	\$ -	\$ (48,142)
Education	127,735	-	(127,735)
Finance	253,470	-	(253,470)
Health and sanitation	46,398	-	(46,398)
Office of the Mayor	452,806	-	(452,806)
Phase 1 - engineering	177,152	-	(177,152)
Public safety	79,087	-	(79,087)
Social services	280,457	60,435	(220,022)
Transportation and communication	114,659	-	(114,659)
Resettlement program	1,048,354	-	(1,048,354)
Pearl farming	69,073	-	(69,073)
Livestock	30,946	-	(30,946)
Nuclear claims related	2,017,103	-	(2,017,103)
Tourism	38,131	-	(38,131)
Rongelap bungalows	190,778	-	(190,778)
Unallocated interest - long-term debt	<u>118,427</u>	<u>-</u>	<u>(118,427)</u>
	<u>\$ 5,092,718</u>	<u>\$ 60,435</u>	(5,032,283)
General revenues:			
Investment earnings			288,291
Other			<u>549,121</u>
Total general revenues			837,412
Contributions to permanent fund			<u>(63,854)</u>
Total general revenues and contributions			<u>773,558</u>
Change in net assets			(4,258,725)
Net assets at the beginning of the year			<u>49,969,217</u>
Net assets at the end of the year			<u>\$ 45,710,492</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2011

	Special Revenue			Capital	Permanent	Other Governmental Funds	Total
	General	Resettlement	Local	Resettlement	Claims		
		Trust	Distribution	Phase One	Trust		
		Authority					
ASSETS							
Cash and cash equivalents	\$ 26,441	\$ -	\$ 48,419	\$ 17,837	\$ -	\$ -	\$ 92,697
Time certificate of deposit	-	-	14,069	-	-	-	14,069
Investments	48,069	-	300,750	545,235	-	-	894,054
Receivables, net	93,184	57,732	139,067	-	47,029	980	337,992
Prepaid items	28,300	-	-	-	-	4,800	33,100
Due from other funds	168,948	-	-	191,271	-	-	360,219
Restricted assets:							
Time certificate of deposit	-	-	321,340	-	-	-	321,340
Investments	-	11,426,941	-	-	29,843,380	-	41,270,321
	<u>\$ 364,942</u>	<u>\$ 11,484,673</u>	<u>\$ 823,645</u>	<u>\$ 754,343</u>	<u>\$ 29,890,409</u>	<u>\$ 5,780</u>	<u>\$ 43,323,792</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 80,916	\$ -	\$ 173,528	\$ 732,523	\$ -	\$ 1,350	\$ 988,317
Other liabilities and accruals	34,654	-	-	21,820	-	550	57,024
Due to other funds	191,271	-	165,068	-	-	3,880	360,219
Total liabilities	<u>306,841</u>	<u>-</u>	<u>338,596</u>	<u>754,343</u>	<u>-</u>	<u>5,780</u>	<u>1,405,560</u>
Fund balances:							
Nonspendable	48,069	-	392,065	545,235	-	-	985,369
Restricted	-	11,484,673	92,984	-	29,890,409	-	41,468,066
Committed	100,000	-	-	-	-	-	100,000
Unassigned	(89,968)	-	-	(545,235)	-	-	(635,203)
Total fund balances	<u>58,101</u>	<u>11,484,673</u>	<u>485,049</u>	<u>-</u>	<u>29,890,409</u>	<u>-</u>	<u>41,918,232</u>
Total liabilities and fund balances	<u>\$ 364,942</u>	<u>\$ 11,484,673</u>	<u>\$ 823,645</u>	<u>\$ 754,343</u>	<u>\$ 29,890,409</u>	<u>\$ 5,780</u>	

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

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

10,060,671

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	\$ (934,514)
Loan payable	(5,326,000)
Accrued interest payable	<u>(7,897)</u>

(6,268,411)

Net assets of governmental activities

\$ 45,710,492

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) Governmental Funds Year Ended September 30, 2011

	Special Revenue			Capital Projects	Permanent	Other Governmental Funds	Total
	General	Resettlement Trust	Local Distribution Authority	Resettlement Phase One	Claims Trust		
Revenues:							
Federal and other grants	\$ 60,435	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,435
Dividends and interest	-	461,768	-	20,790	776,038	-	1,258,596
Net change in the fair value of investments	-	(118,577)	-	-	(601,556)	-	(720,133)
Other	316,874	32,843	152,525	3,119	2,949	76,603	584,913
Total revenues	377,309	376,034	152,525	23,909	177,431	76,603	1,183,811
Expenditures:							
Current:							
Council	39,825	-	-	-	-	-	39,825
Education	127,520	-	-	215	-	-	127,735
Finance	239,961	-	1,371	7,941	-	-	249,273
Health and sanitation	46,398	-	-	-	-	-	46,398
Office of the Mayor	442,806	-	-	10,000	-	-	452,806
Phase I - Engineering	25,922	-	-	139,478	-	-	165,400
Public safety	79,087	-	-	-	-	-	79,087
Social services	279,194	-	-	-	-	-	279,194
Transportation and communication	108,659	-	-	-	-	-	108,659
Resettlement program	17,357	-	-	4,435,873	-	-	4,453,230
Pearl Farming	630	-	-	68,443	-	-	69,073
Livestock	-	-	-	30,946	-	-	30,946
Nuclear claims related	-	-	2,017,103	-	-	-	2,017,103
Investment management	-	108,533	-	-	241,285	-	349,818
Rongelap Bungalows	-	-	-	44,416	-	103,807	148,223
Debt service	-	-	-	57,631	100,122	-	157,753
Total expenditures	1,407,359	108,533	2,018,474	4,794,943	341,407	103,807	8,774,523
Excess (deficiency) of revenues over (under) expenditures	(1,030,050)	267,501	(1,865,949)	(4,771,034)	(163,976)	(27,204)	(7,590,712)
Other financing sources (uses):							
Operating transfers in	1,758,231	-	-	4,682,075	-	34,445	6,474,751
Operating transfers out	(270,671)	(4,970,208)	-	-	(1,233,872)	-	(6,474,751)
Total other financing sources (uses), net	1,487,560	(4,970,208)	-	4,682,075	(1,233,872)	34,445	-
Net change in fund balances (deficit)	457,510	(4,702,707)	(1,865,949)	(88,959)	(1,397,848)	7,241	(7,590,712)
Fund balances (deficit) at beginning of year	(399,409)	16,187,380	2,350,998	88,959	31,288,257	(7,241)	49,508,944
Fund balances at end of year	\$ 58,101	\$ 11,484,673	\$ 485,049	\$ -	\$ 29,890,409	\$ -	\$ 41,918,232

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, 2011

Net change in fund balances - total governmental funds \$ (7,590,712)

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

Capital outlays, net of disposals	\$ 3,658,508	
Depreciation, net	<u>(365,847)</u>	
		3,292,661

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

Repayment of USDA loans	19,199
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in accrued interest payable	<u>20,127</u>
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Change in net assets of governmental activities	<u>\$ (4,258,725)</u>
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See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

A. Government-Wide Financial Statements

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

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- Restricted net assets – nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expanded or added to the principal.
- Restricted net assets – 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 assets consists of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

B. Fund Financial Statements

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

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

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

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

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

Governmental Fund Financial Statements:

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

Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. RALGOV reports the following major funds:

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

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

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

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

D. Cash and Cash Equivalents and Time Certificates of Deposit

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

E. Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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

F. Receivables

Receivables consist of amounts advanced to individuals, on an unsecured basis, substantially all of whom are situated in the Republic of the Marshall Islands. Receivables are stated net of estimated allowances for uncollectible accounts, which is determined based upon past collection experience and aging of the accounts. Reimbursements due to RALGOV for expenditures on federally funded reimbursement and grant programs are included as receivables on the governmental fund balance sheet.

Receivables as of September 30, 2011, 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	\$ 35,762	\$ -	\$ 8,311	\$ 11,462	\$ -	\$ 980	\$ 56,515
Loans	-	-	491,315	-	-	-	491,315
Federal agencies	-	-	-	132,516	-	-	132,516
Interest	-	57,732	-	-	47,029	-	104,761
Other	<u>95,154</u>	<u>-</u>	<u>39,441</u>	<u>198,236</u>	<u>-</u>	<u>4,025</u>	<u>336,856</u>
	130,916	57,732	539,067	342,214	47,029	5,005	1,121,963
Allowance for uncollectible accounts	<u>(37,732)</u>	<u>-</u>	<u>(400,000)</u>	<u>(342,214)</u>	<u>-</u>	<u>(4,025)</u>	<u>(783,971)</u>
	<u>\$ 93,184</u>	<u>\$ 57,732</u>	<u>\$ 139,067</u>	<u>\$ -</u>	<u>\$ 47,029</u>	<u>\$ 980</u>	<u>\$ 337,992</u>

G. Prepaid Items

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

H. Interfund Receivables/Payables

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

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

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. Specifically, a time certificate of deposit recorded in the Local Distribution Authority of \$321,340 is restricted in that it collateralizes a bank loan of Atoll Marine Aquaculture. In addition, investments recorded in the Resettlement Trust Fund and the Claims Trust Fund of \$11,426,941 and \$29,843,380, 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. Interfund/Intrafund Transactions

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

L. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

M. Compensated Absences

RALGOV recognizes expenditures for annual leave and sick leave when leave is actually taken. Accordingly, unused annual leave and sick leave are not included as an obligation within the governmental funds balance sheet. The estimated accumulated amount of unused sick leave at September 30, 2011 is presently not determinable.

N. Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was implemented, effective for the fiscal year ending September 30, 2011. It establishes fund balance classifications 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. As a result of implementing this statement, amounts previously reported as reserved and unreserved fund balance are now reported under the following fund balance classifications:

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

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

A formal minimum fund balance policy has not been adopted.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

O. New Accounting Standards

During fiscal year 2011, RALGOV implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Details on RALGOV's fund balance classifications are reflected in Note 10.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(2) Summary of Significant Accounting Policies, Continued

O. New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

P. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with RALGOV's financial statements for the year ended September 30, 2010 from which summarized information was derived.

(3) Deposits and Investments

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(3) Deposits and Investments, Continued

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

A. Deposits

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

As of September 30, 2011, the carrying amount of the RALGOV's total cash and cash equivalents and time certificates of deposit were \$428,106 and the corresponding bank balances were \$441,771. Of the bank balance amounts, \$408,073 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011, bank deposits in the amount of \$250,000 were FDIC insured. Bank deposits of \$33,698 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, 2011, investments at fair value are as follows:

Resettlement Trust Fund:

Fixed income	\$ 5,082,563
Cash management	975,025
Domestic equities	2,928,103
Foreign equities	1,166,850
Real estate	993,049
Other	<u>281,351</u>
	\$ <u>11,426,941</u>

Claims Trust Fund:

Fixed income	\$ 9,786,735
Cash management	1,743,486
Domestic equities	9,624,100
Future managed assets	5,361,056
Foreign equities	1,265,052
Real estate	1,667,802
Other	<u>395,149</u>
	\$ <u>29,843,380</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 at September 30, 2011.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(3) Deposits and Investments, Continued

B. Investments, Continued

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for RALGOV. As of September 30, 2011, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2011, the Resettlement Trust Funds' investment in debt securities was as follows:

	Moody's Credit Rating	Investment			Maturities	(In years)	Fair Value
		Less than 1	1 to 5	6 to 10	Greater than 10		
US Treasury Obligations	AAA	\$ -	\$ 1,796,607	\$ 741,757	\$ -	\$ 2,538,364	
Corporate notes	AA2	-	399,597	170,948	-	570,545	
Corporate notes	AA3	-	-	287,406	-	287,406	
Corporate notes	A1	-	168,504	230,894	-	399,398	
Corporate notes	A2	-	228,251	-	-	228,251	
Corporate notes	A3	-	286,476	-	-	286,476	
Corporate notes	BAA1	-	-	214,996	-	214,996	
Corporate notes	BAA2	-	110,549	113,665	-	224,214	
Foreign bonds	A3	-	-	112,805	-	112,805	
Foreign bonds	BAA1	-	-	108,473	-	108,473	
Foreign bonds	BAA3	-	-	111,635	-	111,635	
		\$ -	\$ 2,989,984	\$ 2,092,579	\$ -	\$ 5,082,563	

As of September 30, 2011, the Claims Trust Funds' investment in debt securities was as follows:

	Moody's Credit Rating	Investment			Maturities	(In years)	Fair Value
		Less than 1	1 to 5	6 to 10	Greater than 10		
US Treasury Obligations	AAA	\$ -	\$ 3,263,157	\$ 1,360,085	\$ -	\$ 4,623,242	
Corporate notes	AA2	-	734,680	315,441	-	1,050,121	
Corporate notes	AA3	-	-	543,250	-	543,250	
Corporate notes	A1	-	502,405	418,884	-	921,289	
Corporate notes	A2	-	441,183	-	-	441,183	
Corporate notes	A3	-	527,433	-	-	527,433	
Corporate notes	BAA1	-	-	369,173	-	369,173	
Corporate notes	BAA2	-	208,582	206,082	-	414,664	
Corporate notes	BAA3	-	199,047	-	-	199,047	
Foreign bonds	AA3	-	299,683	-	-	299,683	
Foreign bonds	A3	-	207,346	-	-	207,346	
Foreign bonds	BAA1	-	190,304	-	-	190,304	
		\$ -	\$ 6,573,820	\$ 3,212,915	\$ -	\$ 9,786,735	

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(3) Deposits and Investments, Continued

B. Investments, Continued

General Fund:

RALGOV holds an investment in a life insurance contract, which is recorded at fair value. As of September 30, 2011, the cash surrender value of this life insurance contract is \$48,069. In addition, RALGOV holds a 49.1% ownership equity in Rongelap Tourism Company, Inc. (RTCI), which engages in tourism activities in the Republic of the Marshalls Islands. The investment is accounted for on the equity method. RTCI ceased operations in February 2006 following significant losses from prior years. At September 30, 2011, 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, 2011, the investment in AMA of \$300,000 is accounted for on the equity method. In addition, RALGOV holds an equity ownership in AcionMobile, Inc., a Nevada corporation, which engages in communications activities. As of September 30, 2011, the investment is accounted for at cost in the amount of \$750 since the fair market value is not readily available. No dividends were received from these investees during the year ended September 30, 2011.

Resettlement Phase One Fund:

RALGOV holds 39% 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, 2011, the investment is accounted for at cost in the amount of \$545,235 since the fair market value is not readily available. Dividends of \$20,790 were received from the investee during the year ended September 30, 2011.

(4) Loans Receivable

As of September 30, 2011, loans receivable of the primary government are summarized as follows:

Local Distribution Authority Fund:

Note receivable from Ajejdrikdrik, Inc., dated January 20, 2010 in the amount of \$1,000,000, due July 31, 2011, uncollateralized. Principal and interest at 7% per annum is due in monthly installments of \$25,000 through March 30, 2011, with \$300,000 due on April 30, 2011, \$300,000 due on June 30, 2011, and the remaining principal amount plus accrued interest due on July 30, 2011.

\$ 91,315

Note 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

\$ 491,315

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(5) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2011, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other governmental funds	\$ 3,880
General	Local Distribution Authority	165,068
Resettlement Phase One	General	<u>191,271</u>
		<u>\$ 360,219</u>

(6) Capital Assets

Capital asset activities for the year ended September 30, 2011, are as follows:

	<u>Balance October 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2011</u>
Airport and dock	\$ 5,030,372	\$ -	\$ -	\$ 5,030,372
Roads	2,393,680	-	-	2,393,680
Buildings/facility and improvements	2,529,579	36,841	-	2,566,420
Motor vehicles	278,141	173,004	(12,000)	439,145
Other equipment	803,152	792,889	(61,307)	1,534,734
Office equipment	23,566	-	-	23,566
Furniture and fixtures	<u>8,647</u>	<u>-</u>	<u>-</u>	<u>8,647</u>
	11,067,137	1,002,734	(73,307)	11,996,564
Less accumulated depreciation	<u>(4,372,850)</u>	<u>(439,154)</u>	<u>73,307</u>	<u>(4,738,697)</u>
	6,694,287	563,580	-	7,257,867
Construction in Progress	<u>73,723</u>	<u>2,802,804</u>	<u>(73,723)</u>	<u>2,802,804</u>
	<u>\$ 6,768,010</u>	<u>\$ 3,366,384</u>	<u>\$ (73,723)</u>	<u>\$ 10,060,671</u>

Depreciation expense was charged to functions/programs as follows:

Council	\$ 8,317
Finance	4,197
Phase-1 Engineering	11,752
Social services	1,263
Transportation and communication	6,000
Resettlement program	326,939
Tourism	38,131
Rongelap Bungalows	<u>42,555</u>
	<u>\$ 439,154</u>

(7) Notes Payable

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(7) Notes Payable, Continued

The change in notes payable during the year ended September 30, 2011, is as follows:

<u>Balance</u> <u>October 1, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>September 30, 2011</u>	<u>Due Within</u> <u>12 months</u>
\$ <u>953,713</u>	\$ <u> -</u>	\$ <u>(19,199)</u>	\$ <u>934,514</u>	\$ <u>16,593</u>

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 16,593	\$ 55,215	\$ 71,808
2013	17,903	53,905	71,808
2014	18,993	52,815	71,808
2015	20,150	51,658	71,808
2016	21,235	50,573	71,808
2017 - 2021	127,921	231,119	359,040
2022 - 2026	172,025	187,015	359,040
2027 - 2031	221,339	127,968	349,307
2032 - 2036	223,078	60,187	283,265
2037 - 2041	85,000	11,803	96,803
2042 - 2045	<u>10,277</u>	<u>568</u>	<u>10,845</u>
	\$ <u>934,514</u>	\$ <u>882,826</u>	\$ <u>1,817,340</u>

(8) Loan Payable

In 2010, RALGOV entered into a \$5,326,000 term loan agreement with a bank for the purpose of funding claim beneficiary payments to eligible Rongelapese in lieu of liquidating securities of the Claims Trust Fund. The loan is secured by a first priority lien over future earning and distribution payments made from the Claims Trust Fund, bears interest at a fixed rate of 2.46% per annum, with interest due in quarterly installments commencing April 1, 2010 and principal due at maturity on December 9, 2011 (see Note 13).

The change in loan payable during the year ended September 30, 2011, is as follows:

<u>Balance</u> <u>October 1, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>September 30, 2011</u>	<u>Due Within</u> <u>12 months</u>
\$ <u>5,326,000</u>	\$ <u> -</u>	\$ <u> -</u>	\$ <u>5,326,000</u>	\$ <u> -</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(9) Transfers In/Out

Operating transfers in/out for all major fund types, for the year ended September 30, 2011, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Resettlement Trust	Resettlement Phase One	\$ 4,445,849	\$ 4,445,849
Resettlement Trust	General	524,359	524,359
Claims Trust	General	1,233,872	1,233,872
General	Resettlement Phase One	236,226	236,226
General	Other governmental funds	<u>34,445</u>	<u>34,445</u>
		<u>\$ 6,474,751</u>	<u>\$ 6,474,751</u>

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

(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	\$ 48,069	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,069
Atoll Marine Aquaculture	-	-	300,000	-	-	-	300,000
AcionMobile, Inc.	-	-	750	-	-	-	750
Ajejdrikdrik, Inc.	-	-	91,315	545,235	-	-	636,550
Restricted:							
Claims	-	-	92,984	-	29,890,409	-	29,983,393
Resettlement	-	11,484,673	-	-	-	-	11,484,673
Committed:							
Rongelap Museum	100,000	-	-	-	-	-	100,000
Unassigned	<u>(89,968)</u>	<u>-</u>	<u>-</u>	<u>(545,235)</u>	<u>-</u>	<u>-</u>	<u>(635,203)</u>
	<u>\$ 58,101</u>	<u>\$ 11,484,673</u>	<u>\$ 485,049</u>	<u>\$ -</u>	<u>\$ 29,890,409</u>	<u>\$ -</u>	<u>\$ 41,918,232</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, 2011, 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(11) Commitments and Contingencies, Continued

Lease Commitments, Continued:

Future minimum rental payments are as follows:

Year ending <u>September 30,</u>	
2012	\$ 9,600
2013	9,600
2014	9,600
2015	9,600
2016	9,600
2017 - 2021	18,000
2022 - 2026	8,700
2027 - 2030	<u>4,800</u>
	\$ <u>79,500</u>

Questioned Costs:

RALGOV receives Compact Section 177 federal funds for its distribution to eligible individuals. Federally assisted funds can be subject to financial and compliance audits to ascertain if federal and other laws and guidelines have been followed. Cumulative questioned costs of \$2,134,764 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, legal counsel is currently unable to assess the likelihood of potential liabilities related to this claim. Hence, it is not possible to predict a reasonable estimation of this claim and, therefore, no provision for any liability that may result has been made in the accompanying financial statements.

(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, 2011, 2010 and 2009.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2011

(13) Subsequent Events

On December 9, 2011, RALGOV renegotiated the loan payable to bank of \$5,326,000 with interest of 2.44% per annum and extended the maturity date to December 9, 2013.

On January 5, 2012, RALGOV entered into a loan agreement with Ajejdrikdrik, Inc. whereby Ajejdrikdrik, Inc. borrowed \$350,000 from RALGOV with interest at 7% per annum and matures on April 1, 2013.

On February 21, 2012, RALGOV entered into a loan agreement with Ajejdrikdrik, Inc. whereby Ajejdrikdrik, Inc. borrowed \$200,000 from RALGOV with interest at 7% per annum and matures on February 20, 2013.

On March 13, 2012, RALGOV entered into a loan agreement with Ajejdrikdrik, Inc. whereby Ajejdrikdrik, Inc. borrowed \$200,000 from RALGOV with interest at 7% per annum and matures on March 13, 2013.

On June 1, 2012, RALGOV entered into a loan agreement with Ajejdrikdrik, Inc. whereby Ajejdrikdrik, Inc. borrowed \$100,000 from RALGOV with interest at 7% per annum and matures on June 1, 2013.

On July 2, 2012, RALGOV entered into a loan agreement with Ajejdrikdrik, Inc. whereby Ajejdrikdrik, Inc. borrowed \$100,000 from RALGOV with interest at 7% per annum and matures on July 2, 2013.

RONGELAP ATOLL LOCAL GOVERNMENT

**REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING**

YEAR ENDED SEPTEMBER 30, 2011

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in Fund Balance (Deficit) -
Budget and Actual - General Fund
Year Ended September 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Federal and other grants	\$ 79,192	\$ 79,192	\$ 60,435	\$ (18,757)
Other	<u>43,611</u>	<u>43,611</u>	<u>316,874</u>	<u>273,263</u>
Total revenues	<u>122,803</u>	<u>122,803</u>	<u>377,309</u>	<u>254,506</u>
Expenditures:				
Salaries and employee benefits	683,375	683,375	628,362	55,013
Travel and per diem	115,000	115,000	97,414	17,586
Rental and charters	22,000	22,000	142,563	(120,563)
Utilities	71,000	71,000	66,922	4,078
Equipment	-	-	21,984	(21,984)
Supplies	28,000	28,000	10,848	17,152
Supplemental food program	60,000	60,000	90,762	(30,762)
Donations	130,000	130,000	126,477	3,523
Scholarships and training	62,000	62,000	55,800	6,200
Maintenance	40,000	40,000	46,290	(6,290)
Miscellaneous	<u>200,696</u>	<u>200,696</u>	<u>119,937</u>	<u>80,759</u>
Total expenditures	<u>1,412,071</u>	<u>1,412,071</u>	<u>1,407,359</u>	<u>4,712</u>
Deficiency of revenues under expenditures	<u>(1,289,268)</u>	<u>(1,289,268)</u>	<u>(1,030,050)</u>	<u>259,218</u>
Other financing sources (uses):				
Operating transfers in	1,289,268	1,289,268	1,758,231	468,963
Operating transfers out	<u>-</u>	<u>-</u>	<u>(270,671)</u>	<u>(270,671)</u>
Total other financing sources (uses), net	<u>1,289,268</u>	<u>1,289,268</u>	<u>1,487,560</u>	<u>198,292</u>
Net change in fund balance (deficit)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 457,510</u>	<u>\$ 457,510</u>

See accompanying notes to required supplementary information - budgetary reporting

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2011

Budgetary Information

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

The Appropriation Ordinance for fiscal year 2011, Ordinance No. 2011-01, was passed by the Council on September 28, 2010. Formal budget integration is employed as a management control device during the year for all funds. The Executive Council has the authority to reprogram budgeted estimates in accordance with the RALGOV Constitution. All annual appropriations lapse at fiscal year end unless otherwise specified in the Ordinance. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further ordinance for the matter.

Encumbrance accounting has not been utilized by the General Fund.

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2011, which collectively comprise RALGOV's basic financial statements and have issued our report thereon dated December 29, 2017. Our report includes a qualification regarding inadequacies in RALGOV's accounting records. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-001 through 2011-004, 2011-007 and 2011-008 to be material weaknesses.

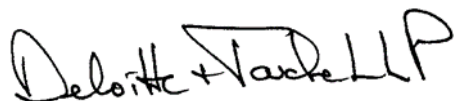
Compliance and Other Matters

As part of obtaining reasonable assurance about whether RALGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-005 and 2011-006.

We noted certain matters that we reported to management of RALGOV in a separate letter dated December 29, 2017.

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

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

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

December 29, 2017

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

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

Compliance

We have audited the Rongelap Atoll Local Government's (RALGOV) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2011. RALGOV's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of RALGOV's management. Our responsibility is to express an opinion on RALGOV's compliance based on our audit.

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

As described in item 2011-005 in the accompanying Schedule of Findings and Questioned Costs, RALGOV did not comply with requirements regarding allowable costs/cost principles that are applicable to its Compact of Free Association Section 177 (CFDA # 15.875) major program. Compliance with such requirements is necessary, in our opinion, for RALGOV to comply with the requirements applicable to that program.

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

Internal Control Over Compliance

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

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

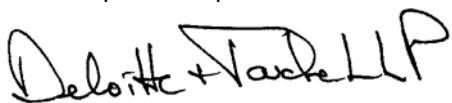
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-005 to be material weaknesses.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of RALGOV as of and for the year ended September 30, 2011, and have issued our report thereon dated December 29, 2017. Our report includes a qualification regarding inadequacies in RALGOV's accounting records. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise RALGOV's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of RALGOV. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



December 29, 2017

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards
Compact of Free Association, Public Law 99-239
Year Ended September 30, 2011

CFDA#	Agency/Program	Prior Year Fund Carried Over October 1, 2010	Net Earnings on Funds	Federal Expenditures	Available Funds September 30, 2011
	<u>U.S. Department of the Interior</u>				
	Funds passed through the Republic of the Marshall Islands:				
15.875	The Agreement between the Government of the United States and the Government of the Marshall Islands for the Implementation of Section 177 of the Compact of Free Association	\$ 31,288,257	\$ 177,431	\$ 1,575,279	\$ 29,890,409

Of funds received per the agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association, the cumulative amount of \$29,890,409 remains invested in the Rongelap Claims Trust Fund, a permanent fund of RALGOV. Funds expended during the year ended September 30, 2011, are represented by fund manager fees of \$241,285, interest payments on outstanding loan of \$100,122, and a transfer out to the General Fund of \$1,233,872 for operations.

See accompanying notes to schedule of expenditures of federal awards.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards
U.S. Federal Grants
Year Ended September 30, 2011

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at September 30, 2010	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2011
	<u>U.S. Department of Agriculture</u>				
	Fund passed through the Republic of the Marshall Islands:				
10.582	Commodity Supplemental Fund Program	\$ -	\$ 60,435	\$ 60,435	\$ -
	<u>U.S. Department of the Interior</u>				
	Fund passed through the Republic of the Marshall Islands:				
15.875	Rongelap Atoll Tourism Promotion Project	\$ (5,876)	\$ -	\$ -	\$ (5,876)
	Direct award:				
15.875	Rongelap Visitors Compound Project	<u>138,392</u>	<u>-</u>	<u>-</u>	<u>138,392</u>
	Total U.S. Department of the Interior	<u>\$ 132,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,516</u>
	<u>U.S. Department of Energy</u>				
	Direct award:				
81.XXX	Environmental Monitoring Support Plan	<u>\$ 14,418</u>	<u>\$ 14,418</u>	<u>\$ -</u>	<u>\$ -</u>
	TOTAL U.S. FEDERAL GRANTS	<u>\$ 146,934</u>	<u>\$ 74,853</u>	<u>\$ 60,435</u>	<u>\$ 132,516</u>

The above federal expenditures are included within the expenditures of the General Fund of \$1,407,359.

See accompanying notes to schedule of expenditures of federal awards.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

(1) Scope of Audit

The Rongelap Atoll Local Government (RALGOV) is a governmental entity governed by its own Constitution. All significant operations of RALGOV are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as RALGOV's cognizant agency for the Single Audit.

a. Programs Subject to Single Audit

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

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

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

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

(2) Summary of Significant Accounting Policies

Basis of Accounting

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

Matching Costs

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

Indirect Cost Allocation

RALGOV has not entered into an approved indirect cost negotiation agreement covering fiscal year 2011. RALGOV did not charge federal programs for indirect costs during fiscal year 2011.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2011-001	Cash and Investments
2011-002	Distributions
2011-003	Documentation and File Maintenance
2011-004	Loan Receivable
2011-005	Claims Trust Fund Withdrawals
2011-006	Legal Services/Procurement
2011-007	Employee Advances and Other Receivables
2011-008	Minutes of Council Meetings

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2011-005	15.875	Allowable Costs/Cost Principles	\$ 1,233,872

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-001
Area: Cash and Investments

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

Condition: RALGOV acquired a 25% equity interest in AMA for \$300,000. RALGOV's investment in AMA was supported by a stock certificate indicating 100,000 shares of common stock, which equates to \$100,000 based on a par value of \$1.00 per share per AMA's articles of incorporation. No explanation was available supporting the \$200,000 variance. RALGOV has provided unaudited financial statements of AMA for the year ended September 30, 2011. Based on those financial statements, the \$200,000 variance was not recorded as additional paid in capital and an investment loss of \$182,230 should be recorded. Furthermore, RALGOV has not received dividends from AMA that equate to an investment rate of return of at least 10% per annum on RALGOV's equity investment of \$300,000. RALGOV has not received or recorded interest income from AMA for the use of RALGOV's time certificate of deposit as of September 30, 2011. Finally, Council Resolution 2010-06 indicates that all AMA assets will be pledged to RALGOV as security for RALGOV's time certificate of deposit. No formal procedures appear to have been initiated to document the pledge of AMA assets.

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

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

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

Prior Year Status: The lack of evidential documentation supporting the \$200,000 variance was reported as a finding in the prior single audit as item 2010-004. Further, the lack of a formal agreement between RALGOV and AMA was reported as a finding in the prior single audit as item 2010-001.

Auditee Response and Corrective Action Plan: As response to the Finding no. 2011-1 and the corresponding recommendation, RALGov met a couple of times with AMA management demanding the interests on collateralized AMA loan at Bank of Guam, and dividends relating to the Investment.

AMA agreed to issue replacement stocks certificate worth the actual investment of RALGov and proposed reconstruction of RALGov claims from AMA, to possibly increase RALGov's ownership shares over AMA. Final talks are yet to be done to eventually settle the issue fairly between both parties.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-002
Area: Distributions

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

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

1. Four (check #s 79911, 81709, 82450 and 83268) were released to persons other than the recipients. However, there is no evidence of authorization to release checks other than to the recipients.
2. Twenty-five (check #s 80492, 80498, 80520, 80552, 80557, 80708, 80818, 81024, 81133, 81243, 81372, 81504, 82119, 84021, 84024, 84296, 85152, 86223, 86391, 86500, 86589, 86697, 86803, 86899, and 86988) showed no indication of the recipients signing as evidence of the check receipt.

In addition, adequate documentation was not provided to support a rate change, from \$76.51 to \$79.57, on the special quarterly payment distributed on September 30, 2011 that resulted in an overstatement of \$11,894.

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

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

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

Prior Year Status: The potential lack of adequate controls over per capita and food distribution payments was reported as a finding in the prior single audit as item 2010-002.

Auditee Response and Corrective Action Plan: RALGov agrees that proper written authorization should be obtained and kept on file for checks released to anyone other than the designated payees; and RALGov finance office disbursement list should be properly acknowledged and signed by the authorized receiver / payee.

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

Ralgov's disbursement in-charge started to strictly implement proper and authorized receiving of the checks back in the late part of FY2014; to ensure that only payees themselves or their authorized person would receive the checks. Improvement on this particular aspect can be noticed from FY2015 onwards.

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-003
Area: Documentation and File Maintenance

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

Conditions:

- Rongelap Bungalows Fund:

1. Twenty-three expenditures tested aggregating \$72,057 were not supported by adequate invoices and checks.
2. Four check disbursements (check #s 1018, 1019, 1020, and 1102) paid subsequent to September 30, 2011 aggregating \$10,629 were not supported by supporting invoices and checks.

- General Fund:

In addition, \$7,698 of General Fund check disbursements were not supported by adequate invoices and checks.

- Resettlement Project Fund:

Two check payments aggregating \$522,965 and related invoices were not available.

Thus, we were not able to verify the propriety of these disbursements.

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

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

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-004
Area: Loan Receivable

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

Condition: In 2010, RALGOV acquired a \$5,000 equity interest in AcionMobile, Inc., a Nevada corporation, and entered into an unsecured \$400,000 loan with this corporation with interest at 12% per annum for a period of two years and maturing on January 8, 2012. As of September 30, 2011, the equity share was valued at \$750 after selling 85% of the shares originally acquired.

No interest has been received by RALGOV per this agreement and repayment of the loan has not occurred as of September 30, 2011. This agreement does not appear to meet the criteria outlined in Council Resolution 2010-01. Based on the Nevada Secretary of State website, this corporation's Nevada business license has been revoked. This unsecured loan was provided with an allowance of \$400,000 as of September 30, 2011. 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 of the Agreement and Council Resolution 2010-01.

Prior Year Status: The potential noncompliance with the Agreement and Council Resolution 2010-01 was reported as a finding in the prior single audit as item 2010-005.

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-005
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, Section 177
Area: Claims Trust Fund Withdrawals and Allowable Costs/Cost Principles
Questioned Costs: \$1,233,872

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

Condition: During the year ended September 30, 2011, distributions from the Claims Trust Fund of \$1,233,872 were utilized to fund General Fund operations rather than annual compensation payments to the people of Rongelap. No written approval was provided authorizing the use of Claims Trust Fund distributions for General Fund operations.

Cause: The cause of the above condition is the lack of written approval authorizing the use of Claims Trust Fund distributions for General Fund operations.

Effect: The effect of the above condition is possible noncompliance with the Amended Trust Agreement and questioned costs of \$1,233,872 result.

Recommendation: We recommend that RALGOV adhere to the terms of Amended Trust Agreement requiring Claims Trust Fund distributions be utilized for the purpose of providing annual compensation payments to the people of Rongelap.

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-006
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, 2011, RALGOV incurred contractual services totaling \$81,510 for an 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.

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-007
Area: Employee Advances and Other Receivables

Criteria: Effective internal control necessitates that receivables are collected in timely manner to allow RALGOV conducts its governmental operations efficiently and avoiding possible losses of noncollection.

Condition:

1. At September 30, 2011, employee advances and other receivables have the following balances:

<u>Fund</u>	<u>Employee advances</u>	<u>Other receivables</u>	<u>Allowance</u>
General	\$ 35,762	\$ 51,848	\$ (37,732)
Resettlement Phase One	\$ 11,462	\$ 310,395	\$(323,714)
Local Distribution Authority	\$ 8,311	\$ 37,717	\$ -

2. One employee advance with an outstanding balance of \$3,226 did not have payroll deductions.
3. One employee advance with an outstanding balance of \$9,913 did not have a consistent application of payroll deductions.
4. One employee advance with an outstanding balance of \$14,532 did not have a signed payroll deduction form in the personnel permanent file.
5. Local Distribution Authority beginning balances of employee advances and other receivables with corresponding balances of \$5,826 and \$10,364, respectively, did not have adequate details.
6. Documentation was not available that RALGOV performs a periodic allowance assessment.

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

Effect: The effect of the above condition limits the government's ability to spend and implement essential and priority projects that would benefit the public. In addition, risk of noncollection of long outstanding receivables may result in a possible loss and may influence a lack of funds to carry out operations.

Recommendation: We recommend that RALGOV adopt internal controls facilitating adequate collection of long outstanding receivables. We also recommend a formal policy be established governing approval and scope and limitations of advancing government funds to employees.

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

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-008
Area: Minutes of Council Meetings

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

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

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

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

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2011

Unresolved Prior Year Findings

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

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2011:

Questioned costs of RALGOV, as previously reported:	
Fiscal year 2006 Single Audit	\$ 295,892
Fiscal year 2010 Single Audit	<u>605,000</u>
	900,892
Questioned costs for fiscal year 2011 Single Audit	<u>1,233,872</u>
Unresolved questioned costs of RALGOV at September 30, 2011	\$ <u>2,134,764</u>

Summary Schedule of Prior Audit Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	<u>Status</u>
2006-006	15.875	\$ 295,892	Refer Note 1.
2010-004	15.875	200,000	Refer Note 1.
2010-005	15.875	<u>405,000</u>	Refer Note 1.
		\$ <u>900,892</u>	

Note 1: Management is awaiting follow-up and issuance of a management decision from the Federal agency.