

**RONGELAP ATOLL LOCAL GOVERNMENT**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2010**

# RONGELAP ATOLL LOCAL GOVERNMENT

## Table of Contents Year Ended September 30, 2010

	<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	10
Statement of Activities	11
Governmental Fund Financial Statements:	
Balance Sheet	12
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities	14
Notes to the Basic Financial Statements	15
IV. Required Supplementary Information - Other than Management's Discussion and Analysis:	
Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund	32
Notes to the Required Supplementary Information - Budgetary Reporting	33
V. Independent Auditors' Report on Internal Control and on Compliance:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35
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	37
Schedule of Expenditures of Federal Awards	39
Notes to Schedule of Expenditures of Federal Awards	41
Schedule of Findings and Questioned Costs	42
Unresolved Prior Year Findings and Questioned Costs	49

## 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 and each major fund of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2010, which collectively comprise RALGOV's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of RALGOV. Our responsibility is to express an opinion on the respective financial statements based on our audit.

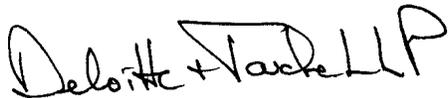
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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.

As discussed in Note 3 to the financial statements, RALGOV reports its investment in Atoll Marine Aquaculture, a 25%-owned corporation, at cost. In our opinion, the investment should be adjusted to reflect RALGOV's equity in earnings or loss of that corporation and be assessed for asset impairment to conform with accounting principles generally accepted in the United States of America. Due to the lack of financial statements of the corporation, the effects of that departure from accounting principles generally accepted in the United States of America on the accompanying financial statements are not reasonably determinable.

In our opinion, except for the effects of not adjusting the value of the investment in Atoll Marine Aquaculture, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Rongelap Atoll Local Government as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2015, 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 9, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section III 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 supplementary information is the responsibility of the management of RALGOV. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

July 31, 2015

## **RONGELAP ATOLL LOCAL GOVERNMENT**

### **Management's Discussion and Analysis September 30, 2010**

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, 2010. This analysis is 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**

- The Claims Trust Fund (CTF) earned \$2,769,836 (or 9.7%), net of investment management fees of \$242,574, to end at \$31,288,257 at the end of fiscal year 2010. Total drawdowns during the year, net of loan proceeds of \$5,326,000, amounted to \$115,103.
- The Resettlement Trust Fund (RTF) earned \$1,682,947 (or 9.8%), net of investment management fees of \$117,713, to end at \$16,187,380 at the end of fiscal year 2010. Total drawdowns during the year amounted to \$2,654,917.
- RALGov's total net assets decreased by \$2,197,489 (or 4.2%) during the fiscal year.
- Total Local Distribution Authority (LDA) payments to claimants during the fiscal year were \$2,742,752 for Distribution and Food.
- Total resettlement and operational activities expenditures during the fiscal year were \$3,790,811.
- RALGov ended FY2010 with net assets of \$49,969,217, down 4.2% from \$52,166,706 at end of FY2009.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

RALGov's basic financial statements comprise three components 1) Government-wide financial statement, 2) Fund financial statements, and 3) Notes to financial statements. This 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 are 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 they have changed. Measuring net assets is one way to gauge RALGov's financial condition. Over time, increases or decreases in RALGov's net assets are indicators of whether its financial condition is improving or deteriorating.

The government-wide financial statements can be found on pages 10 and 11 of this report.

# RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2010

## 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 12 and 13 of this report.

## Notes to Financial Statements

The notes provide additional information that is essential 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 15 through 30 of this report.

## RALGov's Trust Funds

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).

Claims Trust Fund (CTF) - This fund was established to be the depository of the claims awards by Nuclear Claims Tribunal to Local Distribution Authority (LDA) for compensating the Rongelapese affected by the BRAVO thermonuclear hydrogen-bomb testing in the Marshall Islands on March 1, 1954. The CTF finances the LDA Fund, which was established to account for the distribution to entitled beneficiaries.

## 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 31 through 33 of this report.

# RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2010

## 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 2010, RALGov's assets exceeded liabilities by \$49,969,217; however, it should be noted that \$43,618,898 is restricted for resettlement and nuclear claims related distribution payments as well as \$6,768,010 being invested in capital assets. The summary of RALGov's net assets for 2010 as compared with 2009 follows:

Summary of Statements of Net Assets

	<u>2010</u>	<u>2009</u>	<u>%</u>
			<u>Change</u>
<b>Assets:</b>			
Current and other assets	\$ 50,374,694	\$ 47,111,195	7%
Capital assets	<u>6,768,010</u>	<u>6,919,408</u>	-2%
Total assets	<u>57,142,704</u>	<u>54,030,603</u>	6%
<b>Liabilities:</b>			
Current and other liabilities	1,847,487	1,863,897	-1%
Long-term obligations	<u>5,326,000</u>	<u>-</u>	
Total liabilities	<u>7,173,487</u>	<u>1,863,897</u>	285%
<b>Net assets:</b>			
Invested in capital assets	6,768,010	6,919,408	-2%
Restricted	43,618,898	44,997,368	-3%
Unrestricted	<u>(417,691)</u>	<u>249,930</u>	-267%
Total net assets	<u>\$ 49,969,217</u>	<u>\$ 52,166,706</u>	-4%

1. Current and other assets increased by \$3,263,499. The increase in current and other assets was primarily brought about by the recovery in value of investments since experiencing global financial crisis back in the last quarter of 2007.
2. Capital assets decreased by \$151,398. The decrease in net assets was brought about by additions of \$312,708 mainly on Rongelap Power Distribution Project during the year less current year depreciation expense of \$464,106.
3. Unrestricted net assets decreased by \$667,621. The decrease was brought about by the fiscal year's utilization of net assets through the LDA, Resettlement and Operations activities including the effect of budget drawdowns net of the revenues from trust fund investments.
4. Restricted net assets decreased by \$1,378,470. The decrease in restricted net assets (or the trust funds) was brought about by the budget drawdowns, trust funds expenses and the recovery in market value of the trust fund investments.
5. At the end of FY2010, RALGov's net assets decreased by \$2,197,489 from \$52,166,706 at the close of FY2009 to end at \$49,969,217 in FY2010. Again, the drop was caused by the utilization of net assets through the LDA, Resettlement and Operations activities net of trust funds drawdown and financial performance.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Management's Discussion and Analysis September 30, 2010

#### Changes in Net Assets

Governmental activities for the year ended September 30, 2010 increased RALGov's fund balances by \$3,297,854. Key elements of the increase were: (1) the recovery from the global financial meltdown the effect of which began to hit RALGov's trust funds in last quarter of 2007; and (2) loan proceeds of \$5,326,000 received for the purpose of funding current and future LDA distributions. RALGov's governmental fund revenues increased by \$2,290,912 from \$2,632,245 in 2009 to \$4,923,157 in 2010. Below is the comparative statement of activities for FY2009 and FY2010.

#### Summary of Statements of Activities

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
<b>Revenues:</b>			
Operating grants	\$ 48,864	\$ 88,968	-45%
Capital grants	-	100,000	-100%
Investment earnings	1,790,192	473,568	278%
Contributions to permanent fund	3,012,410	1,852,341	63%
Other	71,691	117,368	-39%
Total revenues	4,923,157	2,632,245	87%
<b>Expenses:</b>			
Council	50,447	118,221	-57%
Education	77,764	208,611	-63%
Finance	248,705	367,306	-32%
Health and sanitation	28,824	62,748	-54%
Office of the Mayor	948,732	234,632	304%
Engineering	28,201	27,824	1%
Public safety	54,185	115,281	-53%
Social services	254,516	382,440	-33%
Transportation & communication	89,895	102,115	-12%
Resettlement activities	2,160,697	2,323,254	-7%
Nuclear claims related	2,985,326	2,200,053	36%
Rongelap bungalows	53,012	349,803	-85%
Interest	140,342	-	
Total expenses	7,120,646	6,492,288	10%
Change in net assets	(2,197,489)	(3,860,043)	-43%
Beginning fund balance	52,166,706	56,026,749	-7%
Ending fund balance	\$ 49,969,217	\$ 52,166,706	-4%

# RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2010

## Changes in Net Assets, Continued

Highlight of changes in net assets is as follows:

- Decrease in capital grants and contributions for the year was brought about mainly by the donation of \$100,000 from ROC-Taiwan in 2009 to build a Museum.
- Unrestricted earnings received from Investments increased by \$1,316,624 due to the recovery from the global financial meltdown.
- Increase of \$1,160,069 in the value of investments of the CTF was due to the realized and unrealized gains in the value of RALGov trust funds in the United States stock market.
- Decrease of \$162,557 in Resettlement program expenses was brought about by the continued budget cuts made to resettlement activities.
- The \$785,273 increase in nuclear claims related activities was due to additional payments of special distributions as compared to prior year.
- The \$714,100 increase in Office of Mayoral activities was due to bad debts expense associated with the note receivable from AcionMobile.
- Interest expense for 2010 is associated with the \$5,326,000 term loan with a bank.

## RALGov's Revenue Sources

	<u>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>
Federal and other grants	\$ 48,864	1%	\$ 188,968	7%
Resettlement Trust Fund earnings	1,800,660	37%	504,316	19%
Claims Trust Fund earnings	3,012,410	61%	1,852,341	71%
Other	61,223	1%	86,620	3%
	<u>\$ 4,923,157</u>	<u>100%</u>	<u>\$ 2,632,245</u>	<u>100%</u>

## 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 2010, RALGov's governmental funds reported a combined fund balance of \$49,508,944, an increase of \$3,297,854 or 7.1% of the \$46,211,090 fund balance at the beginning of the fiscal year. The increase is primarily due to the receipt of \$5,326,000 in loan proceeds from a term loan with a bank offset by the continued effects of global financial crisis that swept the world towards recession wherein investment earnings were insufficient to meet the short-term operational needs of RALGov.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2010

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

Actual revenues and financing sources totaling \$1,099,064 were less than the budgeted revenues and financing sources totaling \$1,521,311 primarily because RALGov did not receive anticipated drawdowns from the Resettlement Trust Fund for operational purposes. Expenditures were held in check to comply with its budgetary requirements, resulting in actual expenditures of \$1,337,071 from budgeted amounts of \$1,521,311. Deficiency of revenues and other financing sources under expenditures amounted to \$238,007 at the end of the fiscal year. However, due to the increase in the reservation of fund balance for related assets, unreserved fund deficit rose to \$514,731 from \$261,402 in fiscal year 2009.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

RALGov's investment in capital assets for its governmental activities as of September 30, 2010, amounted to \$11,140,860 with accumulated depreciation of \$4,372,850 or a net book value of \$6,768,010. During FY 2010, \$312,708 in additions were made. Details of fixed assets follow:

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Airport and dock	\$ 5,030,372	\$ 5,030,372	\$ -
Roads	2,393,680	2,393,680	-
Buildings/facility and improvements	2,529,579	2,512,701	16,878
Motor vehicles	278,141	269,441	8,700
Other equipment	803,152	516,022	287,130
Office equipment	23,566	23,566	-
Furniture and fixtures	<u>8,647</u>	<u>8,647</u>	-
Total fixed assets	11,067,137	10,754,429	312,708
Less accumulated depreciation	<u>(4,372,850)</u>	<u>(3,908,744)</u>	<u>(464,106)</u>
	6,694,287	6,845,685	(151,398)
Construction in progress	<u>73,723</u>	<u>73,723</u>	-
Total capital assets	<u>\$ 6,768,010</u>	<u>\$ 6,919,408</u>	<u>\$ (151,398)</u>

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

RALGov has \$953,713 in long term-debt from the USDA rural housing development program. These loans carry interest of 5.75% to 6.38% per annum with maturities of 32 to 35 years. During FY 2010, 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>2010</u>	<u>2009</u>	<u>Change</u>
USDA notes payable	\$ 953,713	\$ 963,792	\$ (10,079)
Term loan	<u>5,326,000</u>	-	<u>5,326,000</u>
Total long-term obligations	<u>\$ 6,279,713</u>	<u>\$ 963,792</u>	<u>\$ 5,315,921</u>

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

## **RONGELAP ATOLL LOCAL GOVERNMENT**

Management's Discussion and Analysis  
September 30, 2010

### **NEXT YEAR'S BUDGET**

For FY2011, RALGov's total budget is \$8,683,810, \$1,509,178 of which is allocated for the General Fund.

For Resettlement Fund, RALGov budgeted in FY2011 a total of \$5,146,832, part of which will be used for the construction of 40 housing units at Rongelap with a budgeted cost of \$3,200,000; purchase of equipments for Rongelap budgeted at \$800,000; and soil remediation budgeted at \$200,000.

FY2011 budget for Local Distribution Authority Fund amounts to \$2,027,800 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, 2010

#### ASSETS

##### Current assets:

Cash and cash equivalents	\$ 89,047
Time certificate of deposit	569,700
Receivables, net of allowance for uncollectibles of \$775,864	1,053,106
Prepaid items	<u>41,500</u>
Total current assets	1,753,353

##### Noncurrent assets:

Investments	844,767
Restricted assets:	
Time certificate of deposit	410,000
Investments	47,366,574
Capital assets, net of accumulated depreciation	<u>6,768,010</u>
Total noncurrent assets	<u>55,389,351</u>
Total assets	<u>\$ 57,142,704</u>

#### LIABILITIES

##### Current liabilities:

Current portion of notes payable	\$ 15,367
Accounts payable	738,817
Interest payable	28,024
Other liabilities and accruals	<u>126,933</u>
Total current liabilities	909,141

##### Noncurrent liabilities:

Notes payable, net of current portion	938,346
Loan payable	<u>5,326,000</u>
Total liabilities	<u>7,173,487</u>

##### Commitments and Contingencies

#### NET ASSETS

Invested in capital assets	6,768,010
Restricted for:	
Nonexpendable:	
Claims	25,934,233
Expendable:	
Resettlement	15,233,667
Claims	2,350,998
Other	100,000
Unrestricted	<u>(417,691)</u>
Total net assets	<u>49,969,217</u>
Total liabilities and net assets	<u>\$ 57,142,704</u>

See accompanying notes to basic financial statements.

## RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Activities  
Year Ended September 30, 2010

	Expenses	Program Revenues	Net (Expenses) Revenues and Changes in Net Assets
<u>Functions/Programs</u>		Operating Grants and Contributions	
<u>Government activities:</u>			
Council	\$ 50,447	\$ -	\$ (50,447)
Education	77,764	-	(77,764)
Finance	248,705	-	(248,705)
Health and sanitation	28,824	-	(28,824)
Office of the Mayor	948,732	-	(948,732)
Phase 1 - Engineering	28,201	-	(28,201)
Public safety	54,185	-	(54,185)
Social services	254,516	48,864	(205,652)
Transportation and communication	89,895	-	(89,895)
Resettlement program	2,160,697	-	(2,160,697)
Nuclear claims related	2,985,326	-	(2,985,326)
Rongelap Bungalows	53,012	-	(53,012)
Unallocated interest - long-term debt	140,342	-	(140,342)
	\$ 7,120,646	\$ 48,864	(7,071,782)
<u>General revenues:</u>			
Investment earnings			1,790,192
Other			71,691
Contributions to permanent fund			3,012,410
			4,874,293
Change in net assets			(2,197,489)
Net assets at the beginning of the year			52,166,706
Net assets at the end of the year			\$ 49,969,217

See accompanying notes to basic financial statements.

# RONGELAP ATOLL LOCAL GOVERNMENT

## Balance Sheet Governmental Funds September 30, 2010

ASSETS	Special Revenue				Capital		Total
	General	Resettlement		Rongelap	Projects	Permanent	
		Trust	Local Distribution Authority	Bungalows	Resettlement Phase One	Claims Trust	
Cash and cash equivalents	\$ 16,769	\$ -	\$ 49,957	\$ 21,368	\$ 953	\$ -	\$ 89,047
Time certificate of deposit	-	-	569,700	-	-	-	569,700
Investments	15,322	-	305,000	-	524,445	-	844,767
Receivables, net	55,122	57,379	883,005	5,916	-	51,684	1,053,106
Prepaid items	36,700	-	-	4,800	-	-	41,500
Due from other funds	-	-	186,792	-	29,903	-	216,695
Restricted assets:							
Time certificate of deposit	-	-	410,000	-	-	-	410,000
Investments	-	16,130,001	-	-	-	31,236,573	47,366,574
	<u>\$ 123,913</u>	<u>\$ 16,187,380</u>	<u>\$ 2,404,454</u>	<u>\$ 32,084</u>	<u>\$ 555,301</u>	<u>\$ 31,288,257</u>	<u>\$ 50,591,389</u>
 <b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 294,439	\$ -	\$ -	\$ 20	\$ 444,358	\$ -	\$ 738,817
Other liabilities and accruals	51,493	-	53,456	-	21,984	-	126,933
Due to other funds	177,390	-	-	39,305	-	-	216,695
Total liabilities	<u>523,322</u>	<u>-</u>	<u>53,456</u>	<u>39,325</u>	<u>466,342</u>	<u>-</u>	<u>1,082,445</u>
Fund balances (deficit):							
Reserved for:							
Related assets	15,322	-	1,784,797	-	524,445	-	2,324,564
Continuing appropriations	100,000	-	-	-	-	-	100,000
Resettlement program	-	16,187,380	-	-	-	-	16,187,380
Claims	-	-	566,201	-	-	31,288,257	31,854,458
Unreserved	(514,731)	-	-	(7,241)	(435,486)	-	(957,458)
Total fund balances (deficit)	<u>(399,409)</u>	<u>16,187,380</u>	<u>2,350,998</u>	<u>(7,241)</u>	<u>88,959</u>	<u>31,288,257</u>	<u>49,508,944</u>
Total liabilities and fund balances	<u>\$ 123,913</u>	<u>\$ 16,187,380</u>	<u>\$ 2,404,454</u>	<u>\$ 32,084</u>	<u>\$ 555,301</u>	<u>\$ 31,288,257</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

6,768,010

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	\$ (953,713)
Loan payable	(5,326,000)
Accrued interest payable	(28,024)

(6,307,737)

Net assets of governmental activities

\$ 49,969,217

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, 2010

	Special Revenue				Capital Projects	Permanent	Total
	General	Resettlement Trust	Local Distribution Authority	Rongelap Bungalows	Resettlement Phase One	Claims Trust	
<b>Revenues:</b>							
Federal and other grants	\$ 48,864	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,864
Dividends and interest	-	519,975	41,814	-	19,610	652,177	1,233,576
Net change in the fair value of investments	(9,678)	1,218,471	-	-	-	2,250,269	3,459,062
Other	8,977	62,214	-	-	500	109,964	181,655
<b>Total revenues</b>	<b>48,163</b>	<b>1,800,660</b>	<b>41,814</b>	<b>-</b>	<b>20,110</b>	<b>3,012,410</b>	<b>4,923,157</b>
<b>Expenditures:</b>							
<b>Current:</b>							
Council	32,725	-	-	-	-	-	32,725
Education	77,764	-	-	-	-	-	77,764
Finance	240,318	-	-	-	-	-	240,318
Health and sanitation	28,824	-	-	-	-	-	28,824
Office of the Mayor	548,732	-	400,000	-	-	-	948,732
Phase I - Engineering	21,477	-	-	-	-	-	21,477
Public safety	51,385	-	-	-	-	-	51,385
Social services	250,516	-	-	-	-	-	250,516
Transportation and communication	85,330	-	-	-	-	-	85,330
Resettlement program	-	-	-	-	1,982,895	-	1,982,895
Nuclear claims related	-	-	2,742,752	-	-	-	2,742,752
Investment management	-	117,713	-	-	-	242,574	360,287
Rongelap Bungalows	-	-	-	5,901	-	-	5,901
Debt service	-	-	-	-	64,944	57,453	122,397
<b>Total expenditures</b>	<b>1,337,071</b>	<b>117,713</b>	<b>3,142,752</b>	<b>5,901</b>	<b>2,047,839</b>	<b>300,027</b>	<b>6,951,303</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,288,908)</b>	<b>1,682,947</b>	<b>(3,100,938)</b>	<b>(5,901)</b>	<b>(2,027,729)</b>	<b>2,712,383</b>	<b>(2,028,146)</b>
<b>Other financing sources (uses):</b>							
Loan proceeds	-	-	-	-	-	5,326,000	5,326,000
Operating transfers in	1,050,901	-	5,383,650	-	1,604,016	-	8,038,567
Operating transfers out	-	(2,654,917)	-	-	-	(5,383,650)	(8,038,567)
<b>Total other financing sources (uses), net</b>	<b>1,050,901</b>	<b>(2,654,917)</b>	<b>5,383,650</b>	<b>-</b>	<b>1,604,016</b>	<b>(57,650)</b>	<b>5,326,000</b>
<b>Net change in fund balances (deficit)</b>	<b>(238,007)</b>	<b>(971,970)</b>	<b>2,282,712</b>	<b>(5,901)</b>	<b>(423,713)</b>	<b>2,654,733</b>	<b>3,297,854</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>(161,402)</b>	<b>17,159,350</b>	<b>68,286</b>	<b>(1,340)</b>	<b>512,672</b>	<b>28,633,524</b>	<b>46,211,090</b>
<b>Fund balances (deficit) at end of year</b>	<b>\$ (399,409)</b>	<b>\$ 16,187,380</b>	<b>\$ 2,350,998</b>	<b>\$ (7,241)</b>	<b>\$ 88,959</b>	<b>\$ 31,288,257</b>	<b>\$ 49,508,944</b>

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, 2010

Net change in fund balances - total governmental funds \$ 3,297,854

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	\$ 312,708	
Depreciation, net	<u>(464,106)</u>	
		(151,398)

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:

Loan proceeds	(5,326,000)	
Repayment of notes payable	<u>10,079</u>	
		(5,315,921)

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>(28,024)</u>	
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Change in net assets of governmental activities \$ (2,197,489)

See accompanying notes to basic financial statements.

# RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2010

## (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 consist 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 them to be available for general operations.

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

## RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2010

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

#### B. Fund Financial Statements

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

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

#### C. Measurement Focus and Basis of Accounting

##### Government-Wide Financial Statements:

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

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

##### Governmental Fund Financial Statements:

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

Significant revenues susceptible to accrual include federal grants. 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, 2010

### (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 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.

Rongelap Bungalows Fund - a special revenue fund that accounts for expenditures concerning visitor industry accommodation, services and products on Rongelap Atoll.

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 of Section 7.2(2) 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.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

(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, 2010, 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>	Rongelap <u>Bungalows</u>	Resettlement <u>Phase One</u>	Claims <u>Trust</u>	<u>Total</u>
Receivables:							
Employee	\$ 29,892	\$ -	\$ -	\$ 1,891	\$ 17,091	\$ -	\$ 48,874
Loans	-	-	1,283,005	-	-	-	1,283,005
Federal agencies	14,418	-	-	-	132,516	-	146,934
Interest	-	57,379	-	-	-	51,684	109,063
Other	<u>44,462</u>	<u>-</u>	<u>-</u>	<u>4,025</u>	<u>192,607</u>	<u>-</u>	<u>241,094</u>
	88,772	57,379	1,283,005	5,916	342,214	51,684	1,828,970
Allowance for uncollectible accounts	<u>(33,650)</u>	<u>-</u>	<u>(400,000)</u>	<u>-</u>	<u>(342,214)</u>	<u>-</u>	<u>(775,864)</u>
	<u>\$ 55,122</u>	<u>\$ 57,379</u>	<u>\$ 883,005</u>	<u>\$ 5,916</u>	<u>\$ -</u>	<u>\$ 51,684</u>	<u>\$ 1,053,106</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, 2010

## (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 \$410,000 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 \$16,130,001 and \$31,236,573, 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, 2010

(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 general purpose 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, 2010 is presently not determinable.

N. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations.

The reserve for related assets as of September 30, 2010, is represented by the following assets:

	<u>General</u>	Resettlement <u>Trust</u>	Local Distribution <u>Authority</u>	Rongelap <u>Bungalows</u>	Resettlement <u>Phase One</u>	Claims <u>Trust</u>	<u>Totals</u>
Investments	\$ 15,322	\$ -	\$ 305,000	\$ -	\$ 524,445	\$ -	\$ 844,767
Loans receivable	-	-	883,005	-	-	-	883,005
Due from other funds	-	-	186,792	-	-	-	186,792
Restricted assets:							
Certificate of deposit	-	-	410,000	-	-	-	410,000
	<u>\$ 15,322</u>	<u>\$ -</u>	<u>\$ 1,784,797</u>	<u>\$ -</u>	<u>\$ 524,445</u>	<u>\$ -</u>	<u>\$ 2,324,564</u>

The reserve for continuing appropriations within the General Fund of \$100,000 represents a grant award approved and received from the Government of RepMar for the construction of the Rongelap Museum.

O. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with RALGOV's financial statements for the year ended September 30, 2009 from which summarized information was derived.

## RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2010

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

#### P. New Accounting Standards

During fiscal year 2010, RALGOV implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of RALGOV.

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.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

P. New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of RALGOV.

(3) Deposits and Investments

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

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

A. Deposits

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

As of September 30, 2010, the carrying amount of the RALGOV's total cash and cash equivalents and time certificates of deposit were \$1,068,747 and the corresponding bank balances were \$1,103,149. Of the bank balance amounts, \$527,942 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010, bank deposits in the amount of \$250,000 were FDIC insured. The remaining bank deposits of \$575,207 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, 2010, investments at fair value are as follows:

Resettlement Trust Fund:

U.S. Government notes and bonds	\$ 3,828,278
U.S. Corporate notes and bonds	2,975,857
Foreign bonds	<u>771,006</u>
	7,575,141

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

(3) Deposits and Investments, Continued

B. Investments, Continued

Resettlement Trust Fund, Continued:

Cash management	958,503
Domestic equities	4,043,558
Foreign equities	2,127,754
Real estate	1,106,896
Other	<u>318,149</u>

\$ 16,130,001

Claims Trust Fund:

U.S. Government notes and bonds	\$ 5,231,061
U.S. Corporate notes and bonds	4,956,457
Foreign bonds	<u>213,192</u>

10,400,710

Cash management	2,048,814
Domestic equities	9,765,928
Future managed assets	5,537,021
Foreign equities	1,210,938
Real estate	1,799,578
Other	<u>473,584</u>

\$ 31,236,573

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, 2010.

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, 2010, there were no investments in any one issuer that exceeded 5% of total investments.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

(3) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2010, the Resettlement Trust Fund investments in debt securities were 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	\$ -	\$ 3,435,443	\$ 392,835	\$ -	\$ 3,828,278	
Corporate notes	AAA	-	240,873	-	-	240,873	
Corporate notes	AA2	-	234,052	230,851	-	240,873	
Corporate notes	AA3	-	235,440	240,709	-	476,149	
Corporate notes	A1	-	387,426	157,875	-	545,301	
Corporate notes	A2	-	460,353	-	-	460,353	
Corporate notes	A3	-	157,286	159,258	-	316,544	
Corporate notes	BAA2	-	155,686	316,048	-	471,734	
Foreign bonds	AA1	-	230,308	-	-	230,308	
Foreign bonds	AA2	-	-	150,794	-	150,794	
Foreign bonds	A3	-	232,212	-	-	232,212	
Foreign bonds	BAA1	-	<u>157,692</u>	-	-	<u>157,692</u>	
		\$ -	\$ <u>5,926,771</u>	\$ <u>1,648,370</u>	\$ -	\$ <u>7,575,141</u>	

As of September 30, 2010 the Claims Trust Fund investments in debt securities were 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	\$ -	\$ 4,681,399	\$ 549,662	\$ -	\$ 5,231,061	
Corporate notes	AAA	-	314,272	-	-	314,272	
Corporate notes	AA1	-	319,360	-	-	319,360	
Corporate notes	AA2	-	540,073	311,147	-	851,220	
Corporate notes	AA3	-	631,381	335,150	-	966,531	
Corporate notes	A1	-	315,772	225,372	-	541,144	
Corporate notes	A2	-	635,641	-	-	635,641	
Corporate notes	A3	-	220,846	225,158	-	446,004	
Corporate notes	BAA1	-	221,416	-	-	221,416	
Corporate notes	BAA2	-	219,035	441,834	-	660,869	
Foreign bonds	AA2	-	-	<u>213,192</u>	-	<u>213,192</u>	
		\$ -	\$ <u>8,099,195</u>	\$ <u>2,301,515</u>	\$ -	\$ <u>10,400,710</u>	

General Fund:

RALGOV holds an investment in a life insurance contract, which is recorded at fair value. As of September 30, 2010, the cash surrender value of this life insurance contract is \$15,322. In addition, RALGOV holds an equity ownership of 49.1% 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, 2010, RALGOV's investment in RTCI amounted to \$0.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

(3) Deposits and Investments, Continued

B. Investments, Continued

Local Distribution Authority Fund:

RALGOV holds a 25% equity ownership in Atoll Marine Aquaculture, 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. The investment is accounted for at cost in the amount of \$300,000 since the fair market value is not readily available. In addition, RALGOV holds an equity ownership in AcionMobile, Inc., a Nevada corporation, which engages in communications activities. The investment is accounted for at cost in the amount of \$5,000 since the fair market value is not readily available. No dividends were received from these investees during the year ended September 30, 2010.

Resettlement Phase One Fund:

RALGOV holds 44.6% of outstanding preferred stock and 13.3% 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. The investment is accounted for at cost in the amount of \$524,445 since the fair market value is not readily available. Dividends of \$19,610 were received from the investee during the year ended September 30, 2010.

(4) Loans Receivable

Loans receivable of the primary government are summarized as follows:

Local Distribution Authority Fund:

Note receivable from Ajejdrikdrik, Inc., a related party, 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 instalments 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.	\$ 883,005
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.	<u>400,000</u>
	<u>\$ 1,283,005</u>

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

(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, 2010, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Local Distribution Authority	Rongelap Bungalows	\$ 39,305
Local Distribution Authority	General Fund	147,487
Resettlement Phase One	General Fund	<u>29,903</u>
		<u>\$ 216,695</u>

(6) Capital Assets

Capital asset activities for the year ended September 30, 2010, is as follows:

	<u>Balance October 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2010</u>
Airport and dock	\$ 5,030,372	\$ -	\$ -	\$ 5,030,372
Roads	2,393,680	-	-	2,393,680
Buildings/facility and improvements	2,512,701	16,878	-	2,529,579
Motor vehicles	269,441	8,700	-	278,141
Other equipment	516,022	287,130	-	803,152
Office equipment	23,566	-	-	23,566
Furniture and fixtures	<u>8,647</u>	<u>-</u>	<u>-</u>	<u>8,647</u>
	10,754,429	312,708	-	11,067,137
Less accumulated depreciation	<u>(3,908,744)</u>	<u>(464,106)</u>	<u>-</u>	<u>(4,372,850)</u>
	6,845,685	(151,398)	-	6,694,287
Construction in progress	<u>73,723</u>	<u>-</u>	<u>-</u>	<u>73,723</u>
	<u>\$ 6,919,408</u>	<u>\$ (151,398)</u>	<u>\$ -</u>	<u>\$ 6,768,010</u>

Depreciation expense was charged to functions/programs as follows:

Council	\$ 17,722
Finance	22,389
Phase-1 Engineering	6,724
Public Safety	2,800
Social services	4,000
Transportation and communication	4,565
Resettlement program	358,795
Rongelap Bungalows	<u>47,111</u>
	<u>\$ 464,106</u>

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

(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.

The change in notes payable during the year ended September 30, 2010, is as follows:

<u>Balance</u> <u>October 1, 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>September 30, 2010</u>	<u>Due Within</u> <u>12 months</u>
\$ 963,792	\$ _____ -	\$ 10,079	\$ 953,713	\$ 15,367

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>
2011	\$ 15,367	\$ 56,441	\$ 71,808
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 - 2020	120,435	238,605	359,040
2021 - 2025	162,128	196,912	359,040
2026 - 2030	216,225	140,966	357,191
2031 - 2035	225,398	73,540	298,937
2036 - 2041	117,916	17,810	135,726
2042 - 2045	<u>22,605</u>	<u>1,400</u>	<u>24,005</u>
	\$ <u>953,713</u>	\$ <u>939,266</u>	\$ <u>1,892,979</u>

(8) Loan Payable

During the year ended September 30, 2010, RALGOV entered into a \$5,326,000 term loan 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 12).

The change in loan payable during the year ended September 30, 2010, is as follows:

<u>Balance</u> <u>October 1, 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>September 30, 2010</u>	<u>Due Within</u> <u>12 months</u>
\$ _____ -	\$ 5,326,000	\$ _____ -	\$ 5,326,000	\$ _____ -

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

(9) Transfers In/Out

Operating transfers in/out for all major fund types, for the year ended September 30, 2010, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Resettlement Trust	General	\$ 1,050,901	\$ 1,050,901
Resettlement Trust	Resettlement Phase One	1,604,016	1,604,016
Claims Trust	Local Distribution Authority	<u>5,383,650</u>	<u>5,383,650</u>
		<u>\$ 8,038,567</u>	<u>\$ 8,038,567</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) 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, 2010, construction of the museum has yet to commence.

Lease Commitments:

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

Future minimum rental payments are as follows:

<u>Year ending September 30,</u>	
2011	\$ 9,600
2012	9,600
2013	9,600
2014	9,600
2015	9,600
2016 - 2020	24,000
2021 - 2025	11,100
2026 - 2030	<u>6,000</u>
	<u>\$ 89,100</u>

## RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2010

### (10) Commitments and Contingencies, Continued

#### Questioned Costs:

RALGOV receives Compact Section 177 federal funds for its distribution to eligible individuals. Federally assisted funds can be subject to financial and compliance audits to ascertain if federal and other laws and guidelines have been followed. Cumulative questioned costs of \$900,892 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.

### (11) Risk Management

RALGOV is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. RALGOV has elected to purchase commercial insurance from independent third parties for the risks of loss to which it believes it to be exposed with the exception of its properties and projects in Rongelap Atoll, for which RALGOV believes it is more economical to manage its risk internally. Settled claims have not exceeded this commercial coverage in any of the past three years. Additionally, no material losses have resulted from RALGOV's risk management activities during the years ended September 30, 2010, 2009 and 2008.

### (12) Subsequent Events

On December 9, 2011, RALGOV renegotiated the bank loan of \$5,326,000 with interest of 2.44% per annum and extended the maturity date to December 9, 2013. On December 9, 2013, RALGOV extended the maturity date of this bank loan to December 9, 2015 with interest of 1.93% per annum.

On January 5, 2012, RALGOV entered into a loan 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 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 with Ajejdrikdrik, Inc. whereby Ajejdrikdrik, Inc. borrowed \$200,000 from RALGOV with interest at 7% per annum and matures on March 13, 2013.

## **RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2010

### (12) Subsequent Events. Continued

On June 1, 2012, RALGOV entered into a loan 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 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, 2010

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Federal and other grants	\$ 111,311	\$ 121,311	\$ 52,320	\$ (68,991)
Other	-	-	(4,157)	(4,157)
Total revenues	<u>111,311</u>	<u>121,311</u>	<u>48,163</u>	<u>(73,148)</u>
Expenditures:				
Salaries and employee benefits	656,160	656,160	619,750	36,410
Travel	81,036	81,036	72,159	8,877
Per diem	71,000	71,000	83,859	(12,859)
Rental and charters	30,400	30,400	23,089	7,311
Utilities	73,750	73,750	79,859	(6,109)
Equipment	23,300	33,300	20,177	13,123
Supplies	26,000	26,000	15,295	10,705
Supplemental food program	131,200	131,200	89,009	42,191
Donations	115,300	115,300	108,678	6,622
Scholarships and training	102,500	102,500	40,670	61,830
Maintenance	44,000	44,000	33,103	10,897
Insurance	7,000	7,000	1,000	6,000
Housing and other allowances	21,000	21,000	25,475	(4,475)
Miscellaneous	128,665	128,665	124,948	3,717
Total expenditures	<u>1,511,311</u>	<u>1,521,311</u>	<u>1,337,071</u>	<u>184,240</u>
Deficiency of revenues under expenditures	<u>(1,400,000)</u>	<u>(1,400,000)</u>	<u>(1,288,908)</u>	<u>111,092</u>
Other financing sources:				
Operating transfers in	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,050,901</u>	<u>(349,099)</u>
Total other financing sources	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,050,901</u>	<u>(349,099)</u>
Deficiency of revenues and other financing sources under expenditures	-	-	(238,007)	(238,007)
Other changes in fund balance:				
Increase in reserve for related assets	-	-	(15,322)	(15,322)
Unreserved fund deficit at beginning of year	<u>(261,402)</u>	<u>(261,402)</u>	<u>(261,402)</u>	<u>-</u>
Unreserved fund deficit at end of year	<u>\$ (261,402)</u>	<u>\$ (261,402)</u>	<u>\$ (514,731)</u>	<u>\$ (253,329)</u>

See accompanying notes to required supplementary information - budgetary reporting

## RONGELAP ATOLL LOCAL GOVERNMENT

### Notes to Required Supplementary Information - Budgetary Reporting September 30, 2010

#### 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 2010, Ordinance No. 2010-01, was passed by the Council on October 23, 2009. 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.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures, and Changes in Deficit-Budget Actual-General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement.

Encumbrance accounting has not been utilized by the General Fund.

**RONGELAP ATOLL LOCAL GOVERNMENT**

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**INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2010**

**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 and each major fund of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2010, which collectively comprise RALGOV's basic financial statements and have issued our report thereon dated July 31, 2015. Our report includes a qualification regarding the lack of equity accounting for investments, which is a departure from accounting principles generally accepted in the United States of America. 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.

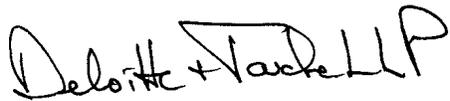
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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 2010-1, 2010-2, 2010-4 and 2010-5 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 item 2010-3.

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

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

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

July 31, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

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

## **Compliance**

We have audited the Rongelap Atoll Local Government's (RALGOV) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on RALGOV's one major federal program for the year ended September 30, 2010. RALGOV's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its one major federal program is the responsibility of RALGOV's management. Our responsibility is to express an opinion on RALGOV's compliance based on our audit.

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

As described in items 2010-4 and 2010-5 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.

## 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.

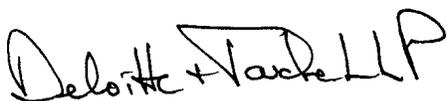
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance 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 items 2010-4 and 2010-5 to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of RALGOV as of and for the year ended September 30, 2010, and have issued our report thereon dated July 31, 2015. Our report includes a qualification regarding the lack of equity accounting for investments, which is a departure from accounting principles generally accepted in the United States of America. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise RALGOV's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of RALGOV. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



July 31, 2015

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Expenditures of Federal Awards  
Compact of Free Association, Public Law 99-239  
Year Ended September 30, 2010

<u>CFDA#</u>	<u>Agency/Program</u>	Prior Year Fund Carried Over October 1, 2009	Loan Proceeds	Net Earnings on Funds	Federal Expenditures	Available Funds September 30, 2010
	<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	\$ 28,633,524	\$ 5,326,000	\$ 3,012,410	\$ 5,683,677	\$ 31,288,257

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 \$31,288,257 remains invested in the Rongelap Claims Trust Fund, a permanent fund of RALGOV. Funds expended during the year ended September 30, 2010, are represented by fund manager fees of \$300,027 and a transfer out to the Rongelap Local Distribution Authority of \$5,383,650 for distribution to the people of Rongelap based on an approved distribution scheme.

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, 2010

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at October 1, 2009	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2010
<u>U.S. Department of Agriculture</u>					
Fund passed through the Republic of the Marshall Islands:					
10.582	Commodity Assistance Program	\$ -	\$ 48,864	\$ 48,864	\$ -
<u>U.S. Department of the Interior</u>					
Fund passed through the Republic of the Marshall Islands:					
15.875	Rongelap Atoll Tourism Promotion Project	\$ (5,876)	\$ -	\$ -	\$ (5,876)
Direct award:					
15.875	Rongelap Visitors Compound Project	138,392	-	-	138,392
	Total U.S. Department of the Interior	<u>\$ 132,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,516</u>
<u>U.S. Department of Energy</u>					
Direct award:					
	Environmental Monitoring Support Plan	\$ 14,418	\$ -	\$ -	\$ 14,418
	<b>TOTAL U.S. FEDERAL GRANTS</b>	<u>\$ 146,934</u>	<u>\$ 48,864</u>	<u>\$ 48,864</u>	<u>\$ 146,934</u>

See accompanying notes to schedule of expenditures of federal awards.

## RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2010

### (1) Organization

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. 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 Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of RALGOV and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2010

**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 federal programs:   |               |
| 5. Material weakness(es) identified?  | Yes           |
| 6. Significant deficiency(ies) identified?  | None reported |
| 7. Type of auditors' report issued on compliance for major federal 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 federal 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:<br>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>
2010-001	Cash and Investments
2010-002	Disbursements
2010-003	Local Noncompliance - RMI Procurement Code
2010-004	Investments
2010-005	Loans Receivable

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

**Section III - Federal Award Findings and Questioned Costs**

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2010-004	15.875	Allowable Costs/Cost Principles	\$ 200,000
2010-005	15,875	Allowable Costs/Cost Principles	<u>405,000</u>
			\$ <u>605,000</u>

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-001  
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. Council resolution 2010-05 indicates that AMA agreed to provide RALGOV an investment rate of return of at least 10% per annum. Furthermore, RALGOV has collateralized a bank loan for AMA with a time certificate of deposit in the amount of \$410,000 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 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. In addition, RALGOV has not received interest payments from AMA for the use of RALGOV's time certificate of deposit. Furthermore, Council Resolution 2010-06 indicates that all of the assets of AMA will be pledged to RALGOV as security for RALGOV's time certificate of deposit. No formal procedures appear to have been initiated whereby the pledge of AMA assets has been formalized.

Cause: The cause of the above condition is the lack of a formal agreement between RALGOV and AMA formalizing said arrangements.

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

Recommendation: We recommend that RALGOV formalize the above arrangements in a written agreement and require that agreed-upon investment rates of return are adhered to.

Auditee Response and Corrective Action Plan: As response to the Finding No. 2010-001 and the corresponding recommendation, RALGov will immediately set a formal conversation with AMA, for the documentation of the agreement on the loan collateral including that of the interest (meeting to be set on June 30, 2015).

RALGov will also demand, in a formal manner, for the settlement of unpaid dividends of 10% on equity investment of \$300,000 from the date investment was made.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-002  
Area: Disbursements

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 sixty four disbursements to the people of Rongelap tested, the following exceptions were noted.

1. Three (check #s 72547, 72661 and 73816) were not supported by valid documentation such as birth certificates, passports or drivers' licenses evidencing the recipients' date of birth and thus verifying their eligibility to receive monetary food distributions.
2. Three (check #s 76156, 76311 and 76970) were not supported by the underlying check register indicating evidence of check receipt.
3. Twenty two (check #s 72547, 72752, 73113, 73188, 73311, 73504, 73634, 74350, 75154, 77391, 77515, 77797, 78041, 78176, 78305, 78425, 78560, 79121, 79261, 80030, 80252 and 80287) showed no indication of the recipients signing as evidence of check receipt.

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 certificates, passports or drivers' licenses.

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 commits to obtain copies of valid identifications and documents from all of Food Distribution eligible recipients to support eligibility.

As of July 2014 distributions and food payments, Ralgov's disbursement in-charge started to strictly implement proper and authorized receiving of the checks; to ensure that only payees themselves or their authorized person would receive the checks.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-003  
Area: Local Noncompliance - RMI Procurement Code

Criteria: Section 106(3) of RepMar's Procurement Code applies to RALGOV, being a political subdivision of RepMar. The Procurement Code states the following:

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

Condition: Of \$1,728,245 in non-payroll expenditures for the Resettlement Trust Fund, thirty three (33) items totaling \$1,457,415 were tested. We noted one \$287,130 item (JV2010-083) pertaining to a power distribution project on Rongelap Atoll where supporting documentation was inadequate to evidence the procurement process.

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

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

Recommendation: We recommend that RALGOV require that supporting documentation is adequate to comply with RepMar's procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price.

Auditee Response and Corrective Action Plan: In all future procurement dealings involving large amount contracts to be entered by RALGov, competitive bidding process shall be done to determine to whom such contract is to be awarded and to comply strictly with RepMar's Procurement Code.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-004  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Section 177  
Area: Investments and Allowable Costs/Cost Principles  
Questioned Costs: \$200,000

Criteria: Generally accepted accounting principles (GAAP) requires that an investment of 20 percent or more of the voting stock of an investee should lead to a presumption that, in the absence of evidence to the contrary, an investor has the ability to exercise significant influence over an investee and thus be accounted for on the equity method of accounting.

Condition: In accordance with RALGOV Council Resolution 2010-05, RALGOV paid \$300,000 and acquired a 25% equity interest in Atoll Marine Aquaculture (AMA). RALGOV has accounted for this equity investment at cost since the fair market value is not readily available and no financial statements were available to assist RALGOV in accounting for such on the equity method of accounting. 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.

Cause: The cause of the above condition is the lack of financial statements of AMA and evidential documentation supporting the \$200,000 variance.

Effect: The effect of the above condition is a departure from GAAP resulting in an opinion qualification on investments and questioned costs of \$200,000.

Recommendation: We recommend that RALGOV account for the investment in AMA on the equity method of accounting and document the \$200,000 variance.

Auditee Response and Corrective Action Plan: As deemed necessary, RALGov will account for the investment in AMA under the equity method of accounting and document the reason for the \$200,000 variance on the investment par and investment amount.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-005  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact of Free Association, Section 177  
Area: Loans Receivable and Allowable Costs/Cost Principles  
Questioned Costs: \$405,000

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: RALGOV acquired a \$5,000 equity interest in AcionMobile, Inc., a Nevada corporation, and entered into an unsecured \$400,000 loan with this corporation with interest at 12% per annum for a period of two years maturing on January 8, 2015. No interest has been received by RALGOV under this agreement and repayment of the loan has not occurred. This agreement does not appear to meet the criteria outlined in Council Resolution 2010-01. Based on the Nevada Secretary of State website, this corporation's business license for operating in Nevada has been revoked. As a result, an audit adjustment has been proposed to recognize an allowance for doubtful debts of \$400,000. As the \$5,000 equity interest is not considered material to the financial statements, no audit adjustment was proposed.

Cause: The cause of the above condition is the entering into an unsecured loan with AcionMobile, Inc., which does not appear to meet the 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 and questioned costs of \$405,000.

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

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

**RONGELAP ATOLL LOCAL GOVERNMENT**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2010

Unresolved Prior Year Findings

There are no unresolved prior year findings.

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, 2010:

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