Single Audit Reports for

Territory of American Samoa

September 30, 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

REPORT OF INDEPENDENT AUDITORS

To Governor of the Territory of American Samoa
Territory of American Samoa
Pago Pago, American Samoa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the Territory of American Samoa (the "Territory") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Territory's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: American Samoa Community College, American Samoa Power Authority, and American Samoa Telecommunications Authority, whose financial statements reflect 92% of the net position at September 30, 2014 and 81% of the operating revenues of the aggregate discretely presented component units for the year then ended. The financial statements of the American Samoa Community College, American Samoa Power Authority, and American Samoa Telecommunications Authority were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these component units, is based solely upon the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Business Type Activities	Unmodified
General Fund	Qualified
Grant Fund	Qualified
Airport Fund	Unmodified
Aggregate Discretely Presented Component Units	Qualified
Aggregate Remaining Fund Information	Unmodified

Basis for Qualified Opinions on the Governmental Activities, General Fund, Grant Fund and the Aggregate Discretely Presented Component Units

We were unable to obtain sufficient appropriate audit evidence for the recorded amounts of tax revenues of $65.3 million in the general fund within the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the year ended September 30, 2014 as the system of financial accounting and reporting in operation for tax revenues for the year ended September 30, 2014 was inadequate to prevent or detect and correct material misstatements on a timely basis and to ensure that transactions were recorded in the proper period. Consequently, we were unable to determine whether any adjustments to this amount were necessary.

We were unable to obtain sufficient appropriate audit evidence for the recorded amounts of accounts payable of $14.4 million and unearned revenue of $5.4 million recorded in the grant fund within the Balance Sheet – Governmental Funds as of September 30, 2014 as the system of financial accounting and reporting in operation for these accounts for the year ended September 30, 2014 was inadequate to ensure that transactions were recorded in the proper period. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the Territory's $9 million investment in ASH Cable LLC as of September 30, 2014 and the Territory's share of ASH Cable LLC's net income as this financial information has not been provided to the Territory from ASH Cable LLC. Consequently, we were unable to determine whether a joint venture interest should be recorded into the governmental activities of the Territory in the current year.

We were unable to obtain sufficient appropriate audit evidence for the recorded amounts for patient accounts receivable and net patient services revenue at the American Samoa Medical Center Authority within the aggregate discretely presented component unit financial statements as of September 30, 2014 and for the year then ended due to insufficient data being provided by the patient accounting information system. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinions

In our opinion, based on our audit and the report of other auditors, except for the possible effects of the matters described in the Basis for Qualified Opinions on the Governmental Activities, General Fund, Grant Fund and the Aggregate Discretely Presented Component Units paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, the grant fund, and the aggregate discretely presented component units of the Territory of American Samoa as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the airport fund, and the aggregate remaining fund information of the Territory of American Samoa as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and budget comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015 on our consideration of the Territory'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* in considering the Territory's internal control over financial reporting and compliance.

Moss Adams LLP

Seattle, Washington
June 26, 2015

This section of the Territory of American Samoa (the "Territory" or "ASG") Basic Financial Report presents a narrative overview and analysis of the financial activities of the Territory for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with the letter of transmittal and the financial statements. Fiscal year 2013 comparative information has been included, where appropriate.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2014, the Territory's total net position of the primary government increased by $70,956 or 0.02% from the prior year.

- During the year, the Territory's expenses for governmental activities were $284,703,552 and were funded by federal program revenues of $193,459,284 and further funded with taxes, fees and other general revenues that totaled $97,173,516.

- In the Territory's business-type activities, which include the airport, industrial park, and shipyard, program expenses exceeded program revenues by $6,106,900.

- As of September 30, 2014, the General Fund reported a net fund deficit of ($13,157,226) as compared to the prior year's net fund deficit of ($4,804,671).

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Territory and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are government-wide statements for each of two categories of activities – governmental and business-type, along with a separate category for discretely-presented component units. The government-wide financial statements present the most complete financial picture of the Territory from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business type activities separately and combined. These statements include all assets of the Territory (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

Reporting the Territory as a Whole

<u>The Statement of Net Position and the Statement of Activities</u>

The Statement of Net Position and the Statement of Activities provide an overall assessment of the Territory's financial condition, and whether its financial condition improved, declined or remained steady over the past year. These statements include all assets and liabilities using the accrual basis of accounting. In addition all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

These two government-wide statements report the Territory's net position and changes in them from the prior year. Net position – the difference between assets and liabilities – represent a fundamental measure of an entity's financial condition, or position. Over time, increases or decreases in the Territory's net position are one indicator of whether its financial health is improving, deteriorating, or remaining steady.

In addition, you must consider other nonfinancial factors, such as changes in the Territory's overall economic environment, the condition of the Territory's roads and other infrastructure, and the quality of services to assess the overall health and performance of the Territory.

As mentioned above, in the Statement of Net Position and the Statement of Activities, we divide the Territory into three kinds of activities:

- Governmental activities – Most of the Territory's basic services are reported here, including public safety, health and welfare, education, culture, general administration, and public works. Income taxes and federal grants finance most of these activities.

- Business-type activities – The Territory charges various fees to recover the costs of operating certain services it provides. The Territory's airport, industrial park, and shipyard authority are activities reported here.

- Discretely-presented component units – These account for activities of the Territory's reporting entity that do not meet the criteria for blending, specifically the American Samoa Power Authority, the American Samoa Community College, the Lyndon B. Johnson Hospital, and the American Samoa Telecommunications Authority.

Reporting the Territory's Most Significant Funds

<u>Fund Financial Statements</u>

The fund financial statements are designed to report information about the most significant funds – not the Territory as a whole. Some funds are required to be established by law and/or by contract or grant agreements. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is using certain taxes, grants and other money, in accordance with applicable laws and regulations.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental funds – Most of the Territory's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Territory's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Territory's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

Proprietary funds – When the Territory charges customers for the services it provides – whether to outside customers or to other units of the Territory – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position. In fact, the Territory's enterprise funds are essentially the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

Fiduciary funds – The Territory is responsible for assets of these funds that – because of a trust arrangement or other fiduciary requirement – can be used only for trust beneficiaries or other parties, such as the American Samoa Government Employees' Retirement Fund ("Retirement Fund"). The Territory is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the Territory's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the Territory's government-wide financial statements because the Territory cannot use these assets to finance operations.

FINANCIAL ANALYSIS OF THE TERRITORY AS A WHOLE

Net Position

The Territory's combined net position increased from $291,838,684 to $291,909,640 between fiscal years 2013 and 2014. There was a marked shift in governmental activities during fiscal 2014 as compared to previous year. This is due to majority of infrastructure improvements, such as the Manu'a harbor dredging, being financed by either capital improvement or local funds.

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Capital assets, net	$ 252,452,486	$ 260,846,443	$ 86,662,312	$ 85,024,827	$ 339,114,798	$ 345,871,270
Other assets	50,913,649	46,451,138	5,120,400	1,314,997	56,034,049	47,766,135
Total assets	$ 303,366,135	$ 307,297,581	$ 91,782,712	$ 86,339,824	$ 395,148,847	$ 393,637,405
Current liabilities	$ 69,297,654	$ 68,487,298	$ 1,209,269	$ 651,041	$ 70,506,923	$ 69,138,339
Non-current liabilities	32,803,240	32,589,426	-	-	32,803,240	32,589,426
Total liabilities	$ 102,100,894	$ 101,076,724	$ 1,209,269	$ 651,041	$ 103,310,163	$ 101,727,765
Net position						
Invested in capital assets, net of related debt	$ 251,891,087	$ 260,535,380	$ 86,353,730	$ 84,963,391	$ 338,244,817	$ 345,498,771
Restricted	1,984,651	2,820,020	3,135,151	-	5,119,802	2,820,020
Unrestricted	(52,610,497)	(57,134,543)	1,084,562	725,392	(51,525,935)	(56,409,151)
Total net position	$ 201,265,241	$ 206,220,857	$ 90,573,443	$ 85,688,783	$ 291,838,684	$ 291,909,640

Changes in Net Position

For the years ended September 30, 2013 and 2014, net position of the primary government changed as follows:

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Revenues						
Program revenues	$ 150,238,059	$ 193,459,284	$ 6,697,001	$ 5,808,034	$ 156,935,060	$ 199,267,318
Taxes and other general revenues	92,911,023	97,173,516	287,799	263,442	93,198,822	97,436,958
Total revenues	243,149,082	290,632,800	6,984,800	6,071,476	250,133,882	296,704,276
Expenses						
General government	80,880,184	61,453,905	-	-	80,880,184	61,453,905
Public safety	34,131,416	16,590,552	-	-	34,131,416	16,590,552
Health and welfare	10,495,457	55,206,811	-	-	10,495,457	55,206,811
Public works	22,617,546	24,967,868	-	-	22,617,546	24,967,868
Education and culture	66,324,186	90,825,183	-	-	66,324,186	90,825,183
Economic development	15,782,532	34,444,120	-	-	15,782,532	34,444,120
Interest	1,513,042	1,229,947	-	-	1,513,042	1,229,947
Non-major activities	-	-	2,300,441	2,453,575	2,300,441	2,453,575
Airport	-	-	7,790,859	9,461,359	7,790,859	9,461,359
Total expenses	231,744,363	284,718,386	10,091,300	11,914,934	241,835,663	296,633,320
Excess (deficiency) before transfers	11,404,719	5,914,414	(3,106,500)	(5,843,458)	8,298,219	70,956
Transfers	(2,594,389)	(958,798)	2,594,389	958,798	-	-
Increase (decrease) in net position	$ 8,810,330	$ 4,955,616	$ (512,111)	$ (4,884,660)	$ 8,298,219	$ 70,956

FINANCIAL ANALYSIS OF THE TERRITORY AS A WHOLE (CONTINUED)

In 2014, governmental activities revenue was $290,632,800 as compared to $243,149,082 in 2013 which is an increase of $47,483,718. Governmental expenses also increased to $284,718,386 as compared to $231,744,363. The excess of revenues over expenditures was $5,914,414.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Territory's taxpayers and citizens. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

For the year ended September 30, 2014, total expenses for governmental activities amounted to $284,718,386. Of these total expenses, taxpayers and other general revenues funded $97,173,516 while those directly benefiting from the programs funded $193,459,284 from charges for services. The increase in expenditures were due to a Department of Labor investigation requiring the Territory to pay overtime incurred in previous years (over $1 million in back wages) and much needed infrastructure improvements in the Territory.

Net Revenue (Expense) of Governmental Activities

	Total Expense of Services		Net Revenue (Expense) of Services	
	2013	2014	2013	2014
General government	$ 80,880,184	$ 61,453,905	$ (49,596,931)	$ (9,596,567)
Public safety	34,131,416	16,590,552	(27,510,203)	(13,773,024)
Health and welfare	10,495,457	55,206,811	22,321,112	11,502,111
Public works	22,617,546	24,967,868	9,495,330	11,369,355
Education and culture	66,324,186	90,825,183	(26,698,620)	(62,589,344)
Economic development	15,782,532	34,444,120	(8,003,950)	(26,941,686)
Interest	1,513,042	1,229,947	(1,513,042)	(1,229,947)
Total	$ 231,744,363	$ 284,718,386	$ (81,506,304)	$ (91,259,102)

FINANCIAL ANALYSIS OF THE TERRITORY AS A WHOLE (CONTINUED)

Business-type Activities

In reviewing the business-type activities net revenue (expense), the following highlights should be noted:

- Total business-type activities reported a deficit in revenue (expense exceeding revenues) of $5,843,458 for the year ended September 30, 2014.

- Of the business-type activities, the airport reported the majority of the net program expenses of $5,956,516. Non-major business-type activities, including the industrial park and shipyard authority reported net program expenses of $150,384.

	Net Revenue (Expense) of Business-type Activities			
	Total Expense of Services		Net Revenue (Expense) of Services	
	2013	2014	2013	2014
Airport	$ 7,790,859	$ 9,461,359	$ (3,854,579)	$ (5,956,516)
Non-major activities	2,300,441	2,453,575	460,280	(150,384)
Total	$ 10,091,300	$ 11,914,934	$ (3,394,299)	$ (6,106,900)

A FINANCIAL ANALYSIS OF THE TERRITORY'S FUNDS

As the Territory completed its 2014 fiscal year, the governmental funds reported a combined fund balance deficit of ($10,690,121), as compared prior year's combined fund balance deficit of ($2,996,290). During fiscal 2014, the Territory embarked on improving its infrastructure (roads and port entries) which has been neglected over the years. While the spending was within the approved budgets, the revenues did not meet expectation. The Territory planned to receive corporate tax settlements from local oil companies, which took longer than expected.

The enterprise funds reported combined net position of $85,688,783 as compared to fiscal year 2013 total of $86,662,312. The Airport is the largest fund within the business type activities. Expenses for the Airport includes approximately $5 million in depreciation expense.

Other fund highlights include:

- The Retirement Fund posted an increase in net position of the fund by $2,891,905 (1.4% increase) to $213,798,802 by year-end 2014. This was mainly due to a net appreciation in the investment value.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2014, the Territory had $345,871,270 invested in capital assets, net of depreciation, including land and land improvements, buildings, infrastructure and various machinery and equipment. See table below. This represents a net increase of $6,756,472 or 2.0% over the prior year.

	Governmental Activities		Business-type Activities		Total	
	2013	2014	2013	2014	2013	2014
Land	$ 2,488,079	$ 2,488,079	$ 1,886,887	$ 1,886,887	$ 4,374,966	$ 4,374,966
Buildings and structures	89,360,126	90,161,004	41,585,383	39,871,143	130,945,509	130,032,147
Land improvements	18,110,914	17,363,480	30,962,474	28,178,890	49,073,388	45,542,370
Machinery and equipment	20,263,459	20,520,316	2,689,093	3,868,371	22,952,552	24,388,687
Infrastructure	98,631,466	99,682,899	-	-	98,631,466	99,682,899
Construction in progress	23,598,442	30,630,665	9,538,475	11,219,536	33,136,917	41,850,201
Total capital assets	$ 252,452,486	$ 260,846,443	$ 86,662,312	$ 85,024,827	$ 339,114,798	$ 345,871,270

See Note 5 to the financial statements for more detailed information on the Territory's capital assets and changes therein.

Long-Term Obligations

At year-end, the Territory had $50,455,861 in long-term obligations outstanding, which represents a $3,289,936 or 6.1% decrease from the prior year. As seen below, ASG continues to pay its obligations in a timely manner particularly in regard to the DOI loan (Tobacco settlement loan) and the two retirement fund loans. Currently, the business-type activities of the Territory have no long-term debt. The Territory's balances in long-term obligations by type are as follows:

	Governmental Activities	
	2013	2014
Accrued compensated absences	$ 13,292,116	$ 13,543,800
FEMA loan	3,220,196	3,304,493
DOI loan	11,014,555	10,068,460
Workers compensation claims	1,448,584	1,277,705
ASG Retirement Fund - $10 million loan	6,998,630	6,438,155
ASG Retirement Fund - $20 million loan	10,184,058	8,020,756
Landfill closure and post-closure	287,658	287,658
Claims and judgments	7,300,000	7,514,834
Total long-term obligations	$ 53,745,797	$ 50,455,861

See Note 8 to the financial statements for more detailed information on the Territory's long-term obligations and changes therein.

ECONOMIC FACTORS

Fiscal Year (FY) 2014 marked another step forward in the Territory's recovery from the effects of the global recession, the closure of the Samoa Packing cannery, and the 2009 tsunami.

Since 2012, the Lolo & Lemanu Administration set a bold agenda focused on spurring economic development, improving the quality of life and efficiency of government services, and marshaling the resources necessary to restore the Territory's crumbling infrastructure. Economic growth was projected in the local cannery output, increased revenues from tax collection and the private sector fully recovering from the natural disasters and closure of one of the canneries.

The American Samoa Economic Development Authority (ASEDA) was reactivated by in 2013 specifically to execute the Territory's plan for the betterment of the Territory's residents. Its main function is to find ways such as entering the bond market to build the Territory's infrastructure now instead of waiting for piecemeal federal funds/grants. ASEDA is currently looking at bond financing for improved transportation, stabilizing the local financial industry and other needed improvements.

The two largest economic drivers in the Territory are the tuna industry and the government sector. Tuna fishing and tuna processing plants are the backbone of the private sector with canned tuna the primary export. The two tuna canneries, Star Kist and Tri-Marine/Tuna Processing, account for 80% of private sector employment.

The tuna industry has a substantial impact on the local economy and recent events and investments speak to a solid future for the industry. The two main tuna canneries on the island have recently made large investments in the Territory. The Tri Marine cannery invested $70 million in a new plant, which when fully deployed in mid-2015, will add 2,000 jobs to the economy. Starkist, with over 2,000 employees, recently invested $10 million in new facilities which provide tuna for all branches of the U.S. military as well as the U.S. school lunch program.

The Territory receives a significant amount of support from the U.S. Government in the form of capital and operating grants. In 2014, ASG received $177 million in grants out of a total of $277 million in total governmental fund revenues for the year. The U.S. continues to have a significant geopolitical and economic interest in the strategic location of American Samoa. This is more pronounced with the Obama administration's emphasis on trade in the Southeast Asia/Pacific region.

Although a small portion of the current economy, approximately 20 cruise ships dock in American Samoa each year. Potential upgrades to the Marina in the next year will likely expand the number of cruise ships and in turn have a multiplier effect on the tourism industry and economy as a whole. The Territory, in cooperation with the chamber of commerce and Department of Commerce, has begun initiatives to promote a more vibrant tourism industry.

ECONOMIC FACTORS (CONTINUED)

As with the rest of the global economy, American Samoa experienced an economic downturn between 2008 and 2011. Since then, exports (majority of it in fish products) have increased more rapidly than imports. The largest trading partners with American Samoa are the United States (55%), Fiji (12%), and New Zealand (8%). This is a fairly diversified group of trading partners.

Some of the Economic Development Initiatives by this administration and led by the Department of Commerce (DOC) include:

- Review all economic development plans done in the past and streamline into one implementation plan called Economic Development Implementation Plan American Samoa (EDIPAS).
- Divest coral reef initiative and national marine sanctuary from the DOC and relocate to the Department of Marine and Wildlife Resources.
- Implement EDIPAS in the order of priority and availability of funding.
- Engage in aggressive effort to seek funding to implement EDIPAS to include federal funds, local and mainland private investments and foreign direct investments through EB-5 program and investment for citizenship programs; and through public private partnerships.
- Remove or lessen federal intervention or laws hampering economic development of the territory- federal minimum wage, cabotage, national marine monument; further, the Territory's voice which needs to be heard and heed in matters concerning their livelihood in the international arena- Transatlantic trade and investment treaty and the US South Pacific Tuna treaty.
- American Samoa to become a more meaningful player in the Pacific region.
- ASG has launched its US Treasury State Small Business Credit Initiative (SSBCI) program in 2015 leveraging $100 million of private investments and lending with $10.5 million of U.S. Treasury funds to start new or expand existing businesses in the territory.

While the administration did well in 2013 to achieve a surplus after several years of deficit spending, 2014 saw a net position deficit. While a lot of factors contributed, the main theme is that we need more revenues (including better tax/fee collection) for the Territory to move forward and achieve its goals of a better life for its citizens. The centerpiece for more revenues is improvement in our tax and customs department collections and enforcements. In addition, there is a need to have budgetary controls of spending to be in line with actual revenues collected.

The variations in income tax for individual and corporations in the past 5 years were attributed to the influx of federally funded projects. These projects included FEMA funds from the Tsunami Disaster as well as ARRA funded programs.

ECONOMIC FACTORS (CONTINUED)

While the personal tax collection saw increases due to more people being hired by these programs, the corporate or business side wasn't affected due to a misunderstanding of the current structure. Most US businesses did not pay local taxes because they felt they were not subject to those obligations.

With the current push and initiatives to increase revenues, all companies awarded contracts in American Samoa shall pay the applicable taxes as required. Most extensive projects are being awarded and bid out through the component units that include the American Samoa Power Authority who is building a $53 million power plant that was decommissioned as a result of the tsunami that engulfed the entire plant. These contracts include all businesses, whether local or off island.

The Tax Office has implemented a thorough process to screen all government contracts and all requests for business licenses to ensure tax compliance. Another new Tax Office initiative will involve the review all W2's and 1099's to determine individual compliance. With the expansion of the Compliance and Enforcement Group, ASG will be able to investigate businesses and individuals on compliance issues.

There is optimism that these actions will yield additional revenues for ASG. Moreover, the Governor authorized the establishment of a Tax Amnesty Program to allow taxpayers to pay off their outstanding tax liabilities and reduce penalty and interest payments.

New revenue measures for 2015 include the hotel tax, review and increase fees and penalties (last massive review was done in the 1970's), excise tax review (including the front running cigarette tax), continued tax collection improvement, and the sales tax.

Finally, the Lolo and Lemanu Administration is serious on complying with the Anti-Deficiency Act and ensuring a balanced budget. Steps are being taken to improve its revenue forecast and watching spending carefully to safeguard against an over-budget situation. It is ASG's intention to have a balanced budget for 2015 and embark on getting new revenues to support its initiatives for better life for the Territory's residents.

CONTACTING THE TERRITORY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Territory's finances and to show the Territory's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's Office at:

Executive Office Building
Hwy 1
Pago Pago
American Samoa 96799
Telephone: (684) 633-4155
Fax: (684) 633-4100

TERRITORY OF AMERICAN SAMOA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 6,051,234	$ 262,393	$ 6,313,627	$ 14,142,850
Investments	4,327,007	-	4,327,007	3,166,653
Taxes receivable, net	6,822,432	-	6,822,432	-
Accounts receivable, net	2,812,634	964,817	3,777,451	20,946,420
Due from U.S. Government	25,824,229	-	25,824,229	5,676,479
Due from primary government	-	-	-	12,948,046
Inventory	-	68,348	68,348	8,486,195
Prepaid expenses	613,602	19,439	633,041	2,311,138
Other assets	-	-	-	972,854
Capital assets				
Land and construction in progress	33,118,744	13,106,423	46,225,167	90,989,410
Depreciable buildings, equipment, and land improvements	227,727,699	71,918,404	299,646,103	138,435,773
Total assets	307,297,581	86,339,824	393,637,405	298,075,818
LIABILITIES				
Due to (from) other funds-pooled cash, net	178,453	(178,453)	-	-
Due to agency fund - pooled cash	330,599	-	330,599	-
Accounts payable	20,188,023	117,965	20,305,988	23,426,370
Income tax refunds payable	5,226,782	-	5,226,782	-
Accrued expenses	5,737,226	650,093	6,387,319	7,600,674
Due to component units	12,948,046	-	12,948,046	-
Contract retention	311,063	61,436	372,499	-
Unearned revenue	6,323,785	-	6,323,785	-
Other accrued expenses	654,591	-	654,591	1,131,618
Long-term debt payable within one year	7,188,730	-	7,188,730	1,593,633
Other liabilities	9,400,000	-	9,400,000	-
Non-current liabilities				
Long-term debt payable after one year	20,643,134	-	20,643,134	9,991,738
Other liabilities due after one year	11,946,292	-	11,946,292	40,501,186
Total liabilities	101,076,724	651,041	101,727,765	84,245,219
NET POSITION				
Net investment in capital assets	260,535,380	84,963,391	345,498,771	223,490,879
Restricted	2,820,020	-	2,820,020	3,221,570
Unrestricted	(57,134,543)	725,392	(56,409,151)	(12,881,850)
Total net position	$ 206,220,857	$ 85,688,783	$ 291,909,640	$ 213,830,599

TERRITORY OF AMERICAN SAMOA
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2014

			Program Revenues			Net (Expense) Revenue and Changes in Net Position			
Functions/Programs	Expenses	Indirect Expense Allocation	Charges for Services	Operation Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	Component Units
PRIMARY GOVERNMENT									
Governmental activities									
General government	$ 61,453,905	$ (4,280,325)	$ 5,656,963	$ 40,762,133	$ 1,157,917	$ (9,596,567)	$ -	$ (9,596,567)	$ -
Education and culture	90,825,183	2,445,768	1,500	30,680,107	-	(62,589,344)	-	(62,589,344)	-
Health and welfare	55,206,811	927,238	33,935	67,602,225	-	11,502,111	-	11,502,111	-
Public safety	16,590,552	284,497	53,784	1,994,037	1,054,204	(13,773,024)	-	(13,773,024)	-
Economic development	34,444,120	325,734	3,292,815	4,521,989	13,364	(26,941,686)	-	(26,941,686)	-
Public works	24,967,868	297,088	211,959	3,385,937	33,036,415	11,369,355	-	11,369,355	-
Interest	1,229,947	-	-	-	-	(1,229,947)	-	(1,229,947)	-
Total governmental activities	284,718,386	-	9,250,956	148,946,428	35,261,900	(91,259,102)	-	(91,259,102)	-
Business-type activities									
Non-major activities	2,453,575		2,303,191	-	-	-	(150,384)	(150,384)	-
Airport	9,461,359		1,436,822	-	2,068,021	-	(5,956,516)	(5,956,516)	-
Total business-type activities	11,914,934		3,740,013	-	2,068,021	-	(6,106,900)	(6,106,900)	-
Total primary government	$ 296,633,320		$ 12,990,969	$ 148,946,428	$ 37,329,921	$ (91,259,102)	$ (6,106,900)	$ (97,366,002)	$ -
COMPONENT UNITS									
American Samoa Power Authority	$ 87,606,915		$ 72,921,478	$ 240,796	$ 22,841,224				$ 8,396,583
American Samoa Community College	14,059,660		10,656,100	-	-				(3,403,560)
American Samoa Medical Center Authority	45,317,064		24,567,792	-	4,874,260				(15,875,012)
American Samoa Telecommunications Authority	19,723,793		16,769,597	-	-				(2,954,196)
	$ 166,707,432		$ 124,914,967	$ 240,796	$ 27,715,484				$ (13,836,185)
GENERAL REVENUES									
Taxes									
Income taxes for general purposes						$ 43,113,102	$ -	$ 43,113,102	$ -
Excise taxes						24,411,501	40,850	24,452,351	-
Intergovernmental						16,174,029	-	16,174,029	12,078,799
Fines and fees						3,163,103	-	3,163,103	-
Tobacco settlement proceeds						2,106,265	-	2,106,265	-
Licenses and permits						1,145,068	-	1,145,068	-
Passenger facility charge						-	222,592	222,592	-
Payments from the American Samoa Government						-	-	-	10,357,994
Miscellaneous						7,060,448	-	7,060,448	521,376
Transfers						(958,798)	958,798	-	-
Total general revenues and transfers						96,214,718	1,222,240	97,436,958	22,958,169
CHANGES IN NET POSITION						4,955,616	(4,884,660)	70,956	9,121,984
NET POSITION, beginning of year						201,265,241	90,573,443	291,838,684	204,708,615
NET POSITION, end of year						$ 206,220,857	$ 85,688,783	$ 291,909,640	$ 213,830,599

See accompanying notes.

TERRITORY OF AMERICAN SAMOA
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Grant Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 2,244,762	$ 2,225,749	$ 68,271	$ 4,538,782
Due from other funds-pooled cash	-	-	264,993	264,993
Due from other funds	-	758,737	-	758,737
Investments	4,327,007	-	-	4,327,007
Taxes receivable, net	6,822,432	-	-	6,822,432
Accounts receivable, net	2,484,973	20,789	306,872	2,812,634
Due from U.S. Government	-	24,803,460	1,020,769	25,824,229
Prepaid expenses	613,602	-	-	613,602
Total assets	$ 16,492,776	$ 27,808,735	$ 1,660,905	$ 45,962,416
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other funds-pooled cash	$ 1,648,979	$ 4,238,626	$ -	$ 5,887,605
Accounts payable	5,235,418	14,366,565	558,756	20,160,739
Income tax refunds payable	5,226,782	-	-	5,226,782
Accrued expenses	3,716,064	665,125	-	4,381,189
Due to component units	12,595,195	352,851	-	12,948,046
Due to other funds	-	-	758,737	758,737
Contract retention	78,446	136,054	96,563	311,063
Unearned revenue	823,909	5,381,442	118,434	6,323,785
Other accrued expenses	325,209	329,382	-	654,591
Total liabilities	29,650,002	25,470,045	1,532,490	56,652,537
Fund balances				
Nonspendable	613,602	-	-	613,602
Restricted	-	2,338,690	481,330	2,820,020
Committed	1,185,444	-	-	1,185,444
Assigned	-	-	-	-
Unassigned	(14,956,272)	-	(352,915)	(15,309,187)
Total fund balances (deficit)	(13,157,226)	2,338,690	128,415	(10,690,121)
Total liabilities and fund balances	$ 16,492,776	$ 27,808,735	$ 1,660,905	$ 45,962,416

See accompanying notes.

TERRITORY OF AMERICAN SAMOA
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Fund balances - total government funds		$ (10,690,121)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	$ 464,616,966	
Less: Accumulated depreciation	(203,953,652)	260,663,314
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
ASGERF - $20 million loan	(8,020,756)	
ASGERF - $10 million loan	(6,438,155)	
Compensated absences	(13,543,800)	
Claims and judgments	(7,514,834)	
Loans payable to U.S. Government	(13,372,953)	
Landfill closure and postclosure liability	(287,658)	(49,178,156)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		5,425,820
Net position of governmental activities		$ 206,220,857

See accompanying notes.

TERRITORY OF AMERICAN SAMOA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Grant Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 65,332,565	$ -	$ 2,192,038	$ 67,524,603
Licenses and permits	1,145,068	-	-	1,145,068
Intergovernmental	13,859,354	170,103,155	2,998,357	186,960,866
Charges for services	5,743,876	-	1,302,516	7,046,392
Fines and fees	3,163,103	-	-	3,163,103
Indirect	4,937,480	-	-	4,937,480
Tobacco settlement proceeds	-	-	2,106,265	2,106,265
Miscellaneous	4,543,992	1,378,233	1,138,223	7,060,448
Total revenues	98,725,438	171,481,388	9,737,399	279,944,225
EXPENDITURES				
Current				
General government	36,397,676	14,931,911	4,061,117	55,390,704
Education and culture	31,284,144	54,711,211	-	85,995,355
Public works	7,406,723	10,020,728	-	17,427,451
Health and welfare	10,354,200	44,659,533	-	55,013,733
Public safety	10,372,679	5,941,794	-	16,314,473
Economic development	10,071,667	16,620,901	-	26,692,568
Capital outlays	-	24,660,534	-	24,660,534
Principal	-	-	3,669,871	3,669,871
Interest	-	-	1,229,947	1,229,947
Total expenditures	105,887,089	171,546,612	8,960,935	286,394,636
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(7,161,651)	(65,224)	776,464	(6,450,411)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,321,033	696,644	761,010	2,778,687
Transfers out	(2,511,937)	-	(1,540,170)	(4,052,107)
Total other financing sources (uses)	(1,190,904)	696,644	(779,160)	(1,273,420)
CHANGES IN FUND BALANCES	(8,352,555)	631,420	(2,696)	(7,723,831)
FUND BALANCES (DEFICIT), beginning of year	(4,804,671)	1,707,270	131,111	(2,966,290)
FUND BALANCES (DEFICITS), end of year	$ (13,157,226)	$ 2,338,690	$ 128,415	$ (10,690,121)

See accompanying notes.

TERRITORY OF AMERICAN SAMOA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balances - total government funds		$ (7,723,831)
Amounts reported for governmental activities in the statement of net position are different because:		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets, net	$ 24,660,534	
Less: Current year depreciation	(16,188,747)	8,471,787
Debt proceeds provide current financial resources to government funds, but debt obligations increase long- term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Accrued interest payable	(137,271)	
Principal payments	3,669,871	3,532,600
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.		
Claims and judgments	(214,834)	
Change in long-term compensated absences	(251,684)	(466,518)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported on the statement of activities.		1,141,578
Change in net position of governmental activities		$ 4,955,616

TERRITORY OF AMERICAN SAMOA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Enterprise Funds			Governmental Activities: Internal Service Fund
	Airport	Non-Major Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	$ 154,599	$ 107,794	$ 262,393	$ 1,512,452
Due from other funds-pooled cash	-	178,453	178,453	5,113,560
Accounts receivable, net	219,297	745,520	964,817	-
Inventory	-	68,348	68,348	-
Prepaid expenses	-	19,439	19,439	-
Total current assets	373,896	1,119,554	1,493,450	6,626,012
Noncurrent assets				
Capital assets, net	83,556,433	1,468,394	85,024,827	183,129
Total assets	83,930,329	2,587,948	86,518,277	6,809,141
LIABILITIES				
Current liabilities				
Accounts payable	-	117,965	117,965	27,284
Accrued expenses	420,974	229,119	650,093	1,356,037
Contract retention	61,436	-	61,436	-
Total liabilities	482,410	347,084	829,494	1,383,321
NET POSITION				
Net investment in capital assets	83,494,997	1,468,394	84,963,391	183,129
Unrestricted	(47,078)	772,470	725,392	5,242,691
Total net position	$ 83,447,919	$ 2,240,864	$ 85,688,783	$ 5,425,820

TERRITORY OF AMERICAN SAMOA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	Enterprise Funds			Governmental Activities: Internal Service Fund
	Airport	Non-Major Activities	Total	
OPERATING REVENUES				
Charges for services	$ 1,436,822	$ 2,303,191	$ 3,740,013	$ 2,204,564
OPERATING EXPENSES				
Personnel	1,766,022	1,268,616	3,034,638	427,932
Operations and maintenance	2,789,031	954,127	3,743,158	916,042
Depreciation	4,906,306	230,832	5,137,138	33,634
Total operating expenses	9,461,359	2,453,575	11,914,934	1,377,608
OPERATING (LOSS) INCOME	(8,024,537)	(150,384)	(8,174,921)	826,956
NONOPERATING REVENUES				
Taxes	40,850	-	40,850	-
Passenger facility charges	222,592	-	222,592	-
Total nonoperating revenues	263,442	-	263,442	-
INCOME (LOSS) BEFORE TRANFERS AND CONTRIBUTIONS	(7,761,095)	(150,384)	(7,911,479)	826,956
TRANSFERS AND CONTRIBUTIONS				
Transfers in, net	958,798	-	958,798	314,622
Federal capital grants	2,068,021	-	2,068,021	-
CHANGES IN NET POSITION	(4,734,276)	(150,384)	(4,884,660)	1,141,578
NET POSITION, beginning of year	88,182,195	2,391,248	90,573,443	4,284,242
NET POSITION, end of year	$ 83,447,919	$ 2,240,864	$ 85,688,783	$ 5,425,820

TERRITORY OF AMERICAN SAMOA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	Enterprise Funds			Governmental Activities
	Airport	Non-Major Activities	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$ 1,351,213	$ 2,547,673	$ 3,898,886	$ -
Receipts from other funds	-	(178,453)	(178,453)	1,279,663
Payments to suppliers	(2,966,742)	(864,937)	(3,831,679)	(960,290)
Payments to employees	(1,789,918)	(1,206,145)	(2,996,063)	(634,288)
Net cash (used) provided by operating activities	(3,405,447)	298,138	(3,107,309)	(314,915)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Tax receipts	40,850	-	40,850	-
Passenger facility charge receipts	222,592	-	222,592	-
Additions to capital assets	(3,354,259)	(392,540)	(3,746,799)	(8,779)
Receipts of federal capital grants	3,168,559	-	3,168,559	-
Net cash provided by capital and related financing activities	77,742	(392,540)	(314,798)	(8,779)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating transfers in	958,798	-	958,798	314,622
CHANGE IN CASH AND CASH EQUIVALENTS	(2,368,907)	(94,402)	(2,463,309)	(9,072)
CASH AND CASH EQUIVALENTS, beginning of year	2,523,506	202,196	2,725,702	1,521,524
CASH AND CASH EQUIVALENTS, end of year	$ 154,599	$ 107,794	$ 262,393	$ 1,512,452
RECONCILIATION OF OPERATING INCOME TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES				
Operating (loss) income	$ (8,024,537)	$ (150,384)	$ (8,174,921)	$ 826,956
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities				
Depreciation and loss on disposal of capital assets	4,906,306	230,832	5,137,138	33,634
Change in assets and liabilities				
Accounts receivable, net	(85,609)	244,482	158,873	150
Inventory	-	(19,712)	(19,712)	-
Prepaid expenses	-	93,067	93,067	-
Due from other funds	-	(178,453)	(178,453)	(925,051)
Accounts payable and accrued expenses	(201,607)	78,306	(123,301)	(250,604)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (3,405,447)	$ 298,138	$ (3,107,309)	$ (314,915)

TERRITORY OF AMERICAN SAMOA
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS
SEPTEMBER 30, 2014

	Pension Trust	Agency
ASSETS		
Cash and cash equivalents	$ 840,998	$ 11,311,284
Due from other funds-pooled cash	-	330,599
Investments	212,424,291	2,250,000
Accounts receivable, net	537,264	-
Contributions receivable	507,071	-
Prepaid expenses and other assets	64,229	-
Capital assets, net	166,651	-
Total assets	214,540,504	13,891,883
LIABILITIES		
Accounts payable	148,052	38,673
Accrued expenses	-	74,070
Contribution refunds	593,650	-
High court deposits	-	1,924,007
Federal tax refunds	-	5,835,083
Immigration bonds	-	2,728,695
Small business loan collateral	-	3,291,355
Total liabilities	741,702	13,891,883
NET POSITION	$ 213,798,802	$ -

See accompanying notes.

TERRITORY OF AMERICAN SAMOA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	Pension Trust
ADDITIONS	
Contributions	
Sponsors	$ 7,851,815
Members	3,097,044
Total contributions	10,948,859
Investment income	
Dividends	2,831,842
Interest	1,230,278
Lease revenue from Centennial Office Building	740,507
Net appreciation in fair value of investments	11,092,946
	15,895,573
Less investment fees	360,317
Less Centennial Office Building maintenance expenses	510,123
Net investment income	15,025,133
Net additions	25,973,992
DEDUCTIONS	
Benefits	20,194,459
General and administrative expenses	1,424,468
Employee contributions refunded	991,816
Interest on employee contributions refunded	471,344
Total deductions	23,082,087
CHANGES IN NET POSITION	2,891,905
NET POSITION, beginning of year	210,906,897
NET POSITION, end of year	$ 213,798,802

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

A. The Reporting Entity

The Territory of American Samoa (the “Territory” or “ASG”) is an unincorporated Territory of the United States of America and operates under the jurisdiction of the United States Department of Interior. A constitution was adopted in 1966, and in 1977 the Secretary of the Interior’s Order Number 3009 provided for a popularly elected Governor and Lieutenant Governor. The Legislative body (“Fono”) is comprised of Members of the House of Representatives who are popularly elected and Senators who are chosen by village councils.

The financial statements have been prepared primarily from records maintained by the Treasury Department. Additional information was obtained from agencies and other entities based on independent accounting records maintained by them.

The financial statements include all funds of the primary government, which is the Territory, as well as the component units and other organizational entities determined to be included in the Territory’s financial reporting entity.

The decision to include a potential component unit in the Territory’s reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities included in the Territory’s reporting entity.

Primary Government

All offices, departments, agencies and authorities that are not legally separate entities have been included in the Territory reporting entity as part of the primary government unless otherwise noted. Most of these have executives or boards appointed by the Governor, the Fono or a combination thereof. The entities included as part of the primary government are financially accountable to and fiscally dependent on the Territory.

Blended Component Units

Although legally separate entities, blended component units are in substance, part of the primary government’s operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government.

Note 1 – Summary of Significant Accounting Policies (Continued)

Following is a brief description of the blended component units.

American Samoa Government Employees' Retirement Fund

The American Samoa Government Employees' Retirement Fund (the "Retirement Fund") was established in 1971 to provide retirement annuities for the employees of the Territory and its component units. It is governed by a Board of Trustees appointed by the Governor with the consent of the Senate and House of Representatives. The Retirement Fund's costs, based upon actuarial valuations, are funded by the participating governmental employers and participants. The Retirement Fund is a part of the primary government and is reported as a pension trust fund in the fiduciary funds. The Retirement Fund issued audited financial statements for the year ended September 30, 2014 with a report dated December 22, 2014. The report can be obtained at the Retirement Fund's administrative offices.

American Samoa Petroleum Cooperative, Inc.

The American Samoa Petroleum Cooperative, Inc. (the "Cooperative") was created by executive order in 1992 to ensure that the Territory is provided with a reliable and stable supply of petroleum products at reasonable costs and that the petroleum storage facilities of the Territory are properly constructed and maintained to meet applicable standards. The Cooperative is governed by a four-member board consisting of a member appointed by the Governor, a member appointed by the terminal operator, a member appointed by these two members, and a member appointed by the American Samoa Power Authority ("ASPA"). The Cooperative is fiscally dependent on the Territory and receives rent and fees levied by the primary government on the bulk petroleum products put through the Territory's facilities. The Cooperative provides services almost entirely to the primary government and all real property acquired by the Cooperative is the property of the Territory. The Territory provides administrative support and pays all personnel costs for the Cooperative. The Cooperative is a blended component unit and is included as part of the primary government in the non-major governmental funds. The Cooperative issued audited financial statements for the year ended September 30, 2014 with a report dated December 1, 2014. The report can be obtained at the Cooperative's administrative offices.

American Samoa Shipyard Services Authority

The American Samoa Shipyard Services Authority (the "Shipyard Authority") was created for the purpose of providing shipyard and water transportation services through the use of the Territory's Ronald Reagan Marine Railway. The Shipyard Authority is governed by a five-member board of directors, which is appointed by the Governor. The Shipyard Authority is fiscally dependent on the Territory and uses the real property of the Territory for its operations. The Shipyard Authority is included as part of the primary government as a non-major enterprise fund.

Note 1 – Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the financial statements to be misleading or incomplete. These discrete component units serve or benefit those outside the primary government. Following is a brief description of the discretely presented component units.

American Samoa Power Authority

The American Samoa Power Authority ("ASPA") was created with corporate powers to generate and distribute power to the citizens of the Territory. ASPA also provides water, sewer and solid waste services to the Territory. The Governor appoints, and the Fono confirms, the Board of Directors. ASPA is a discretely presented component unit as the nature and relationship with the Territory is significant, and the Territory's financial statements would be misleading if ASPA were excluded. ASPA issued audited financial statements for the year ended September 30, 2014 with a report dated May 11, 2015. The report can be obtained at ASPA's administrative offices.

American Samoa Community College

The American Samoa Community College ("ASCC") was created with corporate powers to develop a program of education to meet the current and future needs of the Territory. The Governor appoints a majority of the Board of Directors with the advice and consent of the Legislature. ASCC is funded through the Territory's appropriations, tuition, federal grants and donations. ASCC is a discretely presented component unit as the nature of the Territory's appropriations and ASCC's relationship with the Territory are significant, and the Territory's financial statements would be misleading if ASCC were excluded. ASCC issued audited financial statements for the year ended September 30, 2014 with a report dated February 26, 2015. The report can be obtained at ASCC's administrative offices.

American Samoa Medical Center Authority – Lyndon B. Johnson Tropical Medical Center

The American Samoa Medical Center Authority – Lyndon B. Johnson Tropical Medical Center ("LBJ") was established to create a medical system that can provide quality medical services to the citizens of the Territory. The Governor appoints, and the Fono confirms, the Board of Directors and LBJ is partially funded through the Territory's appropriations. LBJ is a discretely presented component unit as the nature of the Territory's appropriations and LBJ's relationship with the Territory are significant, and the Territory's financial statements would be misleading if it was excluded. LBJ issued audited financial statements for the year ended September 30, 2014 with a report dated June 26, 2015. The report can be obtained at LBJ's administrative offices.

Note 1 – Summary of Significant Accounting Policies (Continued)

American Samoa Telecommunications Authority

The American Samoa Telecommunications Authority ("ASTCA"), with corporate powers, was created to provide telecommunications capabilities to the citizens of the Territory. The Governor appoints, and the Fono confirms, the Board of Directors. ASTCA is a discretely presented component unit as the nature and relationship with the Territory is significant, and the Territory's financial statements would be misleading if ASTCA were excluded. ASTCA issued audited financial statements for the year ended September 30, 2014 with a report dated May 22, 2015. The report can be obtained at ASTCA's administrative offices.

Related Organizations

Organizations for which a primary government is accountable because the Territory appoints a voting majority of the board or has invested resources, but is not financially accountable, are related organizations.

The Development Bank of American Samoa ("Development Bank") is a related organization to the primary government. The Development Bank's Board of Directors consists of ten members, nine of whom are appointed by the Governor, with the advice and consent of the Senate. The Chairman, who is a board member, is elected by a majority of the board. The President of the Development Bank is a nonvoting ex-officio member of the board, and may not serve as chairman. The Territory is not financially accountable for the Development Bank, and no financial benefit or burden relationship exists between the Territory and the Development Bank. The Development Bank is classified as another stand-alone governmental unit, not a component unit of the Territory.

In May 2008, the Territory, along with three other parties, formed American Samoa Hawaii Cable, LLC, a Delaware limited liability company. The LLC was formed for the purpose of developing and operating an undersea fiber optic cable between Hawaii, American Samoa and the Independent State of Samoa. In 2009, ASG contributed $9 million to the LLC in return for a 33.33% ownership percentage interest in the LLC. In fiscal year 2009, ASG recorded the cash expenditure; since that time, ASG has not recorded any activity associated with the ownership interest, nor has ASG's share of the income/loss associated with the partnership been recorded. There is not sufficient evidence available to record this transaction into the financial statements; as such, this investment is not included in the Statement of Net Position for the Territory.

B. Basis of Presentation – Fund Accounting

The Territory uses fund accounting under which it segregates its resources and accounts for them in various individual funds. Each individual fund is an accounting entity with a self-balancing set of accounts. Individual funds that have similar characteristics are combined into fund types.

Note 1 – Summary of Significant Accounting Policies (Continued)

Governmental Funds

Governmental funds finance most of the territorial governmental functions. The measurement focus of the governmental funds is on sources, uses and balances of financial resources.

The general fund is the territorial general operating fund. It accounts for resources that fund the services governments traditionally provide to its citizens except those required to be accounted for in another fund.

Special revenue funds account for specific revenue sources (other than for capital projects and debt service) that are legally or donor restricted to expenditure for specified purposes.

Non-major governmental funds consist of capital project funds and a debt service fund. Capital projects funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary funds. The debt service fund is used to account for the accumulation of resources and payments of principal and interest on general long-term obligations.

Proprietary Funds

Proprietary funds account for activities similar to those found in the private sector. The measurement focus of the proprietary funds is upon determination of net income, financial position, and cash flows. Enterprise funds account for business-like territorial activities that provide goods and services to the public financed primarily through user charges.

Internal service funds provide goods and services to other funds, agencies, component units, or other activities on a cost allocation basis.

Fiduciary Funds

Fiduciary funds account for resources the Territory holds as trustee or agent for individuals, private organizations, or other governmental units. Agency funds are custodial in nature and do not involve measurement of results of operations.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all the activities of the primary government and its component units, except for fiduciary activities. Interfund activity, which duplicates revenues or expenses, has been eliminated from these statements, except for those transactions and balances between governmental and business-type activities. Governmental activities and business-type activities are reported separately to highlight the differences in funding and operations. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely mostly on fees and charges that are designed to recover the costs of operations, including the cost of capital.

Note 1 – Summary of Significant Accounting Policies (Continued)

The statement of activities outlines the direct expenses of each of the Territory's major functions and the program revenues generated by those functions. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Government-wide financial statements do not provide information by fund or account group, but distinguish between the Territory's governmental activities and activities of its discretely presented component units on the statement of net position and statement of activities. Significantly, the Territory's statement of net position includes both noncurrent assets and noncurrent liabilities of the Territory. In addition, the government-wide statement of activities reflects depreciation expenses on the Territory's fixed assets, including infrastructure.

The fund statements include separate statements for Governmental, Fiduciary and Proprietary Funds. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund statements. 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.

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as 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, the Territory considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a 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.

Income taxes, franchise taxes, licenses, grants from federal agencies included in intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the Territory receives cash.

Note 1 – Summary of Significant Accounting Policies (Continued)

The Territory reports the following major Governmental Funds:

- The General Fund is the Territory's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- The Grant Fund accounts for the majority of grants received by the Territory except for grants received by the Proprietary Funds. These activities are funded with grants from various federal agencies and private sources.

The Territory's enterprise funds are the Airport Fund, Industrial Park Fund, and Shipyard Services Fund. The Territory's internal service activities include the operation of the government housing, print shop and workers compensation funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Territory's proprietary activities are charges to the customers for services. Principal operating revenues of the internal service funds are premiums charged to individual departments for workers compensation coverage and charges to departments or funds for housing or printing. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are transfers between the business-type activities and the governmental activities.

D. Budgets and Budgetary Accounting

The Territory adopts an annual budget on a basis consistent with generally accepted accounting principles at the legal level of control, which is the department or project level. During the fiscal year supplementary appropriations are made as needed. The results are increases to the appropriations within the funds. The Director of the Office of Program Planning and Budget is permitted under law to move amounts up to $25,000, or 30% of line amounts, whichever is less, from one line account to another; legislative appropriation is required on all line item account shifts over 30% or $25,000. All annual appropriations lapse at the end of the fiscal year. Annual budgets are adopted for the general fund, certain special revenue funds and the debt service fund. Budgets for proprietary and trust fund operations are estimated in the annual budget, but controlled by available resources and demand for services.

Note 1 – Summary of Significant Accounting Policies (Continued)

Federal grants, accounted for in certain special revenue funds, have a budget and project life determined by each grant award. The Department of Interior's operating grant is generally awarded after adoption of the Territorial budget. The Territory has to adopt a supplemental budget during the fiscal year to provide for differences between the estimated amount and the actual amount of the grant award. Budgets for capital improvement projects are determined by local funding appropriations and the annual Department of Interior Capital Improvement Projects grant award.

E. Investments

Statutes authorize the Treasurer to invest funds at his discretion. The Treasurer's investment objectives are preservation of capital, maintenance of adequate liquidity, and obtaining the best yield possible within prescribed parameters. Investments are reported at fair value. The investment policies of the Land Grant Trust (a part of the American Samoa Community College) and the Retirement Fund are established by their respective boards. Investment of these funds are in a variety of securities such as corporate bonds, equities, real estate, trusts, collateralized mortgage obligations, asset backed securities and commercial paper.

F. Cash and Cash Equivalents

The amounts reported on the balance sheet as cash and cash equivalents represent the total of petty cash, cash on deposit in banks and certificates of deposits with original maturities of less than 90 days.

G. Interfund Transactions

The Territory accounts for the following types of interfund transactions:

Due To Other Funds-Pooled Cash and Due From Other Funds-Pooled Cash represent the deficiency (due to) or excess (due from) of cash received by the General Fund over the amount of expenditures for participating funds paid by the General Fund. For certain funds, the Territory deposits all receipts into a General Fund bank account and makes all disbursements from the same account creating a due to or due from in the General Fund. The recording of the receipt or disbursement on the participating funds' records creates a due to or due from for an equal amount. Since the total Due From Other Funds-Pooled Cash for a participating fund can exceed the amount of cash in the operating bank account these amounts are not classified as cash and cash equivalents.

Due To/Due From Other Funds represents transactions involving charges for goods or services that one fund delivers or provides to another fund or specific borrowings from one fund to another. These transactions are either recorded as a reduction or increase in Due To/Due From Other Funds-Pooled Cash, if they are a pooled cash participant, or as an interfund payable or receivable, if the agency is external to the pooled cash account.

Note 1 – Summary of Significant Accounting Policies (Continued)

Operating transfers include all interfund transactions that are not loans or reimbursements.

H. Receivables

The Territory, with minor exceptions, has adopted the personal and corporate income tax code of the United States of America in effect as of December 31, 2000. No changes to the U.S. Tax Code since December 31, 2000 have been adopted by the Territory. Withheld income taxes held by employers or corporations, taxes levied and billed by the tax office and unpaid taxes on filed returns are accrued as receivables. Unbilled revenues for services provided between the last billing date and the end of the year are estimated and accrued as receivables. Interest earned and unpaid on investment securities is accrued and recorded as receivables for all funds. Receivables are stated net of allowances for uncollectible amounts. Uncollectible amounts are estimated based upon past collection experience.

I. Inventories

Inventories, comprised primarily of fuel and supplies inventories at ASPA and medical supplies and pharmaceuticals at LBJ in the discretely presented component units, are stated at the lower of cost or market.

J. Prepaid Expenses

Payments made to vendors for costs applicable to future accounting periods are recorded as prepaid expenses.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

The Territory has established a capitalization policy to recognize capital assets as assets with an initial, individual cost greater than the amount as set forth in the table below and an estimated useful life in excess of two years. Such assets are recorded at historical costs. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Land	$	-
Land improvements	$	100,000
Buildings and improvements	$	100,000
Machinery and equipment	$	20,000
Vehicles	$	-
Infrastructure	$	100,000

Note 1 – Summary of Significant Accounting Policies (Continued)

Property, plant, and equipment of the Territory are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Land improvements	15-40
Buildings and improvements	30-40
Machinery and equipment	5-15
Vehicles	5-10
Infrastructure	25-40

L. Compensated Absences

It is the policy of the Territory to permit employees to accumulate earned but unused vacation benefits, which will be paid to the employees upon separation from service. Vacation leave is fully vested when earned but accumulated vacation leave cannot exceed 60 days at the end of any calendar year. Sick leave is vested when earned and the accumulation is not limited.

Employees separated from service are compensated for unused accrued sick leave at the rate of 50% of sick leave in excess of 239 hours. Retiring employees with less than 30 years of service may apply accumulated unused sick leave for additional service credits.

The liability for these compensated absences is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. Governmental Funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

M. Income Tax Refunds Payable

During the calendar year, the Territory collects employee withholdings and taxpayer’s payments for individual and corporate income taxes. Taxpayers file returns by April 15, for the preceding calendar year. At September 30, the Territory estimates the amount it owes taxpayers for overpayments during the preceding nine months. This estimated payable is recorded as tax refunds payable and a reduction of tax revenues.

N. Unearned Revenue

Unearned revenues are recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Unearned revenues reported in the governmental fund statements consist of the portion of the Army Reserve lease that is applicable to future years and advances received on federal grants.

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

P. Fund Equity

The Territory has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"). GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Territory is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Territory will spend restricted resources first, followed by committed then assigned, with unassigned resources spent last. In accordance with GASB 54, the Territory has the following categories of governmental fund balances:

1. Nonspendable includes amounts that cannot be spent because they are either in a nonspendable form or legally required to be maintained intact. Nonspendable amounts consist of prepaid expenses.

2. Restricted includes amounts that can be spent only for the specific purposes stipulated by constitutional provisions or enabling legislation, or imposed by creditors, grantors, or other external resource providers.

3. Committed includes amounts that have specific constraints on how the resources may be used as determined by formal ordinances or resolutions of the Fono.

4. Assigned are those resources that are constrained by the Territory's intent to use them for a specific purpose, but are neither restricted nor committed. The Territory has not established a policy regarding the assignment of funds. Therefore, amounts in this fund balance category represent residual amounts in the debt service, capital projects, and special revenue funds, which are not classified as nonspendable, restricted or committed.

5. Unassigned are the residual classification for the general fund and includes all spendable amounts not contained in the other classifications.

Net position is segregated into restricted and unrestricted balances on the government-wide statement of net position and the statements of net position for the proprietary and fiduciary funds. Restrictions are limitations on how the net position may be used and may be placed on net position by an external party that provided the resources, by enabling legislation or by the nature of the asset.

Note 1 – Summary of Significant Accounting Policies (Continued)

Q. Reconciliation of Government-Wide and Fund Financial Statements

The Governmental Fund balance sheet includes the reconciliation between fund balances in the Governmental Funds and net position reported in the government-wide statements. These adjustments reflect the changes necessary to report the governmental fund balances on the economic resources measurement focus and accrual basis of accounting. The Self-Insurance Fund balances are allocated from the Internal Service Fund to the governmental activities. In addition, capital assets and long-term debt are added to the Governmental Funds to compile the long-term view of the governmental activities column.

A similar reconciliation is included on the statement of revenues, expenditures and changes in fund balances for the Governmental Funds. These adjustments reflect the transition from the modified accrual accounting for Governmental Funds to the accrual basis of accounting for the statement of activities. Capital outlay is replaced with depreciation expense. Capital lease revenues are added and principal payments on long-term debt are eliminated from the operating costs.

R. Indirect Cost Allocation

Indirect costs are those expenses that have been incurred for common or joint objectives and cannot be readily identified with a final cost objective. The Territory initially records indirect costs as general government expenses and utilizes an allocation system to allocate these costs among the governmental activities on the government-wide Statement of Activities.

S. Use of Estimates

The preparation of the basic financial statements in conformity with principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the basic financial statements. Actual results could differ from these estimates.

Note 2 – Deposits and Investments

A. Deposits

Cash and cash equivalents held by various financial institutions for the Territory and its discretely presented component units, excluding the Retirement Fund, totals $31,767,761. The majority of the Territory's cash deposits are held by a commercial bank that collateralizes these deposits with securities held in the Territory's name with the trust department of a third-party bank. Cash balances consist of amounts insured by the FDIC of $500,000 and collateralized amounts of $31,267,761.

Note 2 – Deposits and Investments (Continued)

Cash and cash equivalents comprise the following balances at September 30, 2014:

Cash and Cash Equivalents	Balance
Governmental funds	
General	$ 2,244,762
Grant	2,225,749
Non-major governmental	68,271
Proprietary funds	
Airport	154,599
Non-major activities	107,794
Internal service	1,512,452
Agency fund	11,311,284
Discretely presented component units	14,142,850
Total cash and cash equivalents	$ 31,767,761

B. Investments

Investments are pooled in portfolios with various financial institutions and commercial banks. Investments for the Territory and its discretely presented component units, excluding the Retirement Fund, are categorized as follows at September 30, 2014:

Investment Type	Fair Value
General fund	
Exchange traded funds	
Fixed income	$ 2,334,122
Growth	710,046
Money market funds	632,332
Corporate bonds	505,127
REIT	122,207
Common stock	23,173
	4,327,007
Agency fund	
Certificate of deposit	2,250,000
Discretely presented component units	
U.S. Treasury obligations	1,239,304
U.S. Government agencies	1,099,839
Corporate bonds	635,030
Common stock	192,480
Total investments	$ 9,743,660

Note 2 – Deposits and Investments (Continued)

Investment securities are exposed to various risks that can affect the value of the Territory's investments such as custodial credit risk, interest rate risk, credit risk, and concentration risk. The Territory invests in money market funds, certificates of deposit, and municipal and corporate bonds. Investment holdings in debt securities are particularly sensitive to credit risk and change in interest rates.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a failure by the counterparty, the Territory will not be able to recover the value of its investments that are in the possession of an outside party. In accordance with policies established by statute, all deposits and investments are insured or collateralized, and held by banks or other agents in the Territory's name.

Interest Rate Risk – Interest rate risk arises from the likelihood that interest rates will rise or fall during the holding period of a fixed rate security and adversely affect the selling price of the security prior to maturity. The price of a debt security typically moves in the opposite direction of the change in interest rates. As of September 30, 2014, the primary government had the following investments subject to interest rate risk:

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Certificate of deposit	$ 2,250,000	$ 2,250,000	$ -	$ -	$ -
Corporate bond	505,127	-	-	-	505,127
Exchange traded funds - fixed income	2,334,122	2,334,122	-	-	-
	$ 5,089,249	$ 4,584,122	$ -	$ -	$ 505,127

Credit Risk – Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its payments on a security under the original term. As of September 30, 2014, the primary government had the following credit quality mix in its fixed income securities:

		Investment Ratings			
Investment Type	Fair Value	AAA	AA	A or Below	Not Rated
Certificate of deposit	$ 2,250,000	$ -	$ -	$ -	$ 2,250,000
Corporate bond	505,127	505,127	-	-	-
Exchange traded funds - fixed income	2,334,122	-	-	-	2,334,122
	$ 5,089,249	$ 505,127	$ -	$ -	$ 4,584,122

Note 2 – Deposits and Investments (Continued)

Concentration of Credit Risk – The following investments represent 5% or more of total investments as of September 30, 2014:

Zions Bank Certificate of Deposit (Agency Fund)	$ 2,250,000
SLM Student Loan Trust 2003-B-SER A-4	$ 505,127

Retirement Fund

The Board of Trustees of the Retirement Fund has the power and authority under territorial law to make all decisions on the investment of Retirement Fund assets and the employment of professional investment agents. Investment authority is not restricted by types of property or other investment options, but the law does limit the amount of an individual investment that may be made in any one instrument or security issued by a political subdivision, corporation or other entity. The law also provides guidelines on the qualifications of investment agents that may be employed by the Retirement Fund.

The Retirement Fund's Board of Trustees formally approved a restated Statement of Investment Policy ("Investment Policy"), which restructured the Retirement Fund's investment portfolio and investment managers. As of September 30, 2014, the Investment Policy allocation targets are 20% domestic equity, 20% international equity, 12% domestic fixed income, 3% real estate, 30% emerging markets equity, and 15% loans, with normal allocation ranges assigned to each classification. All equity and fixed income securities are held in registered investment companies (mutual funds) and collective trusts.

Their allocation is as follows as of September 30, 2014:

	Fair Value	Annual Percentage
Domestic equity	$ 57,167,633	27%
International equity	115,201,919	54%
Fixed income	20,595,829	10%
Loans to American Samoa Government	14,458,910	7%
Real estate - Centennial Office Building	5,000,000	2%
Total	$ 212,424,291	100%

The Retirement Fund pays investment fees either through direct payments to the investment manager or as a deduction from investment returns.

Note 2 – Deposits and Investments (Continued)

The Retirement Fund's investments are exposed to various risks, such as interest rate, market and credit risk. It is reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect the amounts reported in the financial statements. The Retirement Fund invests in securities with contractual cash flows, such as asset-backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Credit risk is the risk that an issuer, or other counterparty, to an investment will not fulfill its obligations. In accordance with the Investment Policy, the Retirement Fund's Board of Trustees provides each of the Retirement Fund's investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. Guidelines that restrict investments in fixed income securities and summaries of investment ratings and maturities for the Retirement Fund's fixed income securities are detailed in the Retirement Fund's financial statements.

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Interest rate and market risk are the greatest risks faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. The set of investment guidelines provided by the Retirement Fund's Board of Trustees to each investment manager specify eligible investments, duration (three to five years), and applicable investment restrictions necessary for diversification and risk control (no more than 5% of assets invested in any non-U.S. government issuer and no more than 30% of assets in any sector). As all investments are held in mutual funds, real estate, and loans with the Territory, interest rate risk is minimal.

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Retirement Fund's currency risk exposure, or exchange rate risk, resides within the international equity mutual funds holdings. The Investment Policy guidelines prohibit investments in securities that are not denominated in U.S. dollars or that are traded solely on an exchange outside of the United States. The Retirement Fund does not hold any direct investments, hedges or derivative instruments denominated in foreign currency.

Note 3 – Other Receivables

Other receivables (excluding the discretely presented component units) on the financial statements by account type and source are as follows:

	Receivable	Allowance	Balance
Taxes			
General fund	$ 14,113,151	$ 7,290,719	$ 6,822,432
Accounts receivable			
General fund	8,961,410	6,476,437	2,484,973
Grant fund	20,789	-	20,789
Non-major governmental fund	306,872	-	306,872
Airport fund	1,289,414	1,070,117	219,297
Non-major activities fund	1,187,027	441,507	745,520
Due from U.S. Government			
Grant fund	27,549,312	2,745,852	24,803,460
Non-major governmental fund	1,020,769	-	1,020,769
	$ 54,448,744	$ 18,024,632	$ 36,424,112

Note 4 – Interfund Accounts

Balances due to component units consist of amounts owed to ASPA and ASTCA for services provided to the Territory, including charges for utilities, and 2% wage tax remittances due to LBJ.

Balances due to ASPA and ASTCA are reported net of receivables recorded for services provided by the Territory. As of September 30, 2014, balances due to ASPA and ASTCA totaled $9,051,183 and $163,607, respectively. During the year ended September 30, 2014, the Territory incurred utility expenditures with ASPA and ASTCA approximating $6.7 million and $1.0 million, respectively.

The Fono has established Public Law No. 32.6, an act instituting a 2% wage tax on all wages earned in the Territory. Under the law, ASG Treasury collects the revenues generated from the 2% wage tax, and the accumulated proceeds are transferred to LBJ. As of September 30, 2014, balances due to LBJ for revenues collected under the 2% wage tax totaled $3,733,256.

As of September 30, 2014, amounts due to/due from other funds totaling $758,737 represent the balance of advances from the Grants Fund to the Operations and Maintenance Fund, a non-major governmental fund, for emergency maintenance at the Territory’s schools.

Note 4 – Interfund Accounts (Continued)

A summary of interfund receivable and payable balances, Due From/Due To Other Funds-Pooled Cash accounts, are as follows:

	Due from Other Funds	Due to Other Funds
General fund	$ -	$ 1,648,979
Grant fund	-	4,238,746
Internal service funds		
Workers compensation	5,068,614	-
ASG Print Shop	44,946	-
Non-major governmental fund	264,993	-
Non-major enterprise fund	178,453	-
Agency fund		
Immigration bond	330,719	-
	$ 5,887,725	$ 5,887,725

Operating Transfers In/Out are as follows:

Out Of	Amount	In To	Purpose
General Fund	1,436,305	Airport Fund	Cover deficit and clear pool cash
	314,622	Government Housing	Cover deficit and clear pool cash
	761,010	Debt Service	Cover loan payments shortfall
Debt Service Fund	1,240,170	General Fund	Supplementary budget funding
Grant Fund	80,863	General Fund	Interfund cash transfers
Airport Fund	777,507	Grant Fund	Interfund cash transfers
Non-Major Governmental Fund	300,000	Airport Fund	Fund port operations

Note 5 – Capital Assets and Depreciation

Capital asset activity for the year ended September 30, 2014 was as follows:

	Primary Government				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
GOVERNMENTAL ACTIVITIES					
General and grant funds					
Capital assets not being depreciated					
Land	$ 2,436,036	$ -	$ -	$ -	$ 2,436,036
Construction in process	23,598,442	17,435,898	(10,403,675)	-	30,630,665
	26,034,478	17,435,898	(10,403,675)	-	33,066,701
Capital assets being depreciated					
Land improvements	42,179,509	103,111	-	-	42,282,620
Buildings and structures	143,005,069	2,582,311	3,882,543	-	149,469,923
Machinery and equipment	31,546,897	2,100,181	-	(75,270)	33,571,808
Vehicles	32,425,137	2,430,254	-	(1,221,736)	33,633,655
Infrastructure	166,071,127	-	6,521,132	-	172,592,259
	415,227,739	7,215,857	10,403,675	(1,297,006)	431,550,265
Less accumulated depreciation					
Land improvements	(24,068,595)	(850,545)	-	-	(24,919,140)
Buildings and structures	(53,731,698)	(5,654,279)	-	-	(59,385,977)
Machinery and equipment	(19,376,260)	(2,183,837)	-	75,270	(21,484,827)
Vehicles	(24,401,501)	(2,030,387)	-	1,177,540	(25,254,348)
Infrastructure	(67,439,661)	(5,469,699)	-	-	(72,909,360)
	(189,017,715)	(16,188,747)	-	1,252,810	(203,953,652)
Net capital assets being depreciated	226,210,024	(8,972,890)	10,403,675	(44,196)	227,596,613
Net capital assets - general and grant funds	252,244,502	8,463,008	-	(44,196)	260,663,314
Internal service funds					
Capital assets not being depreciated					
Land	52,043	-	-	-	52,043
Capital assets being depreciated					
Buildings and structures	1,225,283	-	-	-	1,225,283
Machinery and equipment	718,412	8,779	-	-	727,191
	1,943,695	8,779	-	-	1,952,474
Less accumulated depreciation					
Buildings and structures	(1,138,528)	(9,697)	-	-	(1,148,225)
Machinery and equipment	(649,226)	(23,937)	-	-	(673,163)
	(1,787,754)	(33,634)	-	-	(1,821,388)
Net capital assets being depreciated	155,941	(24,855)	-	-	131,086
Net capital assets - internal service funds	207,984	(24,855)	-	-	183,129
NET CAPITAL ASSETS	$ 252,452,486	$ 8,438,153	$ -	$ (44,196)	$ 260,846,443

Note 5 – Capital Assets and Depreciation (Continued)

	Primary Government				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
BUSINESS-TYPE ACTIVITIES					
Capital assets not being depreciated					
Land	$ 1,886,887	$ -	$ -	$ -	$ 1,886,887
Work in process	9,538,475	1,681,061	-	-	11,219,536
	11,425,362	1,681,061	-	-	13,106,423
Capital assets being depreciated					
Land improvements	73,689,178	-	-	-	73,689,178
Buildings and structures	55,157,803	-	-	-	55,157,803
Machinery and equipment	7,711,226	1,837,227	-	(43,188)	9,505,265
	136,558,207	1,837,227	-	(43,188)	138,352,246
Less accumulated depreciation					
Land improvements	(42,726,704)	(2,783,584)	-	-	(45,510,288)
Buildings and structures	(13,572,420)	(1,714,240)	-	-	(15,286,660)
Machinery and equipment	(5,022,133)	(639,314)	-	24,553	(5,636,894)
	(61,321,257)	(5,137,138)	-	24,553	(66,433,842)
Total capital assets being depreciated, net	75,236,950	(3,299,911)	-	(18,635)	71,918,404
NET CAPITAL ASSETS	$ 86,662,312	$ (1,618,850)	$ -	$ (18,635)	$ 85,024,827

Depreciation expense was charged by function as follows:

Governmental activities	
General and grant funds	
General government	$ 8,541,582
Education and culture	4,865,449
Economic development	1,736,842
Public safety	458,114
Health and welfare	391,957
Transportation	75,983
Conservation and environment	89,642
Capital improvements	29,178
	16,188,747
Internal service funds	
General government	33,634
	$ 16,222,381
Airport	$ 4,906,306
Nonmajor	230,832
	$ 5,137,138

Note 6 – Prepaid Expense

The Territory leases property for the Lava Lava Golf Course from various landowners. Annual payments of $30,000 to June 30, 2032 for a total of $1,500,000 were prepaid during the year ended September 30, 1985 and are being amortized over the term of the lease. The unamortized balance of the prepaid lease as of September 30, 2014 was $532,504 and is included in prepaid expenses on the statement of net position.

Note 7 – Defined Benefit Pension Plan (ASG Employees' Retirement Fund)

The Retirement Fund is a cost-sharing, multiple-employer, contributory defined benefit retirement plan that was established in 1971 to provide retirement annuities for the employees of ASG and its component units. Employees of the Development Bank, a related organization, are also included in the Retirement Fund.

The Retirement Fund issues an annual audited financial report that includes financial statements and required supplementary information. This report may be obtained by contacting:

American Samoa Government
Employees' Retirement Fund
PO Box 2448
Pago Pago, AS 96799-2448

A. Administrators of the Fund

The responsibility for proper administration of the Retirement Fund and the direction of its policies is vested in a seven-member Board of Trustees appointed by the governor. The Board of Trustees has the power and authority under territorial law to make all decisions on the investment of Retirement Fund assets and the employment of professional investment agents. Investment authority is not restricted by types of property or other investment options, but the law does limit the amount of an individual investment that may be made in any one instrument or security issued by a political subdivision, corporation or other entity.

B. Benefit Payments to Retired Members

The annual retirement benefit, payable monthly for life, equals 2% of the highest average annual salary for three consecutive years, multiplied by the number of years of service to a maximum of 30 years (from 10% to 60% based on years of service). The minimum annual benefit is $600.

Note 7 – Defined Benefit Pension Plan (ASG Employees' Retirement Fund) (Continued)

C. Contributions

ASG, its component units, and the Development Bank have agreed to contribute such amounts as provided by the A.S.C.A. Section 7.1433 to the Retirement Fund each year at a statutory rate approved by the Board of Trustees after consideration of actuarially determined contribution amounts. For the year ended September 30, 2014, the actuary developed a sponsor contribution rate of 11.45% of total payroll. The sponsor rate approved by the Board of Trustees is 8% of employees' regular earnings, excluding overtime.

Each member of the Fund contributes 3% of earnings and earns interest at 5% compounded annually. Employee contributions are made through payroll deductions. Employee contributions and the related interest earned are refunded in full to members whose employment is terminated for any reason other than retirement and as a death benefit to the survivors of deceased employees not yet eligible for retirement. Employees are fully vested in the employer portion, payable as a retirement annuity after ten years of participation in the Retirement Fund. For fiscal years 2014, 2013 and 2012, actual employer contributions totaled $7,851,815, $7,591,013 and $7,456,519, respectively. Actual contributions funded 100% of the contributions required by A.S.C.A. Section 7.1433.

All employee contributions are used to reduce the normal cost liability before the employer's required contribution rate is calculated. Employer and employee contributions as a percentage of covered payroll are 8.0% and 3.2%, respectively. As of October 1, 2013, the plan fiduciary net position as a percentage of total pension liability of the Retirement Fund was 63.5%.

Note 8 – Long-Term Obligations

A. Long-term Obligations

Outstanding balances of long-term debt and other liabilities as of September 30, 2014, and changes during the year then ended, are summarized below. Other liabilities for compensated absences, claims and judgments, and landfill closure will be liquidated by the general fund. The workers compensation claims liability is reported in the workers compensation internal service fund and will be liquidated by that fund.

Note 8 – Long-Term Obligations (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long-term debt					
Retirement Fund - $10 million loan	$ 6,998,630	$ -	$ 560,475	$ 6,438,155	$ 606,993
Retirement Fund - $20 million loan	10,184,058	-	2,163,302	8,020,756	2,331,244
Department of Interior	11,014,555	-	946,095	10,068,460	946,000
Loan payable FEMA	3,220,196	84,297	-	3,304,493	3,304,493
	31,417,439	84,297	3,669,872	27,831,864	7,188,730
Other liabilities					
Claims and judgments	7,300,000	316,902	102,068	7,514,834	500,000
Landfill closure and post-closure liability	287,658	-	-	287,658	-
Compensated absences	13,292,116	9,185,144	8,933,460	13,543,800	8,900,000
	20,879,774	9,502,046	9,035,528	21,346,292	9,400,000
Internal service fund					
Workers compensation claims	1,448,584	-	170,879	1,277,705	171,000
	$ 53,745,797	$ 9,586,343	$ 12,876,279	$ 50,455,861	$ 16,759,730

B. Loan Payable – FEMA Primary Government

The Territory received proceeds of special community disaster loans from FEMA totaling $10,179,089 during 1993 and 1994. There is a provision in the FEMA regulations that permits FEMA to cancel all or a portion of this loan.

During May 2000, FEMA cancelled $8,638,009 of principal and $3,227,779 of interest on these notes. The Territory expects the remaining amounts of these notes plus interest to be cancelled in subsequent years. Interest is accrued on outstanding balance at 5.47%. As of September 30, 2014, the outstanding principal and unpaid interest on the FEMA notes totaled $1,541,080 and $1,763,413, respectively.

C. Department of Interior Loan

In 1999, Congress passed legislation that authorized the Secretary of the Interior to lend the Territory up to $18,600,000 at 5.4% interest for an irrevocable assignment of the payments due to the Territory under the Master Settlement Agreement with certain tobacco companies. The legislation requires the Territory to pledge its full faith and credit to repay the loan, should the payments from the Tobacco Settlement be insufficient. The Territory required this pledge to be subordinated with respect to the pledged taxes. Proceeds of $14,300,000 from the loan were used to pay creditors of the Territory and $4,300,000 was used to plan and implement a fiscal reform program. The loan, including all unpaid principal, accrued interest, and accrued capitalized interest, is due and payable on April 15, 2027. Principal and interest payments are funded from the periodic receipt of the Territory's share of the Tobacco Settlement.

Note 8 – Long-Term Obligations (Continued)

D. ASG Employees' Retirement Fund – $10 Million Loan

In April 2006, the Territory entered into a loan agreement with the Retirement Fund to borrow $10,000,000. The purpose of the loan was to pay the debts and obligations of the American Samoa Medical Center Authority – Lyndon B. Johnson Tropical Medical Center. Interest on the loan is 8.0% per annum, with equal quarterly payments of principal and interest on the principal amount outstanding of the last day of each quarter. The loan will be paid with funds received from ASTCA as a payment in lieu of taxes. Payments in lieu of taxes received from ASTCA during 2014 totaled $1,100,000, or approximately 6.6% of ASTCA's operating revenues.

The loan has been secured by a security interest in the real property and all improvements of the Tafuna Industrial Park as well as the assignment of rents and leases in the Tafuna Industrial Park. The loan is to be repaid in 16 1/3 years terminating on May 1, 2022.

Annual debt service requirements for this loan are as follows:

Year Ending September 30,	Principal	Unpaid Interest	Total
2015	$ 606,993	$ 493,007	$ 1,100,000
2016	656,104	443,896	1,100,000
2017	711,830	388,170	1,100,000
2018	770,911	329,089	1,100,000
2019	834,896	265,104	1,100,000
2020-2022	2,857,421	356,720	3,214,141
	$ 6,438,155	$ 2,275,986	$ 8,714,141

E. ASG Employees' Retirement Fund – $20 Million Loan

In June 2007, the Fono passed legislation authorizing the Territory to enter into a loan agreement with the Retirement Fund to borrow up to $20,000,000 to fund various projects, as set forth in the legislation and any additional approved projects and purposes. The legislation limited the term to ten years and stipulates a 7.5% interest rate. In 2008, the Territory borrowed $20,000,000, which is paid with funds received from certain pledged revenues (12.5% of excise tax collected on alcoholic beverages as imposed pursuant to A.S.C.A., Section 11.1102(a)(1)(B); 40.0% of the excise tax collected on beer and malt extract as imposed pursuant to A.S.C.A., Section 11.1102(a)(1)(A); all of the revenues collected from the Customs Entry Application Forms Processing Fee imposed pursuant to A.S.C.A., Section 27.104(a)(5), and 20.0% of the excise tax collected on tobacco products as imposed pursuant to A.S.C.A., Section 11.1 102(a)(1)(C)). The note is a general obligation of the Territory. The full faith, credit and taxing powers of the Territory will be pledged to the payment of principal and interest.

Note 8 – Long-Term Obligations (Continued)

The loan has been secured by a security interest in the real property and all improvements of the Tafuna Industrial Park, Executive Office Building, and American Samoa Tank Farm, as well as the assignment of rents and leases in the Tafuna Industrial Park and Executive Office Building.

Annual debt service requirements for this loan are as follows:

Year Ending September 30,	Principal	Unpaid Interest	Total
2015	$ 2,331,244	$ 522,479	$ 2,853,723
2016	2,511,177	342,546	2,853,723
2017	2,707,173	146,550	2,853,723
2018	471,162	4,458	475,620
	$ 8,020,756	$ 1,016,033	$ 9,036,789

Note 9 – Major Component Unit Information

Each of these major component units are discretely presented in a separate column on the Statement of Net Position and Statement of Activities. The information below is summarized from each discretely presented component unit's audited financial statements, which are available through each entity's administrative office:

	ASPA	ASCC	LBJ	ASTCA	Totals
Assets					
Cash, investments and other assets	$ 30,068,437	$ 8,211,236	$ 9,374,399	$ 8,048,517	$ 55,702,589
Due from American Samoa Government	9,051,183	-	3,733,256	163,607	12,948,046
Capital assets, net	127,247,679	10,408,862	20,683,234	71,085,408	229,425,183
Total assets	166,367,299	18,620,098	33,790,889	79,297,532	298,075,818
Liabilities					
Accounts payable and other current liabilities	12,862,596	2,733,033	9,832,501	8,324,165	33,752,295
Long-term liabilities	2,845,208	554,957	5,972,315	41,120,444	50,492,924
Total liabilities	15,707,804	3,287,990	15,804,816	49,444,609	84,245,219
Net position					
Net investment in capital assets	125,586,854	10,408,862	20,683,234	66,811,929	223,490,879
Restricted	133,967	3,087,603	-	-	3,221,570
Unrestricted	24,938,674	1,835,643	(2,697,161)	(36,959,006)	(12,881,850)
Total net position	$ 150,659,495	$ 15,332,108	$ 17,986,073	$ 29,852,923	$ 213,830,599

Note 9 – Major Component Unit Information (Continued)

		Program Revenues			Net Revenues (Expense) and Changes in Net Position				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	ASPA	ASCC	LBJ	ASTCA	Total
American Samoa Power Authority									
Operations	$ 71,238,590	$ 72,921,478	$ 240,796	$ 22,841,224	$ 24,764,908	$ -	$ -	$ -	$ 24,764,908
Depreciation	8,327,428	-	-	-	(8,327,428)	-	-	-	(8,327,428)
General and administrative	7,857,736	-	-	-	(7,857,736)	-	-	-	(7,857,736)
Interest	183,161	-	-	-	(183,161)	-	-	-	(183,161)
Total - ASPA	87,606,915	72,921,478	240,796	22,841,224	8,396,583	-	-	-	8,396,583
American Samoa Community College									
Instructional	5,127,536	10,656,100	-	-	-	5,528,564	-	-	5,528,564
General and administrative	4,342,878	-	-	-	-	(4,342,878)	-	-	(4,342,878)
Research	3,174,739	-	-	-	-	(3,174,739)	-	-	(3,174,739)
Depreciation	1,414,507	-	-	-	-	(1,414,507)	-	-	(1,414,507)
Interest	-	-	-	-	-	-	-	-	-
Total - ASCC	14,059,660	10,656,100	-	-	-	(3,403,560)	-	-	(3,403,560)
American Samoa Medical Center Authority									
Healthcare	36,990,512	24,567,792	-	-	-	-	(12,422,720)	-	(12,422,720)
General and administrative	6,625,014	-	-	4,874,260	-	-	(1,750,754)	-	(1,750,754)
Depreciation	1,594,158	-	-	-	-	-	(1,594,158)	-	(1,594,158)
Interest	107,380	-	-	-	-	-	(107,380)	-	(107,380)
Total - LBJ	45,317,064	24,567,792	-	4,874,260	-	-	(15,875,012)	-	(15,875,012)
American Samoa Telecommunication Authority									
Operations	11,557,522	16,769,597	-	-	-	-	-	5,212,075	5,212,075
General and administrative	5,572,708	-	-	-	-	-	-	(5,572,708)	(5,572,708)
Depreciation	2,593,563	-	-	-	-	-	-	(2,593,563)	(2,593,563)
Total - ASTCA	19,723,793	16,769,597	-	-	-	-	-	(2,954,196)	(2,954,196)
Total Component Units	$ 166,707,432	$ 124,914,967	$ 240,796	$ 27,715,484					
General revenues									
Payments from American Samoa Government					-	4,357,994	6,000,000	-	10,357,994
Wage tax revenue					-	-	3,333,097	-	3,333,097
Grants entitlements and contributions not restricted to specific programs					-	-	8,745,702	-	8,745,702
Other general revenues					102,948	6,191	412,237	-	521,376
Insurance recoveries					-	-	-	-	-
Total General Revenues					102,948	4,364,185	18,491,036	-	22,958,169
Changes in Net Position					8,499,531	960,625	2,616,024	(2,954,196)	9,121,984
Net Position - Beginning of Year					142,159,964	14,371,483	15,370,049	32,807,119	204,708,615
Net Position - End of Year					$ 150,659,495	$ 15,332,108	$ 17,986,073	$ 29,852,923	$ 213,830,599

Note 10 – Expenditures Exceeding Appropriations

The following Department and Programs expenditures exceeded the budget for the fiscal year ended September 31, 2014:

Departments and Special Programs	Budget Overrun
General Government	
Governor's Office	$ 151,780
Legislature	1,332
Treasury	226,278
Fiscal Reform Costs	1,720,927
Governor's Internal Audit	230,168
Manu'a Dev/Maintenance	31,774
Legal affairs	87,413
Property Insurance Premium	391,109
EOB Maintenance	55,979
Human and Social Services	12,152
ASG Audit Contract	5,001
Miscelleneous Accounts	157,831
Education and Culture	
Public Information	44,201
Youth Center Math	25,958
Summer Youth Employment Program	191,010
Youth and Women's Affairs	241,862
Economic Development	
Commerce & Tourism	63,100
Private Sector Initiative	5,376
Health and Recreation	
Sports Complex (Special Program)	124,318
Ceremonial Activities (Flag Day)	44,780
Public Safety	
Public Safety	225,956
Driver's Training	25,197
Judiciary	92,178
Public Works	
Public Works	2,105,185
Small Village Fund	5,282
Transfers Out	
To Airport	1,436,305
To Debt Service	761,010
To Government Housing	314,622
	$ 8,778,084

Note 11 – Risk Management and Insurance

It is the policy of the Territory to cover the risk of losses to which it may be exposed through risk management activities. In general, the Territory is self-insured for health care claims and tort liability.

A. Health Care

Health care coverage is provided for all residents. To receive services, residents present their American Samoa Government Health Card along with a nominal payment at the time of service. The Territory assumes fiscal responsibility for authorized referrals to off-island medical care providers as well as providing care to patients at the American Samoa Medical Center Authority – Lyndon B. Johnson Tropical Medical Center. The accrual of expenses incurred in future years from medical claims existing as of September 30, 2014 cannot be reasonably estimated and is not recorded.

B. Property

The Territory has a property damage insurance policy with a commercial insurance company that covers any physical loss or damage caused by all perils, to all tangible property of every description not expressly excluded by the policy, which is in the Territory and owned or held by the Territory jointly, or in trust or on commission or for which the Territory is responsible or has assumed responsibility. The primary policy covers up to $25,000,000 for all of the Territory's property with a deductible of $3,000,000 for earthquake, $1,000,000 for flood and hurricane, and $250,000 deductible for all other perils.

C. Other Insurance

ASPA, ASTCA, the Retirement Fund, and the Petroleum Cooperative maintain separate property and automobile liability insurance.

D. Workers Compensation

The Territory is self-insured for its workers compensation liability to pay compensation as defined under the Workers Compensation Act. The administration of this self-insurance arrangement is handled by the Territory through its Internal Service Fund, the Workers Compensation Fund. All funds, agencies and component units of the Territory participate in the Workers Compensation Fund. Each unit contributes to the fund a "premium" amount calculated using the prior experience of the fund as a whole.

Note 11 – Risk Management and Insurance (Continued)

Changes in the balances of accrued workers compensation claims during the past two fiscal years are as follows:

	2014	2013
Accrued workers compensation claims, beginning of fiscal year	$ 1,448,584	$ 1,527,390
New accrued claims	-	-
Claims payments	(170,879)	(78,806)
Accrued workers compensation claims, end of fiscal year	$ 1,277,705	$ 1,448,584

Workers compensation claims are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated, typically after a decision has been rendered by an Administrative Law Judge. Liabilities for incurred losses settled by fixed and reasonably determinable payments over a long period of time are reported at their present value using an expected future investment yield based on the current investment yield of 3.0%. As of September 30, 2014, these liabilities are reported at their present value of $1,277,705. Claims liabilities and investments designated for payment of those claims are reported in the governmental activities column of the government-wide statement of net position.

E. Public Liability

The Territory is self-insured for purposes of public liability. The Territory's Tort Liability Act allows the government to be sued for personal injury or death caused by the negligent or wrongful act or omission of any employee of the government while acting within the scope of his/her employment. The Territory continues to satisfy its obligations under the Government Tort Liability Act with an amount budgeted by the Fono each fiscal year. The Attorney General's Office is responsible for the acquisition and administration of any self-insurance plans and programs adopted for use by the Territory. The estimated liability for self-insured losses is $7,514,834 as of September 30, 2014.

Note 12 – Solid Waste Landfill Closure and Post-Closure Costs

The Futiga Landfill is a two-cell solid waste landfill site. The first cell was operated for approximately thirty years before it was transferred to ASPA in February 1995. Upon transfer, the first cell was substantially filled and is currently considered full. ASPA has operated the landfill since the transfer and has expanded the landfill to include a new section, approximately the same size and capacity as the original fill site. At September 30, 2014, the new landfill cell has a remaining estimated useful life of two years. ASPA is researching other alternatives and is currently under lease discussions with landowners for a new identified landfill site. Total estimated closure and post-closure costs for the two landfill cells is $814,480 based on a 2003 study. Estimated costs of the closure and post-closure care are subject to changes such as the effects of inflation, revision of laws and other variables.

Note 12 – Solid Waste Landfill Closure and Post-Closure Costs (Continued)

The Territory is required to recognize a portion of the closure and post-closure care costs in each operating period even though actual pay-outs will not occur until the landfill is closed. Based on an opinion from the American Samoa Environmental Protection Agency, American Samoa has no local statutes governing the operation of municipal landfills and no regulations govern closure and post-closure requirements. Therefore, ASPA's management believes that the Territory has no legal obligation under federal or local law to incur closure and post-closure costs for the two landfill sites. As of September 30, 2014, the Territory has recorded a liability of $287,658 for closure and post-closure care.

Note 13 – Commitments and Contingencies

A. Litigation

The Territory is party to numerous pending or threatened lawsuits, under which it may be required to pay certain amounts upon final disposition of these matters. Generally, the Territory is self-insured, except for property damage and fidelity bond coverage.

With respect to legal matters expected to be settled subsequent to September 30, 2014, the Office of the Attorney General has estimated the amount of liability determined, as of September 30, 2014, in accordance with generally accepted accounting principles as probable. The Territory has recorded a liability for judgments and claims in the amount of $7,514,834.

Changes in the balances of claims and judgments liabilities during the past two fiscal years are as follows:

	2014	2013
Unpaid claims and judgments, beginning of fiscal year	$ 7,300,000	$ 8,100,000
Incurred claims and judgments	316,902	1,300,000
Claims and judgment payments	(102,068)	(2,100,000)
Unpaid claims and judgments, end of fiscal year	$ 7,514,834	$ 7,300,000

B. Grants

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Audits may lead to reimbursement to the grantor agencies. The Territory records liabilities for all audit reports that are expected to lead to disallowed costs. As of September 30, 2014, any potential reimbursements related to ongoing or pending audits cannot be estimated.

Note 13 – Commitments and Contingencies (Continued)

C. Commitments

As of September 30, 2014, outstanding commitments are comprised of the following:

	2014 Project Authorization	Expended Through September 30, 2014	Committed as of September 30, 2014
Airport improvements	$ 1,383,841	$ 4,207,881	$ 20,828,465
FEMA improvements	-	205,325	31,658
Cooperative improvements	2,183,995	3,345,720	647,028
Educational facilities	1,681,500	1,382,277	502,025
	$ 5,249,336	$ 9,141,203	$ 22,009,176

Note 14 – New Pronouncements for Financial Reporting

The following pronouncements have been issued by the Governmental Accounting Standards Board (GASB) and were implemented by the Territory during the fiscal year ended September 30, 2014:

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Implementation of this Statement did not have a material effect on the financial statements of the Territory.

- Statement No. 67, *Financial Reporting for Pension Plans*, was implemented by the Retirement Fund for the year ended September 30, 2014. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.* Implementation of Statement No. 67 resulted in the presentation of new information about the Retirement Fund's actuarial valuations in the Retirement Fund's financial statements, including measurement of the Retirement Fund's total pension liability and the participating employers' net pension liability. The Statement also required expanded disclosures of the assumptions used to value the Retirement Fund and the annual money-weighted rates of return for the Retirement Fund's investments.

Note 14 – New Pronouncements for Financial Reporting (Continued)

The following pronouncements have been issued by the GASB but have not yet been implemented by the Territory:

- Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for governments that provide employees with pension benefits. The Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. This Statement is effective for the fiscal year ending September 30, 2015. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the Territory.

- Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations, including mergers, acquisitions, transfers of operations and disposals of government operations. This Statement is effective for the fiscal year ending September 30, 2015. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the Territory.

- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement is effective for the fiscal year ending September 30, 2015. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the Territory.

- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the Territory.

- Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for the fiscal year ending September 30, 2016. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the Territory.

Note 15 – Commitments and Contingencies

- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for pensions and pension plans that are not administered through a trust meeting specified criteria. This Statement is effective for the fiscal year ending September 30, 2016. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the Territory.

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* replaces Statement No.43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and addresses the financial reports of defined benefit postemployment benefits (OPEB) plans that are administered through trusts that meet specified criteria. This Statement requires more extensive note disclosures and required supplementary information related to the measurement of OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rate of return on plan investments. This Statement is effective for the fiscal year ending September 30, 2017. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the Territory.

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* replaces Statement No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*, and requires governments to report a liability on the financial statements for the OPEB they provide. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for the fiscal year ending September 30, 2018. Management is evaluating the effect that the implementation of this Statement will have on the financial statements of the Territory.

REQUIRED SUPPLEMENTARY INFORMATION

TERRITORY OF AMERICAN SAMOA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Revenues:				
Taxes	$ 71,866,000	$ 71,913,500	$ 65,332,565	$ (6,580,935)
Licenses and permits	1,100,000	1,100,000	1,145,068	45,068
Intergovernmental	13,763,000	13,763,000	13,859,354	96,354
Charges for services	6,381,200	6,771,700	5,743,876	(1,027,824)
Fines and fees	3,752,800	3,752,800	3,163,103	(589,697)
Interdepartmental	5,600,000	5,600,000	4,937,480	(662,520)
Miscellaneous	2,616,000	2,616,000	4,543,992	1,927,992
Total revenues	105,079,000	105,517,000	98,725,438	(6,791,562)
Expenditures:				
General government	33,258,500	33,158,500	36,397,676	(3,239,176)
Education and culture	32,434,500	32,464,500	31,284,144	1,180,356
Economic development	13,066,500	13,066,500	10,071,667	2,994,833
Health and welfare	10,339,000	10,339,000	10,354,200	(15,200)
Public safety	11,175,500	11,175,500	10,372,679	802,821
Public works	6,963,000	6,963,000	7,406,723	(443,723)
Total expenditures	107,237,000	107,167,000	105,887,089	1,279,911
Excess (deficiency) of revenues over expenditures	(2,158,000)	(1,650,000)	(7,161,651)	(5,511,651)
Other financing sources (uses):				
Transfers in	550,000	550,000	1,321,033	771,033
Transfers out	-	-	(2,511,937)	(2,511,937)
Total other financing sources (uses)	550,000	550,000	(1,190,904)	(1,740,904)
Change in fund balances	(1,608,000)	(1,100,000)	(8,352,555)	(7,252,555)
Fund balances, October 1, 2013	(4,804,671)	(4,804,671)	(4,804,671)	-
Fund balances, September 30, 2014	$ (6,412,671)	$ (5,904,671)	$ (13,157,226)	$ (7,252,555)

TERRITORY OF AMERICAN SAMOA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
SPECIAL REVENUE FEDERAL GRANTS
YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes	$ -	$ -	$ -	$ -
Licenses and permits	-	-	-	-
Intergovernmental	98,963,500	98,963,500	170,103,155	71,139,655
Charges for services	-	-	-	-
Fines and fees	-	-	-	-
Interdepartmental	-	-	-	-
Miscellaneous revenue	-	-	1,378,233	1,378,233
Total revenues	98,963,500	98,963,500	171,481,388	72,517,888
Expenditures:				
General government	3,391,500	3,391,500	19,001,491	(15,609,991)
Education and culture	44,749,500	44,749,500	59,574,973	(14,825,473)
Economic development	5,362,000	5,362,000	24,338,519	(18,976,519)
Health and welfare	34,368,500	34,368,500	44,852,611	(10,484,111)
Public safety	11,092,000	11,092,000	6,217,873	4,874,127
Public works	-	-	17,561,145	(17,561,145)
Total expenditures	98,963,500	98,963,500	171,546,612	(72,583,112)
Excess (deficiency) of revenues over expenditures	-	-	(65,224)	(65,224)
Other financing sources:				
Transfers in	-	-	696,644	696,644
Change in fund balances	-	-	631,420	631,420
Fund balances, October 1, 2013	1,707,270	1,707,270	1,707,270	-
Fund balances, September 30, 2014	$ 1,707,270	$ 1,707,270	$ 2,338,690	$ 631,420

REPORT OF INDEPENDENT AUDITORS 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*

To Governor of the Territory of American Samoa
Territory of American Samoa
Pago Pago, American Samoa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Territory of American Samoa (the "Territory") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Territory's basic financial statements, and have issued our report thereon dated June 26, 2015. Our report includes qualified opinions on the governmental activities, the general fund, the grant fund, and the aggregate discretely presented component units. Our report includes a reference to other auditors who audited the financial statements of three of the discretely presented component units of the Territory, as described in our report on the Territory's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-FS1, 2014-FS2, 2014-FS3, 2014-FS4, 2014-FS5, 2014-FS6, 2014-FS7 and 2014-FS8 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Territory's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-FS6.

The Territory's Responses to Findings

The Territory's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Territory's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Moss Adams LLP

Seattle, Washington
June 26, 2015

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To Governor of the Territory of American Samoa
Territory of American Samoa
Pago Pago, American Samoa

Report on Compliance for Each Major Federal Program

We have audited the Territory of American Samoa's (the "Territory") 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 each of the Territory's major federal programs for the year ended September 30, 2014. The Territory's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The Territory's basic financial statements include the operations of the following component units: the American Samoa Power Authority, the American Samoa Community College, the American Samoa Telecommunications Authority, and the American Samoa Medical Center Authority, which received $39.7 million in federal awards which are not included in the Schedule of Expenditures of Federal Awards during the year ended September 30, 2014. Our audit, described below, did not include the operations of the American Samoa Power Authority, the American Samoa Community College and the American Samoa Telecommunications Authority because these component units engaged other auditors to perform an audit in accordance with Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Territory's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Territory'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Territory's compliance.

Basis for Qualified Opinion on Ten Major Programs

As described below and in the accompanying schedule of findings and questioned costs, the Territory did not comply with certain requirements regarding the following:

CFDA Numbers	Federal Awarding Agency	Name of Federal Program or Cluster	Compliance Requirement	Finding Number
10.551	Department of Agriculture Food and Nutrition Service	Supplemental Nutrition Assistance Program with ARRA	Cash Management	2014-001
10.555	Department of Agriculture Food and Nutrition Service	National School Lunch Program	Cash Management	2014-001
10.557	Department of Agriculture Food and Nutrition Service	Special Supplemental Nutrition Program for Women, Infants and Children	Cash Management	2014-001
15.875	Department of the Interior Office of Insular Affairs	Economic, Social and Political Development of the Territories	Cash Management	2014-001
20.205	Department of Transportation Federal Highway Administration	Highway Planning and Construction	Cash Management	2014-001
84.027A	Department of Education Office of Special Education and Rehabilitative Services	Special Education Grants to States	Cash Management	2014-001
84.403A	Department of Education Office of Elementary and Secondary Education	Consolidated Grant to Outlying Areas	Cash Management	2014-001
97.036	Department of Homeland Security	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Cash Management	2014-001
93.778	Department of Health and Human Services Centers for Medicare and Medicaid Services	Medical Assistance Program	Cash Management	2014-001
20.205	Department of Transportation Federal Highway Administration	Highway Planning and Construction	Sub-recipient Monitoring	2014-002
11.482	Department of Commerce National Oceanic and Atmospheric Administration	Coral Reef Conservation Program	Sub-recipient Monitoring	2014-002
10.551	Department of Agriculture Food and Nutrition Service	Supplemental Nutrition Assistance Program with ARRA	Reporting ARRA 1512 Reports	2014-003

CFDA Numbers	Federal Awarding Agency	Name of Federal Program or Cluster	Compliance Requirement	Finding Number
10.555	Department of Agriculture Food and Nutrition Service	National School Lunch Program	Reporting	2014-004
84.403A	Department of Education Office of Elementary and Secondary Education	Consolidated Grant to Outlying Areas	Reporting	2014-004
15.875	Department of the Interior Office of Insular Affairs	Economic, Social and Political Development of the Territories	Reporting	2014-004
11.482	Department of Commerce National Oceanic and Atmospheric Administration	Coral Reef Conservation Program	Reporting	2014-004
10.555	Department of Agriculture Food and Nutrition Service	National School Lunch Program	Equipment and Real Property Management	2014-005
84.403A	Department of Education Office of Elementary and Secondary Education	Consolidated Grants to Outlying Areas	Equipment and Real Property Management	2014-005

Compliance with such requirements is necessary, in our opinion, for the Territory to comply with the requirements applicable to the ten major programs as identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Ten Major Programs

In our opinion, except for possible effects of the noncompliance described in the Basis for Qualified Opinion on Ten Major Programs paragraph, the Territory complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the ten major federal programs as identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2014.

Unmodified Opinion on 11.419 Department of Commerce National Oceanic and Atmospheric Administration – Coastal Zone Management Administration Awards Program

In our opinion, the Territory complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the 11.419 Department of Commerce National Oceanic and Atmospheric Administration – Coastal Zone Management Administration Awards Program for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures also disclosed other instances of noncompliance which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 2014-007 (allowable costs and activities), and Finding 2014-008 (reporting). Our opinion on each major federal program is not modified with respect to these matters.

The Territory's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Territory's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the Territory is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Territory's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the Territory'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a 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 Finding 2014-001 (cash management), Finding 2014-002 (sub-recipient monitoring), Finding 2014-003 (reporting ARRA 1512 reports), Finding 2014-004 (reporting) and Finding 2014-005 (equipment and real property management) to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2014-006 (procurement, suspension and debarment), Finding 2014-007 (allowable costs and activities), and Finding 2014-008 (reporting) to be significant deficiencies.

The Territory's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Territory's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Territory as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Territory's basic financial statements. We issued our report thereon dated June 26, 2015 which contained a qualified opinion related to the governmental activities, the general fund, the grant fund, and the aggregate discretely presented component units. Our report contained an unmodified opinion related to the business-type activities, the airport fund, and the aggregate remaining fund information of the Territory of American Samoa.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Moss Adams LLP

Seattle, Washington
June 26, 2015

TERRITORY OF AMERICAN SAMOA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2014

Federal Grantor/Program	CFDA #	Total Federal Expenditures Including ARRA	ARRA Expenditures
Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 30,485	$ -
Specialty Crop Block Grant Program - Farm Bill	10.170	236,490	-
Supplemental Nutrition Assistance Program	10.551	7,601,999	669,500
National School Lunch Program	10.555	24,142,339	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	8,230,691	-
Cooperative Forestry Assistance	10.664	102,217	-
Community Facilities	10.766	19,500	-
Total Department of Agriculture		40,363,721	669,500
Department of Commerce			
Coastal Zone Management Administration Awards	11.419	885,046	-
Marine Sanctuary Program	11.429	240,057	-
Pacific Fisheries Data Program	11.437	103,952	-
Unallied Industry Projects	11.452	66,567	-
Unallied Management Projects	11.454	50,242	-
Meteorologic and Hydrologic Modernization Development	11.467	233,509	-
Coral Reef Conservation Program	11.482	520,853	-
State Broadband Data and Development Grant Program	11.558	86,029	86,029
Total Department of Commerce		2,186,255	86,029
Department of Housing and Urban Development			
Community Development Block Grants/Special Purpose Grants/Insular Areas	14.225	2,535,092	-
Total Department of Hoursing and Urban Development		2,535,092	-
Department of Interior			
State Wildlife Grants	15.634	37,994	-
Economic, Social, and Political Development of the Territories	15.875	23,928,460	-
Historic Preservation Fund Grants-In-Aid	15.904	274,451	-
Fish and Wildlife Cluster			
Sport Fish Restoration Program	15.605	1,050,425	-
Wildlife Restoration and Basic Hunter Education	15.611	409,112	-
Total Fish and Wildlife Cluster		1,459,537	-
Total Department of Interior		25,700,442	-
Department of Justice			
Sexual Assault Services Formula Program	16.017	9,278	-
Juvenile Accountability Block Grants	16.523	40,870	-
Juvenile Justice and Delinquency Prevention_Allocation to State	16.540	57,842	-
Crime Victim Assistance	16.575	334,513	-
ARRA - Edward Byrne Memorial Formula Grant Program	16.579	334,708	334,708
Violence Against Women Formula Grants	16.588	747,617	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	209,956	-
Residential Substance Abuse Treatment for State Prisoners	16.593	5,991	-
Total Department of Justice		1,740,775	334,708
Department of Labor			
Senior Community Service Employment Program	17.235	947,940	-
WIA Cluster			
WIA Adult Program	17.258	132,309	-
WIA Youth Activities	17.259	12,107	-
WIA Dislocated Workers	17.278	310,202	-
Total WIA Cluster		454,618	-
Total Department of Labor		1,402,558	-
Department of Transportation			
Airport Improvement Program	20.106	2,602,082	-
Highway Planning and Construction	20.205	10,022,196	-
National Motor Carrier Safety	20.218	195,738	-
Formula Grants for Other Than Urbanized Areas	20.509	1,023,727	-
State and Community Highway Safety	20.600	918,231	-
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	54,280	-
Payments for Small Community Air Service Development	20.930	16,160	-
Total Department of Transportation		14,832,414	-

TERRITORY OF AMERICAN SAMOA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
SEPTEMBER 30, 2014

Federal Grantor/Program	CFDA #	Total Federal Expenditures Including ARRA	ARRA Expenditures
General Services Administration			
General Services Administration	39.011	$ 82,510	$ -
Total General Services Administration		82,510	-
National Foundation of Arts & Humanities			
Promotion of the Arts Partnership Agreements	45.025	247,986	-
Total National Foundation of Arts & Humanities		247,986	-
Environmental Protection Agency			
Environmental Protection Consolidated Grants for the Insular Areas - Program Support	66.600	2,151,508	-
Total Environmental Protection Agency		2,151,508	-
Department of Energy			
State Energy Program	81.041	308,905	-
Weatherization Assistance for Low-Income Persons	81.042	140,941	-
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	619,522	619,522
Total Department of Energy		1,069,368	619,522
Department of Education			
Special Education Grants to States	84.027A	5,986,907	-
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126	823,794	-
Centers for Independent Living	84.132	184,440	-
Rehabilitation Services Client Assistance Program	84.161	62,776	-
Independent Living State Grants	84.169	35,799	-
Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	84.177	27,877	-
Special Education-Grants for Infants and Families	84.181	725,211	-
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	18,762	-
Fund for the Improvement of Education	84.215	21,726	-
Assistive Technology	84.224	129,212	-
Program of Protection and Advocacy of Individual Rights	84.240	102,901	-
Territories and Freely Associated States Education Grant Program	84.256	898,636	-
Rehabilitation Training State Vocational Rehabilitation Unit In-Service Training	84.265	13,167	-
Assistive Technology State Grants for Protection and Advocacy	84.343	44,213	-
Striving Readers	84.371	355,929	-
Consolidated Grant to the Outlying Areas	84.403A	20,617,647	-
State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund)	84.394	(150,341)	(150,341)
Total Department of Education		29,898,656	(150,341)
US Election Assistance Commission			
HAVA (Help America Vote Act)	90.401	10,644	-
US Election Assistance Commission		10,644	-
Department of Health & Human Services			
Special Programs for the Aging Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	3,467	-
Special Programs for the Aging Title VII, Chapter 2 Long Term Care Ombudsman Services for Older Individuals	93.042	15,536	-
Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043	15,150	-
Aging Cluster			
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	537,256	-
Special Programs for the Aging Title III, Part C Nutrition Services	93.045	640,291	-
Total Aging Cluster		1,177,547	-
National Family Caregiver Support, Title III, Part E	93.052	96,038	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	691,792	-
Maternal and Child Health Federal Consolidated Programs	93.110	105,735	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	381,063	-
Protection and Advocacy for Individuals with Mental Illness	93.138	52,033	-
Projects for Assistance in Transition from Homelessness (PATH)	93.150	38,122	-
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	1,905,555	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	392,120	-
State Grants for Protection and Advocacy Services	93.267	62,941	-

Federal Grantor/Program	CFDA #	Total Federal Expenditures Including ARRA	ARRA Expenditures
Department of Health & Human Services (Continued)			
Immunization Cooperative Agreement	93.268	$ 570,948	$ -
The Affordable Care Act: Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	676,458	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	1,165,331	-
Public Housing Primary Care, and School Based Health Centers)	93.507	231,453	-
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544	82,996	-
Low-Income Home Energy Assistance	93.568	299,784	-
Community Services Block Grant	93.569	1,054,154	-
Child Care and Development Block Grant	93.575	2,188,132	-
Head Start	93.600	2,249,730	-
Voting Access for Individuals with Disabilities Grants to States	93.617	73,966	-
Voting Access for Individuals with Disabilities-Grants for Protection and Advocacy Systems	93.618	57,432	-
Developmental Disabilities Basic Support and Advocacy Grants	93.630	487,555	-
Social Services Block Grant	93.667	1,184,820	-
ARRA - Head Start	93.708	2,575	2,575
Children's Health Insurance Program	93.767	295,306	-
Medical Assistance Program	93.778	17,931,325	-
HIV Care Formula Grants	93.917	37,247	-
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV	93.938	12,300	-
Block Grants for Community Mental Health Services	93.958	144,714	-
Preventive Health and Health Services Block Grant	93.991	29,519	-
Maternal and Child Health Services Block Grant to the States	93.994	759,424	-
Total Department of Health & Human Services		34,472,268	2,575
Department of Homeland Security			
Boating Safety Financial Assistance	97.012	446,084	-
Emergency Management Performance Grants	97.042	1,456,004	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	24,392,149	-
Hazard Mitigation Grant	97.039	626,547	-
Homeland Security Grant Program	97.067	542,105	-
Driver's License Security Grant Program	97.089	376,712	-
Total Department of Homeland Security		27,839,601	-
Total Federal Awards Expended		$ 184,533,798	$ 1,561,993

Note 1 – Reporting Entity

The Territory of American Samoa (the "Territory"), for purposes of the financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board. The Schedule of Expenditures of Federal Awards (the "Schedule") does not include the federal financial assistance directly received by its component units: the American Samoa Power Authority, the American Samoa Community College, the American Samoa Telecommunications Authority, and the American Samoa Medical Center Authority. These component units file a separate single audit report with the Federal Audit Clearinghouse. Federal financial assistance received by the Development Bank of American Samoa, an organization related to the Territory, is also excluded from the Schedule of Expenditures of Federal Awards.

Note 2 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Territory under programs of the federal government for the year ended September 30, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. All federal awards received by the Territory are direct awards; there are no awards passed through from another entity. Because the schedule presents only a selected portion of the operations of the Territory, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Territory.

Note 3 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Government*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustment or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 4 – Loans

The Territory received proceeds of special community disaster loans from FEMA totaling $10,179,089 during 1993 and 1994. There is a provision in the FEMA regulations that permits FEMA to cancel all or a portion of this loan. During May 2000, FEMA cancelled $8,638,009 of principal and $3,227,779 of interest on these notes. The Territory expects the remaining amounts of these notes plus interest to be cancelled in subsequent years. As of September 30, 2014, the outstanding principal and unpaid interest on the FEMA notes totaled $1,541,080 and $1,763,413, respectively. This loan is not reflected in the accompanying Schedule of Expenditures of Federal Awards.

Note 5 – Passthrough Awards

Each of the federal awards presented on this Schedule of Expenditures of Federal Awards are directly received from the federal grantor.

Passed through to ASG Component Units: A portion of certain programs are passed through to discretely presented component units of the American Samoa Government. The component units also include these amounts on their Schedule of Expenditures of Federal Awards.

Component Unit	Grantor/CFDA Grantor's Program Title	Federal CFDA Number	2014 Expenditures
American Samoa Power Authority	U.S. Department of the Interior		
	Economic, Social, and Political Development of the Territories	15.875	$ 3,427,268
	U.S. Department of Homeland Security		
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	16,739,885
American Samoa Community College			
	U.S. Department of Education		
	Special Education Grants to States	84.027A	49,817
	U.S. Department of Energy		
	Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	20,268
	U.S. Department of Health and Human Services		
	Developmental Disabilities Basic Support and Advocacy Grants	93.630	28,585
American Samoa Medical	U.S. Department of the Interior		
Center Authority	Economic, Social, and Political Development of the Territories	15.875	7,900,000
			$ 28,165,823

Note 6 – Major Programs

The major programs included in the accompanying Schedule of Expenditures of Federal Awards are as follows:

CFDA No.	Program	Federal Expenditures	ARRA	Total Federal Expenditures
10.551	Supplemental Nutrition Assistance Program with ARRA	$ 6,932,499	$ 669,500	$ 7,601,999
10.555	National School Lunch Program	24,142,339	-	24,142,339
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	8,230,691	-	8,230,691
15.875	Economic and Political Development of the Territories (Basic Grant)	23,928,460	-	23,928,460
20.205	Highway Planning and Construction	10,022,196	-	10,022,196
84.027A	Special Education Grants to States	5,986,907	-	5,986,907
84.403A	Consolidated Grant to the Outlying Areas	20,617,647	-	20,617,647
93.778	Medical Assistance Program	17,931,325	-	17,931,325
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disaste	24,392,149	-	24,392,149
11.419	Coastal Zone Management Administration Awards	885,046	-	885,046
11.482	Coral Reef Conservation Program	520,853	-	520,853
				$ 144,259,612

Note 7 – Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 0.64 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2014.

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Governmental Activities	Qualified
Business Type Activities	Unmodified
General Fund	Qualified
Grant Fund	Qualified
Airport Fund	Unmodified
Aggregate Discretely Presented Component Units	Qualified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☒ Yes ☐ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☒ Yes ☐ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major federal programs: See below

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

I. SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Identification of Federal Major Programs and Type of Auditor's Report Issued

CFDA Numbers	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued*
10.551	Department of Agriculture Food and Nutrition Service – Supplemental Nutrition Assistance Program with ARRA	Qualified
10.555	Department of Agriculture Food and Nutrition Service – National School Lunch Program	Qualified
10.557	Department of Agriculture Food and Nutrition Service – Special Supplemental Nutrition Program for Women, Infants, and Children	Qualified
11.419	Department of Commerce National Oceanic and Atmospheric Administration – Coastal Zone Management Administration Awards	Unmodified
11.482	Department of Commerce National Oceanic and Atmospheric Administration – Coral Reef Conservation Program	Qualified
15.875	Department of the Interior Office of Insular Affairs – Economic, Social and Political Development of the Territories	Qualified
20.205	Department of Transportation Federal Highway Administration – Highway Planning and Construction	Qualified
84.027A	Department of Education Office of Special Education and Rehabilitative Services – Special Education Grant to States	Qualified
84.403A	Department of Education Office of Elementary and Secondary Education – Consolidated Grants to the Outlying Areas	Qualified
93.778	Department of Health and Human Services Centers for Medicare and Medicaid Services – Medical Assistance Program	Qualified
97.036	Department of Homeland Security – Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Qualified

Dollar threshold used to distinguish between type A and type B programs: $ 3,000,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

II. Findings Related to financial statements which are required to be reported in accordance with *GOVERNMENT AUDITING STANDARDS*

Finding 2014 – FS1 – Decentralized Accounting and Finance Functions Material Weakness in Internal Controls

Criteria – In order to provide timely and accurate financial reports, all general ledger accounts of the Territory of American Samoa ("The Territory" or "ASG") should be reconciled each month on a timely basis. The reconciliations performed by accounting and finance staff should be approved by supervisory personnel and supported with proper documentation. Any ledgers maintained outside of Treasury should undergo the same internal controls and review procedures to ensure that accurate and complete financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

Condition – A portion of ASG's accounting and financial functions continued to be decentralized for the majority of the year. For example, portions of the Territory's general ledger (GL) were maintained outside of Treasury by the Office of Disaster Assistance & Petroleum Management (ODAPM) until August 2014. While the recording of transactions previously maintained by ODAPM began in August 2014, the migration of fiscal 2014 balance maintained by ODAPM did not occur until after year end. In addition, the Shipyard Services Authority (Shipyard) maintains a separate GL in its own accounting system. As a result, the Territory's monthly GL is incomplete throughout the year, and the annual GL is cumbersome and difficult to compile and close at year end. We believe that the decentralized functions and the lack of overall monitoring controls in place at Treasury over all of the Territory's accounting transactions contributed to this material weakness.

Below are observations noted during our fiscal 2014 audit:

- The trial balances maintained by ODAPM were not migrated into Treasury GL timely and contained many inaccuracies and errors. Examples of the errors noted during the audit include:
    - Certain expenses were double booked by being recorded in both the Treasury GL system and the balances transferred in during the migration. Correcting entries of $440,000 were made by the auditors.
    - Transfers between the airport and Port Administration for $500,000 were erroneously recorded as revenue; this amount was also corrected as the result of an audit adjustment.

    - The cash account for the Port Administration was recorded in the Grants Fund rather than Airport Fund during the migration. A correcting entry of $991,000 was provided by management that moved these funds using pooled cash accounts. A second audit adjustment was required to properly record this as a transfer rather than pooled cash entry as this is a correction of an error and permanent transfer of balances.

- Capital asset accounts were not maintained accurately; reclassification and adjustment entries of over $5 million were proposed by the auditors.

- Accounts and journal entries maintained at ODAPM and the Shipyard are not collected and compiled into one Territory-wide GL on a regular, timely basis throughout the year. As a result, the accounts and journal entries are not reviewed on a timely basis by Treasury officials for reasonableness and completeness.

- Until August 2014, the Territory had a decentralized system for maintaining and tracking the expenditures of federal awards managed by ODAPM. The Schedule of Federal Awards (SEFA) is prepared on an annual basis and though Treasury updates their grant summary monthly throughout the year, there is no entity wide SEFA that is updated or maintained throughout the year. As such, there is no complete summary of expenditures on a grant by grant basis for departments and programs to use as a resource. The preparation of the annual SEFA is cumbersome due to this decentralized approach as the first ten months of the year were not centrally recorded. In addition, because of the decentralized approach, the monthly SEFA maintained by Treasury is incomplete.

- Currently there is no centralized tracking of pass-through grant awards performed by Treasury. Several component units receive pass through awards from the Territory that were not reported by management in the GL or on the SEFA and required adjustments proposed by the auditors.

Cause – The Territory has a decentralized system and important accounts and ledgers were maintained outside of Treasury for much of the year. There is no Comptroller currently in place at Treasury designated to oversee these ledgers and the process of combining accounts on a government-wide basis for the financial statement presentation. The accounting policies, procedures, and controls to ensure a robust internal control structure governing the general ledger maintenance and the financial close and reporting process are not functioning as intended.

Effect – The Territory's accounts are not reconciled on a timely basis and the Territory is not able to produce accurate and timely financial statements or an accurate and timely Schedule of Expenditures of Federal Awards.

Recommendation – The migration of ODAPM accounts into Treasury late in the fiscal year should resolve some of these issues. We recommend that ASG continue to work towards centralization of the controls and authority over the general ledger, the SEFA and certain aspects of the federal award programs. The Treasury office should be the primary and overriding source for the financial statements and federal award transactions. Other departments should still continue to operate their programs, contribute to the internal control structure via the program managers and staff carrying out their respective duties, and departments should continue to maintain sub-ledgers and detailed summaries for accounts such as capital assets. However, transactions should be authorized and recorded by the Treasury office, and any records maintained by other departments should be reconciled or used to support the general ledger and SEFA maintained by the Treasury office, on a monthly basis.

We strongly recommend the hiring of a qualified Comptroller to oversee the accounting and financial reporting process. We recommend that this individual be a Certified Public Accountant with prior experience in oversight and financial reporting of a governmental entity who is familiar with GAAP as promulgated by the GASB.

Management Response – ASG concurs and has recognized these deficiencies. As noted above, ASG has taken steps to remedy the decentralization of ODAPM in late fiscal year 2014 and will work on the Shipyard in fiscal 2015. Additionally, ASG will proactively and aggressively revise its policy and relationship with other component units to ensure that business plans and financial statements are reviewed in a timely manner prior to year end. ASG will also work with the departments to ensure that SEFA and federal program awards are reported and monitored. ASG will implement all recommendations and ensure records are maintained and reconciled to support the general ledger. ASG has advertised for the position of Comptroller.

Finding 2014 – FS2 – General Ledger Reconciliation/Financial Close and Reporting Process Material Weakness in Internal Controls

Criteria – In order to provide timely and accurate financial reports, the general ledger accounts of the Territory should be reconciled each month on a timely basis. The reconciliations performed by accounting and finance staff should be approved by supervisory personnel and supported with proper documentation.

A strong system of internal controls ensures that accurate and complete financial statements are prepared in accordance with generally accepted accounting principles (GAAP), including all required disclosures. This can be achieved by producing the financial statements in house, or by outsourcing the function, but if outsourced, management retains the responsibility to ensure the statements are accurate, complete, and in accordance with GAAP.

Condition – The Territory does not have an adequate control system in place to ensure the general ledger accurately reflects the account balances of the Territory on a monthly, quarterly or annual basis. Below are observations noted during our 2014 audit:

- The Territory's general ledger is not reconciled to subsidiary ledgers or source documents on a monthly basis, nor is it closed or summarized in such a manner to accurately portray the accounts and activities of ASG on a monthly basis. At year end, the general ledger is not closed on a timely basis and over 50 adjusting journal entries, over 20 of which were related to the General Fund, were posted during and subsequent to our final fieldwork in February 2015. In the General Fund, post-closing and correcting audit adjustment entries totaling $18.2 million were recorded. Within the Grant Fund, $21.4 million of audit adjusting entries were recorded. Approximately $18 million of audit adjusting entries were posted among the other funds.

- The Territory's control system did not include measures to ensure that preparation of the Territory's financial statements and footnotes was performed in accordance with Generally Accepted Accounting Principles (GAAP).

- Reconciliations and roll forwards of fund balances and net positions are not performed or maintained by the Territory. There are also no controls in place to ensure commitments and restrictions are appropriately tracked and reported in accordance with Government Accounting Standards Board (GASB) Statement No. 54. Further, we noted that fund balances did not properly roll forward from the prior year for the Grants Fund until correcting entries were proposed by the auditors.

- The Territory does not have processes or procedures in place to analyze and implement new accounting principles as promulgated by the GASB. For example, GASB Statement No. 65, '*Items Previously Reported as Assets and Liabilities*' was not adequately addressed by Treasury staff in 2014.

- There is no system in place to verify that unearned revenue recorded on the general ledger represents actual advances on grants and to determine proper classification as unearned revenue or deferred inflows. In the Grant Fund, as a result of our audit testing, adjustments of over $4 million were posted to reduce unearned revenue balances that were not properly supported.

- There is no system in place to verify that the receivables recorded on the general ledger are collectible and there is no periodic valuation of allowances to determine which receivables should be written off. Based upon our review of the detail of receivables, there were many receivable amounts that the Territory deems to be uncollectible but they have not yet been written off in the general ledger.

- Tax accounts, such as taxes receivable and tax refund liabilities, are not tracked or reconciled on a monthly basis.

- The Territory collects a two percent wage tax for the benefit of LBJ Hospital. Our audit testing revealed that collections from the private sector for the fourth quarter of 2014 were not included in the year end accrual.

- The Territory does not have processes or procedures in place to ensure borrowings among funds and component units are recorded consistently among Funds/Components; as a result, the due to/due from accounts did not net to zero and required audit adjustment.

- Transfers and pooled cash accounts did not properly net to zero and required audit adjustment, indicating that these accounts are not tracked and reconciled on a regular basis.

- Invoices and receiving reports are not submitted by the departments to the Accounts Payable office in a timely manner. As such, the Territory often cannot process payments for its vendors on time and has difficulties closing the books at year end or at interim periods during the year.

- The current practice to consider expenditures for accrual at year end includes reviewing invoices over $10,000 only during the three months following year end. This is a very manual and cumbersome process and resulted in errors in the current year. During our expense cutoff and subsequent cash disbursement testing for the Grant Fund, we noted expenses that related to fiscal year 2014 that were paid in fiscal year 2015 were not properly accrued at year end. Adjusting journal entries of approximately $4 million were posted.

- We identified certain expenses that related to the improper fiscal year and were not properly accrued. These were either expenses related to fiscal year 2013 recorded in fiscal year 2014 or expenses related to fiscal year 2015 recorded in fiscal year 2014.

- Similar findings have been noted in previous years and remain unaddressed.

Cause – There is not a Comptroller currently in place to oversee the Territory's accounting and financial reporting process. The accounting policies, procedures, and controls to ensure a robust internal control structure governing the general ledger maintenance and the financial close and reporting process are not functioning as intended. There is no formal close of the general ledger on a monthly basis that accurately captures all accruals, management estimates, and significant and unusual transactions. The general ledger is not reconciled back to source documents and data on a monthly basis. Decentralized systems also contribute to these weaknesses.

Effect – The Territory's accounts are not reconciled on a timely basis and the Territory is not able to produce accurate and timely financial statements or an accurate and timely Schedule of Expenditures of Federal Awards. Certain GL accounts require numerous proposed adjustments by the auditors and we are unable to determine fair presentation in the financial statements for tax revenues within the General Fund and accounts payable and unearned revenue within the Grant Fund.

Recommendation – We strongly recommend the hiring of a qualified Comptroller to oversee the accounting and financial close process. We recommend that this individual be a Certified Public Accountant with prior experience in oversight and financial reporting of a governmental entity who is familiar with GAAP as promulgated by the GASB.

Staffing should also be evaluated by having functions and duties re-assigned and/or additional personnel hired to ensure that monthly accounting reconciliations are performed to produce accurate financial statements. The accounting policies, procedures and controls should be re-examined and improvements should be made to ensure accurate and timely financial statements can be produced and to ensure subsidiary accounts are accurately and timely maintained and reconciled. Closing checklists should be used each month and on an annual basis to ensure that all major accounts are reconciled and analyzed.

Management Response – The Comptroller who was a Certified Public Accountant abruptly departed the Territory in January 2014. ASG concurs with the recommendations and will proactively recruit a CPA for the Territory in next months to ensure the integrity of the financial reporting system.

Finding 2014 – FS3 Management Estimates and Significant Accounts and Transactions Material Weakness in Internal Controls

Criteria – Many of the accounts within ASG's financial statements require management judgment and estimation. Generally accepted accounting principles require management to analyze and assess the reasonableness of such accounts on a recurring basis. The Territory also engages in complex, unusual transactions throughout the year.

Condition – The Territory's operations are complex and there are many accounts within each fund that require management estimation and judgment. We believe there should be more structure and rigor governing these estimates. There were multiple audit adjustments recorded within each fund to correct errors made in these types of accounts. Similar findings have been noted in previous years and remain uncorrected. We noted the following significant accounts within the General Fund:

- The Territory does not track and adjust for compensated absences, a liability with current and long-term estimated amounts on the Statement of Net Assets. Management should have a method in place to track compensated absences as this is required to be disclosed in the financial statements.

- As further detailed in Finding 2014-FS4, the Territory does not properly account for capital assets and perform timely adjustments to include new assets, depreciation, and perform valuations related to the fair values of capital assets owned by the Territory.

- The Territory does not analyze available data and properly estimate for long-term liabilities such as legal claims obligations, workers compensation claims, and landfill remediation obligations.

- An accrual is recorded by the Territory to estimate the amount of refunds payable related to individual income tax returns. The analysis supporting this estimated liability, as provided by management, does not adequately support the assumptions used and required additional analysis by the auditors to test the adequacy of the estimated tax refund liability at year end.

- As discussed in detail in Finding 2014-FS5, the Territory does not perform a robust analysis of taxes receivable to determine allowance recorded and there is no review performed in order to determine collectability of these balances.

- The Territory does not have a system in place to identify joint venture or third party interests. Management is unable to determine proper accounting treatment for their interest in American Samoa Hawaii Cable, LLC, a Delaware limited liability company (ASH Cable).

- As stated in Finding 2014–FS2, certain accounts, such as unearned revenue/deferred inflows are not being accounted for properly and there are no systems in place to monitor and evaluate significant transactions to ensure amounts are being reported in accordance with applicable GASB pronouncements.

Cause – There are no formal policies or procedures in place to analytically review each management estimate account, or to assess large, unusual transactions. There is not a Comptroller currently in place to oversee the Territory's accounting and financial reporting process.

Effect – The Territory's financial statements are not fairly presented on a monthly or interim basis. Estimated balances for certain GL accounts require numerous proposed adjustments by the auditors. We are unable to determine whether a joint venture interest should be recorded into the governmental activities within the financial statements of the Territory for their interest in ASH Cable.

Recommendation – We recommend that policies and procedures governing management estimate accounts and significant transactions be formally documented. There should be a robust analysis and detailed support for each calculation and transaction. This function should be performed by a senior accountant or appropriate departmental staff person with review and oversight by a qualified Comptroller. Certain accounts may lend themselves to quarterly or even monthly review.

Management Response – ASG acknowledges these problematic issues and is in the process of taking the necessary actions to address these recommendations. A policy and procedure governing management estimates shall be established and implemented for fiscal 2015. ASG Treasury continues to work collaboratively with the mandated entities to ensure proper inventory and accounting. Liabilities are proactively being met and negotiated to ensure timely payments, and contractual obligations are subjected to negotiations. ASG Treasury will ensure proper source documentation.

Finding 2014 – FS4 Capital Assets
Material Weakness in Internal Controls

Criteria – Capital Assets of the Territory represent a significant portion of the Governmental Activities of ASG.

Condition – While management has made efforts to update the fixed asset listing and include all fixed assets, and improvement over the prior year has been noted, differences still exist in internal records between capital assets reported in the Treasury's system and underlying capital asset ledgers. Accounting for capital asset activities and accounts is decentralized with departments such as Treasury and the ODAPM, and has led to large differences between amounts recorded in Treasury's system and records and the underlying capital asset ledgers. Subsequent to year end, working with Treasury staff, we developed audit adjustments totaling $4.1 million, which were recorded to accurately present the classification of capital assets used in governmental and business type activities. This included an adjustment of over $2.3 million to adjust the balance of depreciation expense in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds.

Cause – There is a lack of adherence to ASG policy regarding capital assets. We also noted a lack of effective communication between the various departments that work with capital assets. Self-constructed assets are not closed on a timely basis out of Construction Work-in-Process to the Capital Assets account.

Effect – Prior to audit adjustment, the general ledger and financial statements were not fairly presented with respect to capital asset and related accounts.

Recommendation – We recommend that the Territory continue to build on the improvements made in the current year to the capital assets system. The designated fixed asset accountants within Treasury oversee and monitor the capital asset accounts throughout the year. Duties should include spearheading the communication between Treasury and other ASG departments and functions; ensuring that the subsidiary records are reconciled to the general ledger; ensuring that completed assets that were previously included in the construction work in process account are closed into the accounting records on a timely basis and are assigned reasonable depreciable lives; reconciling capital asset activity to the Capital Improvement Project grant funds; and ensuring that capital asset policies are being followed across the Territory.

Management Response – ASG Treasury has recognized this finding and has taken aggressive steps to address the gaps in the management of our government wide fixed assets. Revised policy and depreciation schedules, coordinated efforts and actions were implemented in fiscal 2014 and will be further refined in 2015. A few remaining Administrative Procedures to amend and update regulations are being addressed and will be incorporated into the updated and revised policy of both Treasury and the Office of Property Management. Aggressive acquisition of proper coding software has been researched and will be launched in the future. ASG Treasury is cognizant of this vital component in the overall government finances and has committed to executing the recommendations.

Finding 2014-FS5 Taxes
Material Weakness in Internal Controls

Criteria – Assessment and collection of taxes represent a significant process of the Territory. Tax revenues, refunds and receivables each represent significant accounts in the financial statements of the Territory.

Condition – The Moana Tax System, used for income tax assessment and reporting, is a custom-developed application that was developed for the ASG by a software firm that is no longer in business. ASG has very limited documentation on the Tax System and is heavily dependent on external consultants for any enhancements, maintenance, or problem resolutions. ASG has hired a third-party to maintain annual tax code updates, but the application itself remains unpatched and unsupported. Further, the Tax System operates as a standalone system that does not interface with IFAS, the Territory's general ledger accounting system. To compound the limitations and risk of error by operating on an outdated tax system, we noted that there is little interface between the Tax Office and Treasury and weak oversight, monitoring and reconciliation of tax accounts. Tax assessments are not tracked and robust reporting and analyses are not performed to determine the propriety of tax revenues, receivables, or refunds. During the audit we observed the following:

- At December 31, 2014, the Territory has a $9.7 million receivable recorded for individual income tax assessments dating back to 2005. Of this amount, only $2.4 million is deemed collectible by management. The Territory historically has significant receivables and write-offs each year related to income tax assessments as the receivables pass the statute of limitations. In the current year, $1.2 million was written off and similar amounts are written off each year as the balances continue to become aged. We noted through our audit procedures that there is a significant lag between the date taxes are due and the date assessments are recorded as accounts receivable. Based on historical collections, the receivables are increasingly less likely to be collected as time extends past the assessment year. These unpaid balances continue to grow as fees and penalties are assessed, yet the collection rates remain very low and ultimately the amounts are written off. To compound the issue, we noted that there is a lack of monitoring and analysis of these receivable balances and collections.

- Taxes receivables are recorded into IFAS on a summarized basis and do not distinguish between corporate and individual taxes receivable in the general ledger and thus in the financial statements. Additionally, all revenue recorded as part of the fiscal year end tax receivable is recorded as individual income tax revenue. Collection ratios are not analyzed and a robust analysis of the collectability of the receivable is not performed to determine allowance for doubtful accounts.

- The Moana system has processing errors that result in inaccurate reports. For example, we noted that the system does not post all the entries correctly to update the sub-ledgers and as a result, many individual receivables are not updated properly when cash is received. To compound this system error, there is no formal procedure in place to review the postings to ensure all collections were properly posted – it is generally detected when an individual comes in with a receipt to verify payment status. As a result, there is a risk that taxes receivable is over stated, however, we were unable to quantify the actual unapplied receipts within the Moana system.

- Our testing revealed that in some instances the amounts reported for tax related accounts within the Moana system and IFAS system do not agree. There is a low level of interaction between the Tax Office and Treasury and reconciliations of amounts per the two systems are not performed regularly and timely. Multiple significant post-closing journal entries were provided to the auditors after final fieldwork was completed. However, portions of these journal entries were not supported by appropriate source documentation and were not recorded.

- Currently management does not prepare estimates to monitor the completeness of tax revenues or otherwise track reporting/collections based on an estimated population. Individual and corporate taxes are the largest source of local revenues for the Territory and should have more robust modeling.

- Management does not perform a strong analysis in order to estimate income tax refund liabilities at year end and our testing revealed that specific significant refund liabilities were not identified and recorded. An adjusting journal entry of $1.8 million was proposed by the auditors to record a refund liability that was not identified by management at year end.

Excise tax revenues are recorded directly into IFAS, rather than through the Moana system, however several issues were also identified regarding this tax revenue stream:

- A robust control structure is not in place to provide assurance over the completeness of revenues. During our test of controls, several items selected for testing could not be provided by the Customs Office to verify that the controls were operating as designed.

- Unsupported excise tax receivables of $1.2 million are recorded in the general ledger. This balance is due from related parties and component units, but was unable to be confirmed with component units.

- The various excise tax calculations defined by ASG Code are complex and the calculations are currently performed manually. These calculations can be cumbersome when multiple taxes and rates are applied to extensive shipping invoices, resulting in errors in the classifications of taxable imports and the application of the correct excise tax rates.

Cause – Customized applications bear an increased risk of lost or damaged data as well as processing errors. The Moana Tax System is a customized application that is unsupported and results in processing errors, for which the cause and thus solution, cannot be identified. This system is not integrated with IFAS and requires personnel to manually input the data from Moana into IFAS, which may result in error. The material weaknesses regarding monthly reconciliations and management oversight also contributed to the cause.

Effect – Reliable and timely reports are unable to be produced from the Moana system and time is spent by the Tax Office to identify and correct processing errors. The Territory is unable to perform a robust analysis of the tax accounts and properly record estimates for tax refunds and receivables. This may result in low collection ratios of tax revenues and impact the Territory's ability to accurately budget and build expectations on individual and corporate tax revenues. Budgets are significantly overstated compared to actual collections each year. Tax related accounts are not properly reconciled and amounts recorded on a timely basis, resulting in significant post close and audit proposed adjustments being posted.

We are unable to determine the fair presentation of tax revenues within the General Fund of the Territory's financial statements.

Recommendation – We recommend that the Territory evaluate the possibility of obtaining new tax accounting software that will integrate with IFAS and provide for more accurate reliable reporting. We further recommend that the Territory review and improve processes in order to timely record and collect income tax receivables as they are assessed and implement controls to monitor these large receivables. Strengthening controls regarding the assessment and monitoring of receivables may not only aid in improving collections, but will also enable the Territory to develop a policy for determining an allowance for doubtful accounts that adequately reflects account collections. The Territory should also improve controls and processes in place over tax revenues, including excise taxes, and refund payables. We further recommend that the calculation of excise taxes and journal entries be standardized and automated for efficiency purposes and to prevent errors.

Management Response – ASG concurs with the finding and will seriously take into consideration the recommendation as guidance to improve the tax system. The management team of the Treasury has recognized this as one of its major findings and has taken aggressive incremental steps to address this finding to achieve compliance and accountability. The option of replacing the Moana system and obtaining a new tax accounting software is under discussion. Finding an alternative solution by utilizing the accounts receivable module of the IFAS system to account for the taxes receivables and payables are also options being considered by management.

Finding 2014 – FS6 Budget Overrun
Material Weakness in Internal Controls, Non-Compliance

Criteria – The Budget for ASG is approved by the Fono and carries the weight of Territorial law.

Condition – There is no consistent formal budget accountability process in place across all ASG departments and functions. Also, because there is no accurate monthly general ledger or interim financial statements available to ASG departments, there is a lack of financial information available to the departments to enable them to accurately track and monitor available funds. For the past five years numerous ASG departments and functions significantly exceeded their budget appropriation. As stated in Note 10 to the financial statements, there were excess expenditures of $8.5 million over budget for the current year. We noted that for each of the fiscal years ended 2010 – 2013, the budget overruns were between $8.9 million and $13.7million.

Cause – There is no consistent formal budget accountability process in place across all ASG departments and functions. Also, because there is no accurate monthly general ledger or interim financial statements available to ASG departments as noted in the Findings above, there is a lack of financial information available to the departments to enable them to accurately track and monitor available funds.

Effect – Budget overruns impact the Territory's ability to effectively conduct operations in the current and future fiscal years and is not sustainable.

Recommendation – In addition to establishing a robust structure of internal controls around financial close and reporting as noted above, we recommend that ASG establish a strong system of internal controls over expenditures and budget accountability.

Management Response – ASG Treasury is cognizant of this vital requirement with Territorial Law. ASG prepared the appropriate legislation to address a balanced budget, however, the proposed bill was not fully passed and therefore not implemented into law. In prior years, monthly and bi-weekly reports including the transactions and labor distribution were generated and distributed to all financial officers of the departments. In line with technology and upgrades to the system, ASG Treasury has diligently worked with our government agencies and partners to ensure the launching of the Paperless Initiative is implemented across the spectrum so that all features including budget to actual analysis, transaction reporting and other financial data is accessed via the IFAS web portal or the centralized accounting system used by the Government. Department Officers can now access these vital financial data daily and reconcile with their respective analysts. A vital feature of the paperless system is that it will not allow the department to create a purchasing request without the appropriate funds in the required primes and categories. Treasury will continue the momentum moving forward to provide the tools and mechanisms for the departments and analysts to proactively manage and reconcile their accounts in a timely manner.

Finding 2014 – FS7 Pooled Cash
Material Weakness in Internal Controls

Criteria – The Territory utilizes a pooled cash account for internal cash in which each fund reports equity in the pool. Individual funds are permitted to overdraw their equity in the pool and amounts are shown as interfund receivables/payables. While pooled cash may be used occasionally as a line of credit, pooled cash should be used for temporary interfund movements of cash only. GASB 34 states that "if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan."

Condition – During our testing of pooled cash, we noted that the net balances are increasing each year indicating that pooled cash postings may represent quasi-permanent transfers, not temporary movements of cash. For example, the governmental funds net pooled cash liability balance increased from $3.0 million at September 30, 2013 to $5.8 million at September 30, 2014. The Internal Service Fund pooled cash asset balance increased from $4.2 million to $5.1 million during the same period. Other funds report similar trends in increasing pooled cash balances. We further noted that these pooled cash accounts were used during fiscal year 2014 to account for transfers of balances and corrections of errors among funds.

Cause – There is no consistent formal process in place to manage the pooled cash accounts. Accounts are not monitored and reconciled regularly.

Effect – The Territory's ability to assess and manage transfers and pooled cash across funds is hindered.

Recommendation – We recommend management implement controls and processes to reconcile and review the pooled cash balances on a regular basis, at a minimum annually.

Management Response – ASG Treasury concurs with the recommendations and will establish the required controls and processes to reconcile and review the pooled cash balances on a regular basis.

Finding 2014-FS8 – Preparation of the Schedule of Expenditures of Federal Awards
Material Weakness in Internal Controls

Criteria – ASG Management is responsible for the preparation of the Schedule of Expenditures of Federal Awards (SEFA). The SEFA is required to be prepared in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133.

Condition – Several errors were identified as a result of our review of the preliminary SEFA provided by ASG. Specifically, we noted the following:

- We noted no regular reconciliation is performed between expenditures reported in the general ledger and expenditures reported on the SEFA.

- ASG did not identify all relevant program clusters and appropriately report subtotals on the final SEFA presented.

- Pass through expenditures are not identified and separately accounted for in the general ledger.

- The preliminary SEFA provided by ASG incorrectly reported total expenditures for the 15.875, 20.205, 97.036 and 97.039 programs. As a result, total expenditures reported on the preliminary SEFA by ASG were understated by approximately $44.7 million.

- As part of allowable costs and activities testing performed in accordance with OMB Circular A-133, a population of total expenditures was requested for each major Federal Program being audited. Initial populations for the 97.036 program included expenditures that were reimbursed through local grant funding as well as amounts that were included as part of amounts charged to other awards.

- As part of the allowable cost and activities testing we identified certain fiscal year 2013 and 2015 expenditures related to the 10.551, 10.555, 10.557 and 84.027A programs that were improperly recorded on the fiscal year 2014 SEFA.

Cause – There is not a Comptroller currently in place to oversee the Territory's accounting and SEFA preparation process. The accounting policies, procedures, and controls to ensure the fair and accurate preparation of the SEFA, which includes the proper identification of clusters and a reconciliation of expenditures in the GL to expenditures reported on the SEFA, are not functioning as intended. There is no formal review of expenditure populations for programs that are included on the SEFA to ensure amounts have been recorded in the proper period and that all expenditures reported were funded through Federal awards. In addition, several of the issues noted above are largely the result of the decentralized accounting system that is currently in place and the inability of different departments throughout ASG to effectively communicate with one another.

Effect – The Territory's ability to accurately prepare the SEFA and to provide accurate expenditure populations for OMB Circular A-133 compliance testing is hindered.

Recommendation – We recommend that ASG centralize the controls and reporting functions surrounding the preparation of the SEFA and that additional training be provided to this centralized team to enhance the individuals' understanding of SEFA preparation requirements. We also recommend that ASG implement a review system of the final SEFA to verify that expenditure amounts are accurately reported. In addition, we recommend that ASG review expenditure populations for Federal programs to verify they 1) reconcile to the amount reported on the SEFA and 2) accurately report only Federal expenditures from the current reporting period.

Management Response – ASG concurs with the finding. ASG has implemented and completed quarterly closing as of March 31, 2015 to ensure timely reconciliations of all grant accounts expenditures in the GL as compared to the SEFA. We are currently aiming to complete the third quarter closing by July 15, 2015 and will continue to conduct closing on a quarterly basis so that by the fiscal year end the federal expenditures reflected in the general ledger and the SEFA will match. Quarterly meetings with the departments have been initiated to improve communications between the Treasury and ASG departments' financial teams. In addition to the implementation of quarterly closings and improved communication with the departments' financial teams, ASG has seriously considered the recruitment of a Comptroller to assist ASG with its findings

III. FEDERAL AWARDS FINDINGS

Finding 2014-001 – Cash Management
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Note: This finding is applicable to all ASG programs with Federal expenditures exceeding $1,401,845, the threshold established in the fully-executed Treasury State Agreement for the period October 1, 2013 – September 30, 2014. Major programs that meet this threshold are as follows:

Federal Agencies (Major programs) –
Department of Agriculture Food and Nutrition Service
Department of Education Office of Special Education and Rehabilitative Services
Department of Education Office of Elementary and Secondary Education
Department of the Interior Office of Insular Affairs
Department of Transportation Federal Highway Administration
Department of Health and Human Services Centers for Medicare and Medicaid Services
Department of Homeland Security

Federal Programs (Major Programs) –
CFDA 10.551 Supplemental Nutrition Assistance Program with ARRA
CFDA 10.555 National School Lunch Program
CFDA 10.557 Special Supplemental Nutrition Program for Women, Infants and Children
CFDA 20.205 Highway Planning and Construction
CFDA 84.027A Special Education Grants to States
CFDA 84.403A Consolidated Grant to the Outlying Areas
CFDA 15.875 Economic, Social and Political Development of the Territories
CFDA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA 93.778 Medical Assistance Program

Criteria – The fully-executed Treasury-State Agreement (TSA 2014) for the period October 1, 2013 – September 30, 2014 defines the terms for the transfer of financial assistance funds between the Federal Government and the Territory of American Samoa as prescribed under the Cash Management Improvement Act (CMIA) of 1990, as amended. Section 7 of the TSA 2014 states that ASG is required to recertify the clearance patterns stated in the agreement at least every five years. Section 8 of the TSA 2014 outlines the interest calculation methodology required to be computed annually and submitted as part of the annual report, to be submitted by December 31, 2014.

Condition – ASG failed to provide support that clearance patterns have been recertified within the last five years, as is required under section 7 of the Treasury-State agreement. In addition, an interest calculation in accordance with section 8 of the agreement was not performed for fiscal year 2014, and was therefore not submitted as part of the annual report. The interest calculation was not performed for any of the major programs identified above. Due to the pervasiveness of the issue, total questioned costs related to an interest amount that potentially should be accrued and remitted could not reasonably be estimated.

Cause – ASG did not have the processes and policies in place to ensure that the entity is in compliance with the requirements outlined in the Treasury-State agreement. There appears to be an overall lack of knowledge throughout the Territory regarding the compliance requirements outlined in the TSA 2014, which include the recertification of clearance patterns every five years and the annual interest calculation requirements.

Questioned Costs – Unknown. Due to the pervasiveness of the issue, total questioned costs related to the interest that should be accrued and remitted could not reasonably be estimated for the programs identified above.

Effect – ASG was not in compliance with the applicable cash management policies and methods. There may be an overstatement or understatement of Federal expenses related to each major program, depending on the amount of interest to be collected or paid as a result of the timing of drawdowns.

Recommendation – We recommend that ASG implement appropriate policies and processes that allow them to follow all cash management policies as documented in their grant agreements and in the compliance supplement. ASG Treasury should ensure that all cash draws are reviewed prior to drawdown to ensure draws are calculated accurately and in accordance with the established policies and procedures. In addition, we recommend that an individual with sufficient knowledge of the requirements contained within the CMIA agreement be designated as responsible for ensuring compliance with the Treasury-State agreement is maintained.

Management Response – ASG Treasury is cognizant of the compliance requirements outlined in TSA 2014, which include recertification of clearance patterns every five years and the annual interest calculation requirements. We have a designee responsible for compliance with the Treasury-State agreement and in moving forward, ASG Treasury recommits to following the Treasury-State Agreement.

Finding 2014-002 – Sub-recipient Monitoring
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Federal Agencies –
Department of Commerce National Oceanic and Atmospheric Administration
Department of Transportation Federal Highway Administration

Federal Programs –
CFDA 11.482 Coral Reef Conservation Program
CFDA 20.205 Highway Planning and Construction

Criteria – OMB Circular A-133, Section 400(d) and the Federal Funding Accountability and Transparency Act of 2006 (FFATA), states that a pass-through entity, in this case ASG, must perform the following for the Federal awards it makes to sub-recipients:

1. *Identify Federal awards made by informing each sub-recipient of CFDA title and number, award name and number, award year, and name of Federal agency.*

2. *Advise sub-recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.*

3. *Monitor the activities of sub-recipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*

4. *Ensure that sub-recipients expending $500,000 or more in Federal awards during the sub-recipient's fiscal year have met the audit requirements of Circular A-133 for that fiscal year.*

5. *Issue a management decision on audit findings within 6 months after receipt of the sub-recipient's audit report and ensure that the sub-recipient takes appropriate and timely corrective action.*

6. *Consider whether sub-recipient audits necessitate adjustment of the pass-through entity's own records.*

7. *Require each sub-recipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with Circular A-133.*

Condition – There are no centralized policies and procedures in place for ensuring that sub-recipients and sub-awardees are monitored for compliance under applicable federal program requirements in accordance with OMB Circular A-133. In addition, the Territory has not been properly reporting information about sub-recipients to the Office of Management and Budget that is required under the Federal Funding Accountability and Transparency Act of 2006.

Questioned Costs – Under the Coral Reef Conservation program, total disbursements to the sub-recipient were $63,712 or 12.2% of total expenditures during fiscal 2014. Within the Highway Planning and Construction program, total disbursements to the sub-recipient were $170,000 or 2% of total expenditures during fiscal 2014.

Cause – There are no centralized policies and procedures in place for ensuring that sub-recipients and sub-awardees are monitored for compliance under applicable federal program requirements in accordance with OMB Circular A-133. We noted that the American Samoa Department of Marine and Wildlife personnel were not aware of the sub-recipient compliance monitoring requirements.

Although the Civil Highways Division of the Department of Public Works within ASG does monitor the operational progress and milestones of these projects, ASG does not have an effective internal control system in place for overall monitoring of sub-recipients.

Effect – The sub-recipient may have expended federal funds passed through from ASG in a manner that is unallowable.

Recommendation – Policies and procedures should be developed to identify and differentiate between vendors and sub-recipients at the time the bid is awarded. This should be done in connection with the Procurement Office and Treasury. Once an arrangement has been deemed to be a sub-recipient relationship, the Territory should require monthly monitoring reports to be provided to them from the sub-recipient demonstrating that the use of the federal awards passed through are in compliance with the applicable federal regulations.

Management Response – ASG Treasury agrees and concurs with the recommendation. A staff member has been designated to work with the Procurement Office to develop policies and procedures in identifying and differentiating between vendors and sub-recipients at the time the bid is awarded. The designee is also responsible for oversight and management of the sub-recipients in coordination with grant program managers. ASG Treasury will ensure compliance through monthly reporting from sub-recipients.

Finding 2014-003 – Reporting ARRA 1512 Reports
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Federal Agency – Department of Agriculture Food and Nutrition Service

Federal Program – CFDA 10.551 Supplemental Nutrition Assistance Program with ARRA

Criteria – Section 1512 of the American Recovery and Reinvestment Act (ARRA) requires that the Territory report total funds received and expended for the project, and other information, by the 10th day following the end of each fiscal quarter for all ARRA funded grants. These reports are no longer required effective February 1, 2014.

Condition – During fiscal year 2014 there was $669,500 of ARRA expenses recorded for this program. ASG received these funds throughout the fiscal year, beginning in October 2013. As such, ASG should have filed ARRA 1512 report for the first quarter of their fiscal year. There was no ARRA 1512 report filed.

Cause – Insufficient training and awareness as to the required elements and support for completing this report may have contributed to this finding. In addition, there is no formal review process in place for this report established by the ASG Treasurer's Office.

Effect – The Territory is not in compliance with the federal requirement governing ARRA 1512 reports.

Questioned Costs – No questioned costs were noted.

Recommendation – The Territory should establish a control system to ensure that all unique reporting requirements are addressed.

Management Response – The Territory is aware of this material weakness. At the start of fiscal year 2015, the ASG Treasury Grants division began monthly training meetings with program managers to review and adjust, if necessary, policies and procedures regarding grant management. Follow-up phone calls and checklists are used to ensure policies, such as timely and accurate report submission, are adhered to.

Finding 2014-004 – Reporting
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Federal Agencies –
Department of Education Office of Elementary and Secondary Education
Department of the Interior Office of Insular Affairs
Department of Agriculture Food and Nutrition Service
Department of Commerce National Oceanic and Atmospheric Administration

Federal Programs –
CFDA 84.403A Consolidated Grants to the Outlying Areas
CFDA 15.875 Economic, Social and Political Development of the Territories
CFDA 10.555 National School Lunch Program
CFDA 11.482 Coral Reef Conservation Program

Criteria – The Territory is subject to the following reporting requirements for these federal awards:

- CFDA 84.403A – Annual Federal Financial Reports (Form 425) for each eligible grant are required to be filed within 90 days of fiscal year-end.

- CFDA 15.875 – Quarterly Revenue and Expense reports and semiannual SF-425 reports are required to be filed within thirty days of the end of the period. The Territory is also required to submit an annual Maintenance Set Aside report for O&M Set aside Funds.

- CFDA 10.555 – Quarterly Financial Status Reports (SF-269A) are required to be submitted within thirty days of the end of the period.

- CFDA 11.482 – To comply with the Federal Funding Accountability and Transparency Act (FFATA), non-federal entities must report each subaward that obligates $25,000 or more in Federal Funds no later than the end of the month following the month of obligation (Per 2 CFR 170, Appendix A).

Condition – The Territory is not in compliance with the federal requirement requiring timely submission of reports discussed above. Specifically these reports were submitted past the due date as noted:

- CFDA 84.403A – The annual Federal Financial Reports were submitted 9 days past the required submission date.

- CFDA 15.875 – The Revenue and Expense report for the third and fourth quarter were submitted 140 days and 48 days, respectively, past the required submission date and the Maintenance Set Aside report related to 2010 funds was not submitted until January of 2014. Maintenance Set Aside reports for fiscal years 2011 through 2014 have not yet been filed.

- CFDA 10.555 – The Territory is not in compliance with the federal requirement requiring timely submission and accuracy of reports. The fourth quarter SF-269A report was submitted 38 days past the required submission date.

- CFDA 11.482 – FFATA subreporting did not occur for the sub-recipient receiving a subaward from the American Samoa Department of Marine and Wildlife Resources through this program.

Cause – Insufficient training and oversight may have led to this finding. Regarding the FFATA subreporting, controls were not in place as ASG personnel were unaware of FFATA subreporting compliance requirements in relation to subawards with sub-recipients.

Questioned Costs – No questioned costs were noted.

Effect – The required reports were not submitted to the federal agency within the required timeframe and reported inaccurate financial data. FFATA subreporting did not occur for the sub-recipient receiving funds from the American Samoa Department of Marine and Wildlife Resources, which resulted in noncompliance with this compliance requirement.

Recommendation – The Territory should establish a control system to ensure all reports are prepared and submitted in accordance with the federal requirements. We also recommend that the Territory provide training to personnel responsible for FFATA subreporting.

Management Response – The Territory is aware of this material weakness. At the start of fiscal year 2015, the ASG Treasury Grants division began monthly training meetings with program managers to review and adjust, if necessary, policies and procedures regarding grant management. Follow-up phone calls and checklists are used to ensure policies, such as timely and accurate report submission, are adhered to.

Finding 2014-005 – Equipment and Real Property Management
Material Weakness in Internal Controls over Compliance, Material Non-Compliance

Federal Agencies –
Department of Agriculture Food and Nutrition Service
Department of Education Office of Elementary and Secondary Education

Federal Programs –
CFDA 10.555 – National School Lunch Program – Direct and Material – 2014 Purchases of $2,720,074
CFDA 84.403A – Consolidated Grant to the Outlying Areas – Direct and Material – 2014 Purchases of $3,100,000

Criteria – The A-102 Common Rule requires that equipment records be maintained, a physical inventory of equipment be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment should be adequately maintained. When equipment with a current per unit fair market value of $5,000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

Condition – Equipment records maintained are incomplete and inaccurate. This finding applies to ASG on an entity wide basis, however the equipment purchases made in fiscal 2014 were direct and material for only two of the major programs as noted above. We identified $520,723 in equipment purchases excluded from property and equipment records maintained by the National School Lunch Program. For the Special Education Grants to States, we noted that property management is significantly delayed in tracking and monitoring equipment and the program does not have formal controls in place to monitor federally funded equipment purchases.

Cause – Property management personnel have not been able to complete their reconciliation of assets sighted compared to their master listing on a timely basis and do not update records accurately. Insufficient training and understanding of the federal requirements may have contributed to this finding.

Effect – Capital assets purchased using federal funds may have been misappropriated, destroyed, or transferred to other programs, which would be unallowable unless proper consideration is paid for the asset.

Questioned Costs – Unknown; however no specific questioned costs were noted as a result of our testing.

Recommendation – We recommend that the property management system link to the IFAS be reconnected to avoid the need to manually prepare the asset listing, as this would also reduce errors and the amount of time spent on quarterly reconciliations between property management's records and Treasury's records. The account number/federal funding source should also be added as a field on the master inventory listing maintained by property management to avoid the need for additional schedules and reconciliations between the two reports. Additionally, we recommend that the reconciliation process between the site visits and the master inventory listing be completed timely.

Management Response – The Territory agrees with this recommendation. Currently, OPM's master inventory listing includes the account number/federal funding source field. ASG Treasury has reconnected OPM to IFAS. Treasury and OPM will coordinate training for OPM staff to use the Fixed Assets/Inventory module.

Finding 2014-006 – Procurement, Suspension and Debarment
Significant Deficiency in Internal Controls over Compliance

Federal Agency – Department of Commerce National Oceanic and Atmospheric Administration

Federal Program – 11.482 Coral Reef Conservation Program

Criteria – In accordance with 2 CFR part 180, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods that are expected to equal or excel $25,000 or that meet certain other specified criteria. Federal procurement regulations required grantees to verify that vendors with contracts over $25,000 are not suspended or debarred. This verification may be accomplished through checking the System for Award Management (SAM) website (www.sam.gov) maintained by the General Services Administration, collecting a certification from the entity, or adding a clause to the contractual agreement specifying that the contractor warrants that they are not a suspended or debarred entity.

Condition – During our testing of this compliance requirement we noted there was no evidence that the Territory performed verification procedures to determine a subrecipient was not suspended or debarred.

Questioned Costs – None.

Cause – The American Samoa Department of Marine and Wildlife did not have controls in place to verify suspension and debarment when a covered transaction is issued a PO number rather than a contract number.

Effect – No suspension/debarment check was performed by grantee personnel; however a query to the SAM website made during the audit indicated that the subrecipient was not suspended or debarred.

Recommendation – We recommend the American Samoa Department of Marine and Wildlife develop and implement, policies and procedures to ensure suspension/debarment verification is performed for contracts that are issued a PO number.

Management Response – The Department of Marine and Wildlife acknowledges this finding and will develop and implement policies and procedures to ensure compliance with federal procurement regulations.

Finding 2014-007 – Allowable Costs and Activities
Significant Deficiency in Internal Controls over Compliance, Non-Compliance

Federal Agency – Department of Health and Human Services Centers for Medicare and Medicaid Services

Federal Programs –
CFDA 93.778 – Medical Assistance Program

Criteria – OMB Circular A-87 establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments. Under the guidance, costs must be determined to be reasonable and allocable to the award and are to be reimbursed once expenditures have occurred.

Condition – Cost reimbursement was requested in excess of actual costs incurred due to errors identified in the presumptive eligibility percentage used to calculate the reimbursement for the months of October, November and December 2013.

Cause **–** At the time of the excess draws, there was not a process in place to reconcile reimbursement requests to actual costs incurred.

Effect – The calculation error resulted in an overstatement of Federal expenses of $46,200. As a result, cost reimbursements were requested in excess of actual costs incurred of $46,200.

Questioned Costs **–** $46,200

Recommendation – ASG should implement a process to reconcile actual costs incurred and reported on the Quarterly CMS-64 reports to actual amounts billed during the period.

Management Response – ASG will create a reconciliation worksheet soon after the CMS64 report has been certified whereby the monthly costs reimbursement will be adjusted using the correct presumptive eligibility percentages approved by CMS. A general ledger adjustment will be performed, once reconciliation is done, and where necessary to ensure that the expenditures filed on the CMS-64 does match the expenditures reported on the general ledger.

Finding 2014-008 – Reporting
Significant Deficiency in Internal Controls over Compliance, Non-Compliance

Federal Agency – Department of Health and Human Services Centers for Medicare and Medicaid Services

Federal Programs –
CFDA 93.778 – Medical Assistance Program

Criteria – The Territory is required to file quarterly CMS-64 Medicaid-Expenditure reports. The expenditures presented in the report should match or reconcile to the general ledger or other supporting documentation.

Condition – During our testing of this compliance requirement we noted that total expenditures reported on the CMS-64 report, filed for the first quarter of fiscal year 2014, did not match to expenditures reported in the general ledger.

Cause – Expenditures reported in the general ledger for the period 10/1/2013 – 12/31/2013 were calculated using the prior year presumptive eligibility (PE) percentage. The quarterly CMS-64 report was calculated using the correct PE percentage, which resulted in a difference between expenditures per the general ledger and expenditures reported on the quarterly report.

Effect – Total expenditures reported on the quarterly CMS-64 report, although accurate, do not match or reconcile back to the Territory's general ledger.

Questioned Costs – None

Recommendation – We recommend that ASG perform a reconciliation, at least quarterly, between expenditures reported in the general ledger and expenditures reported on the quarterly CMS-64 reports.

Management Response – ASG will create a reconciliation worksheet soon after the CMS64 report has been certified whereby the monthly costs reimbursement will be adjusted using the correct presumptive eligibility percentages approved by CMS. A general ledger adjustment will be performed, once reconciliation is done, and where necessary to ensure that the expenditures filed on the CMS-64 does match the expenditures reported on the general ledger.

PRIOR AUDIT FINDINGS RELATED TO FINANCIAL STATEMENTS

Finding 2013 – FS1 – Decentralized Accounting and Finance Functions
Material Weakness in Internal Controls, Noncompliance

Condition – A portion of ASG's accounting and financial functions continue to be decentralized. For example, portions of the Territory's general ledger (GL) are maintained outside of Treasury by the Territorial Office of Fiscal Reform (TOFR). In addition, the Shipyard Services Authority (Shipyard) maintains a separate GL in its own accounting system. As a result, the Territory's monthly GL is incomplete throughout the year, and the annual GL is cumbersome and difficult to compile and close at year end. We believe that the decentralized functions and the lack of overall monitoring controls in place at Treasury over all of the Territory's accounting transactions contributed to this material weakness.

Below are observations noted during our fiscal 2013 audit:

- The trial balances maintained by TOFR were not closed on a timely basis and contained many inaccuracies and errors:
    - Certain grant awards recognized as revenues in 2012 were received in 2013; this amount was then credited again to revenue in fiscal 2013. A correcting entry for $6 million was proposed by the auditors.
    - Transfers between the airport and Port Administration for $1.1 million were erroneously recorded as revenue; this amount was also corrected as the result of an audit proposed adjustment.
    - Capital asset accounts were not maintained accurately; reclassification and adjustment entries of over $7 million were proposed by the auditors.
    - Cash transfers between funds were not properly recorded; reclassification and correcting entries of $895,000 and $170,000 were proposed by the auditors.
- Certain trial balances received from TOFR and the Shipyard contained entries that were either erroneously posted to prior periods or directly to net position accounts, preventing the equity accounts from rolling forward properly. These general ledgers are maintained in QuickBooks, outside of the Territory's GL system and internal control structure. Numerous audit adjustments were necessary to correct these balances.
- Accounts and journal entries maintained at TOFR and the Shipyard are not collected and compiled into one Territory-wide GL on a regular, timely basis throughout the year. As a result, the accounts and journal entries are not reviewed by Treasury officials for reasonableness and completeness.

- TOFR maintains a separate bank account holding $3.4 million related to the State Small Business Credit Initiative (SSBCI). This cash and the related accounts had not previously been included in the Territory's financial statements, requiring adjustment by the auditors. As a result of the lack of proper oversight of the SSBCI program, the Territory received a letter in 2013 from the U.S. Treasury informing the Territory that a general event of default had occurred under the Allocation Agreement for the federal money funding the SSBCI program due to the Territory's failure to submit quarterly reports. As such, this represents a finding of noncompliance.

- The Territory has a decentralized system for maintaining and tracking the expenditures of federal awards. The Schedule of Federal Awards (SEFA) is prepared on an annual basis and though Treasury updates their grant summary monthly throughout the year, there is no entity wide SEFA that is updated or maintained throughout the year. As such, there is no complete summary of expenditures on a grant by grant basis for departments and programs to use as a resource. The preparation of the annual SEFA is cumbersome due to this decentralized approach. In addition, because of the decentralized approach, the monthly SEFA maintained by Treasury is incomplete.

Status at September 30, 2014 – This finding is substantially repeated in the current year as Finding 2014-FS1.

Finding 2013 – FS2, 2012-FS1 and 2011-FS1 – General Ledger Reconciliation/Financial Close and Reporting Process
Material Weakness in Internal Controls

Condition – The Territory does not have an adequate control system in place to ensure the general ledger accurately reflects the account balances of the Territory on a monthly, quarterly or annual basis. Below are observations noted during our 2013 audit:

- The Territory's general ledger is not reconciled to subsidiary ledgers or source documents on a monthly basis, nor is it closed or summarized in such a manner to accurately portray the accounts and activities of ASG on a monthly basis. At year end, the general ledger is not closed on a timely basis.

- The Territory's control system did not include measures to ensure that preparation of the Territory's financial statements and footnotes was performed in accordance with Generally Accepted Accounting Principles (GAAP).

- The Territory does not have processes or procedures in place to analyze and implement new accounting principles as promulgated by the Government Accounting Standards Board (GASB). For example, GASB Statement No. 54, '*Fund Balance Reporting and Governmental Fund Definitions'* was not adequately addressed by Treasury staff in 2012 or 2013.

- There is no system in place to verify that the receivables recorded on the general ledger are collectible and there is no periodic valuation of allowances to determine which receivables should be written off. Based upon our review of the detail of receivables, there were many receivable amounts that the Territory deems to be uncollectible but they have not yet been written off in the general ledger.

- The Territory does not have processes or procedures in place to ensure borrowings among funds and component units are recorded consistently among Funds/Components; as a result, the due to/due from accounts did not net to zero and required audit adjustment.

- Similar findings have been noted in previous years and remain unaddressed.

Status at September 30, 2014 – This finding is substantially repeated in the current year as Finding 2014-FS2.

Finding 2013-FS3, 2012-FS2 and 2011-FS2 – Management Estimates and Significant Transactions Material Weakness in Internal Controls

Condition – The Territory's operations are complex and there are many accounts within each fund that require management estimation and judgment. We believe there should be more structure and rigor governing these estimates. There were multiple audit adjustments recorded within each fund to correct errors made in these types of accounts. Similar findings have been noted in previous years and remain uncorrected. We noted the following significant accounts within the General Fund:

- The Territory does not track and adjust for compensated absences, a liability with current and long-term estimated liabilities on the Statement of Net Position. Management should have a method in place to track compensated absences as this is required to be disclosed in the financial statements. An audit adjustment was recorded for $13.3 million, resulting in an impact on beginning net position of $14.9 million and on expenses of $1.6 million.

- The Territory collects a two percent wage tax for the benefit of LBJ Hospital that was not properly accounted for since inception. An audit adjustment of $4 million was recorded to correct this accrual.

- As stated in Finding 2013-FS4, the Territory does not properly account for capital assets and perform timely adjustments to include new assets, depreciation, and perform valuations related to the fair values of capital assets owned by the Territory.

- The Territory does not analyze available data and properly estimate for long-term liabilities such as legal claims obligations, workers compensation claims, and landfill remediation obligations.

- An accrual is recorded by the Territory to estimate the amount of refunds payable related to individual income tax returns. The analysis supporting this estimated liability, as provided by management, does not adequately support the assumptions used and required additional analysis by the auditors to test the adequacy of the estimated tax refund liability at year end.

Status at September 30, 2014 – This finding is substantially repeated in the current year as Finding 2014-FS3.

Finding 2013-FS4, 2013-FS3 and 2011-FS3 Capital Assets
Material Weakness in Internal Controls

Condition **–** Accounting for capital asset activities and accounts is decentralized with departments such as Treasury and the Territorial Office of Financial Reform and Public Works, and has led to large differences between amounts recorded in Treasury's system and records and the underlying capital asset ledgers. Subsequent to year end, working with Treasury staff, we developed audit adjustments totaling $7.7 million, which were recorded to accurately present the classification of capital assets used in governmental and business type activities. This included an adjustment of over $1.3 million to adjust the balance of depreciation expense in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Governmental Funds. There is a lack of adherence to ASG policy regarding capital assets. We also noted a lack of effective communication between the various departments that work with capital assets. In addition, self-constructed assets are not closed on a timely basis out of Construction Work-in-Process to the Capital Assets account.

Status at September 30, 2014 – This finding is substantially repeated in the current year as Finding 2014-FS4.

Finding 2013 – FS5 Taxes
Material Weakness in Internal Controls, Noncompliance

Condition – Tax assessments are not tracked and robust reporting and analyses are not performed to determine the propriety of tax revenues, receivables, or refunds. During the audit we observed the following significant issues:

- **Income Tax Assessments:** At December 31, 2013, the Territory has an $8.7 million receivable recorded for individual income tax assessments dating back to 2004. Of this $8.7 million, only $2.7 million is deemed collectible by management. The Territory historically has significant receivables and write-offs each year related to individual income tax assessments. We noted through our audit procedures that there is a significant lag between the date taxes are due and the date assessments are recorded as accounts receivable. Based on historical collections, the receivables are increasingly less likely to be collected as time extends past the assessment year. These unpaid balances continue to grow as fees and penalties are assessed, yet the collection rates remain very low and ultimately the amounts are written off. To compound the issue, we noted that there is a lack of monitoring and analysis of these receivable balances and collections.

- **Two Percent Wage Tax:** During fiscal 2012, the American Samoa Medical Center Authority (LBJ) borrowed $3 million from ASG. Additionally during fiscal 2012, a law was passed approving a two percent individual wage tax that would be collected by ASG on behalf of LBJ; proceeds would first be used to repay the $3 million loan to the Workers Compensation Fund; subsequent receipts would then be transferred to LBJ.

Based on our analysis of the two percent wage tax liability, we noted that the Workers Compensation loan was fully repaid but tax collections in excess of the loan balance have not been forwarded to LBJ Hospital on a timely basis. The wage tax collected from the private sector was also not monitored and recorded properly as a liability. As a result, an audit adjustment of $4 million was posted in order to properly accrue for the two percent wage tax due to LBJ. Further, we noted that the Territory did not consider or estimate the portion of the two percent wage tax that had been assessed but uncollected as of September 30, 2013 as a receivable.

Status at September 30, 2014 – Components of this finding are substantially repeated in the current year as Finding 2014-FS5. The two percent wage tax portion of this finding was not repeated and is considered to be resolved.

Finding 2013-FS6, 2012-FS4 and 2011-FS4 – Budget Overrun
Significant Deficiency in Internal Controls, Noncompliance

Condition **–** There is no consistent formal budget accountability process in place across all ASG departments and functions. Also, because there is no accurate monthly general ledger or interim financial statements available to ASG departments, there is a lack of financial information available to the departments to enable them to accurately track and monitor available funds. As noted in Note 10 to the annual financial statements, numerous ASG departments and functions exceeded their budget appropriation. We noted excess expenditures of $10.4 million over budget.

Status at September 30, 2014 – This finding is substantially repeated in the current year as Finding 2014-FS6. As the budget overruns have continued to increase in the current year, this finding has been escalated to a material weakness in internal controls and non-compliance as it relates to fiscal year 2014.

Finding 2013 – FS7 Pooled Cash
Significant Deficiency in Internal Controls

Condition **–** During our testing of pooled cash, we noted that the balances are increasing each year indicating that these may represent quasi-permanent transfers, not temporary movements of cash.

Status at September 30, 2014 – This finding is substantially repeated in the current year as Finding 2014-FS7. As the balance of pooled cash has continued to increase in the current year, and numerous material errors were noted within these accounts, this finding has been escalated to a material weakness in internal controls and non-compliance as it relates to fiscal year 2014.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Finding 2013-001 – Cash Management
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Note: This finding is applicable entity wide for all ASG programs.

Federal Agencies (Major programs) –
Department of Agriculture
Department of Transportation
Department of Education
Department of the Interior
Department of Homeland Security
Department of Health and Human Services: Centers for Medicare and Medicaid Services
Department of Energy

Federal Programs (Major Programs) –
CFDA 10.551 Supplemental Nutrition Assistance Program
CFDA 10.555 National School Lunch Program
CFDA 10.557 Special Supplemental Nutrition Program for Women, Infants and Children
CFDA 20.205 Highway Planning and Construction
CFDA 84.027/84.027A Special Education Grants to States
CFDA 84.403A Consolidated Grants to the Outlying Areas
CFDA 15.875 Economic, Social and Political Development of the Territories
CFDA 97.036 Disaster Grants – Public Assistance (Presidentially Declared Disasters)
CFDA 97.067 Homeland Security Grant Program
CFDA 93.778 Medical Assistance Program
CFDA 81.128 Energy Efficiency and Conservation Block Grant Program (EECBG) – ARRA

Condition – In 2013, management failed to submit their CMIA agreement within the required time period. The CMIA agreement was submitted and approved in January 2014 which was 10 months after the required submission deadline and 4 months after fiscal year end. As a result, interest calculations for programs that receive funds on the advance or installment method (CFDA no.'s 10.551, 10.557 and 15.875) were not performed. The CMIA agreement is required and applicable to all ASG programs, however, the interest calculation component is only required to be calculated for those programs that draw on a method other than the reimbursement method.

Status at September 30, 2014 **–** This finding is substantially repeated in the current year as Finding 2014 – 001.

Finding 2013-002 – Cash Management
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Federal Agency – Department of Agriculture

Federal Program – CFDA 10.557 Special Supplemental Nutrition Program for Women, Infants and Children

Condition – During our testing of cash management we noted multiple instances in which ASG was requesting funds on the advance method. ASG did not receive approval from the U.S. Department of Agriculture to receive funds on the advance method.

Status at September 30, 2014 **–** This finding was not repeated in the current year and is considered to be resolved.

Finding 2013-003 – Davis-Bacon Act
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Federal Agency – Department of Energy

Federal Program –
CFDA 81.128 Energy Efficiency and Conservation Block Grant Program (EECBG) – ARRA

Condition – We reviewed five contracts in which the Davis Bacon Act was applicable. We noted that in one of the five contracts, weekly payroll certifications, which serve as evidence of monitoring of the Davis Bacon Act prevailing wage requirements, were not maintained. This exception relates to a supply and installation contract paid for using Recovery Act funds. The labor associated with both of these contracts should have been at the prevailing wage rates. There were $2,898,510 of expenses related to this contract in fiscal year 2013.

Status at September 30, 2014 **–** This program was not selected as a major program in 2014 as the dollar amount of expenses incurred during fiscal year 2014 were less than the major program threshold. As such, no similar findings were noted in the current year.

Finding 2013-004 and 2012-12 – Sub-recipient Monitoring
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Federal Agency – Department of Transportation

Federal Program – 20.205 Highway Planning and Construction

Condition – There are no centralized policies and procedures in place for ensuring that sub-recipients and sub-awardees are monitored for compliance under applicable federal program requirements in accordance with OMB Circular A-133. In addition, the Territory has not been properly reporting information about sub-recipients to the Office of Management and Budget that is required under the Federal Funding Accountability and Transparency Act of 2006.

Status at September 30, 2014 – This finding was substantially repeated in the current year as Finding 2014 – 002.

Finding 2013-005 and 2012-08 – Reporting ARRA 1512 Reports
Material Weakness in Internal Controls over Compliance, Material Noncompliance

Federal Agency – Department of Agriculture

Federal Program – CFDA 10.551 Supplemental Nutrition Assistance Program with ARRA

Condition – During fiscal year 2013 there was $512,000 of ARRA expenses recorded for this program. There were no ARRA 1512 reports filed for any of the four quarters in the fiscal year.

Status at September 30, 2014 – This finding was substantially repeated in the current year as Finding 2014 – 003.

Finding 2013-006 – Reporting
Significant Deficiency in Internal Controls over Compliance, Noncompliance

Federal Agencies – Department of Education

Federal Programs –
CFDA 84.027/84.027A Special Education Grants to States
CFDA 84.403A Consolidated Grants to the Outlying Areas

Condition – We noted that the Territory had filed a PCAP and CAP report for the period ended September 30, 2013 on a timely basis, however, as directed by the U. S. Department of Education, "the format and the presentation of the report, including attachments and supporting documents, needed to be improved."

Status at September 30, 2014 – This finding was not repeated in the current year and is considered to be resolved.

Finding 2013-007 – Reporting
Significant Deficiency in Internal Controls over Compliance, Noncompliance

Federal Agency – Department of the Interior

Federal Program – CFDA 15.875 Economic, Social and Political Development of the Territories

Condition – The Territory is not in compliance with the federal requirement requiring timely submission of reports. The Revenue and Expense reports for the third quarter were submitted 236 days past the required submission date, the SF-425 report selected for testing was submitted 26 days past the required submission date and was not received by the federal agency until 92 days after the due date, and the Maintenance Set Aside report related to 2009 funds was not submitted until March of 2013. Maintenance Set Aside reports for fiscal years 2010 through 2013 have not yet been filed.

Status at September 30, 2014: This finding was substantially repeated in the current year as Finding 2014-004. Due to the pervasiveness of the issue in the current year, this finding has been elevated to a material weakness in internal controls over compliance and material non-compliance as it relates to fiscal year 2014.

Finding 2013-008 and 2012-12 – Procurement, Suspension, and Debarment
Significant Deficiency in Internal Controls over Compliance, Noncompliance

Federal Agencies – Department of Education, Department of the Interior and Department of Transportation

Federal Programs –
CFDA 84.027/84.027A Special Education Grants to States
CFDA 15.875 Economic, Social and Political Development of the Territories
CFDA 20.205 Highway Planning and Construction

Condition – For three of the large contracts with current year expenses exceeding $25,000, no evidence could be produced to indicate that bids were obtained or a sole source memo was prepared for the contract reviewed. Circular OMB A-110 states, "Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum: (a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price." Additionally, the Territory's procurement policy states that they shall attempt to obtain quotations from a minimum of three qualified sources and document the procurement file with a justification whenever it has been unable to obtain at least three quotations. In a sole source situation a memo should be completed justifying the reason for sole sourcing the contract. No evidence could be produced to indicate that bids were obtained or a sole source memo was prepared for the contract reviewed.

Status at September 30, 2014 – This finding was not repeated in the current year and is considered to be resolved.

Finding 2013-009 – Equipment and Real Property Management
Significant Deficiency in Internal Controls over Compliance, Noncompliance

Federal Agency – Department of Education

Federal Programs –
CFDA 84.403A – Consolidated Grants to the Outlying Areas
CFDA 84.027/84.027A Special Education Grants to States

Condition – There is formal documentation of policies and procedures for equipment management and a master listing of all equipment is maintained in the property records module. In addition to the master listing of all historical purchases, a separate schedule of capital additions is prepared outside of the property records module by property management and reviewed and reconciled by Treasury to the general ledger detail quarterly. Finally, we noted that staggered site visits are conducted throughout the Territory to reconcile property records to amounts recorded. There are several layers of review and oversight related to property records; however, ultimately the physical inventory reconciliation process is incomplete.

We selected a sample of equipment from the master property listing from each of the major programs where equipment was direct and material to test that equipment has been properly tagged and tracked. We were unable to reconcile several of our selected transactions in the equipment listing on the physical inventory sheets. Based on our tests performed, we have determined that there is a lack of controls over the equipment management process.

Status at September 30, 2014 –
- CFDA 84.403A – This finding was substantially repeated in the current year as Finding 2014 – 005.
- CFDA 84.027/84.027A – Compliance requirement was not determined to be direct and material to the program during the current year. However, this finding remains open and unresolved.

Finding 2013-010 – Matching, Level of Effort, Earmarking
Significant Deficiency in Internal Controls over Compliance, Noncompliance

Federal Agency – Department of Homeland Security

Federal Program – CFDA 97.067 Homeland Security Grant Program

Condition – Based upon our review of the grant agreements we noted an earmarking rate of 5% was used for budgeting purposes in comparison to 3% required by the Compliance Supplement. The grant was awarded in FY2009 and ended in FY 2013. Use of the incorrect earmarking rate resulted in earmarking of expenditures exceeding the requirement. Consequently, ASG was not in compliance with the applicable earmarking provisions.

Status at September 30, 2014 – This program was not selected as a major program in 2014 as the dollar amount of expenses incurred during fiscal year 2014 were less than the major program threshold. As such, no similar findings were noted in the current year.

Finding 2012-01 – Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Material Weakness in Internal Controls over Compliance, Non-Compliance

Federal Agency – Department of Labor

Federal Program – 17.258/259/260 Workforce Investment Act (WIA) and National Emergency Grant (NEG) Cluster

Condition – We obtained the sub-recipient's financial statements and monthly reports. We noted the following charges to the grant are unallowable:

$2,252 Meeting Expenses – Expenses are for food not provided to the participants and are therefore ineligible.

$1,673,264 Medical Mobile Telepresence – The purpose of the grant is to provide needed training and skills to make participants employable and to find appropriate placement for on the job training or temporary placement leading to full time employment. These training costs are beyond the necessary and reasonable criterion. Given the skill level of the participants, the Telepresence training is not allocable to the grant and does not meet the purpose of the grant as most individuals do not have the background skill/level to justify the cost. Telepresence costs were nearly $250,000 a month and the primary beneficiary of these costs would be skilled medical professionals, not unemployed workers with no medical background or experience. In addition, the Territory does not have a system currently in place that supports employment for medical mobile telepresence.

$52,736 Transportation Costs – Supportive services like transportation stipends are allowable costs. These costs are to provide transportation for participants to training and skill development. The costs noted in the sub-recipient's detailed profit and loss schedule are not for supportive services.

$140,000 Training – Training was performed by a vendor not allocable to the grant given the low skill level of the participants and given that there is currently no industry on island to place participants trained in bio-energy.

$6,943 Auto Expense – Since no vehicles were purchased with federal funds, auto expenses are ineligible.

$105,115 Outside Service – Costs are not allocable to the grant as they do not relate to supportive services, training expenses, on the job training expenses or administrative expenses.

$513,855 Professional Fees – Costs are not allocable to the grant. Although the description outlines that the fees are for administration, we noted that the company providing the services is a logistics coordinator for the shipping industry. We also noted fees for the medical mobile telepresence, which we have determined above to be unallowable costs for this program.

$44,486 Travel – Costs are not allocable to the grant as they do not relate to supportive services, training expenses or administrative expenses.

Status at September 30, 2014 – This program was not selected as a major program in 2014 as it was terminated by the Territory during fiscal year 2013 and the dollar amount of expenses incurred in fiscal year 2014 were less than the major program threshold. However, this finding remains open and unresolved.

Finding 2012-02 – Sub-recipient Monitoring
Material Weakness in Internal Controls over Compliance, Non-Compliance

Federal Agency – Department of Labor

Federal Program – 17.258/259/260 Workforce Investment Act (WIA) and National Emergency Grant (NEG) Cluster

Condition – There is one sub-recipient that is external to ASG under the grant program. During our testing for sub-recipient monitoring, we reviewed the contract, memorandum of understanding and scope of work for the communication of the required award information and applicable compliance requirements. We noted that there was no formal communication of the required information at the time of the subaward. We also noted that the sub-recipient is unaware of the annual audit requirements for entities expending more than $500,000 in federal awards. In addition, the Territory has not been properly reporting information about sub-recipients to the Office of Management and Budget that is required under the Federal Funding Accountability and Transparency Act of 2006.

Status at September 30, 2014 – This program was not selected as a major program in 2014 as it was terminated by the Territory during fiscal year 2013 and the dollar amount of expenses incurred in fiscal year 2014 were less than the major program threshold. However, this finding remains open and unresolved.

Finding 2012-03 – Eligibility
Significant Deficiency in Internal Controls over Compliance

Federal Agency – Department of Labor

Federal Program – CFDA 17.258/17.259/17.260 Workforce Investment Act (WIA) and National Emergency Grant (NEG) Cluster

Condition – Participant unemployment status was not verified against any external documents or records. During intake the participants filled out an application asserting they met the long-term unemployment requirement. The grant terms and conditions allow verification of employment status to occur during or subsequent to the intake process. We tested a sample of 25 participants, noting that unemployment status was not verified against tax records or other similar external records.

Status at September 30, 2014 – This program was not selected as a major program in 2014 as it was terminated by the Territory during fiscal year 2013 and the dollar amount of expenses incurred in fiscal year 2014 were less than the major program threshold. However, this finding remains open and unresolved.

Finding 2012-05 – Reporting
Material Weakness in Internal Controls over Compliance, Non-Compliance

Federal Agencies – Department of Education, and Department of Health and Human Services: Administration for Children and Families

Federal Programs –

CFDA 84.027, 84.027A Special Education Grants to States
CFDA 84.394A and 84.397A State Fiscal Stabilization Fund – ARRA Cluster
CFDA 84.402A Consolidated Grants to the Outlying Areas, Recovery Act
CFDA 84.403A Consolidated Grants to the Outlying Areas
CFDA 84.410A Education Jobs Fund
CFDA 93.575 Child Care Development Block Grant

Condition:

- CFDA 84.403A – Consolidated Grants to the Outlying Areas; CFDA 84.402A Consolidated Grants to the Outlying Areas, Recovery Act; 84.410A Education Jobs Fund; 84.027/027A Special Education Grants to States; 84.394A and 84.397A State Fiscal Stabilization Fund ARRA Cluster.

- Criteria – The U.S. Department of Education has deemed ASG to be a "high risk" grantee. As a condition to receiving funds under grants awarded by the U.S. Department of Education ASG is required to submit, semiannually, a Comprehensive High Risk Corrective Action Plan (CAP) and Payroll Corrective Action Plan (PCAP) within thirty days of the end of the semiannual period.

- Condition – During our review we noted that the Territory has not yet filed a complete PCAP and CAP report for the period ended September 30, 2012, that has been accepted by the U.S. Department of Education. An incomplete electronic version of the PCAP Internal Control Maintenance Report and High Risk CAP Spreadsheet was received but these were not accepted by the DOEd as satisfying the requirement. Additionally, a hard copy of the PCAP Internal Control Maintenance Report, a hard copy of the High Risk CAP Narrative report, an electronic copy of the complete High Risk CAP Narrative report, and a hard copy of the High Risk CAP Spreadsheet have not been received by the DOEd at all, and each of these documents are specified as requirements in the grant documents.

- Cause – Software issues and insufficient training or oversight may have contributed to this finding. The version of IFAS that is run at the ASG Department of Education is not compatible with the version of IFAS run at ASG Treasury. The mismatched versions of the software package do not allow the ASG DOEd to interface with Treasury to pull required reports. Additionally, the longitudinal data system ("LDS"), which is used to record non-financial student and teacher data, was not installed until 2012 and is not yet fully updated and able to produce the necessary reports to satisfy the requirements of the PCAP and CAP.
- Questioned costs – No questioned costs were noted.

- CFDA 93.575 – Child Care and Development Block Grant

  - Criteria – The Child Care Development Fund Grant requires that ACF 801 reports be filed monthly and ACF 800 reports be filed annually. The quarterly ACF 696 reports are required to be submitted within 30 days of the end of the period.

  - Condition – We noted that none of the monthly ACF 801 or the annual ACFR 800 reports had been submitted. The quarterly ACF 696 reports were filed 70 days late and 31 days late for the quarters ended December 31, 2011 and June 30, 2012, respectively.

  - Cause – The Territory has been experiencing problems with the tracker software used to prepare the monthly and annual reports. They have been in contact with the grantor trying to resolve the issue, but have been unable to file the reports as of the date of the audit report.

  - Questioned Costs – No questioned costs were noted.

Status at September 30, 2014 –

- CFDA 84.027, 84.027A, 84.403A, – This finding is substantially repeated in the current year as Finding 2014-004.

- CFDA 93.575, 84.394A, 84.397A, 84.402A, 84.410A – This program was not selected as a major program in 2014 as the dollar amount of expenses incurred during fiscal year 2014 were less than the major program threshold. As such, no similar findings were noted in the current year.

Finding 2012-07 – Reporting
Significant Deficiency in Internal Controls over Compliance, Non-Compliance

Federal Agency – Department of Transportation

Federal Program – CFDA 20.106 Airport Improvement Program

Condition – During our review of the annual SF-425 report we noted two overstatements in expenses totaling $18,845. The overstatement was related to a duplicate expense of $11,800 that was included twice on the schedule used as support for reporting expenses on the SF-425 report and inclusion of $7,045 of additional costs that should not have been included had the invoice been reduced by the 5% match requirement. Additionally we noted an understatement of $52,779 related to retention paid in September 2012.

Status at September 30, 2014 – This program was not selected as a major program in 2014 as the dollar amount of expenses incurred during fiscal year 2014 were less than the major program threshold. As such, no similar findings noted in the current year. However, this finding remains unresolved.

Finding 2012-10 – Equipment and Real Property Management
Significant Deficiency in Internal Controls over Compliance, Non-Compliance

Federal Agencies –

Department of Education
Department of Transportation
Department of Homeland Security

Federal Programs –

CFDA 84.403A Consolidated Grants to the Outlying Areas
CFDA 84.402A Consolidated Grants to the Outlying Areas – ARRA
CFDA 84.394A/84.397A State Fiscal Stabilization Fund – ARRA Cluster
CFDA 84.027/84.027A Special Education Grants to States
CFDA 20.106 Airport Improvement Program
CFDA 97.036 Public Assistance (Presidentially Declared Disasters)

Condition – There is formal documentation of policies and procedures for equipment management and a master listing of all equipment is maintained in the property records module. In addition to the master listing of all historical purchases, a separate schedule of capital additions is prepared outside of the property records module by property management and reviewed and reconciled by Treasury to the general ledger detail quarterly. Finally, we noted that staggered site visits are conducted throughout the Territory to reconcile property records to amounts recorded. There are several layers of review and oversight related to property records; however, ultimately the physical inventory reconciliation process is incomplete.

We selected a sample of twenty five capital assets from the excel schedules that are subject to review and reconciliation quarterly to the general ledger. These assets were purchased within the last five years. Of the twenty-five assets in our sample, sixteen of these were not included on the records from the physical inventory site visits and two of the assets were not on the master listing maintained within the property management module. The site visits are performed to ensure that the assets purchased with federal funds are properly maintained, safeguarded, and being utilized by the grant that purchased the asset. We were unable to verify that this was the case for sixteen out of twenty-five assets in our sample.

Additionally we noted that the Territory's policies related to the use and collection of proceeds of sales from equipment is non-compliant with the federal requirements as stated above. Per the ASG Property Management Policy Manual Section 7: Bid Deposits and Proceeds from Sales, "Bid deposits and proceeds from sales shall, if not otherwise provided by laws, be deposited in the Central Warehouse Fund". The revenue collected on the sale of assets should be remitted to the program that originally purchased the asset as program income or the proportionate share returned to the Federal agency, not the Central Warehouse Fund which is a general fund revenue account. During fiscal year 2012, there were no sales of equipment with a fair market value of $5,000 or more within the major programs in fiscal year 2012, as such, there were no questioned costs or compliance exceptions related to this requirement. However, this is a control violation as the ASG policy is non-compliant with the federal regulations.

Status at September 30, 2014 –

- CFDA 84.403A – This finding is substantially repeated in the current year as Finding 2014-005.
- CFDA 84.027A, 97.036 – Compliance requirement was not determined to be direct and material to the program during the current year. However, this finding remains open and unresolved.
- CFDA 84.402A, 84.394A/84.397A, 20.106 – This program was not selected as a major program in 2014 as the dollar amount of expenses incurred during fiscal year 2014 were less than the major program threshold. As such, no similar findings were noted in the current year.

Finding 2012-13 – Procurement, Suspension and Debarment "Buy American Act"
Significant Deficiency in Internal Controls over Compliance, Non-Compliance

Federal Agencies – Department of Education and Department of Energy

Federal Programs –

CFDA 84.394A/84.397A State Fiscal Stabilization Fund – ARRA Cluster
CFDA 81.041 State Energy Program with ARRA

Condition –

- CFDA 84.394A/84.397A – During our review of contracts where the Buy American provision was applicable, we noted one contract where no support was provided to demonstrate compliance with this provision. During fiscal year 2012, $221,873 was paid to a primary contractor, on the SFSF Education Project 8 School Facility repairs. This project was for the installation of Amplimesh Screens to Samoan Fales at Pago & Aua Elementary Schools, Tafuna HS, SPED, Faleaso, DOE, as well as other schools on the island. Per the contract documents the project included "fabricating aluminum metals for …[installation of] amplimesh/grilles... and screen wires." Given that this project included materials subject to the Buy American provision, this requirement should have been monitored. There was no documentation or evidence that the iron, steel and manufactured goods used for the project were produced in the United States. There was also no waiver of the Buy-American Act requirements in the contract files.

- CFDA 81.041 – During our review of the contracts in which the Buy American provision was applicable, we noted one contract in which a portion of the goods purchased that were subject to the Buy American provision were produced in Australia, not the US. During the year, the Territory purchased 31 solar water heating systems. Based upon our review of the invoice details, $49,166 was spent on stainless steel tanks produced in Australia.

Status at September 30, 2014 – During fiscal 2014 we noted no 'Buy American Act' findings. We further noted that ASG has submitted a revised Corrective Action Plan dated January 9, 2015, which has been approved by the U.S. Department of Energy.

Finding 2012-15 – Davis-Bacon Act
Significant Deficiency in Internal Controls over Compliance, Non-Compliance

Federal Agency – Department of Energy and Department of Education

Federal Programs –

CFDA 81.041 State Energy Program (SEP) with ARRA
CFDA 81.128 Energy Efficiency and Conservation Block Grant Program (EECBG) – ARRA
CFDA 84.394A/84.397A State Fiscal Stabilization Fund – ARRA Cluster

Condition – We reviewed twenty-two contracts in which the Davis Bacon Act was applicable. We noted that in four cases weekly payroll certifications, which serve as evidence of monitoring of the Davis Bacon Act prevailing wage requirements, were not maintained. All four exceptions were supply and installation contracts paid for using Recovery Act funds.

CFDA 81.041 SEP with ARRA – SEP ARRA funds were used to purchase and install 31 solar water heating systems. The installation of the water heating systems was included as part of the contract costs and triggers the Davis Bacon prevailing wage requirement. There was $66,650 of expenses related to this contract in fiscal year 2012.

CFDA 84.394A/84.397A State Fiscal Stabilization Fund ARRA Cluster – The ARRA program used recovery act funds to purchase and install amplimesh screens at several of the local schools. The wages paid to the contractors for fabrication of the screens and installation in the buildings should have been at the prevailing wage rate for the area. There was $221,873 of expenses related to this contract in fiscal year 2012 and no certified wage reports were maintained for the labor portion of this contract.

CFDA 81.128 EECBG – ARRA: The EECGB program used ARRA funds for a lighting retrofit project and updating an air conditioning and ventilation system. The labor associated with both of these contracts should have been at the prevailing wage rates. There was $347,259 and $185,770 of expenses related to these two contracts respectively in fiscal year 2012 and certified wage reports were not maintained in order to verify that prevailing wages were paid.

Status at September 30, 2014 -These programs were not selected as major programs in 2014 as the dollar amounts of expenses incurred during fiscal year 2014 were less than the major program threshold. No Davis Bacon Act related findings were noted in the current year.

Finding 2012-16 – Reporting
Significant Deficiency in Internal Controls over Compliance, Non-Compliance

Federal Agency – Department of Labor

Federal Program – CFDA 17.258/17.259/17.260 Workforce Investment Act and National Emergency Grant Cluster

Condition – The performance report ETA-9091 WIA Annual report required by the federal requirements of the program has not been prepared or submitted to the federal awarding agency.

Status at September 30, 2014 – This program was not selected as a major program in 2014 as it was terminated by the Territory during fiscal year 2014 and the dollar amount of expenses incurred in fiscal year 2014 were less than the major program threshold. However, this finding remains open and unresolved.

Finding 2011-01 – Reporting

- CFDA 10.551 Supplemental Nutrition Assistance Program, Department of Agriculture
  - Condition – During our review of three reports that we selected for testing, we noted the following:
    - One quarterly report was submitted fifteen days after the filing due date;
    - One quarterly report was submitted seventy days after the filing due date;
    - One annual report was submitted fifteen days after the filing due date.
- CFDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children, Department of Agriculture
  - Condition – In two of the sample of six reports reviewed we noted that the report for the month of May was submitted eleven days after the filing due date and the report for the month of June was submitted fifteen days after the filing due date.
- CFDA 15.875 Economic and Political Development of Territories, Department of Interior
  - Condition – Two out of the sample of three SF-425 reports reviewed were not submitted timely. The two reports were filed 27 days after the filing due date.
- CFDA 20.106 Airport Improvement Program, Department of Transportation
  - Condition – During our review of the first, second and third quarter reports that we selected for testing, we noted the following:
    - The first quarter SF-425 report did not match or reconcile to the general ledger. The quarterly report was understated by $258,446;
    - The second and third quarter SF-425 reports did not match or reconcile to the general ledger. The second and third quarterly reports were overstated by $89,126 and $1,557,076, respectively.

- CFDA 20.205 Highway Planning and Construction Program ARRA, Department of Transportation

  - Condition – The first quarter ARRA report did not match or reconcile to the general ledger. Subsequent to year end, reconciliation between the General Ledger and the ARRA reports was provided. The second quarter ARRA report did not match or reconcile to the general ledger. The ARRA report was understated by $1,571,777.

- CFDA 81.041 State Energy Program ARRA, Department of Energy

  - Condition – The third quarter ARRA report did not match or reconcile to the general ledger. The ARRA report was understated by $1,578,868. The fourth quarter ARRA report did not match or reconcile to the general ledger. The ARRA report was understated by $3,462,667.

- CFDA 84.394 & 84.397 State Fiscal Stabilization Fund ARRA, Department of Education

  - Condition – Both of the first quarter ARRA reports tested did not match or reconcile to the general ledger. The first ARRA report (CFDA 84.394) was understated by $69,638. The second report (CFDA 84.397) tested was understated by $40,710. Additionally, there was no support provided for the non-financial data, such as full-time employees and infrastructure amounts included in the ARRA reports.

- CFDA 84.410 Education Jobs Fund ARRA, Department of Education

  - Condition – We noted that no cross-cutting reports were filed in 2011.

- CFDA 93.575 Child Care and Development Block Grant, Department of Health and Human Services

  - Condition – The third quarter ARRA report (for quarter ended June 30, 2011) did not match or reconcile to the general ledger. The ARRA report was understated by $422,476. The first quarter financial report was filed seven and a half months (or two hundred and twenty-six days) after the filing due date and the third quarter financial report was filed forty-five days after the filing due date.

- CFDA 93.708 Head Start ARRA, Department of Health and Human Services

  - Condition – The amounts noted as federal expenditures in the Section 1512 ARRA reports for second quarter (quarter ended March 31, 2011) and for third quarter (quarter ended June 30, 2011) were not supported by the general ledger. Subsequent to year end, a reconciliation between the General Ledger and the ARRA reports was provided.

Status at September 30, 2014 – Components of this finding were substantially repeated in the current year as Finding 2014-004. Due to the pervasiveness of the issue in the current year, this finding has been elevated to a material weakness in internal controls over compliance and material non-compliance as it relates to fiscal year 2014.

Finding 2011-03 – Procurement for ARRA Awards (Buy American Act)

Condition –

- CFDA 20.205 – We found that the entire amount of the ARRA federal funds for $244,564 were used for construction and paid to one vendor, but there was no documentation or evidence that the iron, steel and manufactured goods used for the projects were produced in the United States. There was also no waiver of the Buy-American Act requirements in the contract files.

- CFDA 93.600/93.708 – We selected two vendors that represented $163,315 in ARRA federal funds used for construction but no documentation or evidence that the iron, steel and manufactured goods used for the projects were produced in the United States. There was also no waiver of the Buy-American Act requirements in the contract files.

Status at September 30, 2014 – During fiscal 2014 we noted no 'Buy American Act' findings. However, no action has been taken by the Territory or the grantor with respect to the findings noted for these contracts; as such, the findings remain unresolved.

Finding 2011-05 – Equipment and Real Property Management

Federal Agency – American Samoa Government – entity-wide

Federal Program – American Samoa Government – entity-wide

Condition – While there is formal documentation of policies and procedures for capital assets, we noted that property records for equipment procured with federal funds is incomplete and does not contain all required information. The records do not include identification numbers on the assets that would be necessary to conduct a property inventory and we were unable to trace the equipment in general ledger to the property records. These incomplete property records would affect all federal programs from which equipment or real property was purchased in current and prior years.

Status at September 30, 2014 – This finding is substantially repeated in the current year as Finding 2014-005.