

RONGELAP ATOLL LOCAL GOVERNMENT

GENERAL PURPOSE FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2001

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the Rongelap Atoll Local Government (RALGOV) as of September 30, 2001, and for the year then ended. These general purpose financial statements are the responsibility of the management of RALGOV. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of RALGOV as of September 30, 2001, and the results of its operations and the cash flows of its nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The Combining Balance Sheet - Expendable Trust Funds (page 15) and the Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) - Expendable Trust Funds (page 16) are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of RALGOV. These statements are also the responsibility of the management of RALGOV. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2002, on our consideration of RALGOV's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte & Touche*

June 27, 2002

RONGELAP ATOLL LOCAL GOVERNMENT

Combined Balance Sheet - All Fund Types and Account Group

September 30, 2001

(With comparative totals as of September 30, 2000)

ASSETS	Governmental Fund Types		Fiduciary Fund Types		Account Group	Totals	
	General	Capital Projects	Expendable Trust	Non- expendable Trust	General Fixed Assets	Reporting Entity (Memorandum Only)	
						2001	2000
Cash and cash equivalents	\$ 452	\$ 141,510	\$ 2,420,557	\$ 4,302,134	\$ -	\$ 6,864,653	\$ 3,981,722
Time certificate of deposit	24,528	-	-	-	-	24,528	-
Investments (note 3)	-	-	36,768,020	26,015,238	-	62,783,258	83,312,830
Accrued interest receivable	-	-	192,997	117,602	-	310,599	441,394
Other receivables	22,793	70,000	-	-	-	92,793	55,776
Prepaid items	4,500	250,000	450,000	-	-	704,500	-
Due from other funds (note 4)	63,614	200,000	125,000	-	-	388,614	313,709
Investment in fixed assets, net (note 5)	-	-	-	-	5,516,296	5,516,296	615,861
	<u>\$ 115,887</u>	<u>\$ 661,510</u>	<u>\$ 39,956,574</u>	<u>\$ 30,434,974</u>	<u>\$ 5,516,296</u>	<u>\$ 76,685,241</u>	<u>\$ 88,721,292</u>
<b>LIABILITIES AND FUND EQUITY (DEFICIENCY)</b>							
<b>Liabilities:</b>							
Accounts payable	\$ 1,172	\$ 1,066,810	\$ -	\$ -	\$ -	\$ 1,067,982	\$ 598,633
Taxes payable	-	-	-	-	-	-	135,212
Due to other funds (note 4)	125,000	63,614	200,000	-	-	388,614	313,709
<b>Total liabilities</b>	<u>126,172</u>	<u>1,130,424</u>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>1,456,596</u>	<u>1,047,554</u>
<b>Fund equity (deficiency):</b>							
Investment in general fixed assets (note 5)	-	-	-	-	5,516,296	5,516,296	615,861
<b>Fund balances (deficit):</b>							
<b>Reserved for:</b>							
Resettlement	-	-	39,843,900	-	-	39,843,900	53,443,362
Claims	-	-	-	30,434,974	-	30,434,974	33,262,863
Unreserved (deficit)	(10,285)	(468,914)	(87,326)	-	-	(566,525)	351,652
<b>Total fund equity (deficiency)</b>	<u>(10,285)</u>	<u>(468,914)</u>	<u>39,756,574</u>	<u>30,434,974</u>	<u>5,516,296</u>	<u>75,228,645</u>	<u>87,673,738</u>
Contingency (note 7)							
	<u>\$ 115,887</u>	<u>\$ 661,510</u>	<u>\$ 39,956,574</u>	<u>\$ 30,434,974</u>	<u>\$ 5,516,296</u>	<u>\$ 76,685,241</u>	<u>\$ 88,721,292</u>

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) -  
All Governmental Fund Types and Expendable Trust Fund  
Year Ended September 30, 2001  
(With comparative totals for the year ended September 30, 2000)

	Governmental Fund Types		Fiduciary	Totals	
	General	Capital	Fund Type	Reporting Entity	
		Project	Expendable	(Memorandum Only)	
		Trust	2001	2000	
<b>Revenues:</b>					
Dividends and interest	\$ -	\$ 6,237	\$ 1,651,671	\$ 1,657,908	\$ 1,545,312
Nitijela appropriations	-	280,000	-	280,000	105,687
Other grants	-	-	-	-	75,000
Federal grants	-	-	-	-	15,000
Net (decrease) increase in the fair value of investments	-	-	(5,446,908)	(5,446,908)	9,251,625
Other	7,746	13,036	-	20,782	31,881
<b>Total revenues</b>	<b>7,746</b>	<b>299,273</b>	<b>(3,795,237)</b>	<b>(3,488,218)</b>	<b>11,024,505</b>
<b>Expenditures:</b>					
Resettlement activities	-	8,451,079	-	8,451,079	5,192,736
Distributions	-	-	2,854,569	2,854,569	3,250,138
<b>General government:</b>					
Salaries, wages and benefits	498,473	-	-	498,473	507,023
Legal fees	-	-	250,000	250,000	250,000
Food program	229,349	-	-	229,349	138,534
Travel	169,011	-	-	169,011	258,322
Scholarships	147,800	-	-	147,800	89,080
Professional services	103,955	-	-	103,955	103,032
Donations	67,694	-	-	67,694	52,157
Rental	55,418	-	-	55,418	33,021
Repairs and maintenance	47,499	-	-	47,499	78,327
Equipment	40,139	-	-	40,139	52,281
Materials and supplies	32,209	-	-	32,209	229,842
Communications	30,767	-	-	30,767	24,434
Freight	2,988	-	-	2,988	4,296
Contractual services	375	-	-	375	2,008
Solar projects	-	-	-	-	377
Miscellaneous	143,398	-	-	143,398	91,165
Investment management activities	-	-	304,698	304,698	367,097
<b>Total expenditures</b>	<b>1,569,075</b>	<b>8,451,079</b>	<b>3,409,267</b>	<b>13,429,421</b>	<b>10,723,870</b>
(Deficiency) excess of revenues (under) over expenditures	(1,561,329)	(8,151,806)	(7,204,504)	(16,917,639)	300,635
<b>Other financing sources (uses):</b>					
Operating transfers in (note 6)	1,500,000	7,749,527	2,800,000	12,049,527	10,806,538
Operating transfers out (note 6)	-	(400,000)	(9,249,527)	(9,649,527)	(8,006,538)
<b>Total other financing sources (uses), net</b>	<b>1,500,000</b>	<b>7,349,527</b>	<b>(6,449,527)</b>	<b>2,400,000</b>	<b>2,800,000</b>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	(61,329)	(802,279)	(13,654,031)	(14,517,639)	3,100,635
Fund balances at beginning of year	51,044	333,365	53,410,605	53,795,014	50,694,379
<b>Fund balances (deficit) at end of year</b>	<b>\$ (10,285)</b>	<b>\$ (468,914)</b>	<b>\$ 39,756,574</b>	<b>\$ 39,277,375</b>	<b>\$ 53,795,014</b>

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in  
Fund Balance (Deficit) - Budget and Actual - General Fund  
Year Ended September 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Nitijela appropriation	\$ 24,870	\$ -	\$ (24,870)
Other	-	7,746	7,746
Total revenues	<u>24,870</u>	<u>7,746</u>	<u>(17,124)</u>
Expenditures:			
Salaries, wages and benefits	491,848	498,473	(6,625)
Food program	170,000	229,349	(59,349)
Travel	210,000	169,011	40,989
Scholarships	95,000	147,800	(52,800)
Professional services	125,000	103,955	21,045
Donations	40,000	67,694	(27,694)
Rental	42,612	55,418	(12,806)
Repairs and maintenance	47,000	47,499	(499)
Equipment	50,000	40,139	9,861
Materials and supplies	27,500	32,209	(4,709)
Communications	20,000	30,767	(10,767)
Freight	7,000	2,988	4,012
Contractual services	-	375	(375)
Miscellaneous	198,910	143,398	55,512
Total expenditures	<u>1,524,870</u>	<u>1,569,075</u>	<u>(44,205)</u>
Deficiency of revenues under expenditures	<u>(1,500,000)</u>	<u>(1,561,329)</u>	<u>(61,329)</u>
Other financing sources:			
Operating transfers in (note 6)	1,500,000	1,500,000	-
Total other financing sources	<u>1,500,000</u>	<u>1,500,000</u>	<u>-</u>
Deficiency of revenues and other financing sources under expenditures	-	(61,329)	(61,329)
Fund balance at beginning of year	<u>51,044</u>	<u>51,044</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 51,044</u>	<u>\$ (10,285)</u>	<u>\$ (61,329)</u>

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenses and Changes in Fund Equity -  
 Nonexpendable Trust Fund  
 Year Ended September 30, 2001  
 (With comparative totals for the year ended September 30, 2000)

	<u>2001</u>	<u>2000</u>
Operating revenues:		
Section 177 Compact funding	\$ 2,500,000	\$ 2,500,000
Dividends and interest	1,140,085	904,516
Net (decrease) increase in the fair value of investments	<u>(3,844,026)</u>	<u>6,453,664</u>
Total operating revenues	<u>(203,941)</u>	<u>9,858,180</u>
Operating expenses:		
Fund manager fees	<u>223,948</u>	<u>220,868</u>
Total operating expenses	<u>223,948</u>	<u>220,868</u>
Operating (loss) income	<u>(427,889)</u>	<u>9,637,312</u>
Other financing uses:		
Operating transfers out (note 6)	<u>(2,400,000)</u>	<u>(2,800,000)</u>
Total other financing uses	<u>(2,400,000)</u>	<u>(2,800,000)</u>
Net (loss) income	<u>(2,827,889)</u>	<u>6,837,312</u>
Fund balance at beginning of year	<u>33,262,863</u>	<u>26,425,551</u>
Fund balance at end of year	<u>\$ 30,434,974</u>	<u>\$ 33,262,863</u>

See accompanying notes to general purpose financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Cash Flows - Nonexpendable Trust Fund  
 Year Ended September 30, 2001  
 (With comparative totals for the year ended September 30, 2000)

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating (loss) income	\$ (427,889)	\$ 9,637,312
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Net decrease (increase) in the fair value of investments	3,844,026	(6,453,664)
Dividends and interest	(1,140,085)	(904,516)
Decrease (increase) in assets:		
Accrued interest receivable	<u>21,510</u>	<u>(19,073)</u>
Net cash provided by operating activities	<u>2,297,562</u>	<u>2,260,059</u>
Cash flows from noncapital financing activities:		
Operating transfers out (note 6)	<u>(2,400,000)</u>	<u>(2,800,000)</u>
Net cash used for noncapital financing activities	<u>(2,400,000)</u>	<u>(2,800,000)</u>
Cash flows from investing activities:		
Net liquidation (purchases) of investments	2,713,247	(6,943,949)
Net realized (losses) gains on investments	(1,072,625)	6,726,488
Interest and dividends on investments	<u>1,140,085</u>	<u>904,516</u>
Net cash provided by investing activities	<u>2,780,707</u>	<u>687,055</u>
Net increase in cash and cash equivalents	2,678,269	147,114
Cash and cash equivalents at beginning of year	<u>1,623,865</u>	<u>1,476,751</u>
Cash and cash equivalents at end of year	<u>\$ 4,302,134</u>	<u>\$ 1,623,865</u>

See accompanying notes to general purpose financial statements.

# RONGELAP ATOLL LOCAL GOVERNMENT

## Notes to General Purpose Financial Statements September 30, 2001

### (1) Organization

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

### (2) Summary of Significant Accounting Policies

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

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

RALGOV uses funds and an account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying general purpose financial statements, RALGOV's funds are classified into two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental funds are used to account for all or most of a government's general activities, including the acquisition or construction of general fixed assets (capital projects funds). The capital projects fund of RALGOV (the Resettlement Phase One Fund) accounts for funds received from the Resettlement Trust Fund under the agreement between the United States Department of the Interior and RALGOV regarding Phase I resettlement activities for the resettlement of Rongelap Atoll. The general fund is used to account for all general governmental activities of RALGOV not accounted for in another fund.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within RALGOV. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not RALGOV is under an obligation to maintain the trust principal.

# RONGELAP ATOLL LOCAL GOVERNMENT

Notes to General Purpose Financial Statements  
September 30, 2001

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

### A. Measurement Focus and Basis of Accounting, Continued

The expendable trust funds of RALGOV are as follows:

- i. The Local Distribution Authority - this fund accounts for funds received under the Rongelap Claims Trust agreement, which represents 48% of the funds received by the Claims Trust Fund and between 15% and 35% of the Claims Trust Fund's net income. These funds are distributed by RALGOV to the people of Rongelap based on an approved distribution scheme.
- ii. The Resettlement Trust Fund - this fund accounts for United States Congress appropriations under United States Public Law 99-239 and 102-154, which were paid and distributed in accordance with an agreement between the Government of the United States, the Government of the Republic of the Marshall Islands and RALGOV to assist in the resettlement of Rongelap Atoll by the people of Rongelap.

The nonexpendable trust fund of RALGOV (the Claims Trust Fund) accounts for funds received under Article II, Section 4, of the agreement between the Government of the United States and the Government of the Republic of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association (the Compact). In accordance with Article II, Section 8, of the Compact, RALGOV executed the Rongelap Claims Trust agreement. Under the agreement, the Claims Trust Fund receives \$2,500,000 annually in quarterly payments as compensation for loss or damage to property and person of the people of Rongelap, of which 48% is distributed to the people of Rongelap through the Local Distribution Authority Fund. In addition, pursuant to Section 7.2 of the trust agreement, the Claims Trust Fund is required to distribute annually to the people of Rongelap between 15% and 35% of its net income. The remaining 52% is retained and added to the corpus of the Claims Trust Fund. Pursuant to Section 8.1 of the trust agreement, RALGOV may also invade up to 3% of the corpus of the Claims Trust Fund. Such invasion may occur in the event of an unforeseen natural disaster or other similar circumstance, as determined by the sole discretion of RALGOV, in order to prevent hardship to the people of Rongelap. An invasion of the corpus shall not occur more frequently than once every three years.

### B. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Nonexpendable trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to General Purpose Financial Statements  
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

The modified accrual basis of accounting is used by all governmental fund types and expendable trust funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

The accrual basis of accounting is utilized by nonexpendable trust funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Budget

Annual budgets, as required by the RALGOV Constitution, are adopted on a basis consistent with GAAP for the Governmental Fund Type - General Fund. Accordingly, a Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit) - Budget and Actual has been presented for the General Fund. All annual appropriations lapse at fiscal year end.

The RALGOV Constitution provides for the Executive Committee to introduce into the Council budget estimates of revenues and expenditures, together with an Appropriation Ordinance, to be adopted on or before the beginning of each fiscal year. The Appropriation Ordinance is prepared at the fund level, which is the level at which RALGOV can legally amend it once it has been adopted. Amendments are limited to no more than ten percent and must be approved by the Executive Committee. No supplemental appropriations were necessary during the year ended September 30, 2001.

Encumbrance accounting has not been utilized by the General Fund.

D. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash held in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by RALGOV. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the combined balance sheet. As of September 30, 2001, the carrying amount of RALGOV's total cash and cash equivalents and time certificate of deposit were \$6,889,181 and the corresponding bank balances were \$7,072,860. Of the bank balance amounts, \$455,884 were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001, bank deposits in the amount of \$107,845 were FDIC insured. RALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

E. Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to General Purpose Financial Statements  
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

F. Interfund Receivables/Payables

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

G. Receivables

Other receivables consist of amounts advanced to individuals, on an unsecured basis, substantially all of whom are situated in the Republic of the Marshall Islands.

H. Prepaid Items

Payments made to vendors or persons for services that will benefit periods beyond September 30, 2001, are recorded as prepaid items.

I. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are recorded in the General Fixed Assets Account Group at cost or estimated historical cost if purchased or constructed. Depreciation, when assessed, is charged as a reduction in the investment in general fixed assets and an increase in accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets through use of the straight-line method. The estimated useful lives of these assets are as follows:

Buildings and improvements	5 - 10 years
Other equipment	3 years
Motor vehicles	3 years
Office equipment	3 years
Furniture and fixtures	1 - 3 years

J. Estimates

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

K. Memorandum Only - Total Column

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position or results of operations or cash flows in accordance with GAAP. Interfund eliminations have not been made in the aggregation of this data.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to General Purpose Financial Statements  
September 30, 2001

(3) Investments

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

- Category 1 Insured or registered, or securities held by RALGOV or its agent in RALGOV's name;
- Category 2 Uninsured and unregistered with securities held by the broker's or dealer's trust department or agent in RALGOV's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer or by its trust department or agent but not in RALGOV's name.

A. Expendable Trust Funds

Investments of the Expendable Trust Funds as of September 30, 2001, are as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Resettlement Trust Fund:				
Common stocks	\$ -	\$ 22,672,562	\$ -	\$ 22,672,562
U.S. Government notes and bonds	-	7,765,529	-	7,765,529
Corporate notes and bonds	-	5,450,337	-	5,450,337
Unit investment trust	-	879,592	-	879,592
	<u>\$ -</u>	<u>\$ 36,768,020</u>	<u>\$ -</u>	<u>\$ 36,768,020</u>

B. Nonexpendable Trust Fund

Investments of the Nonexpendable Trust Fund as of September 30, 2000, are as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Claims Trust Fund:				
Common stocks	\$ -	\$ 15,749,927	\$ -	\$ 15,749,927
U.S. Government notes and bonds	-	5,186,443	-	5,186,443
Corporate notes and bonds	-	4,305,507	-	4,305,507
Unit investment trust	-	773,361	-	773,361
	<u>\$ -</u>	<u>\$ 26,015,238</u>	<u>\$ -</u>	<u>\$ 26,015,238</u>

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2001, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Resettlement Phase One	\$ 63,614
Resettlement Phase One	Local Distribution Authority	200,000
Resettlement Trust Fund	General Fund	<u>125,000</u>
		<u>\$ 388,614</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to General Purpose Financial Statements  
September 30, 2001

(5) Fixed Assets

Activity in the General Fixed Assets Account Group for the year ended September 30, 2001, is as follows:

	Balance October 1, 2000	Additions	Retirements	Balance September 30, 2001
Buildings and improvements	\$ 491,145	\$ 850,330	\$ -	\$ 1,341,475
Other equipment	112,560	913,208	(9,322)	1,016,446
Motor vehicles	291,894	199,174	(9,460)	481,608
Office equipment	61,388	10,176	-	71,564
Furniture and fixtures	17,872	45,941	(1,300)	62,513
	974,859	2,018,829	(20,082)	2,973,606
Less accumulated depreciation	(358,998)	(517,034)	-	(876,032)
	615,861	1,501,795	(20,082)	2,097,574
Construction work in progress	-	3,418,722	-	3,418,722
	\$ <u>615,861</u>	\$ <u>4,920,517</u>	\$ <u>(20,082)</u>	\$ <u>5,516,296</u>

(6) Transfers In/Out

Operating transfers in/out for all fund types, for the year ended September 30, 2001, are as follows:

	Transfer Out	Transfer In
<u>General Fund</u>		
To General Fund from: Resettlement Trust Fund	\$ -	\$ 1,500,000
	\$ -	\$ 1,500,000
<u>Capital Projects Fund</u>		
To Resettlement Phase One from: Resettlement Trust Fund	\$ -	\$ 7,749,527
From Resettlement Phase One to: Local Distribution Authority Fund	400,000	-
	\$ <u>400,000</u>	\$ <u>7,749,527</u>
<u>Expendable Trust Fund</u>		
To Local Distribution Authority Fund from: Resettlement Phase One Claims Trust Fund	\$ -	\$ 400,000
	-	2,400,000
From Resettlement Trust Fund to: General Fund Resettlement Phase One	1,500,000	-
	7,749,527	-
	\$ <u>9,249,527</u>	\$ <u>2,800,000</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to General Purpose Financial Statements  
September 30, 2001

(6) Transfers In/Out, Continued

	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Nonexpendable Trust Fund</u>		
From Claims Trust Fund to:		
Local Distribution Authority Fund	\$ <u>2,400,000</u>	\$ <u>          -</u>
	\$ <u>2,400,000</u>	\$ <u>          -</u>

(7) Contingency

RALGOV receives Compact Section 177 federal funds for its distribution to eligible individuals. Federally assisted funds can be subject to financial and compliance audits to ascertain if federal and other laws and guidelines have been followed. Cumulative questioned costs of \$2,400,000 have been set forth in prior year Single Audit reports of RALGOV. The ultimate disposition of these questioned costs can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying general purpose financial statements.

(8) Individual Deficit Fund Balances

Specific individual funds that have deficit fund balances as of September 30, 2001, are as follows:

General Fund	\$ <u>10,285</u>
<u>Capital Projects Fund</u>	
Resettlement Phase One	\$ <u>468,914</u>
<u>Expendable Trust Fund</u>	
Local Distribution Authority Fund	\$ <u>87,326</u>

(9) Risk Management

RALGOV is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. RALGOV has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims have not exceeded this commercial coverage in any of the past three years.

RONGELAP ATOLL LOCAL GOVERNMENT  
EXPENDABLE TRUST FUNDS

Combining Balance Sheet  
September 30, 2001  
(With comparative totals as of September 30, 2000)

	<u>Local Distribution Authority</u>	<u>Resettlement Trust</u>	<u>Totals</u>	
			<u>2001</u>	<u>2000</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 112,674	\$ 2,307,883	\$ 2,420,557	\$ 1,595,379
Investments	-	36,768,020	36,768,020	51,812,944
Accrued interest receivable	-	192,997	192,997	302,282
Prepaid items	-	450,000	450,000	-
Due from other funds	-	125,000	125,000	-
	<u>\$ 112,674</u>	<u>\$ 39,843,900</u>	<u>\$ 39,956,574</u>	<u>\$ 53,710,605</u>
<u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>				
Liabilities:				
Due to other funds	\$ 200,000	\$ -	\$ 200,000	\$ 300,000
Total liabilities	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>300,000</u>
Fund balances (deficit):				
Reserved for:				
Resettlement	\$ -	\$ 39,843,900	\$ 39,843,900	\$ 53,443,362
Unreserved (deficit)	<u>(87,326)</u>	<u>-</u>	<u>(87,326)</u>	<u>(32,757)</u>
Total fund balances (deficit)	<u>(87,326)</u>	<u>39,843,900</u>	<u>39,756,574</u>	<u>53,410,605</u>
	<u>\$ 112,674</u>	<u>\$ 39,843,900</u>	<u>\$ 39,956,574</u>	<u>\$ 53,710,605</u>

See Accompanying Independent Auditors' Report.

RONGELAP ATOLL LOCAL GOVERNMENT  
EXPENDABLE TRUST FUNDS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Year Ended September 30, 2001  
(With comparative totals for the year ended September 30, 2000)

	Local Distribution Authority	Resettlement Trust	Totals	
			2001	2000
Revenues:				
Dividends and interest	\$ -	\$ 1,651,671	\$ 1,651,671	\$ 1,537,451
Net (decrease) increase in the fair value of investments	-	(5,446,908)	(5,446,908)	9,251,625
Total revenues	-	(3,795,237)	(3,795,237)	10,789,076
Expenditures:				
Distributions	2,854,569	-	2,854,569	3,250,138
Fund manager fees	-	304,698	304,698	367,097
Legal fees	-	250,000	250,000	250,000
Total expenditures	2,854,569	554,698	3,409,267	3,867,235
(Deficiency) excess of revenues (under) over expenditures	(2,854,569)	(4,349,935)	(7,204,504)	6,921,841
Other financing sources (uses):				
Operating transfers in	2,800,000	-	2,800,000	3,200,000
Operating transfers out	-	(9,249,527)	(9,249,527)	(7,606,538)
Total other financing sources (uses), net	2,800,000	(9,249,527)	(6,449,527)	(4,406,538)
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	(54,569)	(13,599,462)	(13,654,031)	2,515,303
Fund balances (deficit) at beginning of year	(32,757)	53,443,362	53,410,605	50,895,302
Fund balances (deficit) at end of year	\$ (87,326)	\$ 39,843,900	\$ 39,756,574	\$ 53,410,605

See Accompanying Independent Auditors' Report.