

RONGELAP ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2006

RONGELAP ATOLL LOCAL GOVERNMENT

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INDEPENDENT AUDITORS' REPORT

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

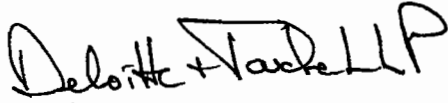
We have audited the accompanying financial statements of the governmental activities and each major fund of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2006, which collectively comprise RALGOV's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of RALGOV. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of RALGOV as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2008, on our consideration of the RALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

April 21, 2008

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2006

This Management's Discussion and Analysis (MD&A) is prepared by the Rongelap Atoll Local Government (RALGov) Finance Department in compliance with Governmental Accounting Standards Board (GASB). This MD&A is a narrative overview of the activities of the local government for the fiscal year ended September 30, 2006. This analysis is required supplementary information (RSI) to the accompanying financial statements and notes to financial statements. It is intended to serve as an introduction to RALGov's basic financial statements and should assist readers of these financial statements in understanding the results of operations of RALGov.

RALGov's Financial Statements

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

RALGov Funds and its Sources:

1. RALGov Resettlement Trust Fund (RTF). This fund was established to account for funds awarded to RALGov by the United States of America for the purpose of rehabilitating Rongelap Atoll and the resettlement of its people back to Rongelap Atoll. This fund also covers funding for local government operations.
2. Claims Trust Fund (CTF). This fund was established to account for funds awarded to RALGov's Local Distribution Authority (LDA) through the Nuclear Claims Tribunal for the purpose of compensating the exposed (directly affected by the radiation fall-out) population of Rongelap. The corpus of this trust fund is not expendable; however, 70% of the income may be used to make distribution payments to Rongelapese listed in the LDA.
3. Capital Projects Fund. This fund was established to account for the transfer of funds from the RTF to pay for the acquisition or construction of facilities and their related costs. This fund also pays for community livelihood projects.
4. Operations Fund. This fund was established to account for the transfer of funds from the RTF to pay for the operating costs of RALGov including, among others, the salaries of local government workers, maintenance, utilities, Mejjatto community support costs, capacity building and travel costs.
5. LDA Fund. This fund was established to account for the transfer of funds from the CTF to pay distribution payments to Rongelapese listed in the LDA.

Financial Highlights

1. The CTF earned \$2,211,293 or 6% in fiscal year 2006, a 6-point drop from last year's 11.5%. The RTF, on the other hand, earned \$1,333,710 or 5% in fiscal year 2006, an 8- point drop from last year's 13.3%.
2. RALGov's net assets decreased by \$1,891,143 in fiscal year 2006. Total revenues generated for 2006 were \$5,819,065 compared with \$8,851,049 for 2005 while total expenses for 2006 were \$7,710,208 compared with \$7,429,764 for 2005. Of the revenues received for 2006, \$1,760,000 related to the second installment of the \$5.3M complementary award given by United States Department of the Interior (DOI) to RALGov that was received in October 2005.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2006

3. Construction of bungalows at the Rongelap Tourism Compound was completed at a total cost of \$354,850. The source of funding for this project was primarily from the \$295,892 grant awarded by DOI.
4. RALGov ended the year with net assets of \$64,505,867 as compared with \$66,397,010 at the end of 2005, a decrease of 2.8%.

Government-wide Financial Statements

RALGov's financial statements report information about RALGov as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the local government's assets and liabilities. The statement of activities accounts for the current year's revenues and expenses regardless of when cash is received or paid. These two statements report RALGov's net assets and how they have changed. Net assets, being the difference between RALGov's assets and liabilities, is one way to measure RALGov's financial position. Over time, increases or decreases in RALGov's net assets are indicators of whether its financial health is improving or deteriorating.

Fund Financial Statements

The fund financial statements provide more detailed information about RALGov's most significant funds. Funds are accounting devices that RALGov uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by agreements.
- RALGov establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants.

Financial Analysis Of Ralgov As A Whole

Net assets may serve over time as a useful indicator of a government's financial position. At the end of fiscal year 2006, RALGov's assets exceeded liabilities by \$64,505,867; however, it should be noted that \$31,601,218 is restricted for nuclear claims related distribution payments and is not available to fund RALGov's operations or capital projects. The summary of RALGov's net assets for 2006 as compared with 2005 follows:

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 57,529,432	\$ 58,844,235
Capital assets, net of depreciation	<u>8,008,561</u>	<u>8,023,997</u>
Total assets	\$ <u>65,537,993</u>	\$ <u>66,868,232</u>
Current liabilities	\$ 447,789	\$ 375,222
Noncurrent liabilities	<u>584,337</u>	<u>96,000</u>
Total liabilities	<u>1,032,126</u>	<u>471,222</u>
Net assets:		
Invested in capital assets	8,008,561	8,023,997
Unrestricted	(129,637)	207,607
Restricted	<u>56,626,943</u>	<u>58,165,406</u>
Total net assets	\$ <u>64,505,867</u>	\$ <u>66,397,010</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2006

Changes in Net Assets

Governmental activities for the year ended September 30, 2006 decreased RALGov's net assets by \$1,891,143. Key element of the decrease was the reduction in revenues for 2006 of \$5,819,065 compared with revenues for 2005 of \$8,871,049. The summary of RALGov's change in net assets for 2006 as compared with 2005 follows:

	<u>2006</u>	<u>2005</u>
Program revenues:		
Operating grants and contributions	\$ 2,725,355	\$ 3,737,371
Capital grants and contributions	1,760,000	1,780,000
General revenues:		
Investment earnings	<u>1,333,710</u>	<u>3,353,678</u>
 Total revenues	 <u>5,819,065</u>	 <u>8,871,049</u>
Expenses:		
Council	200,068	242,749
Education	202,583	240,858
Finance	302,956	277,053
Health and sanitation	45,295	45,829
Office of the Mayor	145,549	218,518
Phase 1 - Engineering	70,400	23,061
Public safety	94,477	104,078
Social services	241,043	402,752
Transportation and communication	214,282	222,914
Resettlement program	3,423,720	2,936,598
Nuclear claims related	2,293,994	2,112,692
Investment management activities	365,748	395,109
Other	<u>110,093</u>	<u>207,553</u>
 Total expenses	 <u>7,710,208</u>	 <u>7,429,764</u>
 Change in net assets	 (1,891,143)	 1,441,285
Net Assets at the beginning of the year	<u>66,397,010</u>	<u>64,955,725</u>
 Net assets at the end of the year	 \$ <u>64,505,867</u>	 \$ <u>66,397,010</u>

RALGov's revenue sources

	<u>2006</u>	<u>%</u>	<u>2005</u>	<u>%</u>
Federal and other Grants	\$ 2,222,148	38.2%	\$ 1,929,221	21.7%
Resettlement Trust Fund earnings	1,333,710	22.9%	3,353,678	37.8%
Claims Trust Fund earnings	2,211,293	38.0%	3,498,396	39.4%
Other	<u>101,858</u>	<u>0.9%</u>	<u>89,754</u>	<u>1.1%</u>
Total revenues	\$ <u>5,819,065</u>	<u>100.0%</u>	\$ <u>8,871,049</u>	<u>100%</u>

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Management's Discussion and Analysis September 30, 2006

Financial Analysis of RALGov Funds

As noted earlier, RALGov uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. As of the end of fiscal year 2006, RALGov's governmental funds reported a combined fund balance of \$57,063,315, a decrease of \$1,385,698 or 2% of the fund balance at the beginning of the year. The decrease is primarily attributable to the decrease in investment income from both Claims Trust Fund and Resettlement Trust Fund (\$3,545,003 in 2006 compared with \$6,852,074 in 2005).

General Fund Budget Analysis

For fiscal year 2006, the budget for the General Fund was \$1,613,000 to be funded by a drawdown from the Resettlement Trust Fund of \$1,500,000 and \$113,000 from grants. During the year ended September 30, 2006, the net deficiency of revenues under expenditures for the General Fund was \$337,244 due to \$110,093 for losses in investment and \$227,151 of actual expenditures in excess of budgeted amounts. The table below shows the budget and actual comparisons for fiscal year 2006 together with explanations for significant variances between budget and actual. RALGov management plans to offset the deficits against savings in future years. The deficit is accounted for and explained as follows:

<u>Accounts</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries, wages and benefits	\$ 642,520	\$ 644,229	\$ (1,709)
Food program	165,276	156,666	8,610
Travel	239,926	171,792	68,134
Professional services	20,000	48,550	(28,550)
Scholarships	87,500	53,508	33,992
Donations	64,600	77,741	(13,141)
Repairs and maintenance	70,100	74,162	(4,062)
Rental	37,400	21,240	16,160
Training	50,900	31,412	19,488
Communications	31,200	23,753	7,447
Materials and supplies	28,000	27,634	366
Grant-in-aid matching	25,000	-	25,000
Equipment	22,800	66,756	(43,956)
Petroleum, oil and lubricants	29,720	32,988	(3,268)
Electricity	21,000	17,710	3,290
Miscellaneous	77,058	70,480	6,578
Loss on investment	<u>-</u>	<u>110,093</u>	<u>(110,093)</u>
 Total	 1,613,000	 1,628,714	 (15,714)
Grants and other revenue	113,000	166,470	53,470
Transfers In	<u>1,500,000</u>	<u>1,125,000</u>	<u>(375,000)</u>
 Deficiency of revenue and other financing sources under Expenses	 <u>\$ -</u>	 <u>\$ (337,244)</u>	 <u>\$ (337,244)</u>

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Management's Discussion and Analysis September 30, 2006

Significant variances between budgeted amounts and actual amounts are summarized as follows:

- Ralgov received a total of \$166,470 grants from:
 - USDA Food program \$79,183, given annually in the form of goods.
 - \$46,000 Single Audit grant from the Office of the Auditor General covering multiple year audits.
 - \$41,287 was reimbursement from US DOE for their use of electricity and water at Rongelap Atoll.
- Professional services negative variance of \$28,550 is due to the Single Audits of RALGov, which were covered by the \$46,000 Single Audit grant resulting in an overall excess of budget over actual expenditures by \$17,450.
- Donations negative variance of \$13,141 is due primarily to the excess of representations and honoraria over budget. Supplies and prizes for Mejatto community celebrations and tributes/gifts to certain traditional chiefs (Iroij) attributed to the negative variance.
- Repairs and maintenance negative variance of \$4,062 is due to repairs of Bravo.
- Equipment negative variance of \$43,956 is due primarily to the completion of the construction of a piggery for \$52,460, which was funded by a \$74,199 grant from the Embassy of Japan Grassroots Development Program received in fiscal year 2005. Fiscal year 2005 expenditures for the piggery amounted to \$21,739. After considering the receipt of this grant, the negative variance is eliminated and results in a overall positive variance of \$8,504.
- Actual realized loss in investment during the year was \$110,093.

Capital Assets and Debt Administration

RALGov's investment in capital assets for its governmental activities as of September 30, 2006 amounted to \$11,096,980, net of accumulated depreciation of \$3,088,419 for a net book value of \$8,008,561. During fiscal year 2006, additions of \$415,454 were made to the assets list. Details of assets are as follows:

Airport and dock	\$ 5,030,372
Roads	2,393,680
Buildings and improvements	2,483,329
Motor vehicles	528,204
Other equipment	560,663
Office equipment	47,655
Furniture and fixtures	<u>53,077</u>
	11,096,980
Less accumulated depreciation	<u>3,088,419</u>
Capital assets	\$ <u>8,008,561</u>

Additional information on RALGov's capital assets can be found in note 5 to the financial statements.

RALGov has \$586,009 in long-term debt. This is the result of the Housing program loan from USDA. These loans incur interest at 5.75% - 6.38% per annum with maturities of 32 to 38 years.

Additional information on RALGov's long-term debt can be found in note 6 to the financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
September 30, 2006

Next Year Budget

The budget for fiscal year 2007 remains relatively the same for all the funds. RALGov never included in next year's expenditure program any major project from either Phase 1 or Phase 2. Housing projects at Rongelap and Majuro are being built with USDA Housing Loan facilities. These loans incur interest at between 5.75% - 6.38% and have maturities of 32 to 38 years. The General Fund budget is fixed at \$1,500,000 whereas the LDA Fund budget remains at \$2,100,000 or \$300,000 in seven distribution months plus \$219,000 in food distribution. Based on the historical performance of the trust funds, income is projected at 10% for both Resettlement and Claims Trust Fund.

Final installment of the \$5.3M additional award from DOI is due in October 2006.

Contacting RALGov's Financial Management

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

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Net Assets September 30, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 197,662
Investments	41,130
Receivables, net of allowance for uncollectibles of \$157,764	545,634
Prepaid items	<u>214,293</u>
Total current assets	998,719

Noncurrent assets:

Restricted assets:

Investments	56,530,713
Capital assets, net of accumulated depreciation	<u>8,008,561</u>

Total noncurrent assets 64,539,274

Total assets \$ 65,537,993

LIABILITIES

Current liabilities:

Current portion of notes payable	\$ 1,672
Accounts payable	373,995
Other liabilities and accruals	<u>72,122</u>
Total current liabilities	447,789

Noncurrent liabilities:

Notes payable, net of current portion 584,337

Total liabilities 1,032,126

Commitments and contingencies

NET ASSETS

Invested in capital assets	8,008,561
Restricted for:	
Nonexpendable	31,601,218
Expendable	25,025,725
Unrestricted	<u>(129,637)</u>
Total net assets	<u>64,505,867</u>
Total liabilities and fund balances	<u>\$ 65,537,993</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2006

	<u>Program Revenues</u>			<u>Net (Expenses) Revenues</u>
	<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>				
Government activities:				
Council	\$ 200,068	\$ -	\$ -	(200,068)
Education	202,583	-	-	(202,583)
Finance	302,956	96,700	295,892	89,636
Health and sanitation	45,295	-	-	(45,295)
Office of the Mayor	145,549	-	-	(145,549)
Phase 1 - Engineering	70,400	41,287	-	(29,113)
Public safety	94,477	-	-	(94,477)
Social services	241,043	79,183	-	(161,860)
Transportation and communication	214,282	-	-	(214,282)
Resettlement program	3,423,720	-	1,761,000	(1,662,720)
Nuclear claims related	2,293,994	2,211,293	-	(82,701)
Investment management activities	365,748	-	-	(365,748)
Other	110,093	-	-	(110,093)
	<u>\$ 7,710,208</u>	<u>\$ 2,428,463</u>	<u>\$ 2,056,892</u>	<u>\$ (3,224,853)</u>
General revenues:				
Investment earnings				<u>1,333,710</u>
Change in net assets				(1,891,143)
Net assets at the beginning of the year				66,397,010
Net assets at the end of the year				<u>\$ 64,505,867</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2006

ASSETS	Special Revenue			Capital Projects	Permanent	Total
	General	Resettlement Trust	Local	Resettlement Phase One	Claims Trust	
			Distribution Authority			
Cash and cash equivalents	\$ 4,734	\$ -	\$ 11,554	\$ 181,374	\$ -	\$ 197,662
Investments	41,130	-	-	-	-	41,130
Receivables, net	151,008	105,362	13,899	174,120	101,245	545,634
Prepaid items	26,793	160,000	-	27,500	-	214,293
Due from other funds	-	-	61,400	129,598	-	190,998
Restricted assets:						
Investments	-	25,030,740	-	-	31,499,973	56,530,713
	<u>\$ 223,665</u>	<u>\$ 25,296,102</u>	<u>\$ 86,853</u>	<u>\$ 512,592</u>	<u>\$ 31,601,218</u>	<u>\$ 57,720,430</u>

LIABILITIES AND FUND BALANCES (DEFICIT)

Liabilities:						
Accounts payable	\$ 114,968	\$ -	\$ -	\$ 259,027	\$ -	\$ 373,995
Other liabilities and accruals	47,336	-	24,786	-	-	72,122
Due to other funds	190,998	-	-	-	-	190,998
Total liabilities	<u>353,302</u>	<u>-</u>	<u>24,786</u>	<u>259,027</u>	<u>-</u>	<u>637,115</u>
Fund balances (deficit):						
Reserved for:						
Related assets	41,130	-	-	-	-	41,130
Resettlement program	-	25,296,102	-	-	-	25,296,102
Capital projects	-	-	-	253,565	-	253,565
Claims	-	-	62,067	-	31,601,218	31,663,285
Unreserved (deficit)	<u>(170,767)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(170,767)</u>
Total fund balances (deficit)	<u>(129,637)</u>	<u>25,296,102</u>	<u>62,067</u>	<u>253,565</u>	<u>31,601,218</u>	<u>57,083,315</u>
Total liabilities and fund balances	<u>\$ 223,665</u>	<u>\$ 25,296,102</u>	<u>\$ 86,853</u>	<u>\$ 512,592</u>	<u>\$ 31,601,218</u>	

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

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

8,008,561

Long-term notes payable are not due and payable in the current period and therefore are not reported in the funds

(586,009)

Net assets of governmental activities

\$ 64,505,867

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
Year Ended September 30, 2006

	Special Revenue			Capital Projects	Permanent	Total
	General	Resettlement Trust	Local Distribution Authority	Resettlement Phase One	Claims Trust	
Revenues:						
Federal and other grants	\$ 166,256	\$ 1,760,000	\$ -	\$ 295,892	\$ -	\$ 2,222,148
Dividends and interest	-	813,816	-	-	851,844	1,665,660
Net increase in the fair value of investments	-	469,950	-	-	1,359,449	1,829,399
Other	214	49,944	50,700	1,000	-	101,858
Total revenues	166,470	3,093,710	50,700	296,892	2,211,293	5,819,065
Expenditures:						
Current:						
Council	191,505	-	-	-	-	191,505
Education	201,920	-	-	-	-	201,920
Finance	290,520	-	-	-	-	290,520
Health and sanitation	45,295	-	-	-	-	45,295
Office of the Mayor	137,956	-	-	-	-	137,956
Phase I - Engineering	65,310	-	-	-	-	65,310
Public safety	94,477	-	-	-	-	94,477
Social services	227,242	-	-	-	-	227,242
Transportation and communication	203,792	-	-	-	-	203,792
Resettlement program	-	415,000	-	2,636,466	-	3,051,466
Nuclear claims related	-	-	2,293,994	-	-	2,293,994
Investment management	-	169,473	-	-	196,275	365,748
Loss on investment	110,093	-	-	-	-	110,093
Debt service	-	-	-	391	-	391
Capital outlays	60,604	-	-	354,850	-	415,454
Total expenditures	1,628,714	584,473	2,293,994	2,991,707	196,275	7,695,163
Excess (deficiency) of revenues (under) over expenditures	(1,462,244)	2,509,237	(2,243,294)	(2,694,815)	2,015,018	(1,876,098)
Other financing sources (uses):						
Loan proceeds	-	-	-	490,400	-	490,400
Operating transfers in	1,125,000	-	2,083,600	2,296,504	-	5,505,104
Operating transfers out	-	(3,421,504)	-	-	(2,083,600)	(5,505,104)
Total other financing sources (uses), net	1,125,000	(3,421,504)	2,083,600	2,786,904	(2,083,600)	490,400
Net change in fund balances	(337,244)	(912,267)	(159,694)	92,089	(68,582)	(1,385,698)
Fund balances at beginning of year	207,607	26,208,369	221,761	161,476	31,669,800	58,469,013
Fund balances (deficit) at end of year	\$ (129,637)	\$ 25,296,102	\$ 62,067	\$ 253,565	\$ 31,601,218	\$ 57,083,315

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

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

A. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the non-fiduciary activities of RALGOV. RALGOV's activities are defined as governmental activities, which are supported by intergovernmental revenues and other non-exchange revenues.

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

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

B. Fund Financial Statements

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

RALGOV reports the following governmental fund types:

i. General Fund

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

ii. Special Revenue Funds

These funds account for specific revenue resources that have been aggregated according to enabling legislation to support specific governmental activities.

These include the Resettlement Trust Fund, which accounts for United States Congress appropriations under United States Public Law 99-239 and 102-154, and which were paid and distributed in accordance with an agreement between the Government of the United States, the Government of the Republic of the Marshall Islands and RALGOV to assist in the resettlement of Rongelap Atoll by the people of Rongelap; and the Local Distribution Authority, which accounts for funds received under the Rongelap Claims Trust Fund. These funds are distributed by RALGOV to the people of Rongelap based on an approved distribution scheme.

iii. Capital Projects Funds

These funds account for the acquisition or construction of major capital facilities financed.

The capital projects 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 activities for the resettlement in Rongelap Atoll.

iv. Permanent Funds

This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government.

RALGOV's permanent fund (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 received a total of \$37,500,000 over a period of 15 years as compensation for loss or damage to property and person of the people of Rongelap. The final payment was received on October 2001. Pursuant of Section 7.2(2) the Agreement, after the final payment is received, the Claims Trust Fund is required to distribute annually to the people of Rongelap, through the Local Distribution Authority, between 15% and 70% of its net income.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

iv. Permanent Funds, Continued

The remaining 30% to 85% shall be retained and added to the corpus of the Claims Trust Fund. In addition, pursuant to Section 8.1 of the trust agreement, RALGOV may also invade up to 3% of the corpus of the Claims Trust Fund. Such invasion may occur in the event of an unforeseen natural disaster or other similar circumstance, as determined by the sole discretion of RALGOV, in order to prevent hardship to the people of Rongelap. An invasion of the corpus shall not occur more frequently than once every three years.

D. Cash and Cash Equivalents

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.

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.

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

F. Receivables

Receivables consist of amounts advanced to individuals, on an unsecured basis, substantially all of whom are situated in the Republic of the Marshall Islands. Receivables are stated net of allowance for uncollectible accounts.

Receivables as of September 30, 2006, for the primary government's individual major governmental funds, including applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	Local <u>Resettlement Trust</u>	<u>Distribution Authority</u>	<u>Resettlement Phase One</u>	<u>Claims Trust</u>	<u>Total</u>
Receivables:						
Employee	\$ 44,455	\$ -	\$ 1,200	\$ 2,750	\$ -	\$ 48,405
Federal agencies	35,095	-	-	138,392	-	173,487
Interest	-	105,362	-	-	101,245	206,607
Other	<u>80,471</u>	<u>-</u>	<u>12,699</u>	<u>181,729</u>	<u>-</u>	<u>274,899</u>
	160,021	105,362	13,899	322,871	101,245	703,398
Allowance for uncollectible accounts	<u>(9,013)</u>	<u>-</u>	<u>-</u>	<u>(148,751)</u>	<u>-</u>	<u>(157,764)</u>
	\$ <u>151,008</u>	\$ <u>105,362</u>	\$ <u>13,899</u>	\$ <u>174,120</u>	\$ <u>101,245</u>	\$ <u>545,634</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

G. Prepaid Items

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

H. Interfund Receivables/Payables

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

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

I. Restricted Assets

Certain assets of RALGOV are classified as restricted assets because their use is completely restricted by trust agreements or enabling legislation. Specifically, investments of \$31,499,973 and \$25,030,740, recorded in the Claims Trust Fund and Resettlement Trust Fund, respectively, are restricted in that they are not available to be used in current operations.

J. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets (e.g. pads, docks, airports, water catchments, and other similar items), whether purchased or constructed, are recorded at historical cost. RALGOV has not established a separate capitalization threshold policy and therefore has capitalized all assets that have an estimated useful life of more than one year. Depreciation is provided over the estimated useful lives of the assets through use of the straight-line method. The estimated useful lives of these assets are as follows:

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

K. Interfund/Intrafund Transactions

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

L. Estimates

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

M. Compensated Absences

RALGOV recognizes expenditures for annual leave and sick leave when leave is actually taken. Accordingly, unused annual leave and sick leave are not included as an obligation within the governmental funds balance sheet. The estimated accumulated amounts of unused annual and sick leave at September 30, 2006 are presently not determinable.

N. New Accounting Standards

During fiscal year 2006, RALGOV implemented the following pronouncements:

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.

GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentive for voluntary terminations (e.g. early retirement window programs) and severance payments with respect to involuntary terminations.

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of the foregoing pronouncements did not have a material impact on the accompanying financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

N. New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transaction should be recognized as sale or collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RALGOV.

(3) Deposits and Investments

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

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

A. Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- | | |
|------------|---|
| Category 1 | Deposits that are federally insured or collateralized with securities held by RALGOV or its agent in RALGOV's name; |
| Category 2 | Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in RALGOV's name; or |
| Category 3 | Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in RALGOV's name and non-collateralized deposits. |

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(3) Deposits and Investments, Continued

A. Deposits, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, RALGOV's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. RALGOV does not have a deposit policy for custodial credit risk.

As of September 30, 2006, the carrying amount of the RALGOV's total cash and cash equivalents were \$197,662 and the corresponding bank balances were \$225,264. Of the bank balance amounts, \$100,337 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006, bank deposits in the amount of \$100,000 were FDIC insured. RALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by RALGOV or its agent in RALGOV's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in RALGOV's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in RALGOV's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

As of September 30, 2006, investment at fair value are as follows:

Resettlement Trust Fund:

Cash management	\$ 5,584,345
Domestic equities	10,466,442
U.S. Government notes and bonds	6,538,883
Corporate notes and bonds	1,121,664
Unit investment trust	<u>1,319,406</u>
	<u>25,030,740</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(3) Deposits and Investments, Continued

B. Investments, Continued

Claims Trust Fund:

Cash management	3,261,497
Future managed assets	5,406,671
Domestic equities	13,417,194
U.S. Government notes and bonds	6,827,274
Corporate notes and bonds	863,313
Unit investment trust	<u>1,724,024</u>
	<u>31,499,973</u>
	\$ <u>56,530,713</u>

Resettlement Trust Fund and Claims Trust Fund investments are held and administered by trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held respectively in the name of RALGOV by their custodial financial institutions at September 30, 2006.

As of September 30, 2006, the Resettlement Trust Funds' investment in debt securities were as follows:

	Moodys Credit Rating		Investment	Maturities	(In years)		
			Less than 1	1 to 5	6 to 10	Greater than 10	
						Fair Value	
US Treasury Obligations	Aaa	\$	-	\$ 1,719,606	\$ 1,450,292	\$ -	\$ 3,169,898
US Government agencies	Aaa	-	-	2,872,310	-	-	2,872,310
US Government agencies	Aa2	-	-	496,674	-	-	496,674
Corporate notes	Aaa	-	-	305,671	-	-	305,671
Corporate notes	Aa2	-	-	205,404	-	-	205,404
Corporate notes	Aa3	-	-	-	202,623	-	202,623
Corporate notes	A1	-	-	407,967	-	-	407,967
		\$	<u>-</u>	<u>\$ 6,007,632</u>	<u>\$ 1,652,915</u>	<u>\$ -</u>	<u>\$ 7,660,547</u>

As of September 30, 2006 the Claims Trust Funds' investment in debt securities were as follows:

	Moodys Credit Rating		Investment	Maturities	(In years)		
			Less than 1	1 to 5	6 to 10	Greater than 10	
						Fair Value	
US Treasury Obligations	Aaa	\$	-	\$ 1,405,354	\$ 1,196,862	\$ -	\$ 2,602,216
US Government agencies	Aaa	-	-	2,378,827	-	-	2,378,827
US Government agencies	Aa2	-	-	418,252	-	-	418,252
US Government agencies	not noted	-	-	-	-	1,427,980	1,427,980
Corporate notes	Aaa	-	-	236,894	-	-	236,894
Corporate notes	Aa2	-	-	157,309	-	-	157,309
Corporate notes	Aa3	-	-	-	152,449	-	152,449
Corporate notes	A1	-	-	316,660	-	-	316,660
		\$	<u>-</u>	<u>\$ 4,913,296</u>	<u>\$ 1,349,311</u>	<u>\$ 1,427,980</u>	<u>\$ 7,690,587</u>

RALGOV does not have a formal policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements September 30, 2006

(3) Deposits and Investments, Continued

B. Investments, Continued

General Fund

RALGOV holds a 49.1% ownership equity in Rongelap Tourism Company, Inc. (RTCI), which engages in tourism activities in the Republic of the Marshalls Islands. The investment is accounted for on the equity method. At September 30, 2006, RALGOV's investment in RTCI amounted to \$41,130.

On February 2006, RALGOV and Pacific International Inc., which owns 50.1% of RTCI, agreed to suspend operations of RTCI pending further study of its operations.

A summary of audited financial information of Rongelap Tourism Company, Inc. as of and for the twelve months ended September 30, 2006, accounted for using the equity method of accounting for investments, is as follows:

Assets		\$ <u>545,678</u>
Liabilities		\$ <u>463,419</u>
Net loss		\$ <u>(220,186)</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, 2006, are summarized as follows:

Due from Receivable Fund	Due to Payable Fund	Amount
Resettlement Phase One Fund	General Fund	\$ 129,598
Local Distribution Authority Fund	General Fund	<u>61,400</u>
		\$ <u>190,998</u>

(5) Capital Assets

Capital asset activities for the year ended September 30, 2006, are as follows:

	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006
Airport and dock	\$ 5,030,372	\$ -	\$ -	\$ 5,030,372
Roads	2,393,680	-	-	2,393,680
Buildings/facility and improvements	2,106,722	429,049	(52,442)	2,483,329
Motor vehicles	551,208	-	(23,004)	528,204
Other equipment	605,296	2,600	(47,233)	560,663
Office equipment	94,987	5,544	(52,876)	47,655
Furniture and fixtures	65,321	-	(12,244)	53,077
	10,847,586	437,193	(187,799)	11,096,980
Less accumulated depreciation	<u>(2,845,328)</u>	<u>(430,890)</u>	<u>187,799</u>	<u>(3,088,419)</u>
	8,002,258	6,303	-	8,008,561
Construction work in progress	21,739	407,310	(429,049)	-
	\$ <u>8,023,997</u>	\$ <u>413,613</u>	\$ <u>(429,049)</u>	\$ <u>8,008,561</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(5) Capital Assets, Continued

Depreciation expense was charged to functions/programs as follows:

Council	\$ 8,563
Education	663
Finance	12,436
Office of the Mayor	7,593
Phase-1 Engineering	5,090
Social services	13,801
Transportation and communication	10,490
Resettlement program	<u>372,254</u>
	\$ <u>430,890</u>

(6) Notes Payable

Notes payable represent housing loans obtained by eligible Rongelapese under RALGOV housing projects with the United States Department of Agriculture's Rural Development Program. Individual Rongelapese were named as borrowers but RALGOV is ultimately liable for loan repayment. Promissory notes are payable in 32 to 38 years with interest rates between 5.75% and 6.38%.

The changes in notes payable during the year ended September 30, 2006, is as follows:

<u>Balance</u> <u>October 1, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>September 30, 2006</u>	<u>Due Within</u> <u>12 months</u>
\$ <u>96,000</u>	\$ <u>490,400</u>	\$ <u>391</u>	\$ <u>586,009</u>	\$ <u>1,672</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,672	\$ 43,464	\$ 45,136
2008	3,760	38,696	42,456
2009	7,436	35,020	42,456
2010	7,919	34,537	42,456
2011	8,412	34,044	42,456
2012 – 2016	50,389	161,891	212,280
2017 – 2021	68,284	143,996	212,280
2022 – 2026	92,378	119,902	212,280
2027 – 2031	124,985	87,295	212,280
2032 – 2036	169,102	43,178	212,280
2037 – 2039	<u>51,672</u>	<u>3,434</u>	<u>55,106</u>
Total	\$ <u>586,009</u>	\$ <u>745,457</u>	\$ <u>1,331,466</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(7) Transfers In/Out

Operating transfers in/out for all major fund types, for the year ended September 30, 2006, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Resettlement Trust Fund	General Fund	\$ 1,125,000	\$ 1,125,000
Resettlement Trust Fund	Resettlement Phase One Fund	2,296,504	2,296,504
Claims Trust Fund	Local Distribution Authority Fund	<u>2,083,600</u>	<u>2,083,600</u>
		<u>\$ 5,505,104</u>	<u>\$ 5,505,104</u>

(8) Contingencies

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 \$295,892 have been set forth in prior year Single Audit reports of RALGOV. The ultimate disposition of these questioned costs can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

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

(9) Commitment

RALGOV entered into a land sublease agreement on November 14, 1996, with an annual lease of \$2,400. The agreement is for twenty-six years, with options to renew for four additional ten-year terms. Future minimum rental payments are as follows:

<u>Year ending September 30,</u>	
2007	\$ 2,400
2008	2,400
2009	2,400
2010	2,400
2011	2,400
2012-2016	12,000
2017-2021	12,000
2022-2023	<u>2,700</u>
	<u>\$ 38,700</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(10) Risk Management

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

Commencing in fiscal year 2005, RALGOV discontinued insurance of its property in Rongelap Atoll.

RONGELAP ATOLL LOCAL GOVERNMENT
REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING
YEAR ENDED SEPTEMBER 30, 2006

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Budget and Actual - General Fund
Year Ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Grant-in-Aid	\$ 23,000	\$ 23,000	\$ -	\$ (23,000)
Federal Grants	90,000	90,000	166,470	76,470
Total revenues	113,000	113,000	166,470	53,470
Expenditures:				
Salaries, wages and benefits	642,520	642,520	644,229	(1,709)
Food program	165,276	165,276	156,666	8,610
Travel	239,926	239,926	171,792	68,134
Loss on investment	-	-	110,093	(110,093)
Professional services	20,000	20,000	48,550	(28,550)
Scholarships	87,500	87,500	53,508	33,992
Donations	64,600	64,600	77,741	(13,141)
Repairs and maintenance	70,100	70,100	74,162	(4,062)
Rental	37,400	37,400	21,240	16,160
Training	50,900	50,900	31,412	19,488
Communications	31,200	31,200	23,753	7,447
Materials and supplies	28,000	28,000	27,634	366
Grant-in-aid matching	25,000	25,000	-	25,000
Equipment	22,800	22,800	66,756	(43,956)
Petroleum oil and lubricants	29,720	29,720	32,988	(3,268)
Utilities	21,000	21,000	17,710	3,290
Miscellaneous	77,058	77,058	70,480	6,578
Total expenditures	1,613,000	1,613,000	1,628,714	(15,714)
Deficiency of revenues under expenditures	(1,500,000)	(1,500,000)	(1,462,244)	37,756
Other financing sources (uses):				
Operating transfers in	1,500,000	1,500,000	1,125,000	(375,000)
Total other financing sources	1,500,000	1,500,000	1,125,000	(375,000)
Excess (deficiency) of revenues and other financing sources over (under) expenditures	-	-	(337,244)	(337,244)
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	40,094	40,094
Unreserved fund balance at beginning of year	126,383	126,383	126,383	-
Unreserved fund balance (deficit) at end of year	\$ 126,383	\$ 126,383	\$ (170,767)	\$ (297,150)

See Accompanying Independent Auditors' Report.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2006

Budgetary Information

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

Formal budget integration is employed as a management control device during the year for all funds. The Executive Council has the authority to reprogram budgeted estimates in accordance with the RALGov Constitution. All annual appropriations lapse at fiscal year end unless otherwise specified in the Ordinance. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further ordinance for the matter.

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

Encumbrance accounting has not been utilized by the General Fund.