

RONGELAP ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2007

RONGELAP ATOLL LOCAL GOVERNMENT

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INDEPENDENT AUDITORS' REPORT

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

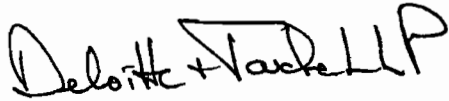
We have audited the accompanying financial statements of the governmental activities and each major fund of the Rongelap Atoll Local Government (RALGOV) as of and for the year ended September 30, 2007, which collectively comprise RALGOV's basic financial statements as set forth in Section II of the foregoing 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, 2007, 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 22, 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.


April 22, 2008

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2007

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, 2007. 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 \$4,539,036 or 14% while the RTF earned \$3,960,789 or 15% during fiscal year 2007.
2. RALGov's net assets increased by \$2,838,560 in fiscal year 2007. Total revenues generated for 2007 were \$10,409,566 compared with \$5,819,065 for 2006 while total expenses for 2007 were \$7,571,006 compared with \$7,710,208 for 2006. Of the revenues received for 2007, \$1,760,000 related to the third and final installment of the \$5.3M complementary award given by United States Department of the Interior (DOI) to RALGov that was received in October 2006.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2007

3. RALGov ended the year with net assets of \$67,344,427 as compared with \$64,505,867 at the end of 2006, an increase of 4.4%.

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 2007, RALGov's assets exceeded liabilities by \$67,344,427; however, it should be noted that \$33,266,495 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 2007 as compared with 2006 follows:

	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 60,938,332	\$ 57,529,432
Capital assets, net of depreciation	<u>7,552,300</u>	<u>8,008,561</u>
Total assets	\$ <u>68,490,632</u>	\$ <u>65,537,993</u>
Current liabilities	\$ 423,662	\$ 447,789
Noncurrent liabilities	<u>722,543</u>	<u>584,337</u>
Total liabilities	<u>1,146,205</u>	<u>1,032,126</u>
Net assets:		
Invested in capital assets	7,552,300	8,008,561
Unrestricted	314,403	(129,637)
Restricted	<u>59,477,724</u>	<u>56,626,943</u>
Total net assets	\$ <u>67,344,427</u>	\$ <u>64,505,867</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2007

Changes in Net Assets

Governmental activities for the year ended September 30, 2007 increased RALGov's net assets by \$2,838,560. Key element of the increase was the increase in revenues for 2007 of \$10,409,566 compared with revenues for 2006 of \$5,819,065. The summary of RALGov's change in net assets for 2006 as compared with 2005 follows:

	<u>2007</u>	<u>2006</u>
Program revenues:		
Operating grants and contributions	\$ 4,687,841	\$ 2,725,355
Capital grants and contributions	1,760,936	1,760,000
General revenues:		
Investment earnings	<u>3,960,789</u>	<u>1,333,710</u>
Total revenues	<u>10,409,566</u>	<u>5,819,065</u>
Expenses:		
Council	168,235	200,068
Education	239,530	202,583
Finance	332,732	302,956
Health and sanitation	38,807	45,295
Office of the Mayor	215,395	145,549
Phase 1 - Engineering	40,793	70,400
Public safety	106,246	94,477
Social services	227,684	241,043
Transportation and communication	235,807	214,282
Resettlement program	3,213,505	3,423,720
Nuclear claims related	2,311,542	2,293,994
Investment management activities	394,050	365,748
Other	<u>46,680</u>	<u>110,093</u>
Total expenses	<u>7,571,006</u>	<u>7,710,208</u>
Change in net assets	2,838,560	(1,891,143)
Net Assets at the beginning of the year	<u>64,505,867</u>	<u>66,397,010</u>
Net assets at the end of the year	\$ <u>67,344,427</u>	\$ <u>64,505,867</u>

RALGov's revenue sources

	<u>2007</u>	<u>%</u>	<u>2006</u>	<u>%</u>
Federal and other Grants	\$ 1,891,938	18.2%	\$ 2,222,148	38.2%
Resettlement Trust Fund earnings	3,935,279	37.8%	1,333,710	22.9%
Claims Trust Fund earnings	4,529,772	43.5%	2,211,293	38.0%
Other	<u>52,577</u>	<u>0.5%</u>	<u>101,858</u>	<u>0.9%</u>
Total revenues	\$ <u>10,409,566</u>	<u>100.0%</u>	\$ <u>5,819,065</u>	<u>100.0%</u>

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Management's Discussion and Analysis September 30, 2007

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 2007, RALGov's governmental funds reported a combined fund balance of \$60,520,157, an increase of \$3,436,842 or 6% of the fund balance at the beginning of the year. The increase is primarily attributable to the increase in investment income from both Claims Trust Fund and Resettlement Trust Fund (\$8,465,051 in 2007 compared with \$3,545,003 in 2006).

General Fund Budget Analysis

For fiscal year 2007, the budget for the General Fund was \$1,543,000 to be funded by a drawdown from the Resettlement Trust Fund of \$1,500,000 and \$43,000 from grants. During the year ended September 30, 2007, the excess of revenues over expenditures for the General Fund was \$444,040 thus eliminating the cumulative deficits from prior years. The table below shows the budget and actual comparisons for fiscal year 2007 together with explanations for significant variances between budget and actual. The excess is accounted for and explained as follows:

<u>Accounts</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries, wages and benefits	\$ 651,219	\$ 681,710	\$ (30,491)
Food program	61,076	115,663	(54,587)
Travel	249,226	219,000	30,226
Professional services	35,000	34,000	1,000
Scholarships	87,500	88,925	(1,425)
Donations	66,000	78,827	(12,827)
Repairs and maintenance	98,400	37,785	60,615
Rental	23,400	27,870	(4,470)
Training	44,920	59,437	(14,517)
Communications	20,120	37,113	(16,993)
Materials and supplies	25,000	22,516	2,484
Grant-in-aid matching	48,000	-	48,000
Equipment	12,800	17,625	(4,825)
Petroleum, oil and lubricants	36,435	39,983	(3,548)
Electricity	17,400	24,830	(7,430)
Miscellaneous	66,504	47,781	18,723
Loss on investment	<u>-</u>	<u>46,680</u>	<u>(46,680)</u>
 Total	 1,543,000	 1,579,745	 (36,745)
Grants and other revenue	43,000	148,785	105,785
Transfers In	<u>1,500,000</u>	<u>1,875,000</u>	<u>375,000</u>
 Excess of revenue and other financing sources over expenditures	 \$ <u> -</u>	 \$ <u>444,040</u>	 \$ <u>444,040</u>

Overall, actual excess of revenue and other financing sources over expenditures exceeded budget by \$444,040 primarily due to the \$375,000 excess of actual transfers in over budgeted transfers in. Expenditures, as an aggregate, exceeded budget by \$36,745 due to the loss on investment of \$46,680.

RONGELAP ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2007

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

- Salaries wages and benefits negative variance of \$30,491 is due primarily to the hiring of a grant-writer in May 2007, and an Accounts Payable Clerk in March 2007.
- Donations negative variance of \$12,827 is due primarily to accommodation of scientists for the Ailinginae survey, and unforeseen representations and donations.
- Training negative variance of \$14,517 is due primarily to WUTMI workshops and a PREL conference in Honolulu.
- Communications negative variance of \$16,993 is due primarily to underestimated budget for telephone and internet.
- Utilities negative variance of \$7,430 is attributed to the series of increases of electricity rates during the year.
- Actual realized loss in investment during the year was \$46,680.

Capital Assets and Debt Administration

RALGov's investment in capital assets for its governmental activities as of September 30, 2007 amounted to \$10,788,379, net of accumulated depreciation of \$3,236,079 for a net book value of \$7,552,300. During fiscal year 2007, additions of \$5,800 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	2,471,059
Motor vehicles	322,404
Other equipment	530,573
Office equipment	31,644
Furniture and fixtures	<u>8,647</u>
	10,788,379
Less accumulated depreciation	<u>3,236,079</u>
Capital assets	\$ <u>7,552,300</u>

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

RALGov has \$728,030 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, 2007

Next Year Budget

Next year's budget increases primarily due to some capital projects that will commence under Phase 2 of the Resettlement Plan. An amount has already been earmarked for Rongelap Island's Electrification. RALGov has also committed to provide some \$550,000 capitalization for Rongelap Beach Resort, a startup corporation under RALGov's Tourism Program. Housing projects at Rongelap and Majuro continue to be built with USDA Housing Loan facility. These loans incur interest at between 5.75% - 6.38% per annum and have maturities of 32 to 38 years. The General Fund budget is fixed at \$1,500,000 whereas the LDA Fund budget increase to \$2,719,000, an increase of \$400,000 from this fiscal year's budget due to the addition of one quarter into the distribution scheme. Based on historical performance of the trust funds, incomes are projected at 10% for both Resettlement and Claims Trust Fund.

As of the date of preparation of this report, the U.S. Financial markets suffered a heavy downturn as a result of the Housing Loan Mortgage crisis. The U.S. Federal Reserve even admitted that the U.S. is in economic recession. The measurable impact to the RALGov trust funds as of the date of this report is a net income of only \$13,500 before drawdowns in the Claims Trust Fund and a net loss of \$1,012,955 before drawdowns in the Resettlement Trust Fund (October 1, 2007 to March 31, 2008). In this regard, return for fiscal year 2008 might fall short of the 10% projection.

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, 2007

ASSETS

Current assets:

Cash and cash equivalents	\$ 805,653
Receivables, net of allowance for uncollectibles of \$234,778	539,523
Prepaid items	<u>210,003</u>
Total current assets	1,555,179

Noncurrent assets:

Restricted assets:

Investments	59,383,153
Capital assets, net of accumulated depreciation	<u>7,552,300</u>

Total noncurrent assets 66,935,453

Total assets \$ 68,490,632

LIABILITIES

Current liabilities:

Current portion of notes payable	\$ 5,487
Accounts payable	333,479
Other liabilities and accruals	<u>84,696</u>
Total current liabilities	423,662

Noncurrent liabilities:

Notes payable, net of current portion 722,543

Total liabilities 1,146,205

Commitments and Contingencies

NET ASSETS

Invested in capital assets	7,552,300
Restricted for:	
Nonexpendable	33,266,495
Expendable	26,211,229
Unrestricted	<u>314,403</u>
Total net assets	<u>67,344,427</u>
Total liabilities and fund balances	<u>\$ 68,490,632</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2007

	<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	\$ 168,235	\$ -	\$ -	(168,235)
Education	239,530	-	-	(239,530)
Finance	332,732	61,200	936	(270,596)
Health and sanitation	38,807	-	-	(38,807)
Office of the Mayor	215,395	-	-	(215,395)
Phase 1 - Engineering	40,793	-	-	(40,793)
Public safety	106,246	-	-	(106,246)
Social services	227,684	87,585	-	(140,099)
Transportation and communication	235,807	-	-	(235,807)
Resettlement program	3,213,505	-	1,760,000	(1,453,505)
Nuclear claims related	2,311,542	4,539,056	-	2,227,514
Investment management activities	394,050	-	-	(394,050)
Other	46,680	-	-	(46,680)
	<u>\$ 7,571,006</u>	<u>\$ 4,687,841</u>	<u>\$ 1,760,936</u>	(1,122,229)
General revenues:				
Investment earnings				<u>3,960,789</u>
Change in net assets				2,838,560
Net assets at the beginning of the year				<u>64,505,867</u>
Net assets at the end of the year				<u>\$ 67,344,427</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2007

ASSETS	<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
	<u>General</u>	<u>Resettlement</u>	<u>Local</u>	<u>Resettlement</u>	<u>Claims</u>	
		<u>Trust</u>	<u>Distribution</u>			
			<u>Authority</u>		<u>Trust</u>	
Cash and cash equivalents	\$ 353,697	\$ -	\$ 373,361	\$ 78,595	\$ -	\$ 805,653
Receivables, net	117,915	130,264	11,950	164,228	115,166	539,523
Prepaid items	22,503	160,000	-	27,500	-	210,003
Due from other funds	-	-	59,030	-	-	59,030
Restricted assets:						
Investments	-	26,231,824	-	-	33,151,329	59,383,153
	<u>\$ 494,115</u>	<u>\$ 26,522,088</u>	<u>\$ 444,341</u>	<u>\$ 270,323</u>	<u>\$ 33,266,495</u>	<u>\$ 60,997,362</u>

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable	\$ 126,779	\$ -	\$ -	\$ 211,700	\$ -	\$ 338,479
Other liabilities and accruals	48,780	-	30,916	-	-	79,696
Due to other funds	4,153	-	-	54,877	-	59,030
Total liabilities	<u>179,712</u>	<u>-</u>	<u>30,916</u>	<u>266,577</u>	<u>-</u>	<u>477,205</u>
Fund balances:						
Reserved for:						
Resettlement program	-	26,522,088	-	-	-	26,522,088
Capital projects	-	-	-	3,746	-	3,746
Claims	-	-	413,425	-	33,266,495	33,679,920
Unreserved	314,403	-	-	-	-	314,403
Total fund balances	<u>314,403</u>	<u>26,522,088</u>	<u>413,425</u>	<u>3,746</u>	<u>33,266,495</u>	<u>60,520,157</u>
Total liabilities and fund balances	<u>\$ 494,115</u>	<u>\$ 26,522,088</u>	<u>\$ 444,341</u>	<u>\$ 270,323</u>	<u>\$ 33,266,495</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

7,552,300

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

(728,030)

Net assets of governmental activities

\$ 67,344,427

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, 2007

	Special Revenue			Capital Projects	Permanent	Total
	General	Resettlement	Local	Resettlement	Claims	
		Trust Fund	Distribution	Phase One	Trust Fund	
		Authority				
Revenues:						
Federal and other grants	\$ 131,938	\$ 1,760,000	\$ -	\$ -	\$ -	\$ 1,891,938
Dividends and interest	-	927,485	-	-	881,532	1,809,017
Net increase in the fair value of investments	-	3,007,794	-	-	3,648,240	6,656,034
Other	16,847	25,510	-	936	9,284	52,577
Total revenues	148,785	5,720,789	-	936	4,539,056	10,409,566
Expenditures:						
Current:						
Council	\$ 160,499	\$ -	\$ -	\$ -	\$ -	\$ 160,499
Education	239,530	-	-	-	-	239,530
Finance	321,095	-	-	-	-	321,095
Health and sanitation	38,807	-	-	-	-	38,807
Office of the Mayor	209,993	-	-	-	-	209,993
Phase I - Engineering	35,546	-	-	-	-	35,546
Public safety	106,246	-	-	-	-	106,246
Social services	214,957	-	-	-	-	214,957
Transportation and communication	206,392	-	-	-	-	206,392
Resettlement program	-	370,000	-	2,453,608	-	2,823,608
Nuclear claims related	-	-	2,311,542	-	-	2,311,542
Investment management	-	183,171	-	-	210,879	394,050
Loss on investment	46,680	-	-	-	-	46,680
Debt service	-	-	-	1,979	-	1,979
Capital outlays	-	-	-	5,800	-	5,800
Total expenditures	1,579,745	553,171	2,311,542	2,461,387	210,879	7,116,724
Excess (deficiency) of revenues (under) over expenditures	(1,430,960)	5,167,618	(2,311,542)	(2,460,451)	4,328,177	3,292,842
Other financing sources (uses):						
Loan proceeds	-	-	-	144,000	-	144,000
Operating transfers in	1,875,000	-	2,662,900	2,066,632	-	6,604,532
Operating transfers out	-	(3,941,632)	-	-	(2,662,900)	(6,604,532)
Total other financing sources (uses), net	1,875,000	(3,941,632)	2,662,900	2,210,632	(2,662,900)	144,000
Net change in fund balances	444,040	1,225,986	351,358	(249,819)	1,665,277	3,436,842
Fund balances (deficit) at beginning of year	(129,637)	25,296,102	62,067	253,565	31,601,218	57,083,315
Fund balances at end of year	\$ 314,403	\$ 26,522,088	\$ 413,425	\$ 3,746	\$ 33,266,495	\$ 60,520,157

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(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 expanded or added to the principal.
- Restricted net assets – expendable consists of resources in which RALGOV is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, (for example, internally restricted), to indicate that management does not consider them to be available for general operations.

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

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(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, 2007

(2) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

RALGOV reports the following governmental fund types:

1. 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(2) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

iv. Permanent Funds, Continued

The final payment was received on October 2001. Pursuant of Section 7.2(2) the Agreement, after the final payment is received, the Claims Trust Fund is required to distribute annually to the people of Rongelap, through the Local Distribution Authority, between 15% and 70% of its net income. The remaining 30% to 85% shall be retained and added to the corpus of the Claims Trust Fund. In addition, pursuant to Section 8.1 of the trust agreement, RALGOV may also invade up to 3% of the corpus of the Claims Trust Fund. Such invasion may occur in the event of an unforeseen natural disaster or other similar circumstance, as determined by the sole discretion of RALGOV, in order to prevent hardship to the people of Rongelap. An invasion of the corpus shall not occur more frequently than once every three years.

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, 2007, for the primary government's individual major governmental funds, including applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	Local Resettlement <u>Trust</u>	Distribution <u>Authority</u>	Resettlement <u>Phase One</u>	Claims <u>Trust</u>	<u>Total</u>
Receivables:						
Employee	\$ 26,861	\$ -	\$ 4,646	\$ 16,880	\$ -	\$ 48,387
Federal agencies	26,693	-	-	138,392	-	165,085
Interest	-	130,264	-	-	115,166	245,430
Other	<u>78,834</u>	<u>-</u>	<u>7,304</u>	<u>229,261</u>	<u>-</u>	<u>315,399</u>
	132,388	130,264	11,950	384,533	115,166	774,301
Allowance for uncollectible Accounts	<u>(14,473)</u>	<u>-</u>	<u>-</u>	<u>(220,305)</u>	<u>-</u>	<u>(234,778)</u>
	<u>\$ 117,915</u>	<u>\$ 130,264</u>	<u>\$ 11,950</u>	<u>\$ 164,228</u>	<u>\$ 115,166</u>	<u>\$ 539,523</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(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 \$33,151,329 and \$26,231,824, 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. During fiscal year 2007, RALGOV implemented a capitalization threshold policy. Asset acquisitions of \$5,000 and above are capitalized. No material change resulted from this change in accounting policy. 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, 2007

(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, 2007 are presently not determinable.

N. New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 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.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 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 Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a 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.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(2) Summary of Significant Accounting Policies, Continued

N. New Accounting Standards, Continued

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of RALGOV.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. 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.

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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(3) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2007, the carrying amount of the RALGOV's total cash and cash equivalents were \$805,653 and the corresponding bank balances were \$846,034. Of the bank balance amounts, \$829,747 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007, 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, 2007, investment at fair value are as follows:

Resettlement Trust Fund:

Cash management	\$ 714,483
Domestic equities	8,143,213
Foreign equities	6,639,446
Mutual funds	449,881
U.S. Government notes and bonds	7,256,386
Corporate notes and bonds	1,332,470
Foreign bonds	469,719
Unit investment trust	<u>1,226,226</u>
	<u>26,231,824</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(3) Deposits and Investments, Continued

B. Investments, Continued

Claims Trust Fund:

Cash management	2,707,794
Future managed assets	5,755,330
Domestic equities	12,424,168
Foreign equities	2,643,792
Equity fund	413,861
U.S. Government notes and bonds	6,206,123
Corporate notes and bonds	1,128,965
Foreign bonds	400,313
Unit investment trust	<u>1,470,983</u>
	<u>33,151,329</u>
	\$ <u>59,383,153</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, 2007.

As of September 30, 2007, the Resettlement Trust Funds' investment in debt securities were as follows:

	Moody's Credit Rating		Investment			Maturities	(In years)	Fair Value
			Less than 1	1 to 5	6 to 10	Greater than 10		
US Treasury Obligation	Aaa	\$	-	\$ 4,437,100	\$ 1,343,407	\$ -	\$ 5,780,507	
US Government agencies	Aaa		-	1,475,879	-	-	1,475,879	
Corporate notes	Aaa		-	210,384	-	-	210,384	
Corporate notes	Aa2		-	188,596	-	-	188,596	
Corporate notes	A2		-	369,769	-	-	369,769	
Corporate notes	A1		-	-	185,229	-	185,229	
Corporate notes	Baa1		-	227,968	-	-	227,968	
Corporate notes	Baa3		-	150,524	-	-	150,524	
Foreign bonds	Aaa		-	285,209	-	-	285,209	
Foreign bonds	Baa1		-	<u>184,510</u>	-	-	<u>184,510</u>	
		\$	<u>-</u>	\$ <u>7,529,939</u>	\$ <u>1,528,636</u>	\$ <u>-</u>	\$ <u>9,058,575</u>	

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(3) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2007 the Claims Trust Funds' investment in debt securities were as follows:

	Moody's Credit Rating	Investment				Maturities (In years) Greater than 10	Fair Value
		Less than 1	1 to 5	6 to 10			
US Treasury Obligation	Aaa	\$ -	\$ 3,813,071	\$ 1,137,571	\$ -	\$ 4,950,642	
US Government agencies	Aaa	-	1,255,482	-	-	1,255,482	
Corporate notes	Aaa	-	183,112	-	-	183,112	
Corporate notes	Aa2	-	155,840	-	-	155,840	
Corporate notes	A2	-	315,032	-	-	315,032	
Corporate notes	A1	-	-	156,808	-	156,808	
Corporate notes	Baa1	-	192,737	-	-	192,737	
Corporate notes	Baa3	-	125,436	-	-	125,436	
Foreign bonds	Aaa	-	242,731	-	-	242,731	
Foreign bonds	Baa1	-	157,581	-	-	157,581	
		\$ -	\$ 6,441,022	\$ 1,294,379	\$ -	\$ 7,735,401	

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.

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. RTCI ceased operations in February 2006 following significant losses from prior years. At September 30, 2007, RALGOV's investment in RTCI amounted to \$0.

A summary of audited financial information of Rongelap Tourism Company, Inc. as of and for the twelve months ended September 30, 2007, accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>494,926</u>
Liabilities	\$ <u>506,028</u>
Net loss	\$ <u>(93,361)</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, 2007, are summarized as follows:

<u>Due from Receivable Fund</u>	<u>Due to Payable Fund</u>	<u>Amount</u>
General Fund	Local Distribution Authority Fund	\$ 4,153
Resettlement Phase One Fund	Local Distribution Authority Fund	<u>54,877</u>
		\$ <u>59,030</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(5) Capital Assets

Capital assets activities for the year ended September 30, 2007, is as follows:

	Balance October <u>1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2007</u>
Airport and dock	\$ 5,030,372	\$ -	\$ -	\$ 5,030,372
Roads	2,393,680	-	-	2,393,680
Buildings/facility and improvements	2,483,329	-	(2,645)	2,480,684
Motor vehicles	528,204	5,800	(211,600)	322,404
Other equipment	560,663	-	(39,715)	520,948
Office equipment	47,655	-	(16,011)	31,644
Furniture and fixtures	<u>53,077</u>	<u>-</u>	<u>(44,430)</u>	<u>8,647</u>
	11,096,980	5,800	(314,401)	10,788,379
Less accumulated depreciation	<u>(3,088,419)</u>	<u>(462,061)</u>	<u>314,401</u>	<u>(3,236,079)</u>
	\$ <u>8,008,561</u>	\$ <u>(456,261)</u>	\$ <u>-</u>	\$ <u>7,552,300</u>

Depreciation expense was charged to functions/programs as follows:

Council	\$ 7,736
Finance	11,637
Office of the Mayor	5,402
Phase-1 Engineering	5,247
Social services	12,727
Transportation and communication	29,415
Resettlement program	<u>389,897</u>
	\$ <u>462,061</u>

(6) Notes Payable

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

The changes in notes payable during the year ended September 30, 2007, is as follows:

Balance October 1, 2006	<u>Additions</u>	<u>Payments</u>	Balance September 30, 2007	Due Within <u>12 months</u>
\$ <u>586,009</u>	\$ <u>144,000</u>	\$ <u>1,979</u>	\$ <u>728,030</u>	\$ <u>5,487</u>

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(6) Notes Payable, Continued

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 5,487	\$ 48,141	\$ 53,628
2009	9,072	44,556	53,628
2010	9,938	43,690	53,628
2011	10,900	42,728	53,628
2012	11,802	41,826	53,628
2013 – 2017	71,548	196,592	268,140
2018 – 2022	96,800	171,340	268,140
2023 – 2027	130,979	137,161	268,140
2028 – 2032	177,206	90,934	268,140
2033 – 2037	172,093	34,114	206,207
2038 – 2042	30,450	4,813	35,263
2043 - 2046	<u>1,755</u>	<u>33</u>	<u>1,788</u>
Total	\$ <u>728,030</u>	\$ <u>855,928</u>	\$ <u>1,583,958</u>

(7) Transfers In/Out

Operating transfers in/out for all major fund types, for the year ended September 30, 2007, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Resettlement Trust Fund	General Fund	\$ 1,875,000	\$ 1,875,000
Resettlement Trust Fund	Resettlement Phase One Fund	2,066,632	2,066,632
Claims Trust Fund	Local Distribution Authority Fund	<u>2,662,900</u>	<u>2,662,900</u>
		\$ <u>6,604,532</u>	\$ <u>6,604,532</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 \$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 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.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2007

(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</u> <u>September 30,</u>	
2008	\$ 2,400
2009	2,400
2010	2,400
2011	2,400
2012	2,400
Subsequent years	<u>24,300</u>
	\$ <u>36,300</u>

(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, 2007

RONGELAP ATOLL LOCAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Budget and Actual - General Fund
Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Grant-in-Aid	23,000	23,000	3,445	(19,555)
Federal Grants	20,000	20,000	131,938	111,938
Nonfederal Grants	-	-	-	-
Others	-	-	<u>13,402</u>	<u>13,402</u>
Total revenues	<u>43,000</u>	<u>43,000</u>	<u>148,785</u>	<u>105,785</u>
Expenditures:				
Salaries, wages and benefits	651,219	651,219	681,710	(30,491)
Food program	61,076	61,076	115,663	(54,587)
Travel	249,226	249,226	219,000	30,226
Professional services	35,000	35,000	34,000	1,000
Scholarships	87,500	87,500	88,925	(1,425)
Donations	66,000	66,000	78,827	(12,827)
Repairs and maintenance	98,400	98,400	37,785	60,615
Rental	23,400	23,400	27,870	(4,470)
Training	44,920	44,920	59,437	(14,517)
Communications	20,120	20,120	37,113	(16,993)
Materials and supplies	25,000	25,000	22,516	2,484
Grant-in-aid matching	48,000	48,000	-	48,000
Equipment	12,800	12,800	17,625	(4,825)
Petroleum oil and lubricants	36,435	36,435	39,983	(3,548)
Utilities	17,400	17,400	24,830	(7,430)
Loss on investment	-	-	46,680	(46,680)
Miscellaneous	<u>66,504</u>	<u>66,504</u>	<u>47,781</u>	<u>18,723</u>
Total expenditures	<u>1,543,000</u>	<u>1,543,000</u>	<u>1,579,745</u>	<u>(36,745)</u>
Deficiency of revenues under expenditures	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(1,430,960)</u>	<u>69,040</u>
Other financing sources (uses):				
Operating transfers in	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,875,000</u>	<u>375,000</u>
Total other financing sources	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,875,000</u>	<u>375,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	-	-	444,040	444,040
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	41,130	41,130
Unreserved fund balance at beginning of year	<u>(170,767)</u>	<u>(170,767)</u>	<u>(170,767)</u>	<u>-</u>
Unreserved fund balance (deficit) at end of year	<u>\$ (170,767)</u>	<u>\$ (170,767)</u>	<u>\$ 314,403</u>	<u>\$ 485,170</u>

See accompanying notes to basic financial statements.

RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2007

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.