

**RONGELAP ATOLL LOCAL GOVERNMENT**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2004**

# 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, 2004, 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.

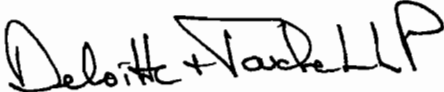
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2004, 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.

As discussed in Note 2, during the year ended September 30, 2004, RALGOV adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The implementation of these standards changed the basic financial statement reporting model to include government-wide, full accrual statements and created a modified reporting of the fund perspective financial statements. Implementing these standards also required reporting of infrastructure assets and included the requirement for reporting a Management's Discussion and Analysis as required supplementary information. Beginning net asset and fund balances have been restated to account for the implementation of these accounting standards.

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 GASB. 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.

  
April 21, 2008

# **RONGELAP ATOLL LOCAL GOVERNMENT**

## **Management's Discussion and Analysis September 30, 2004**

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, 2004. 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.

Because RALGov is implementing new reporting standards for fiscal year 2004, resulting in significant changes in content and structure, much of the information is not comparable to prior years. However, in future years, comparisons will be more meaningful and will go further towards explaining RALGov's financial position and results of operations.

### **RALGov's Financial Statements**

RALGov's basic financial statements comprise three components: 1) Government-wide financial statements, 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 are prepared on the budgetary basis of accounting in addition to the 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.

# RONGELAP ATOLL LOCAL GOVERNMENT

## Management's Discussion and Analysis September 30, 2004

### Financial Highlights

1. The CTF earned 9.3% or \$2,795,744 while the RTF earned 11.7% or \$3,195,945 during fiscal year 2004.
2. RALGov's net assets decreased by \$1,274,518 during fiscal year 2004. Expenses for the government-wide activities totaled \$7,444,217 while revenues were \$6,169,699, resulting in the decrease in net assets for the year.

### 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 2004, RALGov's assets exceeded liabilities by \$64,955,725; however, it should be noted that \$30,507,112 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 follows:

Current and other assets	\$ 56,999,248
Capital assets, net of accumulated depreciation	<u>8,292,220</u>
Total assets	\$ <u>65,291,468</u>
Current liabilities	\$ <u>335,743</u>
Net assets:	
Invested in capital assets	8,292,220
Unrestricted	474,580
Restricted	<u>56,188,925</u>
Total net assets	\$ <u>64,955,725</u>

# RONGELAP ATOLL LOCAL GOVERNMENT

## Management's Discussion and Analysis September 30, 2004

### Changes in Net Assets

Governmental activities for the year ended September 30, 2004 decreased RALGov's net assets by \$1,274,518. Key elements of the decrease are as follows:

Program revenues:		
Operating grants and contributions	\$	2,958,339
Capital grants and contributions		26,415
General revenues:		
Investment earnings		<u>3,195,945</u>
Total revenues		<u>6,180,699</u>
Expenses:		
Council		301,069
Education		199,654
Finance		284,551
Health and sanitation		22,734
Office of the Mayor		140,373
Phase 1 - Engineering		96,833
Public safety		102,869
Social services		399,961
Transportation and communication		218,563
Resettlement program		3,341,453
Nuclear claims related		1,810,438
Investment management activities		391,444
Other		<u>145,275</u>
Total expenses		<u>7,455,217</u>
Change in net assets		(1,274,518)
Net assets at the beginning of the year		<u>66,230,243</u>
Net assets at the end of the year	\$	<u>64,955,725</u>

### RALGov's revenue sources:

Federal grants	\$	187,949	3.0 %
Resettlement Trust Fund earnings		3,195,945	51.7 %
Claims Trust Fund earnings		2,795,744	45.2 %
Others		<u>1,061</u>	<u>0.1 %</u>
Total revenues	\$	<u>6,180,699</u>	<u>100.0%</u>

# RONGELAP ATOLL LOCAL GOVERNMENT

## Management's Discussion and Analysis September 30, 2004

### 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 2004, RALGov's governmental funds reported a combined fund balance of \$56,663,505, a decrease of \$971,199 or 1.7% of the combined fund balance at the beginning of the year. The decrease is primarily attributable to the lower income performance of the Resettlement Trust Fund (\$4,153,397 in 2003 compared with \$3,195,945 in 2004).

### General Fund Budget Analysis

For fiscal year 2004, the budget for the General Fund was \$1,500,000 to be funded by a drawdown from the Resettlement Trust Fund and \$151,600 from grants. During the year ended September 30, 2004, the net deficiency of revenues under expenditures for the General Fund was \$198,219. 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	\$ 623,800	\$ 579,098	\$ 41,702
Food program	209,600	312,542	(102,942)
Travel	194,500	242,414	(47,914)
Professional services	66,800	75,477	(8,677)
Scholarships and trainings	103,000	75,300	27,700
Donations	61,500	103,861	(42,361)
Repairs and maintenance	56,100	42,185	13,915
Rental	47,400	25,325	22,075
Communications	22,700	37,226	(14,526)
Materials and supplies	15,000	19,877	(4,877)
Equipment	-	6,760	(6,760)
Freight	3,900	9,879	(5,979)
Miscellaneous	98,700	139,157	(40,457)
Loss on Investment	<u>-</u>	<u>145,275</u>	<u>(145,275)</u>
 Total	 1,500,000	 1,814,376	 (314,376)
Grants	-	162,595	162,595
Transfers In	<u>1,500,000</u>	<u>1,850,000</u>	<u>350,000</u>
 Deficiency of revenue and other financing sources under Expenses	 \$ <u>-</u>	 \$ <u>(198,219)</u>	 \$ <u>(198,219)</u>

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

- Salaries and wages positive variance of \$41,702 is the salaries and benefits of the new city manager. The former chief accountant, whose salaries and benefits fall under the salaries and wages, was promoted to the City Manager position, which is under the professional services account. In addition, there was a favorable budget variance for employee insurance of \$12,100 due to a the new employee insurance scheme.
- Food program negative variance of \$102,942 includes \$79,183 for USDA Food Program Grant expenditure. Excluding the \$79,183 USDA grant, net negative variance would be \$23,759. During the fiscal year, Mejatto community food requests exceeded that of the budgeted amount.



## RONGELAP ATOLL LOCAL GOVERNMENT

### Management's Discussion and Analysis September 30, 2004

- Travel negative variance of \$47,914 is due to per diems for both local and international travel. There were more than anticipated trips to Washington D.C. as a result of negotiations with the Changed Circumstances Petition during fiscal year 2004.
- Scholarships positive variance of \$27,700 is due to the less number of students that availed of the scholarship program than anticipated during fiscal year 2004.
- Donations negative variance of \$42,361 is due primarily to assistance given for funerals of deceased Rongelapese, and donations to various clubs, meetings, fund raisers, NGOs, and schools during fiscal year 2004. Funeral assistance and donations posted a deficit of \$20,000 and \$22,000 respectively.
- Repairs and maintenance positive variance of \$13,915 is due to the combined under utilization of programmed amounts as follows:
  - Maintenance of School, \$7,000
  - Maintenance of RalGov city hall, \$3,500
  - Maintenance of boats, \$3,500
- Rental positive variance of \$22,075 is due to the non utilization of the budget for boat charters. Bravo boat, RALGov inter-island boat was working well during the year.
- Communications negative variance of \$14,526 is due to the necessary long distance calls and internet usage during fiscal year 2004.
- Freight negative variance of \$5,979 is due to increased air freight of goods to Mejatto and Rongelap.
- Miscellaneous negative variance of \$40,457 is net of the electricity and water reimbursement from DOE \$72,412 and net surplus of \$31,955 from various accounts like printing and publishing, property insurance, electricity and water, petroleum, matching fund, miscellaneous and contingencies.
- RalGov received a total of \$151,595 in grants from the USDA Food Program and reimbursements for electricity and water that DOE is using at Rongelap Atoll.
- Actual realized loss in investment during the year was \$145,275.
- In September 2004, RALGov advanced the fiscal year 2005 first quarter operations budget of \$350,000.

# RONGELAP ATOLL LOCAL GOVERNMENT

## Management's Discussion and Analysis September 30, 2004

### Capital Assets and Debt Administration

RALGov's investment in capital assets for its governmental activities as of September 30, 2004 amounted to \$10,683,422, net of accumulated depreciation of \$2,391,202 for a net book value of \$8,292,220. With implementation of new GASB standards in fiscal year 2004, assets are required to be reported on RALGov's statement of net assets. During fiscal year 2004, additions of \$631,322 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	2,034,096
Motor Vehicles	502,035
Other Equipments	564,582
Office Equipments	94,987
Furniture and Fixtures	<u>63,670</u>
Totals	10,683,422
Less Accumulated Depreciation	<u>2,391,202</u>
Total Capital Assets, net of Depreciation	\$ <u>8,292,220</u>

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

As of and for the year ended September 30, 2004, RALGov did not incur any long-term debt obligations.

### Next Year Budget

The budget for fiscal year 2005 remains relatively the same for all the funds. As phase 1 projects line up has been completed, construction of houses commences. Houses at Rongelap and Majuro will be built through the USDA housing loan program. This loan includes interest terms of approximately 5% per annum with loan maturities of 30 to 35 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. Based on the historical average, trust funds are projected to generate 10% income in fiscal year 2005.

The first installment of \$1,780,000 for the additional \$5,300,000 U.S. Department of the Interior award will be received at the beginning of the next fiscal year. This money will be deposited to the Resettlement Trust Funds.

### 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, 2004

### ASSETS

#### Current assets:

Cash and cash equivalents	\$ 807,503
Time certificate of deposit	47,966
Investments	263,776
Receivables	344,161
Prepaid items	<u>62,005</u>
Total current assets	1,525,411

#### Noncurrent assets:

##### Restricted assets:

Investments	55,473,837
Capital assets, net of accumulated depreciation	<u>8,292,220</u>

Total noncurrent assets 63,766,057

Total assets \$ 65,291,468

### LIABILITIES

#### Current liabilities:

Accounts payable	\$ 235,614
Other liabilities and accruals	<u>100,129</u>
Total liabilities	<u>335,743</u>

Commitment and contingency

### NET ASSETS

Invested in capital assets	8,292,220
Restricted for:	
Nonexpendable	30,507,112
Expendable	25,681,813
Unrestricted	<u>474,580</u>
Total net assets	<u>64,955,725</u>

Total liabilities and net assets \$ 65,291,468

See accompanying notes to basic financial statements.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Statement of Activities  
Year Ended September 30, 2004

	Program Revenues			Net (Expenses) Revenues
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Functions/Programs</u>				
Government activities:				
Council	\$ 301,069	\$ -	\$ -	\$ (301,069)
Education	199,654	-	-	(199,654)
Finance	284,551	83,412	-	(201,139)
Health and sanitation	22,734	-	-	(22,734)
Office of the Mayor	140,373	-	-	(140,373)
Phase 1 - Engineering	96,833	-	-	(96,833)
Public safety	102,869	-	-	(102,869)
Social services	399,961	79,183	-	(320,778)
Transportation and communication	218,563	-	-	(218,563)
Resettlement program	3,341,453	2,795,744	26,415	(519,294)
Nuclear claims related	1,810,438	-	-	(1,810,438)
Investment management activities	391,444	-	-	(391,444)
Other	145,275	-	-	(145,275)
	<u>\$ 7,455,217</u>	<u>\$ 2,958,339</u>	<u>\$ 26,415</u>	<u>(4,470,463)</u>
General revenues:				
Investment earnings				3,195,945
Change in net assets				(1,274,518)
Net assets at beginning of the year				66,230,243
Net assets at end of the year				<u>\$ 64,955,725</u>

See accompanying notes to basic financial statements.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Balance Sheet  
Governmental Funds  
September 30, 2004

	Special Revenue			Capital	Permanent	Total
	General	Resettlement	Local	Resettlement	Claims	
		Trust	Distribution	Phase One	Trust	
		Authority				
<b>ASSETS</b>						
Cash and cash equivalents	\$ 345,739	\$ -	\$ 416,466	\$ 45,298	\$ -	\$ 807,503
Time certificate of deposit	47,966	-	-	-	-	47,966
Investments	263,776	-	-	-	-	263,776
Receivables	47,067	107,814	6,812	104,714	77,754	344,161
Prepaid items	22,005	40,000	-	-	-	62,005
Due from other funds	20,823	100,000	54,626	233,000	600,000	1,008,449
Restricted assets:						
Investments	-	25,644,479	-	-	29,829,358	55,473,837
	<u>\$ 747,376</u>	<u>\$ 25,892,293</u>	<u>\$ 477,904</u>	<u>\$ 383,012</u>	<u>\$ 30,507,112</u>	<u>\$ 58,007,697</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 68,742	\$ -	\$ -	\$ 166,872	\$ -	\$ 235,614
Other liabilities and accruals	49,428	-	50,701	-	-	100,129
Due to other funds	154,626	600,000	233,000	20,823	-	1,008,449
Total liabilities	<u>272,796</u>	<u>600,000</u>	<u>283,701</u>	<u>187,695</u>	<u>-</u>	<u>1,344,192</u>
Fund balances:						
Reserved for:						
Related assets	263,776	-	-	-	-	263,776
Resettlement program	-	25,292,293	-	-	-	25,292,293
Capital projects	-	-	-	195,317	-	195,317
Claims	-	-	194,203	-	30,507,112	30,701,315
Unreserved	210,804	-	-	-	-	210,804
Total fund balances	<u>474,580</u>	<u>25,292,293</u>	<u>194,203</u>	<u>195,317</u>	<u>30,507,112</u>	<u>56,663,505</u>
Total liabilities and fund balances	<u>\$ 747,376</u>	<u>\$ 25,892,293</u>	<u>\$ 477,904</u>	<u>\$ 383,012</u>	<u>\$ 30,507,112</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

8,292,220

Net assets of governmental activities

\$ 64,955,725

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, 2004

	Special Revenue			Capital	Permanent	Total
	General	Resettlement Trust	Local	Resettlement Phase One	Claims Trust	
			Distribution Authority			
<b>Revenues:</b>						
Federal and other grants	\$ 161,534	\$ -	\$ -	\$ 26,415	\$ -	\$ 187,949
Dividends and interest	-	822,702	-	-	691,672	1,514,374
Net increase in the fair value of investments	-	2,373,125	-	-	2,104,050	4,477,175
Other	1,061	118	-	-	22	1,201
<b>Total revenues</b>	<b>162,595</b>	<b>3,195,945</b>	<b>-</b>	<b>26,415</b>	<b>2,795,744</b>	<b>6,180,699</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Council	294,215	-	-	-	-	294,215
Education	198,106	-	-	-	-	198,106
Finance	265,250	-	-	-	-	265,250
Health and sanitation	22,734	-	-	-	-	22,734
Office of the Mayor	132,521	-	-	-	-	132,521
Phase 1 - Engineering	68,255	-	-	-	-	68,255
Public safety	102,869	-	-	-	-	102,869
Social services	388,248	-	-	-	-	388,248
Transportation and communication	190,646	-	-	-	-	190,646
Resettlement program	-	1,000,000	-	1,935,945	-	2,935,945
Nuclear claims related	-	-	1,810,438	-	-	1,810,438
Investment management	-	192,102	-	-	199,342	391,444
Loss on investment	145,275	-	-	-	-	145,275
Capital outlays	6,257	-	-	199,695	-	205,952
<b>Total expenditures</b>	<b>1,814,376</b>	<b>1,192,102</b>	<b>1,810,438</b>	<b>2,135,640</b>	<b>199,342</b>	<b>7,151,898</b>
<b>Excess (deficiency) of revenues (under) over expenditures</b>	<b>(1,651,781)</b>	<b>2,003,843</b>	<b>(1,810,438)</b>	<b>(2,109,225)</b>	<b>2,596,402</b>	<b>(971,199)</b>
<b>Other financing sources (uses):</b>						
Operating transfers in	1,850,000	-	2,100,000	2,198,645	-	6,148,645
Operating transfers out	-	(4,048,645)	-	-	(2,100,000)	(6,148,645)
<b>Total other financing sources (uses), net</b>	<b>1,850,000</b>	<b>(4,048,645)</b>	<b>2,100,000</b>	<b>2,198,645</b>	<b>(2,100,000)</b>	<b>-</b>
<b>Net change in fund balances (deficit)</b>	<b>198,219</b>	<b>(2,044,802)</b>	<b>289,562</b>	<b>89,420</b>	<b>496,402</b>	<b>(971,199)</b>
<b>Fund balances (deficit) at beginning of year</b>	<b>276,361</b>	<b>27,337,095</b>	<b>(95,359)</b>	<b>105,897</b>	<b>30,010,710</b>	<b>57,634,704</b>
<b>Fund balances at end of year</b>	<b>\$ 474,580</b>	<b>\$ 25,292,293</b>	<b>\$ 194,203</b>	<b>\$ 195,317</b>	<b>\$ 30,507,112</b>	<b>\$ 56,663,505</b>

See accompanying notes to basic financial statements.

**RONGELAP ATOLL LOCAL GOVERNMENT**

**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances (Deficit) of Governmental Funds  
to the Statement of Activities  
Year Ended September 30, 2004**

Net change in fund balances (deficit) - total governmental funds from page 12      \$      (971,199)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were less than depreciation in the current period.

(303,319)

Change in net assets of governmental activities as presented on page 10

\$      (1,274,518)

See accompanying notes to basic financial statements.

# RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2004

## (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, 2004

## (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, 2004

### (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.

##### ii. Capital Projects Funds

These funds account for the acquisition or construction of major RALGOV capital facilities financed primarily from Resettlement Trust Fund.

The capital projects fund of RALGOV (the Resettlement Phase One Fund) accounts for funds received from the Resettlements Trust Fund under the agreement between the United States Department of the Interior and RALGOV regarding Phase I resettlement 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 and established the Claims Trust Fund. Pursuant to Section 7.2 of the trust agreement, after the final payment was received on October, 2001, the Claim Trust Fund was required to distribute annually to the people of Rongelap between 15% and 70% of its net income. In addition, pursuant to Section 8.1 of the trust agreement, RALGOV may also invade up to 3% of the corpus of the Claims Trust Fund. Such invasion may occur in the event of an unforeseen natural disaster or other similar circumstance, as determined by the sole discretion of RALGOV, in order to prevent hardship to the people of Rongelap. An invasion of the corpus shall not occur more frequently than once every three years.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2004

(2) Summary of Significant Accounting Policies, Continued

D. Cash and Cash Equivalents and Time Certificate of Deposit

Cash and cash equivalents include cash held in demand accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net assets. As of September 30, 2004, the carrying amount of RALGOV's total cash and cash equivalents and time certificates of deposit were \$855,469 and the corresponding bank balances were \$954,440. Of the bank balance amounts, \$907,331 were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004, 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.

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 allowances for uncollectable accounts.

Receivables as of September 30, 2004, 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	\$ 17,688	\$ -	\$ -	\$ 10,528	\$ -	\$ 28,216
Federal agencies	8,124	-	-	-	-	8,124
Interest	-	107,814	-	-	77,754	185,568
Other	<u>21,255</u>	<u>-</u>	<u>6,812</u>	<u>94,186</u>	<u>-</u>	<u>122,253</u>
	<u>\$ 47,067</u>	<u>\$ 107,814</u>	<u>\$ 6,812</u>	<u>\$ 104,714</u>	<u>\$ 77,754</u>	<u>\$ 344,161</u>

G. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both 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 governmental funds balance sheet.

# RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2004

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

### H. Interfund Receivables/Payables, Continued

Interfund receivables and 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, cash investments of \$29,829,358 and \$25,644,479, 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.

### 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.

## RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2004

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

#### 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, 2004 are presently not determinable.

#### N. New Accounting Standards

During fiscal 2004, RALGOV implemented the following new accounting standards issued by the GASB:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, establishes new financial reporting standards for state and local governments. The requirements of this statement result in a significant change in the financial reporting model used by governments, including statement formats and changes in fund types. In addition to the traditional fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statements were required.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, amends certain note disclosures and adds additional note disclosure requirements related to GASB Statement Nos. 34 and 37.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units (an amendment of GASB Statement No. 14)*, which provides, additional guidance on GASB Statement No. 14, in determining whether an entity should be reported as a component unit based on nature and significance of its relationship with a primary government.

GASB Statement No. 41, *Budgetary Comparison Schedules - Perspective Differences*, amends required supplemental information disclosure of adopted budget and actual amounts per GASB Statement No. 34. Should there be a perspective difference between these amounts and fund perspective revenues and expenditures, reconciliation is required.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34*, which improves the understandability and comparability of net assets information by making the assessment of legal enforceability more uniform across governments. This statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2004

(2) Summary of Significant Accounting Policies, Continued

N. New Accounting Standards, Continued

Due to the implementation of GASB Statement Nos. 34 and 37, the beginning net assets of the governmental activities in the statement of net assets have been restated. Fund balances of the governmental funds at September 30, 2003 were increased by \$8,595,539 for the cumulative effect of these changes on years prior to fiscal year 2004. The effect on those items are as follows:

Fund balances reported as of September 30, 2003	\$ <u>57,634,704</u>
Adjustments:	
Capital assets	10,491,470
Accumulated depreciation	<u>(1,895,931)</u>
	<u>8,595,539</u>
Net assets as of September 30, 2003, as restated	\$ <u>66,230,243</u>

In fiscal year 2005, RALGOV will implement GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which 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 risk, GASB Statement No. 40 requires certain disclosures of investment risks that have fair value that are highly sensitive to changes in interest rates.

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.

In May 2004, GASB issued 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. The provisions of this statement are effective for periods beginning after June 15, 2005. 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 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.

**RONGELAP ATOLL LOCAL GOVERNMENT**

Notes to Financial Statements  
September 30, 2004

**(3) Investments**

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

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

**A. Resettlement Trust Fund**

Investments of the Expendable Trust Funds as of September 30, 2004, are as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Resettlement Trust Fund:				
Common stocks	\$ -	\$ 13,594,983	\$ -	\$ 13,594,983
Preferred stocks	-	208,740	-	208,740
U.S. Government notes and bonds	-	4,178,664	-	4,178,664
Corporate notes and bonds	-	5,040,178	-	5,040,178
Unit investment trust	-	<u>1,257,888</u>	-	<u>1,257,888</u>
	\$ <u>-</u>	\$ <u>24,280,453</u>	\$ <u>-</u>	24,280,453
Cash management				<u>1,364,026</u>
				\$ <u>25,644,479</u>

**B. Claims Trust Fund**

Investments of the Nonexpendable Trust Fund as of September 30, 2004, are as follows:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
Claims Trust Fund:				
Future managed assets	\$ -	\$ 5,832,005	\$ -	\$ 5,832,004
Preferred stocks	-	8,446,678	-	8,446,678
Common stocks	-	221,520	-	221,520
U.S. Government notes and bonds	-	3,636,063	-	3,636,063
Corporate notes and bonds	-	3,932,492	-	3,932,492
Unit investment trust	-	<u>642,674</u>	-	<u>642,674</u>
	\$ <u>-</u>	\$ <u>22,711,432</u>	\$ <u>-</u>	22,711,432
Cash management				<u>7,117,927</u>
				\$ <u>29,829,358</u>

## RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2004

### (3) Investments, Continued

#### C. General Fund

RALGOV holds a 49.9% equity interest in Rongelap Tourism Company, Inc. (RTCI), which engages in tourism activities in the Republic of the Marshall Islands.

A summary of audited financial information of RTCI as of and for the twelve months ended September 30, 2004, accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>599,030</u>
Liabilities	\$ <u>121,479</u>
Net loss	\$ <u>(290,550)</u>

The investment is accounted for on the equity method. At September 30, 2004, RALGOV's investment in RTCI amounted to \$263,776.

### (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, 2004, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Resettlement Phase One Fund	\$ 20,823
Resettlement Phase One Fund	Local Distribution Authority Fund	233,000
Resettlement Trust Fund	General Fund	100,000
Local Distribution Authority Fund	General Fund	54,626
Claims Trust Fund	Resettlement Trust Fund	<u>600,000</u>
		<u>\$ 1,008,449</u>

### (5) Capital Assets

Capital asset activities the year ended September 30, 2004, are as follows:

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2004</u>
Airport and dock	\$ 5,030,372	\$ -	\$ -	\$ 5,030,372
Roads	2,393,680	-	-	2,393,680
Buildings/facility and improvements	1,500,846	533,250	-	2,034,096
Motor vehicles	502,035	-	-	502,035
Other equipment	480,510	98,072	(14,000)	564,582
Office equipment	94,987	-	-	94,987
Furniture and fixtures	<u>63,670</u>	<u>-</u>	<u>-</u>	<u>63,670</u>
	10,066,100	631,322	(14,000)	10,683,422
Less accumulated depreciation	<u>(1,895,931)</u>	<u>(509,271)</u>	<u>14,000</u>	<u>(2,391,202)</u>
	8,170,169	122,051	-	8,292,220
Construction work in progress	<u>425,370</u>	<u>-</u>	<u>(425,370)</u>	<u>-</u>
	<u>\$ 8,595,539</u>	<u>\$ 122,051</u>	<u>\$ (425,370)</u>	<u>\$ 8,292,220</u>



## RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2004

### (5) Capital Assets, Continued

Depreciation expense was charged to functions/programs as follows:

Council	\$ 6,854
Education	1,548
Finance	19,301
Office of the Mayor	7,852
Phase-1 Engineering	28,578
Social services	11,713
Transportation and communication	27,917
Resettlement program	<u>405,508</u>
	<u>\$ 509,271</u>

### (6) Transfers In/Out

Operating transfers in/out for all fund types, for the year ended September 30, 2004, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Resettlement Trust Fund	General Fund	\$ 1,850,000	\$ 1,850,000
Resettlement Trust Fund	Resettlement Phase One Fund	2,198,645	2,198,645
Claims Trust Fund	Local Distribution Authority Fund	<u>2,100,000</u>	<u>2,100,000</u>
		<u>\$ 6,148,645</u>	<u>\$ 6,148,645</u>

### (7) Contingency

RALGOV is a party to an action filed on February 8, 2007 in the High Court of RepMar by Marshall Islands Tech, Ltd. asserting its rights to a leasehold interest in Rongelap Atoll, where RALGOV has substantial property, and has claimed for rental payments from and after December 16, 2005. The suit also seeks for a sublease where RALGOV is to provide, in the first year, over \$14 million to MIT and a total of \$38 million, over 25 years, which is the allowed lease term. Management believes that resolution of this case will be in favor of RALGOV. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

## RONGELAP ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2004

### (8) 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>	
2005	\$ 2,400
2006	2,400
2007	2,400
2008	2,400
2009	2,400
2010-2014	12,000
2015-2019	12,000
2020-2023	<u>7,500</u>
	\$ <u>43,500</u>

### (9) Risk Management

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

### (10) Subsequent Event

On February 2006, RALGOV and Pacific International, Inc., which owns 50.1% of Rongelap Tourism Co., Inc. (RTCI) agreed to suspend operations of RTCI pending further study of its operations. As of September 30, 2007, stockholders equity of RTCI amounted to (\$11,102).

RONGELAP ATOLL LOCAL GOVERNMENT  
REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING  
YEAR ENDED SEPTEMBER 30, 2004

**RONGELAP ATOLL LOCAL GOVERNMENT**

Schedule of Revenues, Expenditures and Changes in  
Fund Balance (Deficit) - Budget and Actual - General Fund  
Year Ended September 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Revenues:</b>				
Grants	\$ -	\$ -	\$ 161,534	\$ 161,534
Other	-	-	1,061	1,061
<b>Total revenues</b>	<u>-</u>	<u>-</u>	<u>162,595</u>	<u>162,595</u>
<b>Expenditures:</b>				
Salaries, wages and benefits	620,800	620,800	579,098	41,702
Food program	209,600	209,600	312,542	(102,942)
Travel	194,500	194,500	242,414	(47,914)
Professional services	66,800	66,800	75,477	(8,677)
Scholarships	103,000	103,000	75,300	27,700
Donations	61,500	61,500	103,861	(42,361)
Loss on investment	-	-	145,275	(145,275)
Repairs and maintenance	56,100	56,100	42,185	13,915
Rental	47,400	47,400	25,325	22,075
Communications	22,700	22,700	37,226	(14,526)
Materials and supplies	15,000	15,000	19,877	(4,877)
Equipment	-	-	6,760	(6,760)
Freight	3,900	3,900	9,879	(5,979)
Miscellaneous	98,700	98,700	139,157	(40,457)
<b>Total expenditures</b>	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,814,376</u>	<u>(314,376)</u>
<b>Deficiency of revenues under expenditures</b>	<u>(1,500,000)</u>	<u>(1,500,000)</u>	<u>(1,651,781)</u>	<u>(151,781)</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	1,500,000	2,025,000	1,850,000	(175,000)
<b>Total other financing sources</b>	<u>1,500,000</u>	<u>2,025,000</u>	<u>1,850,000</u>	<u>(175,000)</u>
<b>Excess of revenues and other financing sources over expenditures</b>	-	525,000	198,219	(326,781)
<b>Other changes in unreserved fund deficit:</b>				
Decrease in reserve for related assets	-	-	20,275	20,275
<b>Unreserved fund deficit at the beginning of year</b>	<u>(7,690)</u>	<u>(7,690)</u>	<u>(7,690)</u>	<u>-</u>
<b>Unreserved fund balance (deficit) at end of year</b>	<u>\$ (7,690)</u>	<u>\$ 517,310</u>	<u>\$ 210,804</u>	<u>\$ (306,506)</u>

See Accompanying Independent Auditors' Report.

## RONGELAP ATOLL LOCAL GOVERNMENT

### Notes to Required Supplementary Information - Budgetary Reporting September 30, 2004

#### 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.