

UTRIK ATOLL LOCAL GOVERNMENT

**GENERAL PURPOSE FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2003

INDEPENDENT AUDITORS' REPORT

Mayor John Kaiko
Utrik Atoll Local Government
Republic of the Marshall Islands:

We have audited the accompanying combined balance sheet for all fund types and account groups of the Utrik Atoll Local Government (UALGOV) as of September 30, 2003. This combined balance sheet is the responsibility of the management of UALGOV. Our responsibility is to express an opinion on this combined balance sheet based on our audit.

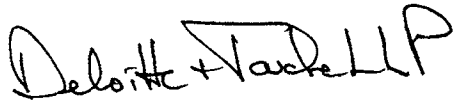
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

We were engaged to audit UALGOV's general purpose financial statements for the year ended September 30, 2002; however, we were unable to obtain written representations from management of UALGOV as required by auditing standards generally accepted in the United States of America. Therefore we were not able to satisfy ourselves about the account balances presented within the combined balance sheet for all fund types and account groups of UALGOV as of September 30, 2002. The combined balance sheet enters into the determination of results of operations for all fund types and cash flows for the nonexpendable trust fund of UALGOV for the year ended September 30, 2003.

Because of the significance of the matter discussed in the paragraph above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of all fund types for the year ended September 30, 2003.

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the financial position of UALGOV as of September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008, on our consideration of UALGOV's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

November 14, 2008

UTRIK ATOLL LOCAL GOVERNMENT

Combined Balance Sheet - All Fund Types and Account Groups
September 30, 2003
(With comparative totals as of September 30, 2002)

ASSETS	Governmental	Fiduciary		Account	Totals	
	Fund Type	Fund Types		Group	Reporting Entity	
	General	Expendable Trust	Non-expendable Trust	General Fixed Assets	(Memorandum Only)	
					2003	2002
Cash and cash equivalents	\$ 40,754	\$ 51,345	\$ -	\$ -	\$ 92,099	\$ 232,726
Investments	-	-	17,888,915	-	17,888,915	17,309,390
Receivables, net:						
Loans	1,899	-	-	-	1,899	16,246
Federal agencies	5,948	-	-	-	5,948	-
Accrued interest	-	-	-	-	-	70,486
Other	6,534	-	-	-	6,534	22,236
Due from other funds	16,997	-	-	-	16,997	6,136
Investment in fixed assets, net	-	-	-	30,497	30,497	32,027
	<u>\$ 72,132</u>	<u>\$ 51,345</u>	<u>\$ 17,888,915</u>	<u>\$ 30,497</u>	<u>\$ 18,042,889</u>	<u>\$ 17,689,247</u>
LIABILITIES AND FUND EQUITY (DEFICIENCY)						
Liabilities:						
Accounts payable	\$ 75,681	\$ 1,491	\$ -	\$ -	\$ 77,172	\$ 166,332
Distributions payable	-	14,133	-	-	14,133	150,000
Other liabilities and accruals	1,629	552	-	-	2,181	210,000
Taxes payable	39,675	-	-	-	39,675	4,289
Due to other funds	-	16,997	-	-	16,997	6,136
Total liabilities	<u>116,985</u>	<u>33,173</u>	<u>-</u>	<u>-</u>	<u>150,158</u>	<u>536,757</u>
Contingencies						
Fund equity (deficiency):						
Investment in general fixed assets	-	-	-	30,497	30,497	32,027
Fund balances (deficit):						
Reserved for claims	-	18,172	17,888,915	-	17,907,087	16,275,497
Reserved for related assets	1,899	-	-	-	1,899	16,246
Unreserved (deficit)	(46,752)	-	-	-	(46,752)	828,720
Total fund equity (deficit)	<u>(44,853)</u>	<u>18,172</u>	<u>17,888,915</u>	<u>30,497</u>	<u>17,892,731</u>	<u>17,152,490</u>
	<u>\$ 72,132</u>	<u>\$ 51,345</u>	<u>\$ 17,888,915</u>	<u>\$ 30,497</u>	<u>\$ 18,042,889</u>	<u>\$ 17,689,247</u>

See accompanying notes to general purpose financial statements.

UTRIK ATOLL LOCAL GOVERNMENT

Combined Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) -
All Governmental Fund Types and Expendable Trust Fund
Year Ended September 30, 2003
(With comparative totals for the year ended September 30, 2002)

	Governmental Fund Type	Fiduciary Fund Type Expendable	Totals Reporting Entity (Memorandum Only)	
	General	Trust	2003	2002
Revenues:				
Interest income	\$ 6,884	\$ -	\$ 6,884	\$ 5,556
Net increase (decrease) in the fair value of investments	(772)	-	(772)	319
Federal grants	171,979	-	171,979	-
Other	226,965	45,815	272,780	34
Total revenues	<u>405,056</u>	<u>45,815</u>	<u>450,871</u>	<u>5,909</u>
Expenditures:				
Distributions	-	1,235,646	1,235,646	600,000
General government:				
Professional services	213,397	-	213,397	232,163
Salaries, wages and benefits	128,490	-	128,490	84,998
Honorariums and sitting fees	114,947	-	114,947	90,578
Food program	98,979	-	98,979	-
Travel and stipends	90,116	-	90,116	47,817
Motor vehicle	42,000	-	42,000	-
Rental	17,977	-	17,977	10,565
Bad debts	15,253	-	15,253	-
Contributions	12,536	-	12,536	4,350
Communications	8,763	-	8,763	8,965
Equipment	6,496	-	6,496	-
Supplies	2,884	-	2,884	1,770
Representation	1,055	-	1,055	229
Fund manager fees	243	-	243	904
Contractual services	-	-	-	35,963
Miscellaneous	66,448	2,210	68,658	23,609
Total expenditures	<u>819,584</u>	<u>1,237,856</u>	<u>2,057,440</u>	<u>1,141,911</u>
Deficiency of revenues under expenditures	<u>(414,528)</u>	<u>(1,192,041)</u>	<u>(1,606,569)</u>	<u>(1,136,002)</u>
Other financing sources (uses):				
Operating transfers in	-	1,307,058	1,307,058	2,299,734
Operating transfers out	(572,136)	-	(572,136)	(470,000)
Total other financing sources (uses), net	<u>(572,136)</u>	<u>1,307,058</u>	<u>734,922</u>	<u>1,829,734</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(986,664)	115,017	(871,647)	693,732
Fund balances (deficit) at beginning of year	<u>941,811</u>	<u>(96,845)</u>	<u>844,966</u>	<u>151,234</u>
Fund balances (deficit) at end of year	<u>\$ (44,853)</u>	<u>\$ 18,172</u>	<u>\$ (26,681)</u>	<u>\$ 844,966</u>

See accompanying notes to general purpose financial statements.

UTRIK ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in
Fund Balances (Deficit) - Budget and Actual - General Fund
Year Ended September 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Interest income	\$ -	\$ 6,884	\$ 6,884
Net decrease in the fair value of investments	-	(772)	(772)
Federal grants	73,000	171,979	98,979
Nitijela appropriation	11,000	-	(11,000)
Other	-	226,965	226,965
	<u>84,000</u>	<u>405,056</u>	<u>321,056</u>
Total revenues			
Expenditures:			
General government:			
Professional services	240,000	213,397	26,603
Salaries, wages and benefits	126,464	128,490	(2,026)
Honorariums and sitting fees	104,500	114,947	(10,447)
Food program	-	98,979	(98,979)
Travel and stipends	101,500	90,116	11,384
Motor vehicle	42,000	48,496	(6,496)
Rental	9,344	17,977	(8,633)
Bad debts	-	15,253	(15,253)
Contributions	15,000	12,536	2,464
Communications	8,750	8,763	(13)
Supplies	6,200	2,884	3,316
Representation	2,000	1,055	945
Fund manager fees	-	243	(243)
Contractual services	2,500	-	2,500
Miscellaneous	49,995	66,448	(16,453)
	<u>708,253</u>	<u>819,584</u>	<u>(111,331)</u>
Total expenditures			
Deficiency of revenues under expenditures	<u>(624,253)</u>	<u>(414,528)</u>	<u>209,725</u>
Other financing sources (uses):			
Operating transfers in	624,253	-	(624,253)
Operating transfers out	-	(572,136)	(572,136)
	<u>624,253</u>	<u>(572,136)</u>	<u>(1,196,389)</u>
Total other financing sources (uses), net			
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	(986,664)	(986,664)
Other changes in unreserved fund balance:			
Decrease in reserve for related assets	-	14,347	14,347
Unreserved fund balance at beginning of year	<u>925,565</u>	<u>925,565</u>	<u>-</u>
Unreserved fund balance (deficit) at end of year	<u>\$ 925,565</u>	<u>\$ (46,752)</u>	<u>\$ (972,317)</u>

See accompanying notes to general purpose financial statements.

UTRIK ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenses and Changes in Fund Equity -
 Nonexpendable Trust Fund
 Year Ended September 30, 2003
 (With comparative totals for the year ended September 30, 2002)

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Section 177 Compact funding	\$ -	\$ 375,000
Dividends and interest	359,468	490,432
Net increase (decrease) in the fair value of investments	2,133,819	(1,282,295)
Other	<u>3,525</u>	<u>-</u>
Total operating revenues	<u>2,496,812</u>	<u>(416,863)</u>
Operating expenses:		
Fund manager fees	<u>148,472</u>	<u>156,347</u>
Total operating expenses	<u>148,472</u>	<u>156,347</u>
Operating income (loss)	<u>2,348,340</u>	<u>(573,210)</u>
Other financing uses:		
Operating transfers out	<u>(734,922)</u>	<u>(1,829,734)</u>
Total other financing uses	<u>(734,922)</u>	<u>(1,829,734)</u>
Net income (loss)	1,613,418	(2,402,944)
Fund balance at beginning of year	<u>16,275,497</u>	<u>18,678,441</u>
Fund balance at end of year	<u>\$ 17,888,915</u>	<u>\$ 16,275,497</u>

See accompanying notes to general purpose financial statements.

UTRIK ATOLL LOCAL GOVERNMENT

Statement of Cash Flows - Nonexpendable Trust Fund
Year Ended September 30, 2003
(With comparative totals for the year ended September 30, 2002)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 2,348,340	\$ (573,210)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Investment (income) loss	(2,496,812)	791,863
Decrease (increase) in assets:		
Accrued interest receivable	70,415	(7,305)
Other receivables	-	132,860
Increase (decrease) in liabilities:		
Accounts payable	(55,573)	55,573
Net cash (used for) provided by operating activities	<u>(133,630)</u>	<u>399,781</u>
Cash flows from noncapital financing activities:		
Operating transfers out	<u>(734,922)</u>	<u>(1,829,734)</u>
Net cash used for noncapital financing activities	<u>(734,922)</u>	<u>(1,829,734)</u>
Cash flows from investing activities:		
Net liquidation of investments	366,835	153,416
Net realized gains on investments	142,249	786,105
Interest and dividends on investments	359,468	490,432
Net cash provided by investing activities	<u>868,552</u>	<u>1,429,953</u>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to general purpose financial statements.

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Notes to Financial Statements
September 30, 2003

(1) Organization

The Utrik Atoll Local Government (UALGOV) 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 Utrik Atoll Local Government. UALGOV is governed by an elected mayor and a thirty two- member council.

(2) Summary of Significant Accounting Policies

The accompanying general purpose financial statements of UALGOV 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 UALGOV's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

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

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

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

Governmental funds are used to account for all or most of a government's general activities. The general fund is used to account for all general governmental activities of UALGOV not accounted for in another fund.

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

The expendable trust fund of UALGOV (the Local Distribution Authority Fund) accounts for funds received under the Utrik Claims Trust agreement. These funds are distributed by UALGOV to the people of Utrik based on an approved distribution scheme.

UTRIK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

A. Measurement Focus and Basis of Accounting, Continued

The nonexpendable trust fund of UALGOV (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 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, UALGOV executed the Utrik Claims Trust agreement. Under the agreement, the Claims Trust Fund receives \$1,500,000 annually in quarterly payments as compensation for loss or damage to property and person of the people of Utrik, of which 48% is distributed to the people of Utrik through the Local Distribution Authority Fund. In addition, pursuant to Section 4.2 of the trust agreement, after the final compensatory payment is received, the Claims Trust Fund is required to distribute at least annually to the people of Utrik, through the Local Distribution Authority, between 15% and 70% of its income. The remaining portion shall be retained and added to the corpus of the Claims Trust Fund. Pursuant to Section 5.1 of the trust agreement, UALGOV may also invade up to 3% of the corpus of the Claims Trust Fund. Such invasion may occur in the event of unforeseen disaster or other similar circumstance, as determined by the sole discretion of UALGOV, in order to prevent hardship to the people of Utrik. An invasion of the corpus shall not occur more frequently than once every three years.

B. Basis of Presentation

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

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

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

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

UTRIK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

C. Budget

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

The UALGOV Constitution provides for the Executive Committee to introduce into the Council budget estimates of revenues and expenditures, together with an Appropriation Ordinance, to be adopted on or before the beginning of each fiscal year. The Appropriation Ordinance is prepared at the fund level, which is the level at which UALGOV can legally amend it once it has been adopted. Amendments are limited to no more than ten percent and must be approved by the Executive Committee. No supplemental appropriations were necessary during the year ended September 30, 2003.

Encumbrance accounting has not been utilized by the General Fund.

D. Cash and Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by UALGOV. As of September 30, 2003, the carrying amount of UALGOV's total cash and cash equivalents was \$92,099 and the corresponding bank balance was \$114,959. Of the bank balance amount, \$63,305 is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. UALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

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

E. Receivables

Loans receivable consist of amounts advanced to individuals entitled to future distributions from the Local Distribution Authority (LDA) Fund. Repayment of these loans is contingent upon the future receipts of distributions to these individuals from the LDA Fund. Other receivables consist of amounts advanced to individuals, on an unsecured basis, substantially all of whom are situated in the Republic of the Marshall Islands. Receivables are stated net of an allowance for uncollectible accounts.

F. Interfund Receivables/Payables

During the course of operations, UALGOV 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" in the balance sheet.

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Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

G. Fixed Assets

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

Motor vehicles	3 years
Computer equipment	3 years
Office equipment	3 years
Furniture and fixtures	1 - 3 years

H. Estimates

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

I. Memorandum Only - Total Columns

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

K. New Accounting Standards

In fiscal year 2004, UALGOV will implement the following pronouncements:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. In June 2001, GASB issued 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*, which amended certain provisions of GASB Statement No. 34. UALGOV is required to adopt GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 effective October 1, 2003.

These statements establish new financial reporting standards for governmental entities, which results in a significant change in the financial reporting model used by governments, including statement formats and changes in fund types and account groups. 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, and to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements.

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Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

K. New Accounting Standards, Continued

In fiscal year 2005, UALGOV will implement the following pronouncements:

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3).

In fiscal year 2006 or thereafter, UALGOV will implement the following pronouncements:

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

GASB Statement No. 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.

GASB Statement No. 47, *Accounting for Termination Benefits*, which requires employers to disclose a description of the termination benefit arrangement, the cost of termination benefits, and significant methods and assumptions used to determine termination benefits liabilities.

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

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, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

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, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

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Notes to Financial Statements
September 30, 2003

(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 UALGOV or its agent in UALGOV's name;
- Category 2 Uninsured and unregistered with securities held by the broker's or dealer's trust department or agent in UALGOV'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 UALGOV's name.

As of September 30, 2003, UALGOV's investments are held in the name of UALGOV and are administered by investment managers subject to Securities Investor Protection Corporation insurance.

Investments of UALGOV's Nonexpendable Trust Fund as of September 30, 2003, are as follows:

	<u>Categories</u>			<u>Carrying Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Cash management	\$ -	\$ 1,504,545	\$ -	\$ 1,504,545
Common stock	-	10,395,706	-	10,395,706
U.S. Government notes and bonds	-	739,698	-	739,698
U.S. Government agencies notes and bonds	-	824,768	-	824,768
Corporate bonds	-	1,887,933	-	1,887,933
Preferred stock	-	105,100	-	105,100
Mortgage pass-thru pools	-	900,335	-	900,335
Managed future	-	1,530,830	-	1,530,830
	<u>\$ -</u>	<u>\$ 17,888,915</u>	<u>\$ -</u>	<u>\$ 17,888,915</u>

(4) Receivables

Receivables as of September 30, 2003, including applicable allowance for uncollectible accounts, are as follows:

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total</u>
	<u>General</u>	<u>Nonexpendable Trust</u>	
Receivables:			
Loans	\$ 10,243	\$ -	\$ 10,243
Federal agencies	5,948	-	5,948
Other	<u>21,787</u>	<u>-</u>	<u>21,787</u>
Gross receivables	37,978	-	37,978
Less: allowance for uncollectible accounts	<u>(23,597)</u>	<u>-</u>	<u>(23,597)</u>
Receivables, net	<u>\$ 14,381</u>	<u>\$ -</u>	<u>\$ 14,381</u>

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(5) Fixed Assets

Activities in the General Fixed Assets Account Group for the year ended September 30, 2003, are as follows:

	Balance October 1, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2003</u>
Motor vehicles	\$ 15,090	\$ 42,000	\$ (15,090)	\$ 42,000
Computer equipment	6,327	-	(6,327)	-
Office equipment	5,600	-	(5,600)	-
Furniture and fixtures	<u>5,010</u>	<u>-</u>	<u>(5,010)</u>	<u>-</u>
	32,027	42,000	(32,027)	42,000
Less: accumulated depreciation	<u>-</u>	<u>(11,503)</u>	<u>-</u>	<u>(11,503)</u>
	\$ <u>32,027</u>	\$ <u>30,497</u>	\$ <u>(32,027)</u>	\$ <u>30,497</u>

(6) Transfers In/Out

Operating transfers in/out for all fund types, for the year ended September 30, 2003, are as follows:

	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
From General Fund To:		
Local Distribution Authority Fund	\$ <u>572,136</u>	\$ <u>-</u>
<u>Expendable Trust Fund</u>		
To Local Distribution Authority Fund From:		
General Fund	\$ -	\$ 572,136
Claims Trust Fund	<u>-</u>	<u>734,922</u>
	\$ <u>-</u>	\$ <u>1,307,058</u>
<u>Nonexpendable Trust Fund</u>		
From Claims Trust Fund To:		
Local Distribution Authority Fund	\$ <u>734,922</u>	\$ <u>-</u>

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(8) Contingencies

Settlement Agreement

On May 9, 1997, UALGOV entered into a Settlement Agreement with the Bank of New York, the former trustee for the Utrik Claims Trust Fund. During fiscal year 1996, the Bank transferred \$390,000 of funds to the Utrik Local Distribution Authority (LDA) Fund, which should have been transferred to the Utrik Claims Trust Fund. These funds were subsequently loaned out or otherwise disbursed by the LDA. Under the terms of the Settlement Agreement, the Bank agreed to reimburse the Utrik Claims Trust Fund the money erroneously transferred and UALGOV agreed to repay \$180,000 to the Bank plus any additional amounts that are subsequently identified and collected. As of September 30, 2003, UALGOV has repaid \$180,000 under this agreement. Repayment of the remaining \$210,000 payable to the Bank is contingent upon the future collection of amounts previously loaned out or disbursed by the LDA. UALGOV elected not to record the receivable for the amount loaned and the related liability in the accompanying financial statements. Other revenue of \$210,000 was recognized in fiscal year 2003 based on this election.

Section 177 Compact Funding

UALGOV received its final compensatory payment under the terms of the Compact on October 22, 2001. Management believes that investment income is sufficient to cover future cost of operations and distributions of the General Fund and the Local Distribution Authority Fund, respectively. However, in the event of a decline in future investment income, UALGOV will need to obtain revenue from other sources to be able to support its cost of operations and distributions.

(9) Risk Management

UALGOV 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. UALGOV has elected to purchase commercial automobile insurance from independent third parties for the risks of loss to which it is exposed to with respect to the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, UALGOV has elected not to purchase commercial insurance. Instead, UALGOV management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, UALGOV reports all of its risk management activities in its General Fund.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from UALGOV's risk management activities.