

UTRIK ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2006

UTRIK ATOLL LOCAL GOVERNMENT

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INDEPENDENT AUDITORS' REPORT

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

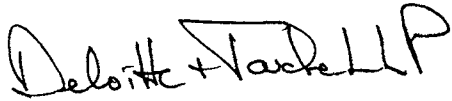
We have audited the accompanying financial statements of the governmental activities and each major fund of the Utrik Atoll Local Government (UALGOV) as of and for the year ended September 30, 2006, which collectively comprise UALGOV's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of UALGOV. 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 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.

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 UALGOV as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 through 7, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of UALGOV. 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 November 14, 2008, on our consideration of the 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, slightly stylized font.

November 14, 2008

UTRIK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2006

This Management Discussion and Analysis (MD&A) is submitted by Utrök Atoll Local Government (UALGOV) in compliance with Governmental Accounting Standards Board (GASB) and is intended to present an overview of the financial highlights and activities of the local government for the fiscal year ended September 30, 2006.

UALGOV Funds and its Sources:

1. Claims Trust Fund (CTF). This fund is awarded to UALGOV Local Distribution Authority (LDA) through the Nuclear Claims Tribunal for the purpose of compensating the exposed (directly affected by the radiation fall-out) people of Utrök Atoll. The corpus of this trust fund is not expendable. The income generated by the trust fund may be used for the distribution to people listed in the Utrök LDA; however, only 70% of such income is allowed to be disbursed as stated in the Claims Trust Fund Agreement.
2. Distribution Fund. This fund obtains funding from the income of the CTF. This disburses the payment for quarterly and land distribution to the LDA recipients.
3. General Fund. This fund sources its money from CTF. This is used for operating expenditures, which includes salaries, office rent, travels, session allowances, council meeting costs and other expenditures related to operations of the local government.

Financial Highlights

1. UALGOV's net assets decreased by \$757,000 or 4.3% over the course of this year's performance. CTF fund balance at the end of the year decreased by \$874,000 or 5% as compared to last year's balance.
2. Total revenues, likewise, decreased by \$611,800 or 31.9% while expenses for the year slightly increased by \$6,500 or 0.3%.
3. Expenditures for the General Fund and Distribution Fund both increased by \$119,000 or 23% and \$18,200 or 1.5%, respectively.

Financial Status

This analysis serves as an overview of UALGOV's basic financial statements. The Statement of Net Assets serves as a financial tool to measure the net worth of the local government. It shows the resources, liabilities and net assets. At the end of fiscal year 2006, total assets of \$16.9 million exceeded total liabilities of \$92,000.

Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 172,032	\$ 194,866
Receivables, net	81,081	69,265
Investments	16,615,857	17,489,445
Capital assets, net	<u>115,107</u>	<u>2,497</u>
Total assets	16,984,077	17,756,073
Less current liabilities	<u>92,208</u>	<u>107,544</u>
Net assets	\$ <u>16,891,869</u>	\$ <u>17,648,529</u>

UTRIK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2006

Net assets:		
Invested in capital assets	\$ 115,107	\$ 2,497
Restricted	16,615,857	17,540,512
Unrestricted	<u>160,905</u>	<u>105,520</u>
Total net assets	\$ <u>16,891,869</u>	\$ <u>17,648,529</u>

- Receivables for the year increased by \$11,816 or 17% due to uncollected DOI Fiscal Management Grant.
- CTF performance for this year fell short of the 8% projected average net income. It generated an income of \$1,092,459 or 5% before drawdowns and expenses. Rising inflation and weakness in technology stocks hurt the overall performance of UALGOV's portfolio.
- Capital Assets (net of depreciation) increased by \$112,610 due mainly to the purchase of a new pick-up truck for Administration office's use, a motor boat that was sent to Utrök Atoll, and the Airport Terminal built in Utrök Atoll that amounted to \$90,310. Additional information on UALGOV's capital assets can be found in note 4 to the financial statements.

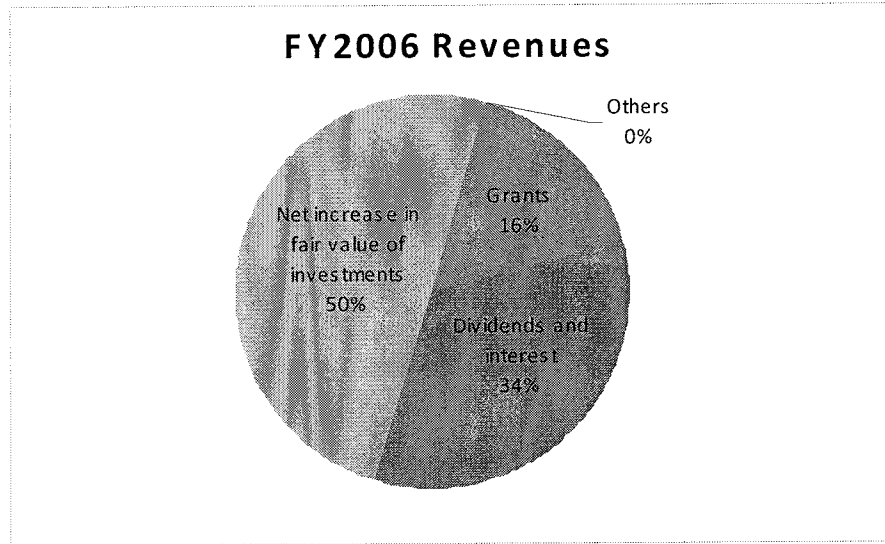
The Statement of Activities shows the total revenues and total expenses during the fiscal year. Total revenues decreased while total expenses slightly increased as compared to last year.

Change in Net Assets

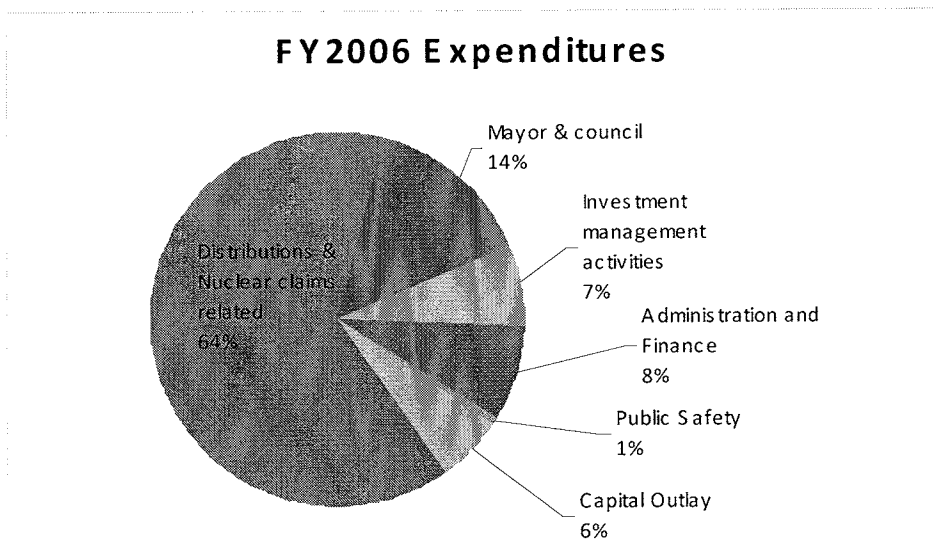
	<u>2006</u>	<u>2005</u>
Revenues:		
Grants	\$ 207,289	\$ 167,464
Dividends and interest	443,338	404,655
Net increase in the fair value of investments	649,121	1,339,898
Other	<u>5,613</u>	<u>5,168</u>
Total revenues	<u>1,305,361</u>	<u>1,917,185</u>
Less expenses:		
Distributions and Nuclear claims related	1,389,741	1,356,862
Mayor and council	326,882	363,754
Investment management activities	148,414	167,122
Administration and finance	182,417	153,236
Public safety	<u>14,567</u>	<u>14,525</u>
Total expenses	<u>2,062,021</u>	<u>2,055,499</u>
Change in net assets	(756,660)	(138,314)
Net assets at the beginning of year	<u>17,648,529</u>	<u>17,786,843</u>
Net assets at end of fiscal year	\$ <u>16,891,869</u>	\$ <u>17,648,529</u>

UTRIK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
September 30, 2006



- Grants for the year are the following:
- USDA Food grant of \$98,979-to supply food to Utrök Atoll.
- ROC Grant of \$18k-to purchase one pick-up truck.
- ROC Grant of \$90k-used to built an Air Terminal in Utrök Atoll.
- US DOC Grant of \$62,500-sale of NOAA vessel previously awarded to Utrök Atoll Local Government.
- Although dividends and interest income increased a bit this year by \$38k or 9.5% it is offset by the decrease in net realized/unrealized gains and losses of \$690k or 51.5%.



UTRIK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis
September 30, 2006

- FY 2006 expenses composition is basically the same as with last year.
- As stated above, capital outlays for the year are purchases of one truck, one motor boat and an Airport Terminal in Utrök Atoll.

General Fund Budget Analysis

For Fiscal year 2006, the General Fund has an excess of revenues and other financing sources over expenditures of \$144,386. See details below:

Budget and Actual-General Fund

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:			
Salaries, wages and benefits	\$ 119,000	\$ 126,146	\$ (7,146)
Honorarium and sitting fees	100,000	83,728	16,272
Travel and stipends	102,500	56,607	45,893
Food program	-	98,979	(98,979)
Professional services	65,000	65,314	(314)
Contractual services	12,500	1,308	11,192
Contributions	10,000	45	9,955
Representation	2,000	108	1,892
Rental	21,250	20,281	969
Communications	8,250	6,910	1,340
Materials and supplies	5,500	2,652	2,848
Motor Vehicle	-	35,145	(35,145)
Airport terminal	-	90,310	(90,310)
Equipment	-	9,182	(9,182)
Miscellaneous	<u>55,010</u>	<u>39,761</u>	<u>15,249</u>
Total expenditures	<u>501,010</u>	<u>636,476</u>	<u>(135,466)</u>
Less revenues:			
Transfer in	501,010	567,960	66,950
Grants	-	207,289	207,289
Other revenues	<u>-</u>	<u>5,613</u>	<u>5,613</u>
Total revenues	<u>501,010</u>	<u>780,862</u>	<u>279,852</u>
Excess of revenues over expenditures	-	144,386	144,386
Unreserved fund balance at beginning of year	<u>105,520</u>	<u>105,520</u>	<u>-</u>
Unreserved fund balance at end of year	\$ <u>105,520</u>	\$ <u>249,906</u>	\$ <u>144,386</u>

- The \$7,146 negative variance in salaries, wages and benefits is attributable to the hiring of new accountant in March 2006.
- Honorarium and sitting has \$16,272 savings owing to lesser cost on council meeting.
- A positive variance of \$45,893 is shown for travel due to fewer trips made during the fiscal year than budgeted for.

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Management's Discussion and Analysis
September 30, 2006

- Food program posted a \$98,979 negative variance; however, this was supported by the USDA food grant during the year.
- Minimal payment for contractual/consultancy services was made during the year which resulted to \$11,192 savings.
- Motor Vehicle purchases during the year are one 2005 double cab pick-up the payment of which came from ROC grant and one 22ft Yamaha boat that was sent to Utrök Atoll.
- Airport Terminal was built in Utrök Atoll out of the ROC Grant awarded to fund such outlay.

NEXT YEAR'S BUDGET

Fiscal Year 2007 Budget increased a bit by \$19k or 3.8% compared with FY2006 Budget. The distribution payments for quarterly and land compensations are the same amount as last year. Claims trust fund is projected to earn 8% total income in FY2007 as based on average historical performances.

CONTACTING UALGOV's MANAGEMENT

This financial report is designed to provide our constituents, donors and customers with a general overview of UALGOV's finances and to demonstrate transparency and accountability for the money it is entrusted to manage. If you have any questions about this report or need additional information, contact the Mayor at P.O. Box 1499, Majuro, Marshall Islands, MH 96960, telephone number (692) 625-3749.

UTRIK ATOLL LOCAL GOVERNMENT

Statement of Net Assets September 30, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 172,032
Receivables, net	<u>81,081</u>

Total current assets	<u>253,113</u>
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Noncurrent assets:

Restricted assets:

Investments	16,615,857
Capital assets, net of accumulated depreciation	<u>115,107</u>

Total noncurrent assets	<u>16,730,964</u>
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Total assets	<u><u>\$ 16,984,077</u></u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 64,765
Distribution payable	15,395
Other liabilities and accruals	<u>12,048</u>

Total liabilities	<u>92,208</u>
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Contingencies

NET ASSETS

Invested in capital assets	115,107
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Restricted for:

Nonexpendable	16,615,857
Unrestricted	<u>160,905</u>

Total net assets	<u>16,891,869</u>
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Total liabilities and net assets	<u><u>\$ 16,984,077</u></u>
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See accompanying notes to basic financial statements.

UTRIK ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2006

	Program Revenues			
Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues	
<u>Functions/Programs</u>				
Governmental activities:				
Mayor and council	\$ 326,882	\$ 98,979	\$ 18,000	\$ (209,903)
Administration and finance	182,417	-	90,310	(92,107)
Public safety	14,567	-	-	(14,567)
Nuclear claims related	1,389,741	-	-	(1,389,741)
Investment management activities	148,414	-	-	(148,414)
	<u>\$ 2,062,021</u>	<u>\$ 98,979</u>	<u>\$ 108,310</u>	<u>(1,854,732)</u>
General revenues:				
Investment earnings				1,092,459
Other				5,613
Total general revenues				<u>1,098,072</u>
Change in net assets				(756,660)
Net assets at beginning of the year				<u>17,648,529</u>
Net assets at end of the year				<u>\$ 16,891,869</u>

See accompanying notes to basic financial statements.

UTRIK ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2006

<u>ASSETS</u>	<u>General</u>	<u>Special Revenue Local Distribution Authority</u>	<u>Permanent Claims Trust</u>	<u>Total</u>
Cash and cash equivalents	\$ 171,316	\$ 716	\$ -	\$ 172,032
Receivables, net	79,081	2,000	-	81,081
Due from other funds	74,455	-	-	74,455
Restricted assets:				
Investments	-	-	16,615,857	16,615,857
	<u>\$ 324,852</u>	<u>\$ 2,716</u>	<u>\$ 16,615,857</u>	<u>\$ 16,943,425</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 63,450	\$ 1,315	\$ -	\$ 64,765
Distribution payable	-	15,395	-	15,395
Other liabilities and accruals	11,496	552	-	12,048
Due to other funds	-	74,455	-	74,455
Total liabilities	<u>74,946</u>	<u>91,717</u>	<u>-</u>	<u>166,663</u>
Fund balances (deficit):				
Reserved for:				
Claims	-	-	16,615,857	16,615,857
Unreserved (deficit)	<u>249,906</u>	<u>(89,001)</u>	<u>-</u>	<u>160,905</u>
Total fund balances (deficit)	<u>249,906</u>	<u>(89,001)</u>	<u>16,615,857</u>	<u>16,776,762</u>
Total liabilities and fund balances	<u>\$ 324,852</u>	<u>\$ 2,716</u>	<u>\$ 16,615,857</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

115,107

Net assets of governmental activities

\$ 16,891,869

See accompanying notes to basic financial statements.

UTRIK ATOLL LOCAL GOVERNMENT

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

	General	Special Revenue Local Distribution Authority	Permanent Claims Trust	Total
Revenues:				
Net increase in the fair value of investments	\$ -	\$ -	\$ 649,121	\$ 649,121
Dividends and interest	-	-	443,338	443,338
Federal and other grants	207,289	-	-	207,289
Other	5,613	-	-	5,613
	<u>212,902</u>	<u>-</u>	<u>1,092,459</u>	<u>1,305,361</u>
Expenditures:				
Current:				
Mayor and council	314,037	-	-	314,037
Administration and finance	182,417	-	-	182,417
Public safety	14,567	-	-	14,567
Nuclear claims related	-	1,220,068	169,673	1,389,741
Investment management	-	-	148,414	148,414
Capital outlay	125,455	-	-	125,455
	<u>636,476</u>	<u>1,220,068</u>	<u>318,087</u>	<u>2,174,631</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(423,574)</u>	<u>(1,220,068)</u>	<u>774,372</u>	<u>(869,270)</u>
Other financing sources (uses):				
Operating transfers in	567,960	1,080,000	-	1,647,960
Operating transfers out	-	-	(1,647,960)	(1,647,960)
	<u>567,960</u>	<u>1,080,000</u>	<u>(1,647,960)</u>	<u>-</u>
Net change in fund balances (deficit)	144,386	(140,068)	(873,588)	(869,270)
Fund balances at beginning of year	<u>105,520</u>	<u>51,067</u>	<u>17,489,445</u>	<u>17,646,032</u>
Fund balances (deficit) at end of year	<u>\$ 249,906</u>	<u>\$ (89,001)</u>	<u>\$ 16,615,857</u>	<u>\$ 16,776,762</u>

See accompanying notes to basic financial statements.

UTRIK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(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 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. 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 UALGOV. UALGOV'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 UALGOV'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 UALGOV 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.

UTRIK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

B. Fund Financial Statements

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

UALGOV 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 UALGOV 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, UALGOV 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.

UTRIK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

UALGOV reports the following governmental fund types:

i. General Fund

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

ii. Special Revenue Fund

This fund accounts for specific revenue resources that have been aggregated according to enabling legislation to support specific governmental activities.

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

iii. Permanent Fund

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.

UALGOV'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, UALGOV executed the Utrik Claims Trust Agreement and established the Claims Trust Fund. Pursuant to Section 4.2 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 Utrik between 15% and 70% of its net income. In addition, 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 an unforeseen natural disaster or other similar circumstance, as determined by the sole discretion of UALGOV Council, 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.

D. Cash and Cash Equivalents

Cash and cash equivalents include cash held in demand accounts.

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.

UTRIK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

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

	<u>General</u>	<u>Local Distribution Authority</u>	<u>Total</u>
Receivables:			
Federal grants receivable	\$ 68,485	-	\$ 68,485
Loan receivable	4,309	\$ -	4,309
Other	<u>25,849</u>	<u>2,000</u>	<u>27,849</u>
Gross receivable	98,643	2,000	100,643
Less allowance for uncollectible account	<u>(19,562)</u>	<u>-</u>	<u>(19,562)</u>
	<u>\$ 79,081</u>	<u>\$ 2,000</u>	<u>\$ 81,081</u>

G. Interfund Receivables/Payables

During the course of its 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" on the governmental funds balance sheet.

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

H. Restricted Assets

Certain assets of UALGOV are classified as restricted assets because their use is completely restricted by trust agreements or enabling legislation. Specifically, investments of \$16,615,857 recorded in the Claims Trust Fund are restricted in that they are not available to be used in current operations.

I. 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. UALGOV capitalizes all capital assets that exceed \$5,000 and have a useful life greater 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 terminal	25 years
Motor vehicles	3 years

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Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

J. 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.

K. 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.

L. Compensated Absences

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

M. New Accounting Standards

During fiscal year 2006, UALGOV implemented the following pronouncements:

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

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

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

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

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Notes to Financial Statements
September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

M. New Accounting Standards, Continued

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

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

(3) Investments

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

UALGOV does not have formal deposit and investment policies. Investments in the Claims Trust Fund are governed by a trust agreement.

A. Deposits

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

- Category 1 Deposits that are federally insured or collateralized with securities held by UALGOV or its agent in UALGOV's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in UALGOV's name; or

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Notes to Financial Statements
September 30, 2006

(3) Deposits and Investments, Continued

A. Deposits, Continued

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in UALGOV's name and non-collateralized deposits.

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

As of September 30, 2006, the carrying amount of the UALGOV's total cash and cash equivalents was \$172,032 and the corresponding bank balance was \$192,309. Of the bank balance amount, \$142,623 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2006, bank deposits in the amount of \$100,000 were FDIC insured. UALGOV does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

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

Category 1 Investments that are insured or registered, or securities held by UALGOV or its agent in UALGOV's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in UALGOV's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in UALGOV's name.

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

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Notes to Financial Statements
September 30, 2006

(3) Deposits and Investments, Continued

B. Investments, Continued

Permanent Fund:

As of September 30, 2006, investments at fair values are as follows:

Claims Trust Fund:		
Cash management	\$	1,104,234
Future managed assets		1,512,958
Domestic equities		10,843,441
U.S. Government notes and bonds		2,075,640
Corporate notes and bonds		341,839
Mortgage pass-thru pools		559,335
Exchange traded equity funds		<u>178,410</u>
	\$	<u>16,615,857</u>

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

As of September 30, 2006 investments in debt securities were as follows:

	S & P Credit Rating	Investment				Maturities (In years) Greater than 10	Fair Value
		Less than 1	1 to 5	6 to 10			
US Treasury Obligations	AAA	\$ -	\$ 550,430	\$ 466,271	\$ -	\$ 1,016,701	
US Government agencies	AAA	-	455,126	451,151	-	906,277	
US Government agencies	AA-	-	152,662	-	-	152,662	
Corporate notes	A+	-	186,485	60,787	-	247,272	
Corporate notes	AAA	-	94,567	-	-	94,567	
Mortgage pass-thru pools	Not rated	-	-	-	<u>559,335</u>	<u>559,335</u>	
		<u>\$ -</u>	<u>\$ 1,439,270</u>	<u>\$ 978,209</u>	<u>\$ 559,335</u>	<u>\$ 2,976,814</u>	

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

(4) Capital Assets

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

	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006
Airport terminal	\$ -	\$ 90,310		\$ 90,310
Motor vehicles	42,000	35,145	\$ -	77,145
Less accumulated depreciation	(39,503)	(12,845)	-	(52,348)
	<u>\$ 2,497</u>	<u>\$ 112,610</u>	<u>\$ -</u>	<u>\$ 115,107</u>

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Notes to Financial Statements
September 30, 2006

(4) Capital Assets, Continued

Depreciation expense of \$12,845 was charged to Mayor and Council.

(5) Transfers In/Out

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

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Claims Trust Fund	Local Distribution Authority Fund	\$ 1,080,000	\$ 1,080,000
Claims Trust Fund	General Fund	<u>567,960</u>	<u>567,960</u>
		<u>\$ 1,647,960</u>	<u>\$ 1,647,960</u>

(6) 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, 2006, 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 loaned amount and related liability in the accompanying financial statements.

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.

(7) 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.

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Notes to Financial Statements
September 30, 2006

(7) Risk Management, Continued

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.

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

UTRIK ATOLL LOCAL GOVERNMENT

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

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
Revenues:				
Federal and other grants	\$ -	\$ -	\$ 207,289	\$ 207,289
Other	-	-	5,613	5,613
Total revenues	-	-	212,902	212,902
Expenditures:				
Salaries, wages and benefits	119,000	119,000	126,146	(7,146)
Honorarium and sitting fees	100,000	100,000	83,728	16,272
Travel and stipends	102,500	102,500	56,607	45,893
Food program	-	-	98,979	(98,979)
Professional services	65,000	65,000	65,314	(314)
Contractual services	12,500	12,500	1,308	11,192
Contributions	10,000	10,000	45	9,955
Representation	2,000	2,000	108	1,892
Rental	21,250	21,250	20,281	969
Communications	8,250	8,250	6,910	1,340
Materials and supplies	5,500	5,500	2,652	2,848
Motor vehicle	-	-	35,145	(35,145)
Airport terminal	-	-	90,310	(90,310)
Equipment	-	-	9,182	(9,182)
Miscellaneous	55,010	55,010	39,761	15,249
Total expenditures	501,010	501,010	636,476	(135,466)
Deficiency of revenues under expenditures	(501,010)	(501,010)	(423,574)	77,436
Other financing sources:				
Operating transfers in	501,010	501,010	567,960	66,950
Excess of revenues and other financing sources over expenditures	-	-	144,386	144,386
Unreserved fund balance at the beginning of year	105,520	105,520	105,520	-
Unreserved fund balance at end of year	\$ 105,520	\$ 105,520	\$ 249,906	\$ 144,386

See Accompanying Independent Auditors' Report.

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

Budgetary Information

The UALGOV 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 UALGOV Council review and recommend changes to the proposed budget during the budget deliberation prior to presentation to the Council. UALGOV 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 UALGOV 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 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and 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.