

**UTRŌK ATOLL LOCAL GOVERNMENT**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEAR ENDED SEPTEMBER 30, 2009**

# UTRŌK ATOLL LOCAL GOVERNMENT

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## INDEPENDENT AUDITORS' REPORT

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

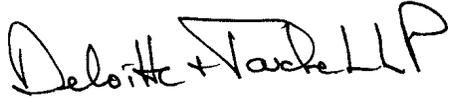
We have audited the accompanying financial statements of the governmental activities and each major fund of the Utrök Atoll Local Government (UALGOV) as of and for the year ended September 30, 2009, which collectively comprise UALGOV's basic financial statements as set forth in Section II of the foregoing 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 opinions.

In our opinion, such financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Utrök Atoll Local Government as of September 30, 2009, 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 October 20, 2011, 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 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 + Touche LLP". The signature is written in a cursive, stylized font.

October 20, 2011

# **UTRŌK ATOLL LOCAL GOVERNMENT**

## **Management's Discussion and Analysis September 30, 2009**

This Management's Discussion and Analysis (MD&A) is provided by the Finance Department of the Utrok Atoll Local Government (UALGOV) as an overview to the financial statements for Fiscal Year 2009 in compliance with Governmental Accounting Standards Board (GASB). This analysis is a required supplementary information (RSI) to the accompanying financial statements and notes to financial statements. It is intended to serve as an introduction to UALGOV's basic financial statements and should assist readers of these financial statements in understanding the results of operations of UALGOV from October 1, 2008 through September 30, 2009.

### **UALGOV'S FINANCIAL STATEMENTS**

UALGOV'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 is prepared on the budgetary basis of accounting in addition to basic financial statements themselves.

### **UALGOV'S FUNDS AND ITS SOURCES**

The following are the three Funds maintained by the local government to account for the activities per category:

- **Claims Trust Fund (CTF).** This fund is awarded to the Local Distribution Authority (LDA) through the Nuclear Claims Tribunal for the purpose of compensating the people of Utrok who are listed in LDA. The corpus of this trust is not expendable. The income generated by the trust fund may be used for distribution to the people; however, only 70% of such income is allowed to be disbursed as stated in the Claims Trust Fund.
- **Local Distribution Authority Fund.** This fund obtains funding from the income of CTF. This is used for distribution of payments to the quarterly and land compensation LDA recipients.
- **General Fund.** This fund sources its money from income of CTF. This is used for operations of the local government and local distribution authority.

### **FINANCIAL HIGHLIGHTS**

- The Claims Trust Fund (CTF) earned \$607,501 or 4% and paid out \$3,454,468 or 25% during the year ended September 30, 2009 to end at \$13,471,589 at the end of fiscal year 2009. The paid out amounts were funded, in part, by proceeds from a loan of \$2,440,000.
- UALGOV total net assets decreased by \$1,398,700 or 10% as compared to FY2008 balances. UALGOV ended FY2009 with net assets of \$12,669,606 down from \$14,068,306 at the end of FY2008.
- Total assets increased by \$1,029,296 or 7% and total liabilities increased by \$2,427,996 or 1,538% of last year's balances.
- Revenues for the fiscal year increased by \$1,996,181 or 184% from previous year's balance.
- Expenses for the year slightly increased by \$84,783 or 4% from previous year's balance.

# UTRŌK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2009

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

UALGOV's financial statements report information about UALGOV 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, reporting UALGOV's net assets and liabilities, is one way to measure UALGOV's financial position. Over time, increases or decreases in UALGOV's net assets are indicators of whether its financial condition is improving or deteriorating.

## FUND FINANCIAL STATEMENTS

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

- Some funds are required by agreements.
- UALGOV establishes other funds to control and manage money for particular purposes.

## FINANCIAL ANALYSIS OF UALGOV

In reference to the Summary Statements of Net Assets and the Summary Statements of Revenues, Expenses and Changes in Net Assets for FY2009 and FY2008 shown below, the following are presented to provide an overview to UALGOV's basic financial statements and to give the readers a better understanding of the financial condition and activities of UALGOV.

Net assets may serve over time as a useful indicator of a government's financial position. At the end of Fiscal Year 2009, UALGOV's total assets exceeded liabilities by \$12,669,606; however, it should be noted that \$12,166,970 is restricted for nuclear claims related distribution payments as well as \$173,532 being invested in capital assets. The summary of UALGOV's net assets for FY2009 as compared to FY2008 follows:

### STATEMENTS OF NET ASSETS

		<u>2009</u>	<u>2008</u>
Assets	Current assets	\$ 1,262,726	\$ 221,339
	Noncurrent assets:		
	Investments	13,471,589	13,903,556
	Loans Receivables	347,633	-
	Capital assets, net	<u>173,532</u>	<u>101,289</u>
	Total Assets	<u>15,255,480</u>	<u>14,226,184</u>
Liabilities	Current Liabilities	145,874	157,878
	Loans payables	<u>2,440,000</u>	<u>-</u>
	Total liabilities	<u>2,585,874</u>	<u>157,878</u>
Net Assets	Invested in capital assets	173,532	101,289
	Restricted	12,166,970	13,878,556
	Unrestricted	<u>329,104</u>	<u>88,461</u>
	Total Net Assets	<u>\$12,669,606</u>	<u>\$14,068,306</u>

## UTRŌK ATOLL LOCAL GOVERNMENT

### Management's Discussion and Analysis September 30, 2009

Current assets significantly increased by \$1,041,387 or 470% from FY2008 balances. The increase is brought about by an increase of \$184,016 or 217% in cash and cash equivalent balances and a significant increase of \$857,371 or 627% in receivable balances.

- \$62,996 or 23% of the total cash balance pertains to remaining bank loan proceeds after the quarterly and land/annual distributions and advance payments made during the year.
- \$86,102 or 32% of the total cash balance represents the cash grant from Embassy of Japan given during FY2009 to be used in building a community hall on Utrik Atoll. The community hall is set to be built in FY2010.
- In January 2009, UALGOV started paying in advance two years of the quarterly and annual distributions to its recipients using the bank loan proceeds received in December 2008. At the end of FY2009, the receivables account pertaining to advances for FY2010 and a portion of FY2011 amounted to \$1,083,510.

Investments decreased by \$431,967 or 3% from FY2008 balances. The slight decrease is brought about by the low performance of the Claims Trust Fund and the volatility of the overall U.S. stock market. The CTF showed net investment earnings of \$434,255 for the year while it continued to be the significant source of funding for the general operations of the local government. The bank loan made during the year largely aided the CTF in paying the quarterly and annual distributions. Only one quarterly distribution payment was drawn out from the CTF during the year and the rest had been paid using the bank loan proceeds. Although the CTF registered net earnings of \$434,255, it was not sufficient to cover the drawdowns for the operations of the local government and bank loan interest payments totaling to \$866,222.

Capital assets, net of depreciation increased by \$72,243 or 71% of last year's balances. The increase in capital assets was brought about by the current year's depreciation expense of \$11,440 offset by capital additions of \$83,683 during the year. Please refer to note 4 to the accompanying financial statements for additional information concerning capital assets.

Loan payable is the result of the bank loan made during the year. Please refer to note 6 to the accompanying financial statements for additional information concerning long-term debt.

At the end of FY2009, UALGOV's net assets decreased by \$1,398,700 from \$14,068,306 at the close of FY2008 down to \$12,669,606 at end of FY2009.

Activities for the year resulted in an increase in revenues of \$1,996,181 or 184% from last year's figures, from negative \$1,082,644 in FY2008 to positive \$913,537 in FY2009. Although the income increased this year, it was still not enough to cover the expenses for the year. Expenses slightly increased by \$84,783 or 4% from FY2008 balances from \$2,227,454 for last year to \$2,312,237 for FY2009. This increase in revenues and expenses resulted in an overall positive change in net assets of \$1,911,398 or 58% from last year, from negative \$3,310,098 for last year to negative \$1,398,700 at end of FY2009.

# UTRŌK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2009

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>2009</u>	<u>2008</u>
Revenues:		
Grants	\$ 251,882	\$ 148,920
Dividends and interest	385,118	391,699
Net change in fair value of investments	222,383	(1,646,722)
Other	<u>54,154</u>	<u>23,459</u>
Total revenues	<u>913,537</u>	<u>(1,082,644)</u>
Less expenses:		
Distributions and nuclear claims related	1,342,672	1,387,042
Administration and finance	337,111	213,302
Mayor and council	274,335	326,314
Investment management activities	173,246	155,642
Food program	108,044	122,091
Interest on long-term debt	56,349	-
Public safety	<u>20,480</u>	<u>23,063</u>
Total expenses	<u>2,312,237</u>	<u>2,227,454</u>
Change in net assets	(1,398,700)	(3,310,098)
Net assets at the beginning of the year	<u>14,068,306</u>	<u>17,378,404</u>
Net assets at the end of the year	\$ <u>12,669,606</u>	\$ <u>14,068,306</u>

Highlight of changes in net assets is as follows:

- Increase in grants for the year was brought about by the US DOI-Fiscal Management Improvement Project Grant that provided \$77,000 for year FY2009 and the utilization of the remaining balance of deferred income for proceeds from sale of NOAA boat in FY2007 that amounted to \$22,656 for this fiscal year.
- Dividends and interest earned from Investments slightly decreased by \$6,581 or 2%.
- Increase of \$1,869,105 or 113% in the value of investments was due mainly to the realized and unrealized gains in the value of UALGOV trust fund invested in the U.S. stock market.
- Increase in interest expense of \$56,349 pertains to interest payments on a bank loan obtained in FY2009 for the purpose of funding distributions made by the LDA.
- Increase in Administration and Finance expenses is due mainly to the following:
  - \$21,229 increase in salaries and taxes due to newly hired employees in FY2009.
  - \$15,335 increase in office equipment due to upgrade of accounting software and office computer network cost for FY2009.
  - \$39,684 is the cost of the boat purchased and repaired for use by residents on Utrik Atoll.
- Decrease in Mayor and Council expenses is due mainly to absence in FY2009 of a special council meeting held on January 2008 to elect a new mayor for Utrik Atoll.

# UTRŌK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis  
September 30, 2009

## FINANCIAL ANALYSIS OF UALGOV'S FUNDS

As noted earlier, UALGOV uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. As of the end of fiscal year 2009, UALGOV's governmental funds reported a combined fund balance of \$14,936,074, an increase of \$969,057 or 6.9% from the \$13,967,017 fund balance at the beginning of fiscal year. The increase is primarily due to the receipt of loan proceeds in the amount of \$2,440,000.

## GENERAL FUND BUDGET ANALYSIS

For fiscal year 2009, the budget for the General Fund was \$589,190 to be funded primarily by drawdowns from the CTF. The final budget for FY2009 increased by \$254,044 or 43% of the original budget, which included: 1) an increase of \$108,044 for the food program funded by the USDA; 2) an increase of \$120,000 for a desalination plant for Utrik Atoll; and 3) an increase of \$26,000 for a bum-bum boat funded by Taiwan. During the year ended September 30, 2009, the deficiency of revenues under expenditures for the General Fund was \$506,318, which was primarily offset by transfers in from the CTF of \$632,973, resulting in a \$12,594 under spending in FY2009.

## FINANCIAL PLAN AND OUTLOOK

UALGOV's FY2010 budget amounts to \$2,009,480, which is slightly higher than the FY2009 budget by \$60,290 or 9%. Of this budget amount, \$649,480 or 32% is allotted for the General Fund, which represents the entire increase of \$60,290 compared with the allotment for the General Fund of \$589,190 for FY 2009 .

This increase is due mainly to increase in salaries and taxes for newly hired employees and professional fees for a financial advisor.

UALGOV will receive another \$77,000 from U.S. DOI in FY 2010 under the Fiscal Management Improvement Project Grant. This will be used to fund: 1) the salaries of employees in the finance department; 2) a portion of the office rental; and 3) the purchase of office equipment.

For FY2010, UALGOV budgeted \$1,200,000 for the Local Distribution Authority, of which \$720,000 is intended for four quarterly distributions and \$500,000 for end of calendar year land distribution payments.

## 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.

# UTRÖK ATOLL LOCAL GOVERNMENT

## Statement of Net Assets September 30, 2009

### ASSETS

#### Current assets:

Cash and cash equivalents	\$ 268,637
Receivables, net	994,089

Total current assets 1,262,726

#### Noncurrent assets:

##### Restricted assets:

Investments	13,471,589
Loans receivable	347,633
Capital assets, net of accumulated depreciation	173,532

Total noncurrent assets 13,992,754

Total assets \$ 15,255,480

### LIABILITIES

#### Current liabilities:

Accounts payable	\$ 33,387
Distributions payable	2,387
Other liabilities and accruals	110,100

Total current liabilities 145,874

#### Noncurrent liabilities:

Loan payable	2,440,000
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Total liabilities 2,585,874

Commitments and contingencies

### NET ASSETS

Invested in capital assets	173,532
Restricted for:	
Nonexpendable	11,031,589
Expendable	1,135,381
Unrestricted	329,104

Total net assets 12,669,606

Total liabilities and net assets \$ 15,255,480

See accompanying notes to basic financial statements.

**UTRÖK ATOLL LOCAL GOVERNMENT**

Statement of Activities  
Year Ended September 30, 2009

	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
<u>Functions/Programs</u>			
Governmental activities:			
Mayor and council	\$ 274,335	\$ 99,371	\$ (174,964)
Administration and finance	337,111	59,044	(278,067)
Public safety	20,480	-	(20,480)
Food program	108,044	108,044	-
Interest on long-term debt	56,349	-	(56,349)
Nuclear claims related	1,515,918	607,501	(908,417)
	\$ 2,312,237	\$ 873,960	(1,438,277)
General revenues:			
Other			39,577
Change in net assets			(1,398,700)
Net assets at beginning of the year			14,068,306
Net assets at end of the year			\$ 12,669,606

See accompanying notes to basic financial statements.

**UTRÖK ATOLL LOCAL GOVERNMENT**

Balance Sheet  
Governmental Funds  
September 30, 2009

<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	\$ 256,287	\$ 12,350	\$ -	\$ 268,637
Receivables, net	471,482	870,240	-	1,341,722
Due from other funds	-	255,178	-	255,178
Restricted assets:				
Investments	-	-	13,471,589	13,471,589
	<u>\$ 727,769</u>	<u>\$ 1,137,768</u>	<u>\$ 13,471,589</u>	<u>\$ 15,337,126</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 33,387	\$ -	\$ -	\$ 33,387
Distributions payable	-	2,387	-	2,387
Other liabilities and accruals	110,100	-	-	110,100
Due to other funds	<u>255,178</u>	<u>-</u>	<u>-</u>	<u>255,178</u>
Total liabilities	<u>398,665</u>	<u>2,387</u>	<u>-</u>	<u>401,052</u>
Fund balances:				
Reserved for:				
Claims	-	-	13,471,589	13,471,589
Related assets	247,616	864,240	-	1,111,856
Unreserved	<u>81,488</u>	<u>271,141</u>	<u>-</u>	<u>352,629</u>
Total fund balances	<u>329,104</u>	<u>1,135,381</u>	<u>13,471,589</u>	<u>14,936,074</u>
Total liabilities and fund balances	<u>\$ 727,769</u>	<u>\$ 1,137,768</u>	<u>\$ 13,471,589</u>	
 Amounts reported for governmental activities in the statement of net assets are different because:				
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds				(2,440,000)
Capital assets used in governmental activities are financial resources and, therefore, are not reported in the funds				<u>173,532</u>
Net assets of governmental activities				<u>\$ 12,669,606</u>

See accompanying notes to basic financial statements.

## UTRŌK ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Governmental Funds  
Year Ended September 30, 2009

	General	Special Revenue Local Distribution Authority	Permanent Claims Trust	Total
<b>Revenues:</b>				
Federal and other grants	\$ 251,882	\$ -	-	\$ 251,882
RepMar appropriation	14,577	-	-	14,577
Net change in the fair value of investments	-	-	222,383	222,383
Dividends and interest	-	-	385,118	385,118
Other	39,436	141	-	39,577
Total revenues	<u>305,895</u>	<u>141</u>	<u>607,501</u>	<u>913,537</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Mayor and council	262,895	-	-	262,895
Administration and finance	337,111	-	-	337,111
Public safety	20,480	-	-	20,480
Food program	108,044	-	-	108,044
Nuclear claims related	-	1,190,772	151,900	1,342,672
Investment management	-	-	173,246	173,246
<b>Debt service:</b>				
Interest	-	-	56,349	56,349
Capital outlay	83,683	-	-	83,683
Total expenditures	<u>812,213</u>	<u>1,190,772</u>	<u>381,495</u>	<u>2,384,480</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(506,318)</u>	<u>(1,190,631)</u>	<u>226,006</u>	<u>(1,470,943)</u>
<b>Other financing sources (uses):</b>				
Loan proceeds	-	-	2,440,000	2,440,000
Operating transfers in	632,973	2,440,000	-	3,072,973
Operating transfers out	-	-	(3,072,973)	(3,072,973)
Total other financing sources (uses), net	<u>632,973</u>	<u>2,440,000</u>	<u>(632,973)</u>	<u>2,440,000</u>
Net change in fund balances (deficit)	126,655	1,249,369	(406,967)	969,057
Fund balances (deficit) at beginning of year	<u>202,449</u>	<u>(113,988)</u>	<u>13,878,556</u>	<u>13,967,017</u>
Fund balances at end of year	<u>\$ 329,104</u>	<u>\$ 1,135,381</u>	<u>\$ 13,471,589</u>	<u>\$ 14,936,074</u>

See accompanying notes to basic financial statements.

## UTRŌK 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, 2009

Net change in fund balances (deficit) - total governmental funds \$ 969,057

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. For the current year, these amounts consist of:

Long-term debt proceeds (2,440,000)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. For the current year, these amounts consist of:

Capital outlays	83,683	
Depreciation expense	<u>(11,440)</u>	
		<u>72,243</u>

Change in net assets of governmental activities \$ (1,398,700)

See accompanying notes to basic financial statements.

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

## (1) Organization

The Utrōk 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 Utrōk Atoll Local Government. UALGOV is governed by an elected mayor and a twenty nine-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 governmental 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. Reporting Entity

For financial reporting purposes, UALGOV has included all funds, organizations, agencies, boards, commissions and institutions. UALGOV has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with UALGOV are such that exclusion would cause UALGOV's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether UALGOV, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on UALGOV. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

### B. 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. For the most part, the effect of interfund activity has been eliminated from these statements. 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.

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

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

### B. Government-Wide Financial Statements, Continued

- 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.

### C. Fund Financial Statements

Separate financial statements are provided for governmental 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.

### D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements:

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.

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.

# UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

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

### D. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements:

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.

Significant revenues susceptible to accrual include federal grants. 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.

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 under the Utrök Claims Trust Fund. These funds are distributed by UALGOV to the people of Utrök 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.

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

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

### D. Measurement Focus and Basis of Accounting, Continued

#### iii. Permanent Fund, Continued

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 Utrōk 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 Utrōk 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 Utrōk. An invasion of the corpus shall not occur more frequently than once every three years.

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*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

### E. Cash and Cash Equivalents

Cash and cash equivalents include cash held in demand accounts.

### F. Investments

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.

### G. 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 as well as amounts due from U.S. federal agencies for expenditures on federally funded reimbursement and grant programs. Receivables are stated net of estimated allowances for uncollectable accounts, which is determined based upon past collection experience and aging of the accounts. Reimbursements due to UALGOV for expenditures on federally funded reimbursement and grant programs are included as receivables on the governmental fund balance sheet.

Receivables as of September 30, 2009, for the primary government's individual major governmental funds, including applicable allowance for uncollectible accounts, are as follows:

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

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

### G. Receivables, Continued

	<u>General</u>	Local Distribution <u>Authority</u>	Claims Trust	<u>Total</u>
Receivables:				
Due from Federal agencies	\$ 91,352	\$ -	\$ -	\$ 91,352
Due from RepMar	39,289	-	-	39,289
Loans	247,616	864,240	-	1,111,856
Interest	22,138	-	-	22,138
Other	<u>99,433</u>	<u>6,000</u>	-	<u>105,433</u>
	499,828	870,240	-	1,370,068
Less: Allowance for doubtful accounts	<u>(28,346)</u>	-	-	<u>(28,346)</u>
	<u>\$ 471,482</u>	<u>\$ 870,240</u>	<u>\$ -</u>	<u>\$ 1,341,722</u>

Loans receivable are uncollateralized and accrue interest at 9% per annum.

### H. 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.

### I. 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 \$13,471,589 recorded in the Claims Trust Fund 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. roads, 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

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

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

### 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.

### M. 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 amount of unused sick leave at September 30, 2009, is presently not determinable.

### N. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2009, is represented by the following assets:

	<u>General</u>	<u>Local Distribution Authority</u>	<u>Claims Trust</u>	<u>Total</u>
Receivables:				
Loans	\$ <u>274,616</u>	\$ <u>864,240</u>	\$ <u>      -</u>	\$ <u>1,111,856</u>

### O. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with UALGOV's financial statements for the year ended September 30, 2008 from which summarized information was derived.

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

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

### P. New Accounting Standards

During fiscal year 2009, UALGOV implemented the following pronouncements:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

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

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

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

### P. New Accounting Standards, Continued

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. 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.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

## (3) Deposits and Investments

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

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
- 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.

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

## (3) Deposits and Investments, Continued

### A. Deposits, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, 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, 2009, the carrying amount of the UALGOV's total cash and cash equivalents was \$268,637 and the corresponding bank balance was \$279,270. Of the bank balance amount, \$226,449 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009, bank deposits in the amount of \$226,449 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.

Investments of UALGOV as of September 30, 2009, are as follows:

Claims Trust Fund:	
Cash management	\$ 803,444
Future managed assets	1,434,079
Equities	7,363,489
Fixed income securities	<u>3,870,577</u>
	\$ <u>13,471,589</u>

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

## (3) Deposits and Investments, Continued

### B. Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, UALGOV will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. UALGOV's investments are held and administered by trustees in accordance with various trustee agreements. Based on negotiated trust and custody contracts, all of these investments were held in UALGOV's name by UALGOV's custodial financial institutions at September 30, 2009.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. UALGOV does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for UALGOV. As of September 30, 2009, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2009, investments in debt securities were as follows:

	Moody's Rating	Investment Maturities (In years)				Total
		Less than 1	1 to 5	6 to 10	Greater than 10	
U.S. Treasury Obligations	AAA	\$ -	\$ 612,084	\$ -	\$ -	\$ 612,084
U.S. Government agencies	AAA	-	644,588	-	-	644,588
Corporate bonds	AAA	-	249,970	-	-	249,970
Corporate bonds	AA	-	75,128	-	-	75,128
Corporate bonds	A	-	450,461	252,837	-	703,298
Corporate bonds	A+	-	131,279	296,852	-	428,131
Corporate bonds	AA+	-	-	138,333	-	138,333
Corporate bonds	AA-	-	85,598	-	-	85,598
Corporate bonds	BBB	-	-	-	85,000	85,000
Corporate bonds	BBB+	-	86,515	-	-	86,515
Foreign bond, notes and debentures	AAA	-	131,303	250,687	-	381,990
Foreign bond, notes and debentures	A-	-	167,860	83,270	-	251,130
Foreign bond, notes and debentures	AA-	-	-	128,812	-	128,812
		<u>\$ -</u>	<u>\$ 2,634,786</u>	<u>\$ 1,150,791</u>	<u>\$ 85,000</u>	<u>\$ 3,870,577</u>

# UTRÖK ATOLL LOCAL GOVERNMENT

## Notes to Financial Statements September 30, 2009

### (4) Capital Assets

Capital asset activities for the year ended September 30, 2009, are as follows:

	<u>Balance</u> <u>October</u> <u>1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>September</u> <u>30, 2009</u>
Airport terminal	\$ 90,310	\$ -	\$ -	\$ 90,310
Machinery and Equipment	-	70,683	-	70,683
Motor vehicles	<u>39,495</u>	<u>13,000</u>	<u>-</u>	<u>52,495</u>
	129,805	83,683	-	213,488
Less accumulated depreciation	<u>(28,516)</u>	<u>(11,440)</u>	<u>-</u>	<u>(39,956)</u>
	<u>\$ 101,289</u>	<u>\$ 72,243</u>	<u>\$ -</u>	<u>\$ 173,532</u>

Depreciation expense of \$11,440 was charged to the Office of the Mayor and Council.

### (5) Transfers In/Out

Operating transfers in/out for all fund types, for the year ended September 30, 2009, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer</u> <u>Out</u>	<u>Transfer</u> <u>In</u>
Claims Trust	General	\$ 632,973	\$ 632,973
Claims Trust	Local Distribution Authority	<u>2,440,000</u>	<u>2,440,000</u>
		<u>\$ 3,072,973</u>	<u>\$ 3,072,973</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

During the year ended September 30, 2009, UALGOV through the Utrök Claims Trust Fund was the recipient of a loan from a commercial bank in the amount of \$2,440,000. The loan proceeds were transferred to the Local Distribution Authority Fund for the purpose of funding distributions to the people of Utrök.

### (6) Loan Payable

On December 8, 2008, UALGOV obtained a \$2,440,000 loan with a commercial bank. The loan proceeds are to be used in lieu of liquidation of securities for the purpose of meeting the obligations of the Utrök Local Distribution Authority. Interest is payable quarterly at 3.03% per annum with principal due on December 14, 2010. The loan is fully collateralized with the securities held by the bank in UALGOV's name.

# UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

## (6) Loan Payable, Continued

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2009, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	Balance October 1, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2009</u>	<u>Balance due in One Year</u>
Bank loan	\$ _____ -	\$ <u>2,440,000</u>	\$ _____ -	\$ <u>2,440,000</u>	\$ _____ -

## (7) Contingencies

### Settlement Agreement

On May 9, 1997, UALGOV entered into a Settlement Agreement with the Bank of New York, the former trustee for the Utrök Claims Trust Fund. During fiscal year 1996, the Bank transferred \$390,000 of funds to the Utrök Local Distribution Authority (LDA) Fund, which should have been transferred to the Utrök Claims Trust Fund. These funds were subsequently loaned out or were otherwise disbursed by the LDA. Under the terms of the Settlement Agreement, the Bank agreed to reimburse the Utrök 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, 2009, UALGOV repaid \$180,000 under this agreement. Repayment of the remaining \$210,000 is contingent upon future collection of amounts previously loaned or disbursed by the LDA. UALGOV elected to not record the receivable for the loans amount and the 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.

## (8) 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 during the years ended September 30, 2009, 2008 and 2007.

# UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements  
September 30, 2009

## 9) Subsequent Event

On January 2010, UALGOV obtained a \$400,000 fixed rate loan with a local commercial bank with was repaid in full on July 2011. In addition, UALGOV obtained a \$1,220,000, 1-year maturity, fixed rate loan with a commercial bank on January 2011. The loan proceeds will be used in lieu of liquidation of securities for the purpose of meeting the obligations of the Utrŏk Local Distribution Authority. The loan is fully collateralized with the securities held by the bank in UALGOV's name.

UTRŌK ATOLL LOCAL GOVERNMENT  
REQUIRED SUPPLEMENTARY INFORMATION  
- BUDGETARY REPORTING  
YEAR ENDED SEPTEMBER 30, 2009

## UTRŌK ATOLL LOCAL GOVERNMENT

### Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund Year Ended September 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Federal and other grants	\$ 33,000	\$ 287,044	\$ 251,882	\$ (35,162)
RepMar appropriation	36,500	36,500	14,577	(21,923)
Other	778	778	39,436	38,658
<b>Total revenues</b>	<u>70,278</u>	<u>324,322</u>	<u>305,895</u>	<u>(18,427)</u>
<b>Expenditures:</b>				
Salaries, wages and benefits	190,400	190,400	185,234	5,166
Honorarium and sitting fees	103,100	103,100	102,249	851
Food program	-	108,044	108,044	-
Professional services	65,000	65,000	75,482	(10,482)
Travel and stipends	64,400	64,400	59,539	4,861
Motor vehicle	39,000	65,000	52,684	12,316
Rental	28,600	28,600	22,375	6,225
Office equipment and supplies	20,260	20,260	31,139	(10,879)
Communications	9,760	9,760	17,261	(7,501)
Contractual services	7,000	7,000	1,219	5,781
Contributions	6,500	6,500	20,163	(13,663)
Representation	2,000	2,000	2,087	(87)
Bad debts	-	-	28,346	(28,346)
Desalination unit	-	120,000	72,183	47,817
Miscellaneous	53,170	53,170	34,208	18,962
<b>Total expenditures</b>	<u>589,190</u>	<u>843,234</u>	<u>812,213</u>	<u>31,021</u>
<b>Deficiency of revenues under expenditures</b>	<u>(518,912)</u>	<u>(518,912)</u>	<u>(506,318)</u>	<u>12,594</u>
<b>Other financing sources:</b>				
Operating transfers in	518,912	518,912	632,973	114,061
<b>Excess of revenues and other financing sources over expenditures</b>	-	-	126,655	126,655
<b>Other changes in unreserved fund balance:</b>				
Increase in reserve for related assets	-	-	(247,616)	(247,616)
<b>Unreserved fund balance at the beginning of year</b>	<u>202,449</u>	<u>202,449</u>	<u>202,449</u>	<u>-</u>
<b>Unreserved fund balance at the end of year</b>	<u>\$ 202,449</u>	<u>\$ 202,449</u>	<u>\$ 81,488</u>	<u>\$ (120,961)</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

## UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2009

### 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 Statement 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.

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.