

UTRÖK ATOLL LOCAL GOVERNMENT

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2010

UTRÖK ATOLL LOCAL GOVERNMENT

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INDEPENDENT AUDITORS' REPORT

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

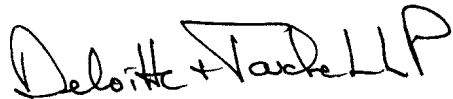
We have audited the accompanying financial statements of the governmental activities and each major fund of the Utrök Atoll Local Government (UALGOV) as of and for the year ended September 30, 2010, which collectively comprise UALGOV's basic financial statements as set forth in Section III of the foregoing table of contents. These financial statements are the responsibility of the management of UALGOV. Our responsibility is to express opinions on these 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, the financial statements referred to previously 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, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2015, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as set forth in Section II of the foregoing table of contents, 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 IV of the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the management of UALGOV. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

July 24, 2015

UTRÖK ATOLL LOCAL GOVERNMENT

Management's Discussion and Analysis September 30, 2010

This Management Discussion and Analysis (MD&A) is provided by Utrök Atoll Local Government (UALGOV) as an overview to the financial statements for fiscal year 2010 in compliance with Governmental Accounting Standards Board (GASB). It is intended to present the result of activities and changes from October 1, 2009 through September 30, 2010 and future financial plans and outlook for the following year.

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 (UCTF). This fund is awarded to Utrök Local Distribution Authority (LDA) through the Nuclear Claims Tribunal for the purpose of compensating the people of Utrök 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 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 \$1,254,097 or 9% and paid out \$1,116,736 during the year ended September 30, 2010 to end at \$13,608,950 at the end of fiscal year 2010.
- UALGOV total net assets decreased by \$794,045 or 6% as compared to FY2009 balances. UALGOV ended FY2010 with net assets of \$11,875,561 down from \$12,669,606 at the end of FY2009.
- Total assets decreased by \$352,216 or 2% and total liabilities increased by \$441,829 or 17% of last year's balances.
- Revenues for the fiscal year increased by \$522,194 or 57% from previous year's balance.
- Expenses for the year decreased by \$82,461 or 4% from previous year's balance.

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 decrease in UALGOV's net assets are indicators of whether its financial condition is improving or deteriorating

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Management's Discussion and Analysis
September 30, 2010

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 purpose.

FINANCIAL ANALYSIS OF UALGOV

In reference to the Summary of Statement of Net Assets and the Summary of Revenues, Expenses and Changes in Net Assets for FY2010 and FY2009 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 useful indicator of a government's financial position. At the end of Fiscal Year 2010, UALGOV's total assets exceed liabilities by \$11,875,561; however, it should be noted that \$11,491,665 is restricted for nuclear claims related distribution payments as well as \$239,491 being invested in capital assets. The summary of UALGOV's net assets for FY2010 as compared to FY2009 follows:

<u>Summary of Statements of Net Assets</u>				
	<u>2010</u>		<u>2009</u>	<u>%</u>
				<u>Change</u>
Assets:				
Current and other assets	\$ 14,663,773	\$	15,081,948	-3%
Capital assets	239,491		173,532	38%
Total assets	14,903,264		15,255,480	-2%
Liabilities:				
Current and other liabilities	187,703		145,874	29%
Long-term obligations	2,840,000		2,440,000	16%
Total liabilities	3,027,703		2,585,874	17%
Net assets:				
Invested in capital assets	239,491		173,532	38%
Restricted	11,491,665		12,166,970	-6%
Unrestricted	144,405		329,104	-56%
Total net assets	\$ 11,875,561	\$	12,669,606	-6%

Current and other assets decreased by \$418,175 from FY2009 balance of \$15,081,948 to FY2010 balance of \$14,663,773. The decrease is primarily brought about by a decrease of \$522,487 in loans receivable due from LDA recipients.

Current and other liabilities increased by \$41,829 from FY2009 balance of \$145,874 to FY2010 balance of \$187,703. The increase is primarily brought about by an increase of \$26,548 in accrued interest payable on long-term debt.

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Management's Discussion and Analysis September 30, 2010

Capital assets, net of accumulated depreciation, increased by \$65,959 or 38% from FY2009 balance of \$173,532 to FY2010 balance of \$239,491. The increase in capital assets was brought about by capital additions of \$88,423 during the year offset by depreciation expense of \$22,464. Please refer to note 4 to the accompanying financial statements for additional information concerning capital assets.

Long-term obligations increased by \$400,000 from FY2009 balance of \$2,440,000 to FY2010 balance of \$2,840,000. The increase is brought about by UALGOV obtaining a commercial bank loan for the purpose of funding distributions to LDA recipients. Please refer to note 6 to the accompanying financial statements for additional information concerning loans payable.

At the end of FY2010, UALGOV's net assets decreased by \$794,045 from \$12,669,606 at the close of FY2009 down to \$11,875,561 at the end of FY2010. The summary of UALGOV's activities and change in net assets for FY2010 as compared to FY2009 follows:

<u>Summary of Statements of Activities</u>				
	<u>2010</u>	<u>2009</u>		<u>%</u>
				<u>Change</u>
Revenues:				
Operating grants	\$ 121,801	\$ 266,459		-54%
Contributions to permanent fund	1,254,097	607,501		106%
Other	59,833	39,577		51%
Total revenues	<u>1,435,731</u>	<u>913,537</u>		57%
Expenses:				
Mayor and council	276,130	274,335		1%
Administration and finance	250,800	337,111		-26%
Public safety	22,546	20,480		10%
Food program	46,723	108,044		-57%
Boat operation	5,100	-		
Nuclear claims related	1,526,872	1,515,918		1%
Interest	101,605	56,349		80%
Total expenses	<u>2,229,776</u>	<u>2,312,237</u>		-4%
Change in net assets	(794,045)	(1,398,700)		-43%
Beginning fund balance	12,669,606	14,068,306		-10%
Ending fund balance	<u>\$ 11,875,561</u>	<u>\$ 12,669,606</u>		-6%

Activities for the year resulted in an increase in revenues of \$522,194 or 57% from \$913,537 in FY2009 to \$1,435,731 in FY2010. Although the income increased this year, it was still not enough to cover the expenses for the year.

Expenses slightly decreased by \$82,461 or 4% from FY2009 balance of \$2,312,237 to \$2,229,776 for FY2010. This increase in revenues offset by the decrease in expenses resulted in an overall positive change in net assets of \$604,655 from last year, from negative \$1,398,700 last year to negative \$794,045 at the end of FY2010.

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Management's Discussion and Analysis
September 30, 2010

Highlight of changes in net assets is as follows:

- Operating grants decreased by \$144,658 or 54% from FY2009 balance of \$266,459 to \$121,801 for FY2010. This was brought about by the decrease in the U.S. Department of Agriculture Commodity Supplemental Food Program from \$108,044 in FY2009 to \$46,163 in FY2010.
- Contributions to the Claims Trust Fund increased by \$646,596 or 106% from FY2009 balance of \$607,501 to \$1,254,097 for FY2010. Net change in fair value of investments increased by \$712,312 from FY2009 balance of \$222,383 to \$934,695 for FY2010, which was due mainly to the realized and unrealized gains in the value of UALGOV trust fund invested in the U.S. stock market. This increase was offset by dividends and interest earned from investments, which decreased by \$65,716 from FY2009 balance of \$385,118 to \$319,402 for FY2010.
- Expenses decreased by \$82,461 or 4% from FY2009 balance of \$2,312,237 to \$2,229,776 for FY2010. This was brought about by a decrease in Council operation expenses of \$138,671 or 19% from FY2009 balance of \$739,970 to \$601,299 for FY2010 offset by an increase in interest expense associated with long-term debt of \$45,256 or 80% from FY2009 balance of \$56,349 to \$101,605 for FY2010. Interest expense pertains to interest paid on a bank loan obtained in FY2009 for the purpose of funding distributions made by the LDA.

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 FY2010, UALGOV's governmental funds reported a combined fund balance of \$14,502,618, a decrease of \$433,456 or 3% from the \$14,936,074 fund balance at the beginning of fiscal year.

GENERAL FUND BUDGET ANALYSIS

For FY2010, the budget for the General Fund was \$649,480 to be funded primarily by drawdown from the CTF. No changes to the original budget were made during FY2010. During the year ended September 30, 2010, the deficiency of revenues under expenditures for the General Fund was \$487,006, which was primarily offset by transfers in from the CTF of \$728,855, resulting in a \$241,849 net positive variance in FY2010.

FINANCIAL PLAN AND OUTLOOK

UALGOV's FY2011 budget amounts to \$2,002,000, which is slightly lower than FY2010 budget by \$7,480. Of this amount, \$642,000 is allotted for the General Fund, which represents the decrease of \$7,480 compared with the allotment for the General Fund of \$649,480 for FY2010.

For FY2011, UALGOV budgeted \$1,200,000 for the LDA, of which \$700,000 is intended for four quarterly distributions and \$500,000 for end calendar year land distribution.

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, 2010

ASSETS

Current assets:	
Cash and cash equivalents	\$ 425,889
Receivables, net	575,121
Restricted assets:	
Investments	<u>2,440,000</u>
Total current assets	<u>3,441,010</u>
Noncurrent assets:	
Receivables, net of current portion	53,813
Restricted assets:	
Investments	11,168,950
Capital assets:	
Nondepreciable capital assets	88,423
Capital assets, net of accumulated depreciation	<u>151,068</u>
Total noncurrent assets	<u>11,462,254</u>
Total assets	<u>\$ 14,903,264</u>

LIABILITIES

Current liabilities:	
Current portion of long-term debt	\$ 2,840,000
Accounts payable	22,785
Distributions payable	16,439
Accrued interest payable	26,548
Other liabilities and accruals	<u>121,931</u>
Total liabilities	<u>3,027,703</u>

Commitments and contingencies

NET ASSETS

Invested in capital assets	239,491
Restricted for:	
Nonexpendable	11,168,950
Expendable	322,715
Unrestricted	<u>144,405</u>
Total net assets	<u>11,875,561</u>
Total liabilities and net assets	<u>\$ 14,903,264</u>

See accompanying notes to basic financial statements.

UTRÖK ATOLL LOCAL GOVERNMENT

Statement of Activities
Year Ended September 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<u>Functions/Programs</u>			
Governmental activities:			
Mayor and council	\$ 276,130	\$ 2,421	\$ (273,709)
Administration and finance	250,800	67,020	(183,780)
Public safety	22,546	-	(22,546)
Food program	46,723	29,651	(17,072)
Boat operation	5,100	-	(5,100)
Projects	-	22,709	22,709
Interest on long-term debt	101,605	-	(101,605)
Nuclear claims related	<u>1,526,872</u>	<u>-</u>	<u>(1,526,872)</u>
	<u>\$ 2,229,776</u>	<u>\$ 121,801</u>	<u>(2,107,975)</u>
General revenues:			
Other			59,833
Contributions to permanent fund			<u>1,254,097</u>
			<u>1,313,930</u>
			Change in net assets (794,045)
			Net assets at beginning of the year <u>12,669,606</u>
			Net assets at end of the year <u>\$ 11,875,561</u>

See accompanying notes to basic financial statements.

UTRÖK ATOLL LOCAL GOVERNMENT

Balance Sheet
Governmental Funds
September 30, 2010

	General	Special Revenue	Permanent	Total
		Local Distribution Authority	Claims Trust	
<u>ASSETS</u>				
Cash and cash equivalents	\$ 408,525	\$ 17,364	\$ -	\$ 425,889
Receivables, net	154,350	474,584	-	628,934
Due from other funds	152,794	-	-	152,794
Restricted assets:				
Investments	-	-	13,608,950	13,608,950
	<u>\$ 715,669</u>	<u>\$ 491,948</u>	<u>\$ 13,608,950</u>	<u>\$ 14,816,567</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 22,785	\$ -	\$ -	\$ 22,785
Distributions payable	-	16,439	-	16,439
Other liabilities and accruals	121,931	-	-	121,931
Due to other funds	-	152,794	-	152,794
Total liabilities	<u>144,716</u>	<u>169,233</u>	<u>-</u>	<u>313,949</u>
Fund balances:				
Reserved for:				
Claims	-	-	13,608,950	13,608,950
Related assets	117,535	471,834	-	589,369
Unreserved	<u>453,418</u>	<u>(149,119)</u>	<u>-</u>	<u>304,299</u>
Total fund balances	<u>570,953</u>	<u>322,715</u>	<u>13,608,950</u>	<u>14,502,618</u>
Total liabilities and fund balances	<u>\$ 715,669</u>	<u>\$ 491,948</u>	<u>\$ 13,608,950</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and, therefore, are not reported in the funds	239,491
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:	
Accrued interest payable	(26,548)
Loans payable	<u>(2,840,000)</u>
	<u>(2,866,548)</u>
Net assets of governmental activities	<u>\$ 11,875,561</u>

See accompanying notes to basic financial statements.

UTRÖK ATOLL LOCAL GOVERNMENT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2010

	General	Special Revenue Local Distribution Authority	Permanent Claims Trust	Total
Revenues:				
Federal and other grants	\$ 121,801	\$ -	\$ -	\$ 121,801
Net change in the fair value of investments	-	-	934,695	934,695
Dividends and interest	55,883	1,095	319,402	376,380
Other	2,841	14	-	2,855
Total revenues	<u>180,525</u>	<u>1,109</u>	<u>1,254,097</u>	<u>1,435,731</u>
Expenditures:				
Current:				
Mayor and council	253,666	-	-	253,666
Administration and finance	250,800	-	-	250,800
Public safety	22,546	-	-	22,546
Food program	46,723	-	-	46,723
Boat operation	5,100	-	-	5,100
Nuclear claims related	273	1,213,775	140,000	1,354,048
Investment management	-	-	172,824	172,824
Debt service:				
Interest	-	-	75,057	75,057
Capital outlay	88,423	-	-	88,423
Total expenditures	<u>667,531</u>	<u>1,213,775</u>	<u>387,881</u>	<u>2,269,187</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(487,006)</u>	<u>(1,212,666)</u>	<u>866,216</u>	<u>(833,456)</u>
Other financing sources (uses):				
Loan proceeds	-	400,000	-	400,000
Operating transfers in	728,855	-	-	728,855
Operating transfers out	-	-	(728,855)	(728,855)
Total other financing sources (uses), net	<u>728,855</u>	<u>400,000</u>	<u>(728,855)</u>	<u>400,000</u>
Net change in fund balances	241,849	(812,666)	137,361	(433,456)
Fund balances at beginning of year	<u>329,104</u>	<u>1,135,381</u>	<u>13,471,589</u>	<u>14,936,074</u>
Fund balances at end of year	<u>\$ 570,953</u>	<u>\$ 322,715</u>	<u>\$ 13,608,950</u>	<u>\$ 14,502,618</u>

See accompanying notes to basic financial statements.

UTRÖK ATOLL LOCAL GOVERNMENT

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended September 30, 2010

Net change in fund balances - total governmental funds \$ (433,456)

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	\$ 88,423	
Depreciation expense	<u>(22,464)</u>	
		65,959

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	(400,000)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in accrued interest payable	<u>(26,548)</u>
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Change in net assets of governmental activities	<u>\$ (794,045)</u>
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See accompanying notes to basic financial statements.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(1) Organization

The Utrök 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 Utrök 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. 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.
- 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.

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Notes to Financial Statements
September 30, 2010

(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

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.

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.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Governmental Fund Financial Statements, Continued:

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. UALGOV reports the following major funds:

- 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.
- Local Distribution Authority Fund - a special revenue fund that 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.
- Claims Trust Fund - a permanent fund that 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 Utrök 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 Utrök 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 Utrök. 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 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.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(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 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, 2010, 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>Claims Trust</u>	<u>Total</u>
Receivables:				
Due from Federal agencies	\$ 9,796	\$ -	\$ -	\$ 9,796
Due from RepMar	19,144	-	-	19,144
Loans	117,535	471,834	-	589,369
Other	<u>36,221</u>	<u>2,750</u>	-	<u>38,971</u>
	182,696	474,584	-	657,280
Less: Allowance for doubtful accounts	<u>(28,346)</u>	-	-	<u>(28,346)</u>
	<u>\$ 154,350</u>	<u>\$ 474,584</u>	<u>\$ -</u>	<u>\$ 628,934</u>

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

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 \$13,608,950 recorded in the Claims Trust Fund are restricted in that they are not available to be used in current operations.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

I. 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

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 amount of unused sick leave at September 30, 2010, is presently not determinable.

M. 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.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

M. Fund Equity, Continued

The reserve for related assets as of September 30, 2010, is represented by the following assets:

	<u>General</u>	<u>Local Distribution Authority</u>	<u>Claims Trust</u>	<u>Total</u>
Receivables:				
Loans	\$ <u>117,535</u>	\$ <u>471,834</u>	\$ <u> -</u>	\$ <u>589,369</u>

N. 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, 2009 from which summarized information was derived.

O. New Accounting Standards

During fiscal year 2010, UALGOV implemented the following pronouncements:

- GASB 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.
- GASB 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.
- GASB 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.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

O. New Accounting Standards, Continued

In March 2010, 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.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of UALGOV.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have 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

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.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(3) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2010, the carrying amount of the UALGOV's total cash and cash equivalents was \$425,889 and the corresponding bank balance was \$457,395. Of the bank balance amount, \$209,220 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010, bank deposits in the amount of \$209,220 were FDIC insured. The remaining bank deposits of \$248,175 are maintained in financial institutions not subject to depository insurance. 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

Investments of UALGOV as of September 30, 2010, are as follows:

Claims Trust Fund:

Cash management	\$ 712,168
Future managed assets	1,415,388
Equities	7,480,773
Fixed income securities	<u>4,000,621</u>
	<u>\$ 13,608,950</u>

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, 2010.

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, 2010, there were no investments in any one issuer that exceeded 5% of total investments.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements September 30, 2010

(3) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2010, 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	\$ -	\$ -	\$ 1,170,850	\$ -	\$ 1,170,850
U.S. Government agencies	AAA	-	843,882	-	-	843,882
Corporate bonds	AA+	-	121,987	120,444	-	242,431
Corporate bonds	AA-	-	125,461	-	-	125,461
Corporate bonds	A+	-	80,241	85,802	-	166,043
Corporate bonds	A	-	122,838	-	-	122,838
Corporate bonds	A-	-	366,518	128,993	-	495,511
Corporate bonds	BBB+	-	82,514	85,670	-	168,184
Corporate bonds	BBB	-	-	85,674	-	85,674
Corporate bonds	BBB-	-	83,748	86,013	-	169,761
Foreign bond, notes and debentures	AA	-	121,880	-	-	121,880
Foreign bond, notes and debentures	AA-	-	-	83,197	-	83,197
Foreign bond, notes and debentures	A+	-	122,823	-	-	122,823
Foreign bond, notes and debentures	A-	-	82,086	-	-	82,086
		<u>\$ -</u>	<u>\$ 2,153,978</u>	<u>\$ 1,846,643</u>	<u>\$ -</u>	<u>\$ 4,000,621</u>

(4) Capital Assets

Capital asset activities for the year ended September 30, 2010, are as follows:

	Balance October 1, 2009	Additions	Retirements	Balance September 30, 2010
Depreciable capital assets:				
Airport terminal	\$ 90,310	\$ -	\$ -	\$ 90,310
Machinery and Equipment	70,683	-	-	70,683
Motor vehicles	<u>52,495</u>	<u>-</u>	<u>-</u>	<u>52,495</u>
	213,488	-	-	213,488
Less accumulated depreciation	<u>(39,956)</u>	<u>(22,464)</u>	<u>-</u>	<u>(62,420)</u>
	173,532	(22,464)	-	151,068
Nondepreciable capital assets:				
Construction in progress	<u>-</u>	<u>88,423</u>	<u>-</u>	<u>88,423</u>
	<u>\$ 173,532</u>	<u>\$ 65,959</u>	<u>\$ -</u>	<u>\$ 239,491</u>

Depreciation expense of \$22,464 was charged to the Office of the Mayor and Council.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(5) Transfers In/Out

Operating transfers in/out for all fund types, for the year ended September 30, 2010, are as follows:

<u>Source</u>	<u>Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
Claims Trust	General	\$ 728,855	\$ -
General	Local Distribution Authority	<u>-</u>	<u>728,855</u>
		<u>\$ 728,855</u>	<u>\$ 728,855</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.

(6) Loans 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 3.033% 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.

On January 18, 2010, UALGOV obtained a \$400,000 loan with a commercial bank. The loan proceeds are to be used to fund various obligations of the Utrök Local Distribution Authority. Interest is payable upon maturity at 9.5% per annum with principal due on January 31, 2011. The loan is fully collateralized by future distributions from the Utrök Local Distribution Authority.

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2010, 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>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2010</u>	Balance due <u>in One Year</u>
Bank loans	\$ <u>2,440,000</u>	\$ <u>400,000</u>	\$ <u> -</u>	\$ <u>2,840,000</u>	\$ <u>2,840,000</u>

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Financial Statements
September 30, 2010

(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, 2010, 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, 2010, 2009 and 2008.

(9) Subsequent Event

On December 20, 2010, UALGOV obtained a \$1,220,000, 1-year maturity, fixed rate loan with a commercial bank. The loan proceeds were used in lieu of liquidation of securities for the purpose of meeting the obligations of the Utrök 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, 2010

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual - General Fund
Year Ended September 30, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		(Negative)
Revenues:				
Federal and other grants	\$ 99,863	\$ 99,863	\$ 121,801	\$ 21,938
Interest	-	-	55,883	55,883
Other	<u>2,700</u>	<u>2,700</u>	<u>2,841</u>	<u>141</u>
Total revenues	<u>102,563</u>	<u>102,563</u>	<u>180,525</u>	<u>77,962</u>
Expenditures:				
Current:				
Salaries, wages and benefits	213,070	213,070	185,621	27,449
Honorarium and sitting fees	119,900	119,900	116,414	3,486
Food program	-	-	46,163	(46,163)
Professional services	88,000	88,000	69,188	18,812
Travel and stipends	57,400	57,400	59,471	(2,071)
Motor vehicle	20,000	20,000	-	20,000
Rental	58,600	58,600	23,270	35,330
Office equipment and supplies	16,500	16,500	8,991	7,509
Communications	12,640	12,640	12,311	329
Contractual services	7,000	7,000	800	6,200
Contributions	15,000	15,000	9,822	5,178
Representation	5,000	5,000	2,647	2,353
Miscellaneous	36,370	36,370	44,390	(8,020)
Capital outlay:				
Development projects	<u>-</u>	<u>-</u>	<u>88,443</u>	<u>(88,443)</u>
Total expenditures	<u>649,480</u>	<u>649,480</u>	<u>667,531</u>	<u>(18,051)</u>
Deficiency of revenues under expenditures	<u>(546,917)</u>	<u>(546,917)</u>	<u>(487,006)</u>	<u>59,911</u>
Other financing sources:				
Operating transfers in	<u>546,917</u>	<u>546,917</u>	<u>728,855</u>	<u>181,938</u>
Net change in unreserved fund balance	-	-	241,849	241,849
Other changes in unreserved fund balance:				
Decrease in reserve for related assets	-	-	130,081	130,081
Unreserved fund balance at the beginning of year	<u>81,488</u>	<u>81,488</u>	<u>81,488</u>	<u>-</u>
Unreserved fund balance at the end of year	<u>\$ 81,488</u>	<u>\$ 81,488</u>	<u>\$ 453,418</u>	<u>\$ 371,930</u>

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

UTRŌK ATOLL LOCAL GOVERNMENT

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2010

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.

UTRÖK ATOLL LOCAL GOVERNMENT

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2010

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the 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, 2010, which collectively comprise UALGOV's basic financial statements and have issued our report thereon dated July 24, 2015. 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.

Internal Control Over Financial Reporting

Management of UALGOV is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered UALGOV's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UALGOV's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UALGOV's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2010-2 to be material weaknesses.

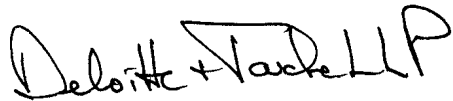
Compliance and Other Matters

As part of obtaining reasonable assurance about whether UALGOV's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-3 through 2010-5.

We noted certain matters that we reported to management of UALGOV in a separate letter dated July 24, 2015.

UALGOV's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit UALGOV's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Council, others within the entity, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Stach LLP". The signature is written in a cursive, stylized font.

July 24, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Compliance

We have audited Utrök Atoll Local Government's (UALGOV) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended September 30, 2010. UALGOV's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of UALGOV's management. Our responsibility is to express an opinion on UALGOV's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UALGOV's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of UALGOV's compliance with those requirements.

In our opinion, UALGOV complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2010.

Internal Control Over Compliance

Management of UALGOV is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered UALGOV's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UALGOV's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

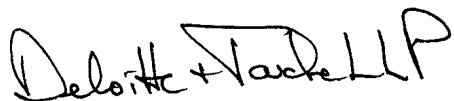
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be material weaknesses.

UALGOV's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit UALGOV's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of UALGOV as of and for the year ended September 30, 2010, and have issued our report thereon dated July 24, 2015, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise UALGOV's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Council, others within the entity, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



July 24, 2015

UTRŌK ATOLL LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards Compact of Free Association, Public Law 99-239 Year Ended September 30, 2010

	Fund Balance Beginning of Year	Net Earnings on Funds	Net Funds Expended	Fund Balance End of Year
<u>U.S. Department of the Interior</u> <u>CFDA #15.875</u>				
Funds passed through the Republic of the Marshall Islands (RepMar):				
The Agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association	\$ 13,471,589	\$ 1,254,097	\$ 1,116,736	\$ 13,608,950

Of funds received per the agreement between the Government of the United States and the Government of the Marshall Islands for the implementation of Section 177 of the Compact of Free Association, the cumulative amount of \$13,608,950 remains invested in the Utrŏk Claims Trust Fund, a permanent fund of UALGOV. Funds expended during the year ended September 30, 2010, are represented by fund manager fees of \$172,824, legal fees of \$140,000, interest expense of \$75,057, and a transfer out to the General Fund of \$728,855 for general operations.

See accompanying notes to schedule of expenditures of federal awards.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Expenditures of Federal Awards
Other U.S. Federal Grants
Year Ended September 30, 2010

<u>CFDA#</u>	<u>Agency/Program</u>	Accrued (Deferred) Balance at October 1, 2009	Federal Cash Receipts and Adjustments	Federal Expenditures	Accrued (Deferred) Balance at September 30, 2010
	<u>U.S. Department of Agriculture</u>				
	Fund passed through the Republic of the Marshall Islands:				
10.582	Commodity Supplemental Food Program	\$ 33,160	\$ 69,527	\$ 46,163	\$ 9,796
	Total U.S. Department of Agriculture	<u>33,160</u>	<u>69,527</u>	<u>46,163</u>	<u>9,796</u>
	<u>U.S. Department of Commerce</u>				
	Direct award:				
11.P.L.108-219	Utrök Atoll Radiological Monitoring Support	\$ (9,890)	\$ -	\$ -	\$ (9,890)
	Total U.S. Department of Commerce	<u>(9,890)</u>	<u>-</u>	<u>-</u>	<u>(9,890)</u>
	<u>U.S. Department of Interior</u>				
	Direct award:				
15.875	Utrök Atoll Radiological Monitoring Support	\$ 58,192	\$ 78,609	\$ 20,417	\$ -
	Total U.S. Department of Commerce	<u>58,192</u>	<u>78,609</u>	<u>20,417</u>	<u>-</u>
		<u>\$ 81,462</u>	<u>\$ 148,136</u>	<u>\$ 66,580</u>	<u>\$ (94)</u>

The above federal expenditures are included within the expenditures of the General Fund of \$667,531.

See accompanying notes to schedule of expenditures of federal awards.

UTRÖK ATOLL LOCAL GOVERNMENT

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

(1) Organization

The Utrök Atoll Local Government (UALGOV) is a governmental entity governed by its own Constitution. All significant operations of UALGOV are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as UALGOV's cognizant agency for the Single Audit. UALGOV is the subrecipient of funds received through Section 177 of the Compact of Free Association from the Republic of the Marshall Islands (RepMar). These funds must be distributed in accordance with the agreement concerning procedures for the implementation of United States economic assistance, programs and services provided in the Compact of Free Association between the Government of the United States and the Government of the Marshall Islands, dated July 31, 1986. It has been determined these funds are not subject to general U.S. federal requirements such as OMB's Circular A-87 and Circular A-102, but rather must be expended in compliance with local laws and regulations and Compact intent.

a. Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of the Interior

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of UALGOV and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

CFDA # 15.875

CFDA # 15.875 represents funding from the Office of Insular Affairs (OIA), U. S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. UALGOV's major federal programs were as follows: | |

CFDA #	Name of Federal Program
15.875	Economic, Social and Political Development of the Territories and the Freely Associated States: Section 177 of the Compact of Free Association

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 11. Auditee qualified as a low-risk auditee? | No |

Section II - Financial Statement Findings

Reference Number	Findings
2010-2	Loans and Advances
2010-3	Local Noncompliance
2010-4	Local Noncompliance
2010-5	Local Noncompliance

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2010-1	Procurement and Suspension and Debarment	\$42,918

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-1
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.582 Commodity Supplemental Food Program
Area: Allowable Costs/Cost Principles
Procurement and Suspension and Debarment

Questioned Costs: \$42,918

Criteria: Purchases of goods and services by recipients of Federal grant funding are constrained by the concept of "fair procurement practices". Section 3016.36 of 7 CFR 3016, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that grantees and subgrantees will use their own procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section. Thus, the following guidelines shall be observed based on RepMar's Procurement Code:

(a) Section 124 - unless otherwise authorized by law, all Government contracts (including local government Councils) shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

In addition, expenditures incurred under federal programs should be in accordance with allowable costs/cost principles requirements and should be directly related to, and in accordance with, program intent and objectives.

Condition: Of \$667,532 in General Fund expenditures, we tested sixty-five (65) items totaling \$160,967. We noted the following CFDA # 10.582 federal program expenditures that did not evidence adequate compliance with either formal or informal procurement procedures:

<u>Check #</u>	<u>Amount</u>
5586	\$ 2,586
5587	5,364
5590	4,885
5592	3,338
7004	7,245
7323	7,500
8078	<u>12,000</u>
	<u>\$ 42,918</u>

Furthermore, no vendor invoices were provided for Check #s 5587, 5590, 5592, 7323 and 8078.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-1, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.582 Commodity Supplemental Food Program
Area: Allowable Costs/Cost Principles
Procurement and Suspension and Debarment

Questioned Costs: \$42,918

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to establish compliance with procurement and allowable costs/cost principles requirements.

Effect: The effect of the above condition is noncompliance with procurement and allowable costs/cost principles requirements, which results in questioned costs.

Recommendation: We recommend that UALGOV comply with requisite procurement standards. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price. Furthermore, we recommend that UALGOV comply with allowable costs/cost principles whereby expenditures be supported by vendor invoices indicating that such expenditures are directly related to, and in accordance with, program intent and objectives.

Auditee Response and Corrective Action Plan: UALGOV is strictly implementing the procedure on processing of disbursements. All requests for payment have to be properly supported by purchase requisition, invoice, quotation and other pertinent documents.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Loans and Advances

Finding No. 2010-2

Criteria: Internal control policies and procedures should be established over the processing of loan approvals, loan boarding, completeness of loan documentation, safeguarding of pertinent loan documents and monitoring of loan covenant requirements.

Conditions: For tests of loans and advances, the following exceptions were noted:

- a. For sixteen loans receivable tested, we noted eleven items where pertinent documents such as promissory notes, check disbursements, cancelled checks and authorization of disbursements were not available. Furthermore, we noted one item where the transactions recorded in the general ledger did not mirror those within the subsidiary ledger.
- b. For five salary advances tested, four did not include documents such as promissory notes, check disbursements, cancelled checks, authorizations of disbursements. Furthermore, we noted one where the 1% loan fee was not applied.
- c. For seventeen distribution advances tested, we noted the following exceptions:
 - i. For four, Mayoral approval on the loan application was not evident.
 - ii. For one, claim recipients on the loan application were not verifiable.
 - iii. For seven, pertinent documents such as promissory notes, check disbursements, cancelled check, and authorizations of disbursements were not available.
 - iv. For seven, the 1% loan fee and 9% interest was not applied in accordance with Council Resolution 03-09.
 - v. For one, the loan was disbursed through direct deposit to the borrower's bank account without written advice.
 - vi. For one, a borrower signature on the loan application was not evident.
- d. Repayments of advances were not monitored resulting in net overpayment of \$28,474.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above condition is the potential occurrence of errors associated with loan and advance balances.

Recommendation: We recommend that UALGOV perform a comprehensive review of its current policies and procedures and strengthen internal controls and the monitoring of such controls over lending and advances administration.

Auditee Response and Corrective Action Plan: UALGOV agrees with recommendation. Loans and advances should comply with policies and procedures and Council resolution.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Local Noncompliance

Finding No. 2010-3

Criteria: 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105, states that the employer shall once every four (4) weeks or thirteen times per year, pay taxes withheld under Section 104 under Chapter 1. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of the Chapter.

Condition: UALGOV's tax returns for August and September 2010 were missing and were not provided.

Cause: The cause of the above condition is a lack of policies and procedures to monitor safekeeping of returns and to verify timely payments of withheld income taxes.

Effect: The effect of the above condition is possible noncompliance with RepMar Income Tax Act of 1989, as amended.

Recommendation: We recommend that management establish policies and procedures to safe keep tax returns to monitor compliance with the RepMar Income Tax Act of 1989, as amended.

Auditee Response and Corrective Action Plan: UALGOV agrees with recommendation. UALGOV will ensure that all future tax return are safe and properly monitored.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Local Noncompliance

Finding No. 2010-4

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: RepMar requires that procurement actions of goods and services provide full and open competition and compliance with this provision should be appropriately documented in the procurement files. We noted purchases of materials for the bumbum boat and shipping costs of \$8,365 where documentation on file was inadequate to evidence the procurement process. Price quotations from vendors were not available.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to ensure compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

Prior Year Status: The lack of compliance with RepMar's Procurement Code was reported as a finding in the Single Audit of UALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: UALGOV agrees with recommendation. UALGOV will ensure that procurement of goods and services are to comply with Repmar's Procurement Code.

UTRÖK ATOLL LOCAL GOVERNMENT

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Local Noncompliance

Finding No. 2010-5

Criteria: Distribution from the Claims Trust Fund should be made in accordance with the underlying trust agreement. Specifically, section 4.2 (b) of the Claims Trust Fund agreement states that UALGOV shall retain not less than 30% but no more than 85% of the net income arising from the corpus of the Trust. Furthermore, section 5.2 of the Claims Trust Fund agreement states that an invasion of corpus shall not occur more frequently every than once every three years.

Condition: During the year ended September 30, 2010, net income of the Trust Fund was \$866,216, 70% of which amounts to \$606,351 (maximum amount available to be withdrawn from net income). However, total drawdowns for fiscal year 2010 amounted to \$728,855, which exceeded the allowable amount that may be withdrawn by \$122,204.

Cause: The cause of the above condition is distribution of funds from the Claims Trust Fund in excess of the maximum amount allowed per trust agreement.

Effect: The effect of the above condition is the possibility of noncompliance with Claims Trust Fund agreement.

Recommendation: We recommend that UALGOV comply with the trust agreement concerning distributions made from the Claims Trust Fund.

Prior Year Status: The lack of compliance with the Trust Fund agreement was reported as a finding in the Single Audit of UALGOV for fiscal year 2009.

Auditee Response and Corrective Action Plan: UALGOV is reviewing the policies and procedures regarding this issue to come up with a sound solution so that the occurrence of this is minimized if not totally eradicated.

UTRÖK ATOLL LOCAL GOVERNMENT

Unresolved Prior Year Findings and Questioned Costs Year Ended September 30, 2010

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2010:

Questioned costs previously reported	\$ 46,914
Questioned costs of fiscal year 2010 Single Audit	<u>42,918</u>
Unresolved questioned costs at September 30, 2010	\$ <u>89,832</u>

Unresolved Findings

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Questioned Costs section of this report.

Summary Schedule of Prior Audit Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Costs</u>	
2009-1	10.582/ 11.PL108-219 81.Unknown	\$ 23,914 13,000 <u>10,000</u>	Not corrected or resolved See Finding 2010-1 Not corrected or resolved Not corrected or resolved
		\$ <u>46,914</u>	