

**TUVALU TRUST FUND**

**FINANCIAL STATEMENTS**

**YEAR ENDED 30 SEPTEMBER 2006**

**TUVALU TRUST FUND**

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**YEAR ENDED 30 SEPTEMBER 2006**

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**TUVALU TRUST FUND**

**DIRECTORS' STATEMENT TO THE GOVERNMENT OF TUVALU**

In the opinion of the Directors, the accompanying Balance Sheet, Statement of Financial Performance, Statement of Cash Flows and Movements in Fund Account, which have been prepared in accordance with the Trust Agreement, are properly drawn up so as to give a true and fair view of the state of affairs of the Fund as at 30 September 2006 and of the transactions and results for the year ended on that date. The Fund has been conducted in accordance with its constituent trust agreement.

Signed in accordance with a resolution of Directors of the Tuvalu Trust Fund Board.

Director:

*L. Meke*

Place:

*Funafuti*

Date:

*7 June 2007*

## INDEPENDENT AUDITOR'S REPORT

To the Government of Tuvalu and Directors of the Tuvalu Trust Fund Board.

### Scope

We have audited the financial statements of the Tuvalu Trust Fund for the year ended 30 September 2006 as set out on pages 3 to 11. The directors of the Tuvalu Trust Fund are responsible for the financial statements in order to express an opinion on them to the Government of Tuvalu and Directors of the Tuvalu Trust Fund Board.

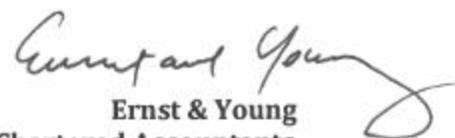
Our audit has been conducted in accordance with International Standards on Auditing to provide reasonable assurance whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with the accounting policies set out in Note 1, other mandatory reporting requirements and the requirements of the Trust Deed so as to present a view which is consistent with our understanding of the Tuvalu Trust Fund's financial position and performance as represented by the results of its operations and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion, the financial statements present fairly in accordance with accounting policies outlined in Note 1 and the requirements of the Trust Deed, the financial position of the Tuvalu Trust Fund as at 30 September 2006 and its performance for the year then ended.

7 June 2007  
Suva, Fiji

  
Ernst & Young  
Chartered Accountants

TUVALU TRUST FUND

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2006

	Note	2006 \$A'000	2005 \$A'000
ASSETS			
Cash and cash equivalents		102	724
Financial assets held at fair value through profit and loss	2	<u>103,011</u>	<u>99,415</u>
TOTAL ASSETS		<u>103,113</u>	<u>100,139</u>
LIABILITIES			
Accrued charges		<u>65</u>	<u>53</u>
TOTAL LIABILITIES		<u>65</u>	<u>53</u>
NET ASSETS		<u>103,048</u>	<u>100,086</u>
FUND ACCOUNT		<u>103,048</u>	<u>100,086</u>

This Statement of Financial Position should be read in conjunction with the accompanying notes.

**TUVALU TRUST FUND**

**MOVEMENTS IN FUND ACCOUNT**

**FOR THE YEAR ENDED 30 SEPTEMBER 2006**

	<b>Note</b>	<b>2006 \$A'000</b>	<b>2005 \$A'000</b>
Balance of account at 1 October		<u>100,086</u>	<u>85,405</u>
Contribution received	4(a)	3,819	737
Other		-	-
Net gain/(loss) for the year transferred from statement of gains and losses		10,525	13,944
Drawdown of funds	4(b)	<u>(11,382)</u>	<u>-</u>
Net increase for the year		<u>2,962</u>	<u>14,681</u>
<b>BALANCE OF ACCOUNT AT 30 SEPTEMBER</b>		<u><b>103,048</b></u>	<u><b>100,086</b></u>

The Movements in Fund Account should be read in conjunction with the accompanying notes.

**TUVALU TRUST FUND**

**STATEMENT OF FINANCIAL PERFORMANCE**

**FOR THE YEAR ENDED 30 SEPTEMBER 2006**

<b>Note</b>	<b>2006</b>	<b>2005</b>
	<b>\$A'000</b>	<b>\$A'000</b>
<b>REVENUE FROM ORDINARY ACTIVITIES</b>		
Investment income received	5,086	7,283
Change in fair value of investments	6,259	7,346
Net gain/(loss) from foreign investments	-	-
Other income	8	70
	<u>11,353</u>	<u>14,699</u>
<b>EXPENDITURE FROM ORDINARY ACTIVITIES</b>		
Audit fees	(15)	(28)
Fund Monitor's fee	(89)	(77)
Management fee	(721)	(616)
Other expenses	(3)	(34)
	<u>(828)</u>	<u>(755)</u>
<b>PROFIT FROM ORDINARY ACTIVITIES TRANSFERRED TO FUND ACCOUNT</b>	<u>10,525</u>	<u>13,944</u>

The Statements of Gains and Losses should be read in conjunction with the accompanying notes.

**TUVALU TRUST FUND**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 30 SEPTEMBER 2006**

	Note	2006 \$A'000	2005 \$A'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Investment income received		7,757	83
Management fees and operating expenses paid		(816)	(368)
<b>NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES</b>	5(a)	<u>6,941</u>	<u>(285)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments		(26,626)	(6,200)
Proceeds on sale of investments		26,626	6,200
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>			
Contributions received		3,819	737
Drawdowns		(11,382)	-
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		<u>(7,563)</u>	<u>737</u>
<b>NET (DECREASE)/ INCREASE IN CASH HELD</b>		(622)	452
ADD opening cash brought forward		724	272
<b>CLOSING CASH CARRIED FORWARD</b>	5(b)	<u>102</u>	<u>724</u>

The Statements of Cash Flows should be read in conjunction with the accompanying notes.

# TUVALU TRUST FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 SEPTEMBER 2006

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a general purpose financial report, and has been prepared in accordance with International Financial Reporting Standards. A summary of significant accounting policies adopted by the Fund is set out in this note. Unless stated otherwise the accounting policies are consistent with those applied in the previous financial year. The financial statements of Tuvalu Trust Fund for the year ended 30 September 2006 were authorised for issue in accordance with a resolution of the directors on 11 May 2007.

##### (a) Operation of the Fund

The Fund was established on 21 August 1987 as an international organization by Treaty among the Governments of Tuvalu, Australia, New Zealand and the United Kingdom and has the legal capacity to enter into contracts.

The stated objectives of the Tuvalu Trust Fund are:

- (i) to assist the Government of Tuvalu to achieve greater financial autonomy in the management of its affairs;
- (ii) to enable the Government to maintain, and if possible, improve, existing levels of social infrastructure and services;
- (iii) to enhance the capacity of the Government to receive and effectively utilize costs of social and economic infrastructure and services, and;
- (iv) to ensure that revenue is available to cover long term maintenance and operating costs of social and economic infrastructure and services, and;
- (v) to permit the Government to participate directly in the development of the economy.

##### (b) Basis of preparation

The Financial Statements have been prepared on a historical cost basis, except for the valuation of investments in financial assets, which have been measured in fair value. Both the functional and presentation currency is Australian dollars.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 September 2006 and the comparative information presented in these financial statements.

##### (c) Statement of Compliance

The financial report complied with International Financial Reporting Standards (IFRS).

This is the first annual financial report prepared based on IFRS. The adoption of IFRS during the year did not have any effect on the financial statements of the Trust. They did however give rise to additional disclosures.

**TUVALU TRUST FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 SEPTEMBER 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Basis of Recording Income**

Income from investments is taken to account as follows:

- (i) Fixed interest and property income – on the date due and receivable.
- (ii) Dividend income – on the date the dividends are declared.

**(e) Expenditure and Outgoings**

Expenditure and outgoings are taken to account on an accruals basis.

**(f) Foreign Currency**

Investments are denominated in Australian currency or equivalent and likewise these financial statements are expressed in Australian currency (\$A). Where necessary foreign currency amounts have been converted to Australian currency at the rate ruling at the date of the transaction.

**(g) Investments**

All financial assets have been designated at fair value through profit or loss on adoption of IFRS. These are assets held for trading or designated upon initial recognition as at fair value through profit or loss. The designation of financial assets at the transition date on adoption of IFRS did not have any impact on comparative information as investments were valued at market value at balance sheet date in prior years and movements in valuation at each reporting period were included in the gains and losses account (profit or loss account). Unrealised gains or loss on revaluation of investments is taken into account in determining the net gain for the year. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

**(h) Comparative Figures**

The corresponding amounts for the preceding year have, where necessary, been reclassified to facilitate comparison.

**TUVALU TRUST FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 SEPTEMBER 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(i) Fund Account**

The fund account consists of initial and subsequent contribution made, plus subsequent net earning, less any withdrawals including transfers made between the Tuvalu Trust Fund and the Consolidated Investment Fund account.

**(j) Cash**

For the purposes of the Statement of Cash Flows, cash includes cash at banks and liquid assets, both in the secretariat account as well as in the investment fund. These comprise cash at banks and at hand and short term deposits with an original maturity of three months or less.

**(k) Goods and Services Tax (GST)**

Where applicable, GST incurred by the Fund, that is not recoverable from the Australian Taxation Office, has been recognized as part of the expense to which it applies.

**2. INVESTMENTS**

	<b>Market Value 2006 \$A'000</b>	<b>Market Value 2005 \$A'000</b>
Indexed bonds	35,278	26,365
Equities	18,332	23,389
Property	8,060	7,885
International investments	41,341	41,776
	<b>103,011</b>	<b>99,415</b>

Investments are recognised at their fair value.

**TUVALU TRUST FUND****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 30 SEPTEMBER 2006****3. INCOME TAX**

The Fund has been granted exemption from all taxation on its investment in the participating countries: Tuvalu, Australia, New Zealand and the United Kingdom.

**4. FUNDS**

In accordance with the objectives of the Trust the following amounts were paid to the Government of Tuvalu and/or to the Trust:

**(a) Contribution To Fund**

	2006 \$A'000	2005 \$A'000
- Australia	2,268	-
- New Zealand	318	737
- Tuvalu	1,233	-
	<hr/>	
	3,819	737
	<hr/>	

**(b) Drawdown Of Funds**

Total Drawdowns	<hr/>	-
	11,382	
	<hr/>	

**5. STATEMENT OF CASH FLOWS**

	2006 \$A'000	2005 \$A'000
	<hr/>	<hr/>
(a) Reconciliation of the net gain for the year to the net cash flows from operations.		
Net gain/(loss) for year	10,525	13,944
Less: Unrealised (gain)/loss	(6,259)	(7,346)
Income reinvested	2,663	(7,270)
Other changes in assets and liabilities	12	387
	<hr/>	<hr/>
Net cash flows from/(used in) operations	6,941	(285)
	<hr/>	
(b) Reconciliation cash		
Cash balance comprises:		
Cast at bank	102	724
	<hr/>	<hr/>
	102	724
	<hr/>	<hr/>

Cash at bank earns interest at floating bank rates based on daily bank deposit rates. The fair value of cash at bank is \$102,000 (2005: \$724,000).

**TUVALU TRUST FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 SEPTEMBER 2006**

**6. SEGMENT INFORMATION**

The trust operates solely in the area of investment.

**7. FINANCIAL INSTRUMENTS**

The investments of the Fund (other than cash held for liquidity purposes), are managed on behalf of the Trustee by Citigroup Asset Management Australia Limited, Credit Suisse Asset Management Australia Limited, Wellington International Management Company Pte Limited, BT Financial Group Ltd, Barclays Global Investors Ltd, JF Capital Partners Ltd, Bridgewater Associates Inc and MIR Investment Management. Each investment manager is required to invest the assets managed by it in accordance with the terms of a written investment mandate.

The Trustee has determined that appointment of these managers is appropriate for the Fund and is in accordance with the Fund's investment strategy.

The Trustee obtains regular reports from each investment manager on the nature of the investments made on its behalf and the associated risks.