

JUN 30 2008

**REPUBLIC OF THE MARSHALL ISLANDS**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED SEPTEMBER 30, 2007**

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2007

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## INDEPENDENT AUDITORS' REPORT

His Excellency Litokwa Tomeing  
President  
Republic of the Marshall Islands:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar), as of and for the year ended September 30, 2007, which collectively comprise RepMar's basic financial statements as set forth in Section II of the foregoing table of contents. These financial statements are the responsibility of the management of RepMar. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RepMar'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.

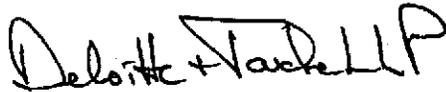
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands as of September 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, on pages 3 through 14, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section III of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of RepMar. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

As discussed in Note 14 to the financial statements, the beginning net assets of the governmental activities and the beginning fund balance of the Compact Trust Fund within the accompanying financial statements have been restated.

Our audit was conducted for the purpose of forming an opinion on RepMar's respective financial statements that collectively comprise RepMar's basic financial statements. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of RepMar. This supplementary information is the responsibility of the management of RepMar. Such additional information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2008, on our consideration of the Republic of the Marshall Islands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
June 25, 2008

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2007

As management of the Government of the Republic of the Marshall Islands (RepMar), we offer readers of RepMar's financial statements this narrative overview and analysis of the financial activities of RepMar for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2006 comparative information has been included, where appropriate.

#### FINANCIAL HIGHLIGHTS

- The assets of RepMar exceeded its liabilities at the close of the most recent fiscal year by \$77.1 million (net assets), increasing by \$17.8 million (or 30.1%) from \$59.3 million in the prior year. This increase is primarily attributable to the infusion of resources from the Government of the United States through Public Infrastructure Sector grant funds of \$16.6 million, which were expended on various capital infrastructure projects throughout the nation, and the net increase in the corpus of the Compact Trust Fund of \$7.9 million.
- During the current fiscal year, RepMar's expenses for governmental activities were \$99.2 million, including expenses recorded or payments made or due to the autonomous agencies, and were funded in part by \$82.0 million in program revenues and \$35.0 million in taxes and other general revenues. Program revenues increased by \$6.8 million (or 9.0%) from \$75.2 million in the prior year to \$82.0 million, which was attributable primarily to the increase in resources received through Public Infrastructure Sector grant funds. Secondly, general revenues increased by \$2.5 million (or 7.5%) from \$32.5 million in the prior year to \$35.0 million, which was attributable primarily to an increase in tax revenue. Expenses increased by \$4.2 million (or 4.5%) from \$95.0 million in the prior year to \$99.2 million. The increase in expenses was primarily attributable to an increase in resources utilized for education and health-related expenses.
- For the current fiscal year, the General Fund reported revenues (and transfers in) of \$42.3 million, \$7.9 million in excess of charges to general fund appropriations (including transfers out) of \$34.4 million. General fund revenues were up \$8.2 million (or 24.1%) from prior year primarily due to a one-time transfer from the Intergenerational Trust Fund of \$5.9 million. On the other hand, General fund appropriations were down marginally by \$0.7 million (or 2.0%) from prior year primarily due to a decrease in transfers to other governmental funds of \$1.1 million (down from \$1.5 million in prior year to \$0.4 million). Revenues collected, including transfers in, of \$42.3 million were higher than budgeted amounts of \$36.8 million. Additionally, charges to appropriations, including transfers out, of \$34.4 million were lower than budgeted amounts of \$36.9 million resulting in an overall net budgetary surplus for the current year of \$7.9 million.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to RepMar's basic financial statements, which comprise of the following three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of a budgetary schedule, which is prepared on the budgetary basis of accounting, and other supplementary information, in addition to the basic financial statements themselves, which includes combining statements for governmental funds, fiduciary funds and component units.

## REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis  
Year Ended September 30, 2007

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of RepMar's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of RepMar's assets and liabilities, with the difference between the two reported as net assets. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report RepMar's net assets and how they have changed. Net assets, being the difference between RepMar's assets and liabilities, is one way to measure RepMar's financial health or position.

- Over time, increases or decreases in RepMar's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of RepMar, additional non-financial factors such as changes in RepMar's tax base, the condition of RepMar's roads and infrastructure, and the quality of services needs to be considered.

The government-wide financial statements of RepMar are divided into two categories:

- Primary government - this grouping comprises governmental activities, which includes most of RepMar's basic services such as education, health, special appropriations, finance, judiciary, and general administration. Compact and other federal grants finance most activities of the primary government.
- Discretely presented component units - RepMar includes numerous other entities in its report. Although legally separate, these "component units" are important because RepMar is financially accountable for them.

The government-wide financial statements can be found on pages 15 and 16 of this report.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. RepMar, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal matters.

- Some funds are required by Nitijela legislation.
- RepMar establishes other funds to control and manage money for particular purposes (like the Republic of China Projects Fund) or to show that it is properly using certain grants (like federal grants reported in the U.S. Federal Grants Fund).

All of the funds of RepMar can be divided into two categories - governmental and fiduciary.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2007

### **Fund Financial Statements, Continued**

Governmental funds – These are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of RepMar's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance RepMar's programs.

The basic governmental fund financial statements can be found on pages 17 and 18 of this report.

Fiduciary funds – These are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support RepMar's own programs. RepMar is the trustee, or fiduciary, for other assets that because of trust arrangements, can be used only for the trust beneficiaries. RepMar is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RepMar's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of change in fiduciary net assets.

The basic fiduciary fund financial statements can be found on pages 20 and 21 of this report.

Discretely presented component unit financial statements are presented for entities where RepMar has financial accountability, but are independent of the core RepMar operations. Most operate similar to private-sector businesses.

The discretely presented component unit financial statements can be found on pages 22 and 23 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 61 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons. Required supplementary information can be found on pages 62 through 64 of this report.

The other supplementary information referred to earlier is presented immediately following the required supplementary information on budgetary comparisons, and can be found on pages 65 through 102 of this report.

**REPUBLIC OF THE MARSHALL ISLANDS**

Management's Discussion and Analysis  
Year Ended September 30, 2007

**A FINANCIAL ANALYSIS OF REPMAR AS A WHOLE**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of RepMar, assets exceeded liabilities by \$77.1 million at the close of the most recent fiscal year. However, all these net assets are either restricted as to the purpose they can be used for or are invested in capital assets. RepMar uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although RepMar's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. The majority of RepMar's net assets are comprised of its capital assets and long-term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. RepMar's current assets amounted to \$32.7 million while its current liabilities were \$31.2 million. Restricted net assets represent resources that are subject to external constraints. The table below summarizes RepMar's net assets at the close of the current year compared with prior year.

	RepMar's Net Assets As of September 30	
	<u>2007</u>	<u>2006</u> <u>Restated</u>
Current and other assets	\$ 83,439,545	\$ 70,769,643
Capital assets	<u>86,992,722</u>	<u>76,825,995</u>
<b>Total Assets</b>	<u>170,432,267</u>	<u>147,595,638</u>
Long-term liabilities	62,092,811	63,260,171
Other liabilities	<u>31,226,530</u>	<u>25,041,396</u>
<b>Total Liabilities</b>	<u>93,319,341</u>	<u>88,301,567</u>
Net assets:		
Invested in capital assets, net of related debt	64,866,493	54,128,155
Restricted net assets	52,588,074	45,486,749
Unrestricted net assets	<u>(40,341,641)</u>	<u>(40,320,833)</u>
<b>Total net assets</b>	<u>\$ 77,112,926</u>	<u>\$ 59,294,071</u>

At the end of the current fiscal year, RepMar's unrestricted net asset deficiency was \$40.3 million, which essentially remained unchanged from prior year. This deficiency is the result of having long-term commitments that are greater than currently available resources. Specifically, RepMar did not include in past annual budgets the full amounts needed to finance future liabilities arising from Asian Development Bank (ADB) loans as well as to pay for unused employee annual leave balances. RepMar will include these amounts in future years' budgets as they become due.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2007

### Changes in Net Assets

As discussed earlier, net assets of the primary government increased by \$17.8 million, which represents an increase of 30.1% from the prior year's amount of \$59.3 million. This result indicates that RepMar's financial condition, as a whole, improved from the prior year. The table below summarizes RepMar's change in net assets for the current fiscal year as compared with prior year.

### RepMar's Changes in Net Assets For the Years Ended September 30

	<u>2007</u>	<u>2006</u> <u>Restated</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 7,725,378	\$ 8,101,072
Operating grants and contributions	48,096,755	46,436,682
Capital grants and contributions	26,214,934	20,678,059
General revenues:		
Taxes	27,078,657	25,142,867
Grants and contributions not restricted	4,000,000	4,000,000
Fishing rights	1,250,000	1,500,000
Ship registry	1,750,000	1,000,000
Unrestricted investment earnings	386,554	422,880
Other	523,152	471,035
Total revenues	<u>117,025,430</u>	<u>107,752,595</u>
<b>Expenses:</b>		
President and Cabinet	2,095,006	1,715,084
Office of the Chief Secretary	1,312,892	1,088,924
Special appropriations	7,261,383	5,396,036
Council of Iroij	426,641	443,283
Office of the Auditor-General	637,014	738,577
Public Service Commission	658,097	497,151
Office of the Attorney General	594,124	650,212
Education	25,807,631	24,243,349
Health and Environment	22,524,449	20,985,881
Transportation and Communication	2,898,984	3,373,908
Resources and Development	1,206,447	1,804,198
Internal Affairs	3,095,233	2,701,868
Justice	3,216,587	3,683,678
Finance	9,410,639	6,707,948
Foreign Affairs and Trade	2,389,108	2,858,167
Public Works	4,308,882	5,276,038
Nitijela	2,108,920	1,931,478
Judiciary	857,907	833,651
Environmental Protection Authority	377,060	464,942
Nuclear claims related	644,361	3,390,938
Interest on long-term debt	789,850	869,357
Capital projects	6,514,863	5,167,226
Other	70,497	142,539
Total expenses	<u>99,206,575</u>	<u>94,964,433</u>
Change in net assets	17,818,855	12,788,162
Net assets – beginning of year	59,294,071	46,505,909
Net assets – end of year	<u>\$ 77,112,926</u>	<u>\$ 59,294,071</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2007

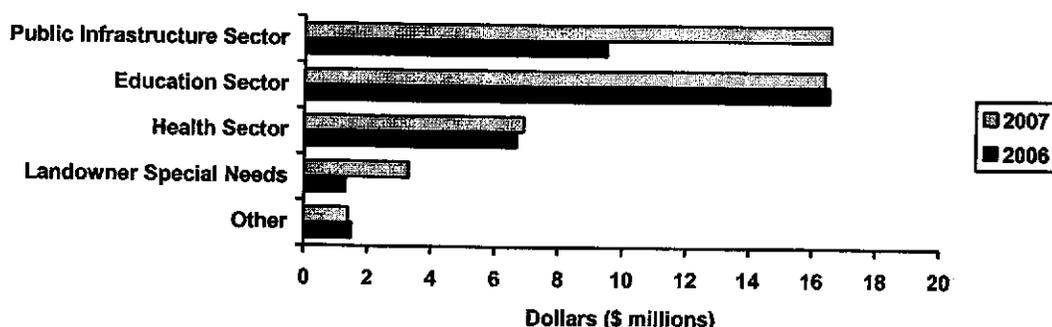
### Changes in Net Assets, Continued

Key elements of the increase in net assets are as follows:

- Revenues increased in the current year by \$9.2 million (or 8.6%) due to an increase in program revenues and general revenues of \$6.6 million (or 9.0%) and \$2.4 million (or 7.5%), respectively, as compared with prior year.

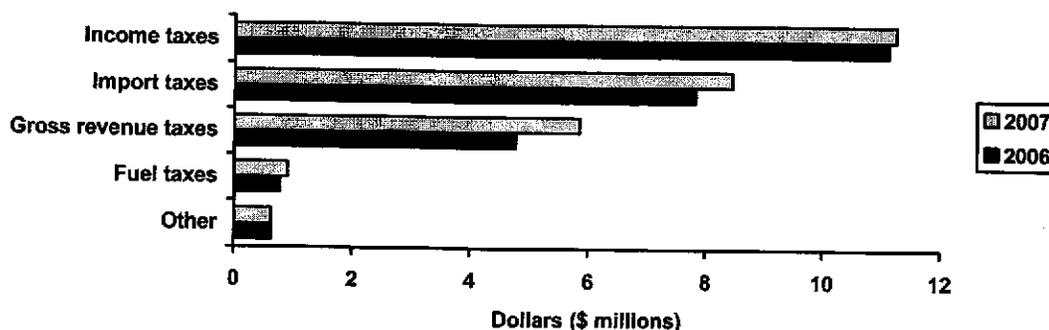
The increase in program revenues is primarily attributable to an increase in grant revenues received under the Compact Sector grants, specifically Public Infrastructure Sector grant funds, which increased by \$7.1 million (or 74.6%) from \$9.5 million received in the prior year to \$16.6 million received in the current year. A graphic summary of overall Compact grant revenues received by RepMar for the current year compared with prior year follows:

Graph 1  
RepMar's Compact Revenues  
For the Years Ended September 30



The increase in general revenues is primarily attributable to an increase in tax revenues. A graphic summary of RepMar's tax revenue collections for the current year compared with prior year follows:

Graph 2  
RepMar's Tax Revenues  
For the Years Ended September 30



# REPUBLIC OF THE MARSHALL ISLANDS

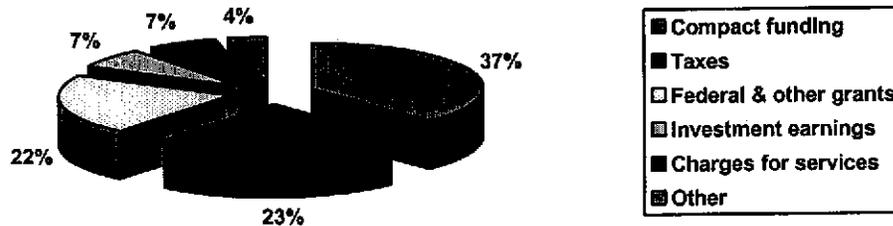
## Management's Discussion and Analysis Year Ended September 30, 2007

### Changes in Net Assets, Continued

- Cost of governmental activities increased in the current year by \$4.2 million (or 4.5%) compared with prior year. Education and health related expenses comprised of \$48.3 million (or 48.7%) of total expenses in the current year as compared with \$45.2 million (or 47.6%) in the prior year, which reflects RepMar's highest priorities in terms of expenditure appropriations.

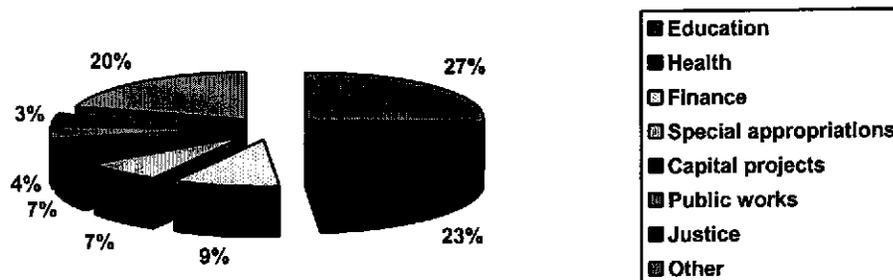
Graphs 3 and 4 below indicate the major components of revenues and cost of governmental activities.

Graph 3  
RepMar's Revenue Sources  
For the Year Ended September 30, 2007



As in prior years, Compact funding and federal and other grants are the major sources of revenue for RepMar, which comprise 59% of the total revenues for the current year. The remaining 41% is predominantly comprised of local sourced tax revenues, including income taxes and gross revenue taxes.

Graph 4  
RepMar's Cost of Governmental Activities  
For the Year Ended September 30, 2007



Other expenses that make up a portion of the costs of governmental activities include ministerial expenses within the Ministry of Transportation and Communication (\$2.9 million), and the Ministry of Foreign Affairs and Trade (\$2.4 million); legislative expenses within the Nitijela (\$2.1 million); and executive expenses within the President's Office and Cabinet (\$2.1 million).

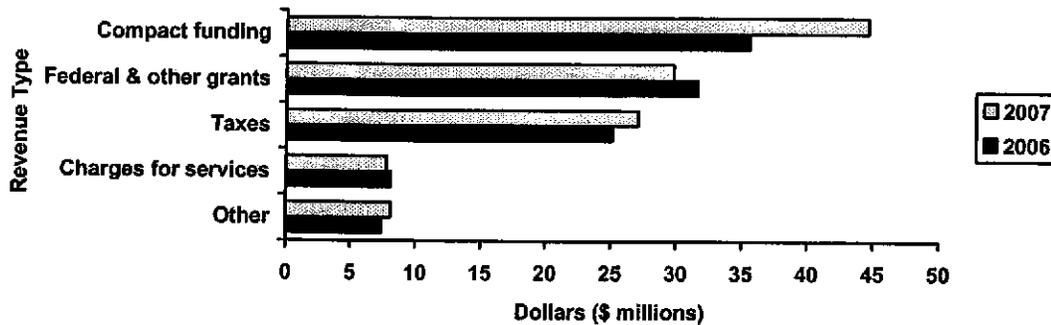
**REPUBLIC OF THE MARSHALL ISLANDS**

Management's Discussion and Analysis  
Year Ended September 30, 2007

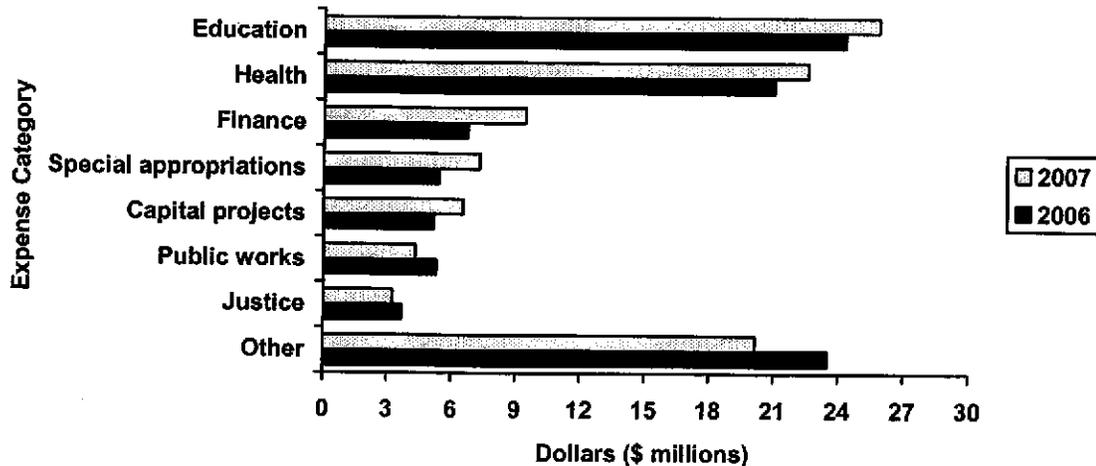
**Changes in Net Assets, Continued**

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2006 and 2007.

Graph 5  
RepMar's Revenue Sources  
For the Years Ended September 30



Graph 6  
RepMar's Cost of Governmental Activities  
For the Years Ended September 30



Finance expenses in the current year include consolidated electric utility billings of \$2.7 million, up from \$1.9 million (or 43%) in the prior year, and subsidies to component units of \$3.3 million, up from \$1.7 million (or 98%) in the prior year. Special appropriation expenses in the current year include subsidies to component units of \$4.2 million, up from \$3.6 million (or 17%) in the prior year. Other expenses in the current year includes ministerial expenses within the Ministry of Transportation and Communication of \$2.9 million, down from \$3.4 million (or 14%) in the prior year; the Ministry of Foreign Affairs and Trade of \$2.4 million, down from \$2.9 million (or 16%) in the prior year; legislative expenses within the Nitijela of \$2.1 million, up from \$1.9 million (or 9%) in the prior year; and executive expenses within the President's Office and Cabinet of \$2.1 million, up from \$1.7 million (or 22%) in the prior year.

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2007

#### FINANCIAL ANALYSIS OF REPMAR'S FUNDS

As noted earlier, RepMar uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

##### Governmental Funds

The focus of RepMar's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing RepMar's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, RepMar's governmental funds reported combined ending fund balances of \$54.6 million, which represents an increase of \$6.9 million (or 14.5%) in comparison with the prior year. This increase is primarily attributable to an increase in fund balance of the Compact Trust Fund. Of this total combined fund balance, \$79.0 million is reserved to indicate that it is not available for new spending because it has already been committed: 1) to generate income for future operations (\$46.7 million); 2) to continuing appropriations through grant awards or enabling legislation (\$20.3 million); 3) to liquidate contracts and purchase orders of the prior period (\$7.5 million); or 4) for a variety of other restricted purposes (\$4.6 million). The combined unreserved deficit of RepMar's governmental funds is \$24.4 million, an increase of \$16.5 million (or 211%) from the prior year. This deficit will be funded through future budgetary surpluses.

The General Fund is the chief operating fund of RepMar. At the end of the current fiscal year, the unreserved fund deficit of the General Fund was \$2.6 million as compared with the prior year ending unreserved fund deficit of \$6.3 million, an improvement of \$3.7 million (or 59.4%), while total fund balance was \$2.0 million compared with a total fund deficit of \$5.9 million, an improvement of \$7.9 million.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, management and elected officials of RepMar revised the General Fund budget. The revised budget included an increase in overall budgetary appropriations of \$2.1 million. The primary reason for the upward revision was due to emergency payments appropriated to the Marshalls Energy Company, Inc. in order to continue to assist in the payment of delinquent billings relating to fuel shipments.

As previously discussed, revenues collected (including transfers in) of \$42.3 million were higher than budgeted amounts of \$36.8 million due primarily to transfers in from the Intergenerational Trust Fund, which exceeded budgeted amounts. In addition, charges to appropriations (including transfers out) of \$34.4 million were lower than budgeted amounts of \$36.9 million due primarily to expenditure containment initiated by the Ministry of Finance within the various ministries and departments of RepMar.

**REPUBLIC OF THE MARSHALL ISLANDS**

Management's Discussion and Analysis  
Year Ended September 30, 2007

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

RepMar's investment in capital assets for its governmental activities as of September 30, 2007 amounted to \$161.3 million, net of accumulated depreciation of \$74.3 million, leaving a net book value of \$87 million. This represents a net increase of \$10.2 million (or 13.2%) from the prior year. RepMar's capital assets include electrical and water infrastructure, roads and bridges, heavy equipment, ships, buildings, and various projects under construction.

RepMar's Capital Assets  
September 30,  
(Net of depreciation)

	2007	2006
Electrical distribution	\$ 6,860,787	\$ 7,878,802
Buildings	45,768,443	34,639,328
Water infrastructure system	5,345,506	5,730,182
Docks, roads and bridges	8,563,804	9,131,840
Ships	8,249,813	8,792,503
Software	739,854	887,825
Heavy equipment	899,884	933,767
Dry-dock	387,637	581,456
Construction in progress	10,176,994	8,250,292
	<u>\$ 86,992,722</u>	<u>\$ 76,825,995</u>

Major capital asset additions during the current year were as follows:

- Completion of the following Compact funded education facilities infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Completed Cost (\$ millions)</u>
Jaluit High School – Ph. I	\$ -	\$ 1.8
Rita Elementary School – Ph. II	\$ 0.4	\$ 1.2
Rairok Elementary School – Ph. I	\$ 1.2	\$ 1.4
Laura High School – Ph. I and II	\$ 1.0	\$ 1.8
M.I. High School – Ph. I and II	\$ 3.5	\$ 5.8
N.I. High School – Ph. I	\$ 0.2	\$ 1.2

- Ongoing construction in progress of the following infrastructure projects:

<u>Infrastructure Project</u>	<u>Current Year Additions (\$ millions)</u>	<u>Estimated Completed Cost (\$ millions)</u>
Namdrik Elementary School	\$ 1.0	\$ 1.0
Jaluit High School – Ph. II	\$ 1.8	\$ 2.2
N.I. High School – Ph. II	\$ 1.7	\$ 2.9
International Convention Center	\$ 5.1	\$ 5.5

Additional information on RepMar's capital assets can be found in note 5 to the financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2007

### Long-term Debt

The Government Borrowing Act of 1985 authorizes RepMar to borrow for such purposes as approved by the Nitijela. Since 1991 RepMar has entered into twelve separate loans with the Asian Development Bank (See table below). Long-term debt obligations decreased by \$1.3 million (or 2.1%) in the current fiscal year.

#### RepMar's Outstanding Debt Asian Development Bank September 30,

	<u>2007</u>	<u>2006</u>
Fisheries Development Project	\$ 3,099,560	\$ 3,203,851
Typhoon Rehabilitation	462,645	477,692
Basic Education Project	7,252,028	7,490,453
Majuro Water Supply Project No. 1	664,201	685,777
Health and Population Project	4,909,566	5,062,317
Majuro Water Supply Project No. 2	7,971,483	8,303,958
Public Sector Reform Program	11,177,293	11,290,181
Ebeye Health and Infrastructure Project	8,953,626	8,953,626
Skills Training and Vocational Education Project	4,923,345	4,923,345
Fiscal and Financial Management Program No. 1	3,388,600	3,815,700
Fiscal and Financial Management Program No. 2	8,388,966	8,388,966
Outer Island Transport Infrastructure Project	507,517	448,905
	<u>\$ 61,698,830</u>	<u>\$ 63,044,771</u>

Additional information on RepMar's long-term debt can be found in note 7 to the financial statements.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic growth as measured by Gross Domestic Product (GDP) continued over fiscal year 2006 with modest GDP growth in fiscal year 2007 of 2.0%. This was driven predominantly by increased government capital expenditures. The Marshall Islands' economy is extremely vulnerable to external shocks because of its small and open nature and the effect of such continued on from fiscal year 2006 through fiscal year 2007. The continued effect of increasing fuel prices placed stress on RepMar's budget not only in the transport and energy sectors but also on public sector enterprises, most notably the Marshalls Energy Company, Inc. (MEC). RepMar struggled to cope with these shocks despite continued inflows through Compact revenues. Revenue performance remained stagnant from prior year with an exception in gross receipts taxes. This reflected the more aggressive stance taken by the Ministry of Finance's Division of Revenue and Taxation in pursuing noncompliant taxpayers; however, other revenue areas continued to lag mainly due to high fuel prices and a drop in fishing license permits, with income taxes, import taxes and fishing license revenues falling short of anticipated amounts by \$328,000, \$602,000, and \$500,000, respectively. Fuel tax revenues were also expected to increase, however, due to MEC's problems with securing fuel supplies and the subsequent lack of fishing vessels visiting the Marshall Islands to buy fuel, anticipated fuel tax revenues fell short by \$553,000. These shortfalls were again offset by a one-time cash transfer in from the Intergenerational Trust Fund. Despite these problems, the impacts of the flow-on effects of Compact revenues continued to support the economy.

## **REPUBLIC OF THE MARSHALL ISLANDS**

### **Management's Discussion and Analysis Year Ended September 30, 2007**

In an effort to pursue private sector development, the Nitijela introduced legislation during the January 2008 session to allow competition in the telecommunications sector; however, any changes to the existing legislation are still pending. Furthermore, construction on a new fish processing plant commenced in fiscal year 2007, which should revive tuna loining in the later part of fiscal year 2008 through employment of up to 500 workers. Finally, the Marshall Islands was removed from the List of Uncooperative Tax Havens by the Organization for Economic Co-operation and Development during fiscal year 2007. RepMar continues to face stumbling blocks to private sector development; however, with the advent of the above initiatives together with improvements in the policy environment such as secured transactions, labor and immigration laws, and review of the land registration process, RepMar is hopeful that the ground work is set to entice greater private investment.

For fiscal year 2008, the budget approved by the Nitijela of \$123 million continues RepMar's focus on the education and health sectors, including their infrastructure needs. Compact revenues for fiscal year 2008 have been directed solely to fund these priority areas. With an educated and healthy workforce and a stable macroeconomic environment, RepMar is striving to set a strong base for private sector growth albeit being dampened due to global economic challenges such as continuing increases in world oil prices and a weakening U.S. dollar. Rising energy costs and a reduction in employment at the U.S. military base in Kwajalein will constrain growth, with annual GDP growth expected to increase by 1% through the remainder of fiscal year 2008 and 2009.

#### **CONTACTING REPMAR'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors a general overview of RepMar's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Secretary of Finance, P.O. Box D, Majuro, MH 96960.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Net Assets  
September 30, 2007

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 2,612,156	\$ 9,162,612
Time certificates of deposit	593,040	3,058,918
Investments	-	3,317,853
Receivables, net of allowance for uncollectibles	7,593,771	25,458,244
Advances	280,538	-
Inventories	-	7,381,408
Due from primary government	-	233,524
Due from component units	563,669	-
Other current assets	-	727,241
Restricted assets:		
Cash and cash equivalents	21,040,956	1,992,354
Time certificates of deposit	55,000	-
Total current assets	<u>32,739,130</u>	<u>51,332,154</u>
Noncurrent assets:		
Restricted assets:		
Time certificates of deposit	-	750,000
Investments	46,645,166	-
Investments	318,630	538,596
Due from component units	3,736,619	-
Capital assets, net of accumulated depreciation	86,992,722	77,607,717
Other noncurrent assets	-	1,539,855
Total noncurrent assets	<u>137,693,137</u>	<u>80,436,168</u>
Total assets	<u>\$ 170,432,267</u>	<u>\$ 131,768,322</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 1,367,578	\$ 4,103,418
Accounts payable	5,523,256	6,704,990
Customer deposits	-	895,691
Other liabilities and accruals	2,262,072	7,586,451
Payable to federal agencies	1,385,690	-
Retention payable	1,625,722	101,505
Contracts payable	1,227,514	4,618,191
Accrued interest payable	84,474	-
Compensated absences payable	1,091,841	-
Due to primary government	-	563,669
Due to component units	729,738	968,939
Due to external parties	15,900,692	-
Deferred revenue	27,953	1,100,172
Total current liabilities	<u>31,226,530</u>	<u>26,643,026</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	60,331,252	34,921,476
Compensated absences payable, net of current portion	1,761,559	-
Due to primary government	-	5,736,619
Total noncurrent liabilities	<u>62,092,811</u>	<u>40,658,095</u>
Total liabilities	<u>93,319,341</u>	<u>67,301,121</u>
Commitments and contingencies		
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	64,866,493	55,973,771
Restricted for:		
Nonexpendable:		
Future operations	46,655,771	-
Expendable:		
Compact related	3,242,547	-
Other purposes	2,689,756	1,185,188
Unrestricted (deficits)	<u>(40,341,641)</u>	<u>7,308,242</u>
Total net assets	<u>77,112,926</u>	<u>64,467,201</u>
Total liabilities and net assets	<u>\$ 170,432,267</u>	<u>\$ 131,768,322</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Activities  
Year Ended September 30, 2007

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
<b>Governmental activities:</b>						
President and Cabinet	\$ 2,095,006	\$ -	\$ -	\$ -	\$ (2,095,006)	\$ -
Office of the Chief Secretary	1,312,892	-	546,310	-	(766,582)	-
Special appropriations	7,261,383	-	-	1,335,050	(5,926,333)	-
Council of Iroij	426,641	-	-	-	(426,641)	-
Office of the Auditor-General	637,014	-	205,446	-	(431,568)	-
Public Service Commission	658,097	-	-	150,000	(508,097)	-
Office of the Attorney General	594,124	-	-	-	(594,124)	-
Education	25,807,631	175,248	20,307,516	-	(5,324,867)	-
Health and Environment	22,524,449	6,600,438	11,823,710	-	(4,100,301)	-
Transportation and Communication	2,898,984	1,398	-	546,700	(2,350,886)	-
Resources and Development	1,206,447	-	66,123	250,000	(890,324)	-
Internal Affairs	3,095,233	35,999	131,981	144,058	(2,783,195)	-
Justice	3,216,587	577,769	-	314,037	(2,324,781)	-
Finance	9,410,639	242,768	6,236,253	277,505	(2,654,113)	-
Foreign Affairs and Trade	2,389,108	50,176	39,928	-	(2,299,004)	-
Public Works	4,308,882	37,610	-	4,341,292	70,020	-
Nitijela	2,108,920	3,400	-	200,000	(1,905,520)	-
Judiciary	857,907	572	-	-	(857,335)	-
Environmental Protection Authority	377,060	-	209,665	-	(167,395)	-
Nuclear claims related	644,361	-	530,250	-	(114,111)	-
Future operations	-	-	7,999,573	-	7,999,573	-
Capital projects	6,514,863	-	-	18,656,292	12,141,429	-
Unallocated interest - long-term debt	789,850	-	-	-	(789,850)	-
Other	70,497	-	-	-	(70,497)	-
<b>Total primary government</b>	<b>\$ 99,206,575</b>	<b>\$ 7,725,378</b>	<b>\$ 48,096,755</b>	<b>\$ 26,214,934</b>	<b>\$ (17,169,508)</b>	<b>\$ -</b>
<b>Component units:</b>						
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 5,495,320	\$ 2,674,531	\$ -	\$ 306,844	\$ -	\$ (2,513,945)
Marshalls Energy Company, Inc.	26,926,258	22,419,427	-	-	-	(4,506,831)
Marshall Islands Development Bank	2,390,554	2,720,388	-	-	-	329,834
Marshall Islands National Telecom. Authority	7,602,628	8,196,395	-	-	-	593,767
RMI Ports Authority	3,758,853	2,209,712	-	5,168,081	-	3,618,940
Other nonmajor component units	23,551,461	15,614,578	-	5,669,664	-	(2,267,219)
<b>Total component units</b>	<b>\$ 69,725,074</b>	<b>\$ 53,835,031</b>	<b>\$ -</b>	<b>\$ 11,144,589</b>	<b>\$ -</b>	<b>\$ (4,745,454)</b>
<b>General revenues:</b>						
<b>Taxes:</b>						
Income taxes					11,244,334	-
Import taxes					8,455,053	-
Gross revenue taxes					5,851,310	-
Fuel taxes					899,228	-
Penalties and interest					116,071	-
Other					512,661	-
Grants and contributions not restricted to specific programs					4,000,000	-
Fishing rights					1,250,000	-
Ship registry					1,750,000	-
Unrestricted investment earnings					386,554	770,949
Contributions from primary government					-	13,008,952
Other					523,152	-
<b>Total general revenues</b>					<b>34,988,363</b>	<b>13,779,901</b>
<b>Change in net assets</b>					<b>17,818,855</b>	<b>9,034,447</b>
<b>Net assets at the beginning of the year, as restated</b>					<b>59,294,071</b>	<b>55,432,754</b>
<b>Net assets at the end of the year</b>					<b>\$ 77,112,926</b>	<b>\$ 64,467,201</b>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Balance Sheet  
Governmental Funds  
September 30, 2007

	Special Revenue			Permanent	Other Governmental Funds	Total
	General	U.S Federal Grants	Compact Sector	Compact Trust		
<b>ASSETS</b>						
Cash and cash equivalents	\$ 750,767	\$ -	\$ -	\$ -	\$ 1,861,389	\$ 2,612,156
Time certificates of deposit	-	-	-	-	593,040	593,040
Investments	-	-	-	-	318,630	318,630
Receivables, net:						
Taxes	2,513,259	-	-	-	36,672	2,549,931
Federal agencies	15,901	980,804	1,743,137	-	293,168	3,033,010
General	280,179	-	-	-	1,165,776	1,445,955
Other	298,824	-	-	10,605	255,446	564,875
Due from other funds	957,665	-	5,723,730	-	3,056,756	9,738,151
Due from component units	4,300,288	-	-	-	-	4,300,288
Advances	96,162	100,051	5,847	-	78,478	280,538
Restricted assets:						
Cash and cash equivalents	21,040,956	-	-	-	-	21,040,956
Time certificates of deposit	55,000	-	-	-	-	55,000
Investments	-	-	-	46,645,166	-	46,645,166
Total assets	<u>\$ 30,309,001</u>	<u>\$ 1,080,855</u>	<u>\$ 7,472,714</u>	<u>\$ 46,655,771</u>	<u>\$ 7,659,355</u>	<u>\$ 93,177,696</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 1,688,218	\$ 489,083	\$ 1,030,462	\$ -	\$ 2,315,493	\$ 5,523,256
Other liabilities and accruals	1,678,383	-	-	-	583,689	2,262,072
Payable to federal agencies	-	-	1,385,690	-	-	1,385,690
Retention payable	-	-	1,214,912	-	410,810	1,625,722
Contracts payable	-	-	1,227,514	-	-	1,227,514
Deferred revenue	150,097	-	-	-	-	150,097
Due to component units	729,738	-	-	-	-	729,738
Due to other funds	24,018,297	594,044	-	-	1,026,502	25,638,843
Total liabilities	<u>28,264,733</u>	<u>1,083,127</u>	<u>4,858,578</u>	<u>-</u>	<u>4,336,494</u>	<u>38,542,932</u>
<b>Fund balances (deficits):</b>						
<b>Reserved for:</b>						
Related assets	4,271,619	-	-	46,655,771	318,630	51,246,020
Encumbrances	309,330	666,617	3,903,944	-	2,610,566	7,490,457
Continuing appropriations	-	-	15,505,070	-	4,755,474	20,260,544
<b>Unreserved:</b>						
General fund	(2,536,681)	-	-	-	-	(2,536,681)
Special revenue funds	-	(668,889)	(16,794,878)	-	(4,381,385)	(21,845,152)
Capital projects funds	-	-	-	-	19,576	19,576
Total fund balances (deficits)	<u>2,044,268</u>	<u>(2,272)</u>	<u>2,614,136</u>	<u>46,655,771</u>	<u>3,322,861</u>	<u>54,634,764</u>
Total liabilities and fund balances	<u>\$ 30,309,001</u>	<u>\$ 1,080,855</u>	<u>\$ 7,472,714</u>	<u>\$ 46,655,771</u>	<u>\$ 7,659,355</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	86,992,722
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the funds	122,144
Long-term liabilities, including loans payable, are not due and payable in the current period and therefore are not reported in the funds. The liabilities include:	
Accrued interest payable	(84,474)
Loans payable	(61,698,830)
Compensated absences payable	(2,853,400)
	<u>(64,636,704)</u>

Net assets of governmental activities \$ 77,112,926

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits)  
Governmental Funds  
Year Ended September 30, 2007

	Special Revenue			Permanent	Other Governmental Funds	Total
	General	U.S Federal Grants	Compact Sector	Compact Trust		
<b>Revenues:</b>						
Compact funding	\$ -	\$ -	\$ 44,363,150	\$ -	\$ 183,758	\$ 44,546,908
Taxes	27,078,657	-	-	-	-	27,078,657
Federal and other grants	4,000,000	9,589,513	-	-	11,678,817	25,268,330
Sales	-	-	-	-	148,508	148,508
Ship registry	1,750,000	-	-	-	-	1,750,000
Fishing rights	1,250,000	-	-	-	-	1,250,000
Net increase in the fair value of investments	-	-	-	7,743,287	-	7,743,287
Interest and dividends	232,796	-	-	256,286	153,758	642,840
Fees and charges	27,386	-	-	-	7,549,484	7,576,870
Other	214,501	-	-	-	308,651	523,152
<b>Total revenues</b>	<b>34,553,340</b>	<b>9,589,513</b>	<b>44,363,150</b>	<b>7,999,573</b>	<b>20,022,976</b>	<b>116,528,552</b>
<b>Expenditures:</b>						
<b>Current:</b>						
President and Cabinet	1,863,157	-	-	-	225,000	2,088,157
Office of the Chief Secretary	612,750	154,015	-	-	470,089	1,236,854
Special appropriations	4,131,914	-	-	-	3,129,274	7,261,188
Council of Iroij	425,325	-	-	-	-	425,325
Nitijela	1,835,082	-	-	-	267,910	2,102,992
Office of the Auditor-General	440,712	11,604	-	-	183,758	636,074
Public Service Commission	493,625	-	-	-	147,993	641,618
Judiciary	-	-	-	-	855,029	855,029
Office of the Attorney General	577,817	-	-	-	13,733	591,550
<b>Ministries:</b>						
Education	3,844,147	3,913,258	15,648,266	-	1,734,141	25,139,812
Health and Environment	2,953,091	4,694,996	7,010,940	-	7,643,517	22,302,544
Transportation and Communication	1,745,731	-	-	-	623,593	2,369,324
Resources and Development	671,927	53,966	-	-	398,361	1,124,254
Internal Affairs	1,818,932	131,981	-	-	1,161,351	3,112,264
Justice	2,756,008	-	-	-	202,755	2,958,763
Finance	4,377,322	580,231	3,347,333	-	946,945	9,251,831
Foreign Affairs and Trade	2,265,102	39,928	-	-	48,024	2,353,054
Public Works	1,267,373	-	-	-	5,218,681	6,486,054
Environmental Protection Authority	164,202	9,534	201,982	-	-	375,718
Nuclear claims related	-	-	-	-	642,266	642,266
<b>Debt service:</b>						
Principal repayment	863,200	-	-	-	-	863,200
Interest	900,086	-	-	-	-	900,086
Capital outlays	-	-	16,414,442	-	-	16,414,442
Other	-	-	-	69,913	584	70,497
<b>Total expenditures</b>	<b>34,007,503</b>	<b>9,589,513</b>	<b>42,622,963</b>	<b>69,913</b>	<b>23,913,004</b>	<b>110,202,896</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>545,837</b>	<b>-</b>	<b>1,740,187</b>	<b>7,929,660</b>	<b>(3,890,028)</b>	<b>6,325,656</b>
<b>Other financing sources (uses):</b>						
Loan proceeds	-	-	-	-	58,612	58,612
Operating transfers in	7,765,038	-	994,442	-	5,022,980	13,782,460
Operating transfers out	(355,592)	-	(968,700)	-	(11,927,918)	(13,252,210)
<b>Total other financing sources (uses), net</b>	<b>7,409,446</b>	<b>-</b>	<b>25,742</b>	<b>-</b>	<b>(6,846,326)</b>	<b>588,862</b>
<b>Net change in fund balances (deficits)</b>	<b>7,955,283</b>	<b>-</b>	<b>1,765,929</b>	<b>7,929,660</b>	<b>(10,736,354)</b>	<b>6,914,518</b>
<b>Fund balances (deficits) at the beginning of the year, as restated</b>	<b>(5,911,015)</b>	<b>(2,272)</b>	<b>848,207</b>	<b>38,726,111</b>	<b>14,059,215</b>	<b>47,720,246</b>
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ 2,044,268</b>	<b>\$ (2,272)</b>	<b>\$ 2,614,136</b>	<b>\$ 46,655,771</b>	<b>\$ 3,322,861</b>	<b>\$ 54,634,764</b>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year ended September 30, 2007

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

Net change in fund balances - total governmental funds	\$ 6,914,518
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in progress	10,166,727
Amounts presented in the statement of activities, but not in the change in governmental fund fund balances due to difference in revenue and expense recognition under different bases of accounting	(33,372)
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. This amount is the net effect of these differences in the treatment of long-term debt and related items	804,588
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. These expenses include accrued annual leave and interest payable that are reported in the statement of activities, but not in funds	<u>(33,606)</u>
Change in net assets of governmental activities	\$ <u>17,818,855</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Assets  
Fiduciary Funds  
September 30, 2007

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,623,181	\$ -
Time certificates of deposit	4,284,756	-
Receivables, net:		
Contributions	2,072,535	-
Other	578,927	-
Investments	61,757,004	
Due from other funds	15,745,489	155,203
Capital assets, net of accumulated depreciation	83,454	-
Total assets	<u>86,145,346</u>	<u>\$ 155,203</u>
<u>LIABILITIES</u>		
Accounts payable	115,748	\$ -
Other liabilities and accruals	399,014	155,203
Total liabilities	<u>514,762</u>	<u>\$ 155,203</u>
<u>NET ASSETS</u>		
Held in trust for:		
Social security benefits	69,028,202	
Nuclear claims	856,893	
Land use distributions	15,745,489	
Total net assets	<u>\$ 85,630,584</u>	

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended September 30, 2007

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 8,118,383
Government employees	4,008,304
Penalties and interest	<u>381,807</u>
Total contributions	<u>12,508,494</u>
Investment earnings:	
Net increase in the fair value of investments	6,013,337
Interest and dividends	<u>1,974,794</u>
Total investment earnings	7,988,131
Less investment expense	<u>132,299</u>
Net investment earnings	<u>7,855,832</u>
Other	<u>16,177,713</u>
Total additions	<u>36,542,039</u>
Deductions:	
Land use distributions	12,847,157
Benefits	11,653,271
Administrative expenses	1,034,496
Transfers out	<u>530,250</u>
Total deductions	<u>26,065,174</u>
Change in net assets	10,476,865
Net assets at the beginning of the year	<u>75,153,719</u>
Net assets at the end of the year	<u>\$ 85,630,584</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Net Assets  
Component Units  
September 30, 2007

	Kwajalein Atoll Joint Utilities Resources Inc.	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 444,619	\$ 4,186,044	\$ 31,468	\$ 1,146,743	\$ 918,813	\$ 2,434,925	\$ 9,162,612
Cash and cash equivalents - restricted	-	-	1,992,354	-	-	-	1,992,354
Time certificates of deposit	-	-	-	1,380,368	950,531	728,019	3,058,918
Investments	-	-	423,748	2,894,105	-	-	3,317,853
Receivables, net:							
General	503,495	2,330,167	-	557,087	727,557	1,696,946	5,815,252
Federal agencies	-	-	-	-	3,178,434	1,853,280	5,031,714
Loans	-	-	12,833,880	-	-	-	12,833,880
Other	211,395	298,205	354,558	253,066	572,062	88,112	1,777,398
Inventories	440,282	3,867,933	-	206,579	-	2,866,614	7,381,408
Due from primary government	-	-	-	-	-	233,524	233,524
Other current assets	384,365	7,361	-	19,672	43,754	272,089	727,241
<b>Total current assets</b>	<b>1,984,156</b>	<b>10,689,710</b>	<b>15,636,008</b>	<b>6,457,620</b>	<b>6,391,151</b>	<b>10,173,509</b>	<b>51,332,154</b>
Noncurrent assets:							
Time certificates of deposit - restricted	-	-	-	-	750,000	-	750,000
Investments	-	-	-	-	-	538,596	538,596
Capital assets, net of accumulated depreciation	6,711,534	9,925,415	1,584,215	15,772,034	29,176,320	14,438,199	77,607,717
Other noncurrent assets	-	-	242,491	1,297,364	-	-	1,539,855
<b>Total noncurrent assets</b>	<b>6,711,534</b>	<b>9,925,415</b>	<b>1,826,706</b>	<b>17,069,398</b>	<b>29,926,320</b>	<b>14,976,795</b>	<b>80,436,168</b>
<b>Total assets</b>	<b>\$ 8,695,690</b>	<b>\$ 20,615,125</b>	<b>\$ 17,462,714</b>	<b>\$ 23,527,018</b>	<b>\$ 36,317,471</b>	<b>\$ 25,150,304</b>	<b>\$ 131,768,322</b>
<b>LIABILITIES</b>							
Current liabilities:							
Current portion of long-term debt	\$ -	\$ 1,743,841	\$ 400,000	\$ 818,616	\$ 253,806	\$ 887,155	\$ 4,103,418
Accounts payable	488,289	3,159,940	62,944	476,248	249,184	2,268,385	6,704,990
Customer deposits	-	-	663,244	232,447	-	-	895,691
Other liabilities and accruals	1,250,938	3,835,547	405,936	60,969	88,224	1,944,837	7,586,451
Retention payable	-	-	-	-	-	101,505	101,505
Contracts payable	-	-	-	-	3,982,761	635,430	4,618,191
Due to primary government	-	563,669	-	-	-	-	563,669
Due to component units	-	-	-	-	-	968,939	968,939
Deferred revenue	128,492	-	-	-	292,176	679,504	1,100,172
<b>Total current liabilities</b>	<b>1,867,719</b>	<b>9,302,997</b>	<b>1,532,124</b>	<b>1,588,280</b>	<b>4,866,151</b>	<b>7,485,755</b>	<b>26,643,026</b>
Noncurrent liabilities:							
Noncurrent portion of long-term debt	-	18,194,956	2,400,000	13,249,163	314,512	762,845	34,921,476
Due to primary government	-	-	3,736,619	-	-	2,000,000	5,736,619
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>18,194,956</b>	<b>6,136,619</b>	<b>13,249,163</b>	<b>314,512</b>	<b>2,762,845</b>	<b>40,658,095</b>
<b>Total liabilities</b>	<b>1,867,719</b>	<b>27,497,953</b>	<b>7,668,743</b>	<b>14,837,443</b>	<b>5,180,663</b>	<b>10,248,600</b>	<b>67,301,121</b>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	6,711,534	1,631,202	1,584,215	3,001,619	28,608,002	14,437,199	55,973,771
Restricted	-	373,056	273,336	-	-	538,796	1,185,188
Unrestricted	116,437	(8,887,086)	7,936,420	5,687,956	2,528,806	(74,291)	7,308,242
<b>Total net assets</b>	<b>6,827,971</b>	<b>(6,882,828)</b>	<b>9,793,971</b>	<b>8,689,575</b>	<b>31,136,808</b>	<b>14,901,704</b>	<b>64,467,201</b>
	<b>\$ 8,695,690</b>	<b>\$ 20,615,125</b>	<b>\$ 17,462,714</b>	<b>\$ 23,527,018</b>	<b>\$ 36,317,471</b>	<b>\$ 25,150,304</b>	<b>\$ 131,768,322</b>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Revenues, Expenses, and Changes in Net Assets  
Component Units  
Year Ended September 30, 2007

	Kwajalein Atoll Joint Utilities Resources Inc.	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
Operating revenues:							
Charges for services	\$ 2,536,141	\$ 14,056,275	\$ 2,200,870	\$ 7,885,471	\$ 2,100,730	\$ 8,695,402	\$ 37,474,889
Sales	-	8,363,152	-	288,185	-	2,902,706	11,554,043
Other	138,390	-	519,518	22,739	108,982	4,016,470	4,806,099
Total operating revenues	<u>2,674,531</u>	<u>22,419,427</u>	<u>2,720,388</u>	<u>8,196,395</u>	<u>2,209,712</u>	<u>15,614,578</u>	<u>53,835,031</u>
Operating expenses:							
Cost of services	4,877,643	22,814,800	238,111	3,842,045	2,144,688	19,705,364	53,622,651
Administration costs	-	1,494,544	1,559,397	781,506	-	2,287,289	6,122,736
Depreciation and amortization	768,830	1,005,621	252,474	2,044,555	1,591,435	1,085,105	6,748,020
Total operating expenses	<u>5,646,473</u>	<u>25,314,965</u>	<u>2,049,982</u>	<u>6,668,106</u>	<u>3,736,123</u>	<u>23,077,758</u>	<u>66,493,407</u>
Operating income (loss)	<u>(2,971,942)</u>	<u>(2,895,538)</u>	<u>670,406</u>	<u>1,528,289</u>	<u>(1,526,411)</u>	<u>(7,463,180)</u>	<u>(12,658,376)</u>
Nonoperating revenues (expenses):							
Contributions from the primary government	3,541,821	874,250	248,500	-	-	8,344,381	13,008,952
Net increase in the fair value of investments	-	-	136,304	449,982	-	-	586,286
Interest income	-	-	-	-	97,916	86,747	184,663
Interest expense	(162,900)	(1,611,293)	-	(723,835)	(34,318)	(192,933)	(2,725,279)
Other	314,053	-	(340,572)	(210,687)	11,588	(280,770)	(506,388)
Total nonoperating revenues (expenses), net	<u>3,692,974</u>	<u>(737,043)</u>	<u>44,232</u>	<u>(484,540)</u>	<u>75,186</u>	<u>7,957,425</u>	<u>10,548,234</u>
Capital contributions	<u>306,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,168,081</u>	<u>5,669,664</u>	<u>11,144,589</u>
Net income (loss)	<u>1,027,876</u>	<u>(3,632,581)</u>	<u>714,638</u>	<u>1,043,749</u>	<u>3,716,856</u>	<u>6,163,909</u>	<u>9,034,447</u>
Net assets at the beginning of the year, as restated	<u>5,800,095</u>	<u>(3,250,247)</u>	<u>9,079,333</u>	<u>7,645,826</u>	<u>27,419,952</u>	<u>8,737,795</u>	<u>55,432,754</u>
Net assets at the end of the year	<u>\$ 6,827,971</u>	<u>\$ (6,882,828)</u>	<u>\$ 9,793,971</u>	<u>\$ 8,689,575</u>	<u>\$ 31,136,808</u>	<u>\$ 14,901,704</u>	<u>\$ 64,467,201</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the Republic of the Marshall Islands (RepMar) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of RepMar's accounting policies are described below.

A. Reporting Entity

The Government of RepMar is a constitutional government comprised of three branches: the Legislative Branch (the Nitijela), consisting of 33 members elected for a term of four years; the Executive Branch, consisting of the Cabinet; and the Judiciary Branch made up of the High Court, the Supreme Court, and the Traditional Rights Court that advises the High Court on matters concerning customary law and traditional practice. The Nitijela elects one of its members at its first session following an election to serve as President. The President, in turn, appoints six to ten members of the Nitijela to serve as Ministers who collectively comprise the Cabinet.

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

Each blended and discretely presented component unit of RepMar has a September 30 year-end except for the Four-Atoll Medical Fund, which has a December 31 year-end.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by RepMar, are deemed to be related organizations. The nature and relationship of RepMar's component units and related organizations are disclosed in the following section.

Blended component units are entities that are legally separate from RepMar, but are so related to RepMar that they are, in substance, the same as RepMar or entities providing services entirely or almost entirely to RepMar. The net assets and results of operations of the following legally separate entities are presented as part of RepMar's operations:

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2007

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

#### A. Reporting Entity, Continued

##### i. Blended Component Units

The following Component Units are blended within the Primary Government:

Marshall Islands Scholarship Grant and Loan Board, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1979-19 to account for all disbursements of scholarship funds and is governed by a seven-member Board appointed by the Cabinet of RepMar.

Health Care Revenue Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1989-59 within the Ministry of Health and Environment to control the expenditure of funds for health care related services.

Marshall Islands Health Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established under Public Law No. 1990-75, as amended by Public Law Nos. 2001-31 and 2001-35, to account for the operations of the Basic and Supplemental Health Funds delivering comprehensive medical care.

Nuclear Claims Tribunal, a Governmental Fund Type - Special Revenue Fund. This fund was established to render final determination upon claims arising as a result of the Nuclear Testing Program, and disputes arising from distributions made under the (Compact of Free Association) Section 177 Agreement.

Marshall Islands Social Security Administration, a Fiduciary Fund Type - Private Purpose Trust Fund. This fund was established to provide a financially sound social security system with pension benefits and early retirement.

##### ii. Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from RepMar, but are financially accountable to RepMar, or whose relationships with RepMar are such that exclusion would cause RepMar's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR): KAJUR was incorporated under the laws of the Republic of the Marshall Islands on September 1, 1990, to generate and distribute utilities on the island of Ebeye. KAJUR is governed by the Board of Directors of the Marshalls Energy Company, Inc.

Marshalls Energy Company, Inc. (MEC): MEC was granted a corporate charter by the Cabinet of RepMar on February 2, 1984 to engage in the business of generating and transmitting electricity, and the import and marketing of petroleum products. MEC is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

ii. Discretely Presented Component Units, Continued

Marshall Islands Development Bank (MIDB): MIDB was established under Public Law No. 1988-1 to promote the development and expansion of the economy of the Marshall Islands and is governed by a seven-member Board of Directors appointed by the Cabinet. MIDB has received funds under Sections 111 and 211 of the Compact of Free Association and funds from the U.S. Department of Agriculture under the Rural Housing and Community Development Service Housing Preservation Grant.

Marshall Islands National Telecommunications Authority (MINTA): MINTA was incorporated under Public Law No. 1990-105 to engage in the business of providing local and international telecommunication services. MINTA is governed by a seven-member Board of Directors elected by a majority vote of its shareholders.

RMI Ports Authority (RMIPA): RMIPA was incorporated under Public Law No. 2003-81 to engage in the operation and maintenance of commercial port facilities in the Marshall Islands. RMIPA is governed by a seven-member Board of Directors appointed by the President upon the approval of the Cabinet of RepMar.

In addition, the component units' column of the basic financial statements includes the financial data of the following nonmajor component units: Air Marshall Islands, Inc., College of the Marshall Islands, Majuro Resort, Inc., Majuro Water and Sewer Company, Inc., Marshall Islands Marine Resources Authority, Marshall Islands Shipping Corporation, Marshall Islands Visitors Authority, RMI Environmental Protection Authority, and Tobolar Copra Processing Plant, Inc.

RepMar's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities or obtaining them directly from the Office of the Auditor-General:

P.O. Box 245  
Majuro, Marshall Islands 96960

iii. Related Organizations

RepMar is responsible for appointing voting members to the governing boards of the following legally separate organizations, but RepMar's financial accountability for these organizations does not extend beyond making the appointments. Therefore, the financial data of these entities are excluded from RepMar's financial statements. Those organizations are Alele Museum, Inc. and the Republic of the Marshall Islands Private Industry Council, Inc.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

iv. Omitted Governmental Funds

The following funds are considered to be nonmajor governmental funds of RepMar but are not included in the accompanying basic financial statements due to absence of account balances and financial activities. Accordingly, the omission of these funds is not considered material to either the nonmajor governmental funds or the governmental activities reporting units:

**Rehabilitation Revolving Fund:** This fund was established under Public Law No. 1984-8 to account for all monies received for the rehabilitation of patients at the Majuro Hospital Rehabilitation Center.

**Outer Islands Copra Boat Building Fund:** This fund was established under Public Law No. 1992-34 to account for all monies received for the construction and maintenance of outer island copra boats.

**Government Maintenance Fund:** This fund was established under Public Law No. 1988-34 to account for all monies received from renting and maintenance services performed by the Ministry of Public Works Central Government Maintenance Agency.

**Seaport Trust Fund:** This fund was established under Public Law No. 1983-11 to account for all monies received for the development and improvement of seaport facilities and navigational aids.

**Communication Regulation Fund:** This fund was established under Public Law No. 1993-42 to account for all monies received for the specific purpose of regulating radio communication activities in the Marshall Islands.

**Historic Preservation Fund:** This fund was established under Public Law No. 1991-111 to account for all monies received by the Historic Preservation Office.

**Council of Churches Fund:** This fund was established under Public Law No. 1991-124 to account for all monies received for the specific purpose of providing educational, spiritual, health and recreational needs of the children of the Marshall Islands.

**Marshallese Language Trust Fund:** This fund was established under Public Law No. 1983-34 to account for all monies received for the specific purpose of encouraging the preservation, development and use of the Marshallese language.

B. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Assets presents all of the reporting entity'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 RepMar 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 government-wide Statement of Net Assets reports \$52,588,074 of restricted net assets, of which \$2,689,756 is restricted by enabling legislation.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

RepMar reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements account for the general governmental activities of RepMar 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, RepMar 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 income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

RepMar reports the following fund types:

1. Governmental Fund Types

i. General Fund

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

ii. Special Revenue Funds

These funds account for specific revenue sources that have been aggregated according to enabling legislation to support specific governmental activities.

iii. Capital Projects Funds

These funds account for the acquisition or construction of major RepMar capital facilities financed primarily from loans and federal reimbursements.

iv. Permanent Funds

This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government.

2. Fiduciary Fund Types

i. Private Purpose Funds

These funds are used to account for resources held in trust under which principal and income benefit certain individuals.

These include funds held in trust by the Marshall Islands Social Security Administration (MISSA) for the beneficiaries of the MISSA Retirement Fund; funds received under the Interim Use Agreement for the benefit of Kwajalein landowners; and funds received under Section 177 of the Compact of Free Association for the benefit of victims related to the United States Nuclear Testing Program.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

2. Fiduciary Fund Types, Continued

ii. Agency Funds

This fund is used to report resources held by the primary government relating to unclaimed property in a purely custodial capacity.

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 combined) for the determination of major funds. RepMar elected to add certain other major funds that had specific public interest. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. RepMar reports the following major funds:

U.S. Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for all financial transactions that are subgranted to RepMar, as well as other direct federal grants that RepMar received from the United States government.

Compact Sector Grants Fund, a Governmental Fund Type - Special Revenue Fund. This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(a) and approved by Nitijela resolution 123 to promote economic advancement and budgetary self-reliance. These appropriations are to be used for assistance in education, health care, the environment, public sector capacity building, and private sector development, or for other areas as mutually agreed, with priorities in the education and health care sectors.

Compact Trust Fund, a Governmental Fund Type - Permanent Fund. This fund accounts for RepMar's contributions to the Trust Fund established in accordance with Section 216 of the Compact of Free Association, as amended, to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding.

E. Reporting Standards

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, RepMar's discretely presented component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

F. Cash and Cash Equivalents and Time Certificates of Deposit

RepMar pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash on hand, demand deposits, and short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired by RepMar. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net assets/balance sheet.

G. 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.

Investments of 20% or more of the voting stock of an investee are presumed to give the investor significant influence and are carried using the equity method. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

H. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to RepMar for expenditures on federally funded reimbursement and grant programs are reported as "receivables from federal agencies" on the governmental fund balance sheet.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing on the islands of Majuro and Ebeye. The allowance for uncollectibles primarily represents estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

I. Inventories and Prepaid Items

Inventories of the discretely presented component units are valued at the lower of cost (FIFO) or market.

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

J. Interfund Receivables/Payables

During the course of its operations, RepMar 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 fund balance sheet.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

J. Interfund Receivables/Payables, Continued

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is restricted through loan agreements or enabling legislation.

L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, docks, water and sewer lines, water catchments, and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

RepMar currently holds no title to land. Singular pieces of machinery and equipment that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets of the primary government and the component units are depreciated using the straight-line method over their estimated useful lives, with a full year's depreciation charged in the year of acquisition and disposal, regardless of date.

M. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial 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.

N. Deferred Revenue

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, deferred revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has primarily resulted as federal funds are received in advance of eligible expenditures.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

O. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at the rate of one working day per bi-weekly pay period.

P. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. The unreserved fund balances for the governmental funds represent the amount available for budgeting future operations. The reserve for related assets as of September 30, 2007, is represented by the following assets:

	General	U.S. Federal Grants	Compact Sector	Compact Trust	Other Governmental Funds	Totals
Investments	\$ -	\$ -	\$ -	\$ -	\$ 318,630	318,630
Due from component units	3,736,619	-	-	-	-	3,736,619
Receivables:						
Other	-	-	-	10,605	-	10,605
Restricted assets:						
Cash and cash equivalents	480,000	-	-	-	-	480,000
Time certificates of deposit	55,000	-	-	-	-	55,000
Investments	-	-	-	46,645,166	-	46,645,166
	<u>\$ 4,271,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,655,771</u>	<u>\$ 318,630</u>	<u>\$ 51,246,020</u>

The reserve for continuing appropriations within the Compact Sector Fund of \$15,505,070 represent grant awards approved by the U.S. Department of the Interior under the Public Infrastructure Sector grant and the Infrastructure Maintenance Fund grant for projects that have not yet commenced. The reserve for continuing appropriations within the other governmental funds of \$4,755,474 represent Nitijela appropriations within the Republic of China Projects Fund for projects that have not yet commenced.

Q. Risk Financing

RepMar 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. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, RepMar management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, RepMar 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 losses have occurred as a result of these policies in any of the past three fiscal years.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

R. New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post-employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

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

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of RepMar.

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(1) Summary of Significant Accounting Policies, Continued

S. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

T. 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 RepMar's financial statements for the year ended September 30, 2006 from which summarized information was derived.

(2) 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.

The deposit and investment policies of RepMar are governed by 3 MIRC 7, *Investment of Public Funds*, and 11 MIRC 1, *Financial Management*, in conjunction with various trust agreements. Under 3 MIRC 7, the Secretary of Finance, subject to approval of the Cabinet, may transfer specific amounts of money from the General Fund, and invest such money in financial institution investment accounts, provided however that:

- (a) Public monies shall not be deposited with any financial institution that is not a member of the Federal Deposit Insurance Corporation (FDIC) of the United States or the Federal Savings and Loan Insurance Corporation (FSLIC) of the United States, unless the Secretary of Finance is satisfied, on the advice of the Banking Commissioner, that a financial institution (although not a member of the FDIC or FSLIC), owns sufficient assets to cover the total amount of the deposit;
- (b) The demand deposit account shall be continuously maintained to cover not less than seventy-five percent of the cash expenditures projected to be expended over the next succeeding ninety day period;
- (c) All deposits, accounts and funds maintained pursuant to this Act shall be subordinate deposits, accounts and funds of the General Fund; and
- (d) No withdrawal of monies shall be made out of or charged against time or savings deposits, accounts or funds maintained pursuant to this Act except to transfer funds into the demand deposit account of the General Fund. All expenditures shall be made out of or charged against the demand deposit account of the General Fund only.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(2) Deposits and Investments, Continued

Under 11 MIRC 1, the Secretary of Finance may invest any monies of RepMar, which:

- (a) Are funds that have not been appropriated by Act;
- (b) In his judgment are in excess of the amounts necessary for meeting the immediate requirements of RepMar; and
- (c) In his judgment will not impede or hamper the necessary financial operations of RepMar.

Any of such investments shall be due to mature no later than one (1) year from the date of investment, unless otherwise directed and authorized by the Cabinet for a longer period. Income derived from investments may be reinvested, unless the Cabinet decides otherwise, at the discretion of the Secretary of Finance and shall be recognized as revenue in accordance with generally accepted accounting principles. Long-term investments shall be in time certificates of deposits, bonds, notes, prime commercial paper or other low-risk investments.

A. Deposits

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

- Category 1 Deposits that are federally insured or collateralized with securities held by RepMar or its agent in RepMar's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in RepMar's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in RepMar's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, RepMar'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. RepMar does not have a deposit policy for custodial credit risk.

As of September 30, 2007, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$24,301,152 and the corresponding bank balances were \$27,143,310. Of the bank balances, \$26,293,673 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2007, bank deposits in the amount of \$649,465 were FDIC insured. RepMar 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2007, the carrying amount of the fiduciary fund's total cash and cash equivalents and time certificates of deposit was \$5,907,937 and the corresponding bank balances were \$6,375,411. Of the bank balances, \$52,284 is maintained in financial institutions subject to FDIC insurance. RepMar 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.

As of September 30, 2007, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$14,963,884 and the corresponding bank balances were \$15,296,981. Of the bank balances, \$8,868,750 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2007, bank deposits in the amount of \$952,756 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

B. Investments

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

- Category 1 Investments that are insured or registered, or securities held by RepMar or its agent in RepMar's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in RepMar's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in RepMar's name.

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

Investments of the primary government as of September 30, 2007, are as follows:

Compact Trust Fund:	
Money market funds	\$ 457,382
Common equity securities	3,004,801
Equity mutual funds	42,823,411
Fixed income mutual funds	<u>359,572</u>
	<u>\$ 46,645,166</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(2) Deposits and Investments, Continued

B. Investments, Continued

Additionally, as of September 30, 2007, the MIDA Fund holds approximately 4% of the shares of Pacific Forum Lines in the amount of \$318,630. As the fair market value of this investment is not readily available, such has been recorded at cost.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, RepMar will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. RepMar'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 RepMar's name by RepMar's custodial financial institutions at September 30, 2007.

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. RepMar 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 RepMar. As of September 30, 2007, there were no investments in any one issuer that exceeded 5% of total investments.

Investments of the fiduciary funds as of September 30, 2007, are as follows:

Marshall Islands Social Security Administration (MISSA):

Money market funds	\$ 67,157
Common equity securities	9,086,545
Mutual funds	<u>44,826,098</u>
	\$ <u>53,949,800</u>

Additionally, as of September 30, 2007, MISSA holds approximately 10% of the shares of Marshall Islands Service Corporation, totaling \$30,000, which is accounted for at cost, and approximately 31% of the shares of Bank of Marshall Islands (BOMI), totaling \$6,920,311, which is accounted for under the equity method.

A summary of unaudited financial information as of and for the nine months ended September 30, 2007, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>58,457,148</u>
Liabilities	\$ <u>36,854,399</u>
Net earnings	\$ <u>2,207,785</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2007, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$905,987.

Nuclear Claims Trust Fund (NCTF):

U.S. Treasury obligations	\$ 179,980
U.S. Government agencies	44,315
Corporate notes and bonds	<u>57,367</u>
Total fixed income securities	281,662
Common equity securities	541,013
Money market funds	<u>34,218</u>
	<u>\$ 856,893</u>

The deposit and investment policies of MISSA are governed by its enabling legislation. The Board is required to engage one or more fund custodians to assume responsibility for the physical possession of MISSA's investments. Legally authorized investments are as follows:

- (i) Government obligations - Obligations issued or guaranteed as to principal and interest by RepMar or by the Government of the United States, provided that the total market value of the investments in obligations guaranteed by RepMar shall at the time of purchase not exceed twenty-five percent (25%) of the total market value of all investments of MISSA, and further provided that the principal and interest on each obligation are payable in the currency of the United States.
- (ii) Corporate obligations and mortgage-backed securities - Obligations of any public or private entity or corporation created or existing under the laws of RepMar or of the United States or any state, territory or commonwealth thereof, or obligations of any other government or economic community which are payable in United States dollars, or pass through and other mortgage-backed securities provided that the obligation is an agency of the United States Government or is rated in one of the four highest categories by two nationally recognized rating agencies in the United States. No investment under this heading shall exceed five percent of the market value of the Fund or ten percent of the outstanding value of the issue at the time of purchase.
- (iii) Preferred and common stocks - Shares of preferred or common stocks of any corporation created or existing under the laws of RepMar or under the laws of the United States or any state, territory or commonwealth thereof provided that the purchase of such shares shall be considered reasonable and prudent by MISSA's investment advisor at the time of purchase, that not more than fifteen percent (15%) percent of the market value of the Fund shall be invested in the stock of any one corporation, and that not more than twenty-five percent (25%) percent of the market value of the Fund shall be invested in any one industry group.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(2) Deposits and Investments, Continued

B. Investments, Continued

(iv) Insurance company obligations - Contracts and agreements supplemental thereto providing for participation in one or more accounts of a life insurance company authorized to do business in the Republic or in any state, territory or commonwealth of the United States provided that the total market value of these investments at no time shall exceed ten percent (10%) of all investments of the Fund.

The deposit and investment policies of the NCTF are governed by an agreement between the Government of the United States and RepMar for the implementation of Section 177 of the Compact of Free Association. Generally, the Fund shall be invested in bonds, notes and other instruments of investment grade and of United States nationality, including both debt and equity issues, common or preferred stocks, money market funds, certificates of indebtedness and mutual funds.

MISSA and NCTF 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 respectively in the name of MISSA and NCTF by their custodial financial institutions at September 30, 2007.

As of September 30, 2007, the NCTF's investments in debt securities were as follows:

	Moody's Credit Rating	<u>Investment Maturities (In Years)</u>				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa	\$ -	\$ 138,216	\$ 41,764	\$ -	\$ 179,980
U.S. Government agencies	Aaa	-	24,157	-	-	24,157
U.S. Government agencies	Aa2	-	20,158	-	-	20,158
Corporate notes	Aaa	-	15,883	-	-	15,883
Corporate notes	Aa2	-	5,956	-	-	5,956
Corporate notes	A2	-	12,397	-	-	12,397
Corporate notes	A1	-	-	5,880	-	5,880
Corporate notes	Baa3	-	-	4,014	-	4,014
Corporate notes	Baa1	-	13,237	-	-	13,237
		<u>\$ -</u>	<u>\$ 230,004</u>	<u>\$ 51,658</u>	<u>\$ -</u>	<u>\$ 281,662</u>

MISSA and NCTF do 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. Furthermore, as of September 30, 2007, there were no investments in any one issuer that exceeded 5% of total investments.

Investments of the discretely presented component units as of September 30, 2007, are as follows:

Marshall Islands Development Bank:  
Common equity securities

\$ 423,748

The deposit and investment policies of MIDB are governed by MIDB's Board of Directors. Generally, MIDB can provide financial assistance to enterprises operating in the Republic, including making equity investments in such enterprises.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(2) Deposits and Investments, Continued

B. Investments, Continued

Marshall Islands National Telecommunications Authority (MINTA):

Common equity securities	\$ 2,741,649
Money market funds	<u>152,456</u>
	<u>\$ 2,894,105</u>

The deposit and investment policies of MINTA are governed by MINTA's Board of Directors. As such, the Board of Directors is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy. Generally, MINTA can invest in bonds and other indebtedness of the U.S. and in preferred or common stock of any corporation created or existing under the laws of the U.S. or any U.S. state, territory, or commonwealth. Additionally, a maximum of 25% of the total portfolio may be invested in non-U.S. equities.

College of the Marshall Islands (CMI):

Mutual funds	\$ 435,580
Common equity securities	99,907
Money market funds	<u>3,109</u>
	<u>\$ 538,596</u>

The deposit and investment policies of CMI are governed by the Board of Regents. As such, the Board of Regents is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy. Generally, CMI can invest in cash and cash equivalents, bonds, U.S. and non-U.S. equities, Real Estate Investment Trusts, and commodities.

(3) Receivables

Receivables as of September 30, 2007, for the primary government's individual major governmental funds, nonmajor governmental funds in the aggregate, and fiduciary funds, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	U.S. Federal <u>Grants</u>	Compact <u>Sector</u>	Compact <u>Trust</u>	Nonmajor Governmental <u>Funds</u>	Fiduciary <u>Funds</u>	<u>Totals</u>
Receivables:							
Taxes	\$ 2,513,259	\$ -	\$ -	\$ -	\$ 36,672	\$ -	\$ 2,549,931
Federal agencies	15,901	980,804	1,743,137	-	293,168	-	3,033,010
General	372,254	-	-	-	1,515,656	2,072,535	3,960,445
Loans	-	-	-	-	16,811,710	-	16,811,710
Other	<u>536,313</u>	-	-	<u>10,605</u>	<u>341,210</u>	<u>4,864,897</u>	<u>5,753,025</u>
	3,437,727	980,804	1,743,137	10,605	18,998,416	6,937,432	32,108,121
Less: allowance for uncollectibles	<u>(329,564)</u>	-	-	-	<u>(17,247,354)</u>	<u>(4,285,970)</u>	<u>(21,862,888)</u>
Net receivables	<u>\$ 3,108,163</u>	<u>\$ 980,804</u>	<u>\$ 1,743,137</u>	<u>\$ 10,605</u>	<u>\$ 1,751,062</u>	<u>\$ 2,651,462</u>	<u>\$ 10,245,233</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(3) Receivables, Continued

Loans receivable of the primary government are recorded by the Marshall Islands Scholarship, Grant and Loan Board, the Marshall Islands Development Authority, and the ADB Development Projects Fund. The details of these loans are as follows:

Marshall Islands Scholarship, Grant and Loan Board

Loans to qualified Marshallese students under a student financial assistance program, interest free, uncollateralized with no set repayment terms, and may be converted to grants at a later date if the recipients meet certain criteria. These loans have been fully provided for in the allowance for uncollectibles. During the year ended September 30, 2007, loans in the amount of \$446,800 were converted to grants as the recipients met the criteria for conversion. \$ 12,442,923

Marshall Islands Development Authority

Notes receivable from four fishing companies incorporated and operating in the Republic of the Marshall Islands, due August 1992, interest at 6% per annum, interest and principal payable on demand. These notes have been fully provided for in the allowance for uncollectibles. 1,780,000

ADB Development Projects Fund

Loan to Ebje Ruktok/Rukjenlein Fishing Company, Inc., interest at 8.5% per annum, with repayments commencing March 1995. The loan is a subsidiary loan of a loan agreement (Loan Number 1102 MAR (SF)) between RepMar and the Asian Development Bank. This loan has been fully provided for in the allowance for uncollectibles. 2,588,787

\$ 16,811,710

Discretely Presented Component Units

Receivables as of September 30, 2007, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	Kwajalein Atoll Joint Utilities <u>Resources, Inc.</u>	Marshalls Energy <u>Company, Inc.</u>	Marshall Islands Development <u>Bank</u>	Marshall Islands National Telecom. <u>Authority</u>	RMI Ports <u>Authority</u>	Non-major Component <u>Units</u>	<u>Totals</u>
Receivables:							
Federal agencies	\$ -	\$ -	\$ -	\$ -	3,178,434	\$ 1,853,280	\$ 5,031,714
General	4,495,992	4,794,512	-	1,156,670	1,864,671	4,220,090	16,531,935
Loans	-	-	27,800,565	-	-	-	27,800,565
Other	<u>211,395</u>	<u>298,205</u>	<u>354,558</u>	<u>253,066</u>	<u>572,062</u>	<u>584,532</u>	<u>2,273,818</u>
	4,707,387	5,092,717	28,155,123	1,409,736	5,615,167	6,657,902	51,638,032
Less: allowance for uncollectibles	<u>(3,992,497)</u>	<u>(2,464,345)</u>	<u>(14,966,685)</u>	<u>(599,583)</u>	<u>(1,137,114)</u>	<u>(3,019,564)</u>	<u>(26,179,788)</u>
Net receivables	<u>\$ 714,890</u>	<u>\$ 2,628,372</u>	<u>\$ 13,188,438</u>	<u>\$ 810,153</u>	<u>\$ 4,478,053</u>	<u>\$ 3,638,338</u>	<u>\$ 25,458,244</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(3) Receivables, Continued

Discretely Presented Component Units, Continued

Loans receivable of the discretely presented component units are as follows:

Marshall Islands Development Bank (MIDB)

MIDB's loan portfolio is comprised of consumer, housing and business loans. Majority of the loan portfolio is unsecured, while remaining portion is secured by various forms of collateral. Additionally, these loans are cosigned by third parties. The basis for expected repayment of a majority of the consumer loans and housing loans is the continued employment of the borrower and allotment agreements between MIDB and the borrower's employer. Details of these loans by funding source are as follows:

Investment Development Fund	\$ 4,213,648
Compact Section 211	1,126,903
Republic of the Marshall Islands	22,445,955
Housing Preservation Grant	<u>14,059</u>
	<u>\$ 27,800,565</u>

All loans are at fixed rates ranging from 5.5% - 6.5% for Investment Development Fund loans, 4% - 6.5% for Compact Section 211 loans, 4% - 12% for Republic of Marshall Islands loans, and 2% - 6% for Housing Preservation Grant loans.

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2007, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	U.S. Federal Grants	\$ 594,044
General	Nonmajor governmental funds	363,621
Compact Sector Grants	General	5,723,730
Nonmajor governmental funds	General	2,393,875
Nonmajor governmental funds	Nonmajor governmental funds	662,881
Fiduciary Funds - Private Purpose Trust	General	15,745,489
Fiduciary Funds - Agency	General	<u>155,203</u>
		<u>\$ 25,638,843</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(4) Interfund Receivables and Payables, Continued

Receivables and payables between funds reflected as due to/from component units in the statement of net assets at September 30, 2007, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Primary Government</u>		
General Fund:		
Marshall's Energy Company, Inc.	\$ 563,669	\$ -
Marshall Islands Development Bank	3,736,619	-
RMI Ports Authority	-	174,152
Nonmajor component units	<u>-</u>	<u>555,586</u>
	<u>\$ 4,300,288</u>	<u>\$ 729,738</u>
 <u>Discretely Presented Component Units</u>		
Marshall's Energy Company, Inc:		
Nonmajor component units	\$ -	\$ 918,939
RMI Ports Authority:		
Nonmajor component units	<u>-</u>	<u>50,000</u>
	<u>\$ -</u>	<u>\$ 968,939</u>

The amount recorded as due from component units of the primary government of \$4,300,288 does not equal the corresponding due to primary government of the discretely presented component units of \$6,300,288 due to an allowance for doubtful accounts recorded by the General Fund and the nonmajor governmental funds of \$400,000 and \$1,600,000, respectively.

The amount recorded as due from component units of the discretely presented component units of \$-0- does not equal the corresponding due to component units of the discretely presented component units of \$968,939 due to an allowance for doubtful accounts recorded by the Marshall's Energy Company, Inc. and the RMI Ports Authority of \$918,939 and \$50,000, respectively.

The amount recorded by the General Fund due from the Marshall Islands Development Bank (MIDB) of \$3,736,619 accrues interest at the rate of 4% per annum and matures on May 8, 2018. In the event that RepMar redeems this receivable at an earlier date, receipt of funds may be dependent upon the underlying collectability of loans issued by MIDB, as MIDB does not appear to have readily available cash reserves to meet early redemption. Furthermore, in the event that RepMar is unable to liquidate this amount at an earlier date, such may be deemed to constitute a cash transfer out to MIDB. Due to the long term nature of this receivable, such has been included within the reserve for related assets at the governmental fund level and as a long-term receivable at the government-wide level.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(4) Interfund Receivables and Payables, Continued

Receivables and payables between funds reflected as due to/from primary government in the statement of net assets at September 30, 2007, are summarized as follows:

<u>Discretely Presented Component Units</u>	<u>Due From</u>	<u>Due To</u>
Marshalls Energy Company, Inc.:		
General Fund	\$ -	\$ 563,669
Marshall Islands Development Bank:		
General Fund	-	3,736,619
Nonmajor component units:		
General Fund	233,524	400,000
Nonmajor governmental funds	<u>-</u>	<u>1,600,000</u>
	<u>\$ 233,524</u>	<u>\$ 6,300,288</u>

The amount recorded as due from primary government of the discretely presented component units of \$233,524 does not equal the corresponding due to component units of the primary government of \$729,738 due to an allowance for doubtful accounts of \$174,152 recorded by the RMI Ports Authority and \$322,062 recorded by the nonmajor component units.

(5) Capital Assets

Capital asset activities of the primary government's governmental activities for the year ended September 30, 2007, are as follows:

	Estimated Useful Lives	Balance October 1, 2006	Additions	Retirements	Balance September 30, 2007
<b>Depreciable capital assets:</b>					
Electrical distribution	30 yrs	\$ 30,540,465	\$ -	\$ -	\$ 30,540,465
Buildings	30 - 40 yrs	63,056,066	13,122,488	-	76,178,554
Water infrastructure system	25 yrs	9,616,908	-	-	9,616,908
Docks, roads and bridges	25 - 30 yrs	14,486,813	-	-	14,486,813
Ships	25 yrs	13,567,254	-	-	13,567,254
Software	10 yrs	1,479,708	-	-	1,479,708
Heavy equipment	3 - 10 yrs	2,148,544	190,121	-	2,338,665
Dry-dock	15 yrs	<u>2,907,282</u>	<u>-</u>	<u>-</u>	<u>2,907,282</u>
		<u>137,803,040</u>	<u>13,312,609</u>	<u>-</u>	<u>151,115,649</u>
<b>Less accumulated depreciation:</b>					
Electrical distribution		(22,661,663)	(1,018,015)	-	(23,679,678)
Buildings		(28,416,738)	(1,993,373)	-	(30,410,111)
Water infrastructure system		(3,886,726)	(384,676)	-	(4,271,402)
Docks, roads and bridges		(5,354,973)	(568,036)	-	(5,923,009)
Ships		(4,774,751)	(542,690)	-	(5,317,441)
Software		(591,883)	(147,971)	-	(739,854)
Heavy equipment		(1,214,777)	(224,004)	-	(1,438,781)
Dry-dock		<u>(2,325,826)</u>	<u>(193,819)</u>	<u>-</u>	<u>(2,519,645)</u>
		<u>(69,227,337)</u>	<u>(5,072,584)</u>	<u>-</u>	<u>(74,299,921)</u>
Total depreciable capital assets, net		68,575,703	8,240,025	-	76,815,728
Construction in progress		<u>8,250,292</u>	<u>15,049,190</u>	<u>(13,122,488)</u>	<u>10,176,994</u>
		<u>\$ 76,825,995</u>	<u>\$ 23,289,215</u>	<u>\$(13,122,488)</u>	<u>\$ 86,992,722</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(5) Capital Assets, Continued

Depreciation expense was charged to functions/programs of the primary government's governmental activities as follows:

President and Cabinet	\$ 3,186
Office of the Chief Secretary	73,890
Public Service Commission	15,000
Education	626,721
Health and Environment	304,213
Transportation and Communication	521,658
Resources and Development	80,225
Internal Affairs	52,913
Justice	246,542
Finance	150,296
Foreign Affairs and Trade	30,906
Public Works	2,965,731
Nitijela	<u>1,303</u>
	\$ <u>5,072,584</u>

(6) Short-term Debt

Discretely Presented Component Units

As of September 30, 2007, the discretely presented component units had the following short-term debt outstanding:

Tobolar Copra Processing Plant, Inc. (TCPPI)

Bank credit line of \$1,000,000, with various terms, due on various dates, interest at the bank's reference rate plus 2.5% (10.75% at September 30, 2007), collateralized by a general security agreement over all assets of TCPPI and a guarantee from RepMar. \$ 650,000

Short-term debt activity for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Bank credit line	\$ <u>800,000</u>	\$ <u>650,000</u>	\$ <u>(800,000)</u>	\$ <u>650,000</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(7) Long-term Obligations

Primary Government

Under the Government Borrowing Act of 1985, RepMar may borrow money for such purposes as approved by the Nitijela of RepMar. As of September 30, 2007, the primary government had the following long-term debt outstanding:

Asian Development Bank (ADB) Loans

Loan Number 1102 MAR (SF) - Fisheries Development Project Loan (SDR 2,432,599), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced January 1, 2002 in an amount of SDR 24,300, increasing to SDR 48,600 on January 1, 2012.	\$ 3,099,560
Loan Number 1218 MAR (SF) - Typhoon Rehabilitation Loan (SDR 364,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced May 15, 2003 in an amount of SDR 3,600, increasing to SDR 7,300 on May 15, 2013.	462,645
Loan Number 1249 MAR (SF) - Basic Education Project Loan (SDR 5,717,446), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced April 15, 2004 in an amount of SDR 57,200, increasing to SDR 114,300 on April 15, 2014.	7,252,028
Loan Number 1250 MAR (SF) - Majuro Water Supply Project Loan No. 1 (SDR 478,496), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced November 15, 2003 in an amount of SDR 4,800, increasing to SDR 9,600 on November 15, 2013.	664,201
Loan Number 1316 RMI (SF) - Health and Population Project Loan (SDR 3,858,516), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced January 1, 2005 in an amount of SDR 38,600, increasing to SDR 77,200 on January 1, 2015.	4,909,566
Loan Number 1389 RMI (SF) - Majuro Water Supply Project Loan No. 2 (SDR 6,062,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced March 1, 2006 in an amount of SDR 60,700, increasing to SDR 121,200 on March 1, 2016.	7,971,483

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(7) Long-term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued

Loan Number 1513 RMI (SF) - Public Sector Reform Program Loan (SDR 8,241,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commenced June 1, 2007 in an amount of SDR 82,400, increasing to SDR 164,800 on June 1, 2017. 11,177,293

Loan Number 1694 RMI (SF) - Ebeye Health and Infrastructure Project Loan (SDR 6,918,118), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence February 1, 2008 in an amount of SDR 144,127. 8,953,626

Loan Number 1791 RMI (SF) - Skills Training and Vocational Education Project Loan (SDR 3,483,174), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence May 15, 2009 in an amount of SDR 72,566, at which time the service charge increases to 1.5% per annum. 4,923,345

Loan Number 1828 RMI - Fiscal and Financial Management Program Loan No. 1 (\$4,000,000), interest at the ADB's pool-based variable lending rate system for U.S. dollar loans (6.34% at September 30, 2007), a front-end fee of 1%, and a commitment charge of 0.75% per annum on the amount of the loan unwithdrawn from the Loan Account. Semiannual loan payments commenced November 15, 2004 in an initial amount of \$89,900 with graduated increases of 5% to \$276,100 through May 15, 2016. 3,388,600

Loan Number 1829 RMI (SF) - Fiscal and Financial Management Program Loan No. 2 (SDR 6,320,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semiannual loan payments commence November 15, 2009 in an amount of SDR 197,500, at which time the service charge increases to 1.5% per annum. 8,388,966

Loan Number 1948 RMI (SF) - Outer Island Transport Infrastructure Project (SDR 5,304,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. On September 15, 2006, the ADB closed the Loan Account and reduced the loan amount to SDR 297,775. Semiannual loan payments commence February 1, 2011 in an amount of SDR 110,500, at which time the service charge increases to 1.5% per annum. 507,517

\$ 61,698,830

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(7) Long-term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued

Annual debt service requirements to maturity for principal and interest (excluding service charges) are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,367,578	\$ 235,980	\$ 1,603,558
2009	1,495,347	218,032	1,713,379
2010	2,150,127	198,251	2,348,378
2011	2,202,073	176,442	2,378,515
2012	2,306,432	152,392	2,458,824
2013 – 2017	12,988,686	315,842	13,304,528
2018 – 2022	13,090,713	-	13,090,713
2023 – 2027	12,042,092	-	12,042,092
2028 – 2032	9,959,167	-	9,959,167
2033 – 2037	4,096,615	-	4,096,615
	<u>\$ 61,698,830</u>	<u>\$ 1,296,939</u>	<u>\$ 62,995,769</u>

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2007, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans	\$ 63,044,771	\$ 58,612	\$ (1,404,553)	\$ 61,698,830	\$ 1,367,578
Other:					
Compensated absences	2,709,558	619,114	(475,272)	2,853,400	1,091,841
	<u>\$ 65,754,329</u>	<u>\$ 677,726</u>	<u>\$ (1,879,825)</u>	<u>\$ 64,552,230</u>	<u>\$ 2,459,419</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(7) Long-term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2007, the discretely presented component units had the following long-term debt outstanding:

Marshalls Energy Company, Inc. (MEC)

Loan with the Federal Financing Bank (FFB), dated November 17, 1997, with interest based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum. Principal and interest are payable in quarterly installments of \$273,770 through January 2, 2018, with loan repayments guaranteed by the Rural Utilities Service (RUS). The mortgage notes have been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MEC, and have been collateralized by a leasehold mortgage and security agreement over the assets of MEC. These notes are subject to certain coverage ratio requirements. MEC is not in compliance with these ratio requirements as of September 30, 2007. \$ 8,214,607

Loan with a bank, dated May 25, 2007, with interest at 1.75% per annum over the bank's reference rate with a minimum rate of 6.5% (7.5% at September 30, 2007). Principal and interest are payable in monthly installments of \$160,000 through May 1, 2010. Loan proceeds of \$12,000,000 were used to refinance debts to a fuel supplier and loan payable to a commercial bank, and to finance working capital requirements. The loan has been unconditionally guaranteed by RepMar, under which the bank shall exercise lien upon and right of set-off against money, securities, deposits and property of RepMar in possession of the bank in the event of default by MEC, and have been collateralized by a savings account of RepMar of \$480,000, General Fund tax revenues, accounts receivable and a security agreement over the assets of MEC. 11,724,190

\$ 19,938,797

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,743,841	\$ 1,415,974	\$ 3,159,815
2009	1,793,031	1,222,062	3,015,093
2010	1,924,057	1,091,041	3,015,098
2011	2,064,930	950,163	3,015,093
2012	2,019,421	721,901	2,741,322
2013 - 2017	9,850,548	1,623,241	11,473,789
2018	542,969	13,015	555,984
	<u>\$ 19,938,797</u>	<u>\$ 7,037,397</u>	<u>\$ 26,976,194</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshall Islands Development Bank (MIDB)

Loan payable to the International Commercial Bank of China, due August 6, 2014, payable semi-annually in installments of \$200,000 plus interest at 5% per annum, uncollateralized. \$ 2,800,000

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 400,000	\$ 137,278	\$ 537,278
2009	400,000	116,639	516,639
2010	400,000	96,361	496,361
2011	400,000	69,044	469,044
2012	400,000	55,944	455,944
2013 - 2014	<u>800,000</u>	<u>50,291</u>	<u>850,291</u>
	<u>\$ 2,800,000</u>	<u>\$ 525,557</u>	<u>\$ 3,325,557</u>

Marshall Islands National Telecommunications Authority (MINTA)

Loan with the RUS (formerly the Rural Electrification Administration) from the Rural Electrification and Telephone Revolving Fund, dated August 17, 1989 of \$18.8 million, and increased by \$3.999 million on April 23, 1993, with interest at 5% per annum. The \$18.8 million loan has been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to RUS in the event of default by MINTA. Mortgages over specific MINTA ground leases and essentially all assets of MINTA have collateralized both loans. \$ 14,067,779

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 818,616	\$ 684,738	\$ 1,503,354
2009	860,642	642,712	1,503,354
2010	803,079	599,106	1,402,185
2011	553,064	566,583	1,119,647
2012	581,360	538,287	1,119,647
2013 - 2017	3,384,578	2,213,658	5,598,236
2018 - 2022	4,343,628	1,254,608	5,598,236
2023 - 2027	<u>2,722,812</u>	<u>194,770</u>	<u>2,917,582</u>
	<u>\$ 14,067,779</u>	<u>\$ 6,694,462</u>	<u>\$ 20,762,241</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

RMI Ports Authority (RMIPA)

Loan with a bank, dated January 11, 2007, with interest at 7.5% per annum. Principal and interest are payable in monthly installments of \$24,000 through November 28, 2009. The loan has been collateralized by a TCD of RMIPA of \$750,000. \$ 568,318

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 253,806	\$ 34,194	\$ 288,000
2009	273,734	14,266	288,000
2010	40,778	358	41,136
	<u>\$ 568,318</u>	<u>\$ 48,818</u>	<u>\$ 617,136</u>

Air Marshall Islands, Inc. (AMI)

Loan with a bank, dated August 24, 2007, with interest at 8.5% per annum. Principal and interest are payable in monthly installments of \$24,700 through August 28, 2011. The loan has been collateralized by a TCD of the Marshall Islands Development Bank of \$1,000,845 and a guarantee by RepMar. \$ 1,000,000

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 237,155	\$ 83,945	\$ 321,100
2009	240,827	55,573	296,400
2010	262,113	34,287	296,400
2011	259,905	11,120	271,025
	<u>\$ 1,000,000</u>	<u>\$ 184,925</u>	<u>\$ 1,184,925</u>

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2007, are as follows:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
Loans payable:					
MEC	\$ 15,640,202	\$ 12,000,000	\$ (7,701,405)	\$ 19,938,797	\$ 1,743,841
MIDB	3,200,000	-	(400,000)	2,800,000	400,000
MINTA	14,847,297	-	(779,518)	14,067,779	818,616
RMIPA	-	750,000	(181,682)	568,318	253,806
AMI	748,826	1,074,145	(822,971)	1,000,000	237,155
	34,436,325	13,824,145	(9,885,576)	38,374,894	3,453,418
Due to primary government	7,669,213	-	(1,932,594)	5,736,619	-
	<u>\$ 42,105,538</u>	<u>\$ 13,824,145</u>	<u>\$ (11,818,170)</u>	<u>\$ 44,111,513</u>	<u>\$ 3,453,418</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(8) Restricted Assets

Primary Government

Restricted assets of the primary government are as follows:

Investments held in a trust fund for the purpose of accumulating resources to fund RepMar government operations after fiscal year 2023.	\$ 46,645,166
Escrow account established in accordance with Section 103(l) of the Compact of Free Association, as amended, for the benefit of landowners of Kwajalein Atoll to be distributed upon conclusion of an agreement amending or superseding the Kwajalein Atoll land use agreement.	15,246,758
Savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding RepMar's infrastructure maintenance plan.	2,211,873
Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	2,390,370
Escrow account established for the benefit of landowners of Kwajalein Atoll.	650,489
Savings account pledged as collateral for a \$12,000,000 loan payable by the Marshalls Energy Company, Inc.	480,000
Savings account established for the purpose of accounting for funds held by RepMar in a custodial capacity relating to unclaimed property.	61,466
Time certificate of deposit collateralizing a credit card facility.	<u>55,000</u>
	<u>\$ 67,741,122</u>

Discretely Presented Component Units

Restricted assets of the discretely presented component units are as follows:

Marshall Islands Development Bank (MIDB):

Time certificates of deposit collateralizing loans funded by Rural Housing Service (RHS).	\$ 501,065
Time certificate of deposit collateralizing outstanding loans of Air Marshall Islands, Inc.	1,000,845
Time certificate of deposit collateralizing outstanding loans issued by an affiliate bank.	<u>490,444</u>
	<u>\$ 1,992,354</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(8) Restricted Assets, Continued

Discretely Presented Component Units, Continued

RMI Ports Authority:

Time certificate of deposit collateralizing loan payable to a bank. \$ 750,000

(9) Operating Transfers In/Out

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2007, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Nonmajor governmental funds	\$ <u>355,592</u>	\$ <u>7,765,038</u>
Compact Sector Fund:		
Nonmajor governmental funds	<u>968,700</u>	<u>994,442</u>
Nonmajor governmental funds:		
General Fund	7,765,038	355,592
Compact Sector Funds	994,442	968,700
Fiduciary funds	-	530,250
Nonmajor governmental funds	<u>3,168,438</u>	<u>3,168,438</u>
	<u>11,927,918</u>	<u>5,022,980</u>
Fiduciary funds:		
Nonmajor governmental funds	<u>530,250</u>	<u>-</u>
	<u>\$ 13,782,460</u>	<u>\$ 13,782,460</u>

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

During the year ended September 30, 2007, RepMar made a one-time transfer of \$5,925,460 from the Intergenerational Trust Fund to the General Fund as a result of the Nitijela of RepMar, in accordance with Public Law 2006-73, enacting legislation repealing the Marshall Islands Intergenerational Trust Fund Act of 1999. In addition, RepMar made a one-time transfer of \$195,074 from the Republic of China Fund and \$321,594 from the Ministry of Justice Fund representing budgetary support for General Fund operations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(10) Compact Trust Fund

Section 216(a) of the Compact, as amended, provides for annual contributions from the United States into a trust fund established in accordance with the Agreement Between the Government of the United States of America and the Government of the Republic of the Marshall Islands Implementing Section 216 and Section 217 of the Compact, as Amended, Regarding a Trust Fund (Trust Fund Agreement). The contributions by the United States were conditioned upon RepMar contributing to the trust fund at least \$25 million on October 1, 2003, \$2.5 million prior to October 1, 2004, and a final \$2.5 million prior to October 1, 2005. As of September 30, 2007, RepMar has contributed the required amounts to the "A Account" as required under Article 16 of the Trust Fund Agreement; however, Article 21 of the Trust Fund Agreement states that the United States may withdraw the Present Market Value of its contributions to the "A Account" if certain events occur.

On May 2, 2005, RepMar entered into a Subsequent Contributor Accession Agreement with the Republic of China whereby the Republic of China agreed to contribute annually certain amounts to the "A Account". In addition, the Republic of China agreed to contribute annually certain amounts to the "D Account", which was established by RepMar in accordance with Article 16. However, in the event of a severing of diplomatic relations between the Government of the Republic of the Marshall Islands and the Government of the Republic of China, the Republic of China may withdraw the Present Market Value of its contributions to the "A Account".

Accordingly, the Compact Trust Fund presented within the accompanying financial statements presents only the contributions made to the "A Account" by RepMar and the "D Account" by the Republic of China as well as associated undistributed income.

At September 30, 2007, the fair market value of contributions to the Compact Trust Fund "A Account" by the United States and the Republic of China, including associated undistributed income, is as follows:

United States - "A Account"	\$ 36,562,755
Republic of China - "A Account"	<u>6,026,199</u>
	\$ <u>42,588,954</u>

(11) Contingencies and Commitments

Sick Leave

It is the policy of RepMar to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated amount of unused sick leave as of September 30, 2007 is \$8,570,143.

Insurance Coverage

RepMar does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, RepMar may be self-insured to a material extent.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(11) Contingencies and Commitments, Continued

Federal Grants

RepMar participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$1,395,477 relating to fiscal years 2005 through 2007 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2007. In addition, RepMar is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Nuclear Claims Trust Fund (NCTF)

Section 177(c) of the Compact of Free Association (the Compact) provides, on a one-time grant basis, the amount of \$150,000,000 to RepMar to be used to establish a trust fund from which annual distributions are to be made in accordance with Article II of the Agreement between the Government of the United States and RepMar for Implementation of Section 177 of the Compact (the Agreement). Pursuant to the Agreement, RepMar established the NCTF from which these distributions are made. Over a period of fifteen years, the Nuclear Claims Tribunal (NCT) received \$45,750,000 from the NCTF that was made available for whole or partial payment of monetary awards. During the year ended September 30, 2007, NCT received \$530,250 from the NCTF, which included funds to fund partial payment of monetary awards. As of September 30, 2007, NCT has committed to the distribution of monetary awards for personal injury claims of \$20,356,725 and of property damage claims of \$1,083,472,335, which will be paid out against the reserved fund balance and future sums that NCT expects to receive from the NCTF. The reserved fund balance of the NCTF is \$856,893 as of September 30, 2007. Accordingly, additional funds will have to be made available through future earnings of the funds invested in the NCTF after the end of the Compact or from a renegotiated financial settlement of damages with the United States.

Marshalls Energy Company, Inc. (MEC)

MEC is currently in noncompliance with certain coverage ratio requirements relating to a loan agreement with the RUS. The mortgage notes have been unconditionally guaranteed by RepMar. RepMar may be liable for the debt service payments to RUS in the event of default by MEC.

Leases

RepMar enters into numerous leases with various landowners. The lease terms generally range from one to fifteen years. However, appropriations to fund these leases are made only on an annual basis. For fiscal year 2007, RepMar appropriated \$848,160 to fund such leases.

The Marshall Islands National Telecommunications Authority (MINTA) has long-term commitments for several ground leases and satellite circuit leases. Leases are both cancelable and noncancelable operating leases.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(11) Contingencies and Commitments, Continued

Leases, Continued

Future minimum annual lease payments under these leases are as follows:

<u>Year ending September 30</u>	<u>Total</u>
2008	\$ 462,236
2009	443,426
2010	436,481
2011	330,841
2012	220,230
2013-2017	577,434
2018-2022	30,517
2023-2027	<u>13,874</u>
	\$ <u>2,515,039</u>

Coin Issue

RepMar authorized the issuance of certain commemorative coins that are represented to be the legal tender of the Republic of the Marshall Islands. Under the terms of the contract, if an owner of the coins presents them in the Republic of the Marshall Islands, the Government must redeem them for the face value. On October 28, 1998, the Cabinet of RepMar directed the Minister of Finance to terminate the contract.

Trust Company of the Marshall Islands

Under the Joint Venture Agreement, as amended, between RepMar and the Trust Company of the Marshall Islands, Inc. (TCMI) dated September 14, 1990, and as amended August 18, 1995, after meeting certain contractual working capital requirements, annual gross revenues of the programs managed by TCMI are shared using a graduated schedule. On August 1, 2002, RepMar agreed to set aside the financial provisions of this Joint Venture Agreement in favor of an annual payment of \$1,000,000, payable in quarterly installments of \$250,000 through December 31, 2006. On December 6, 2006, RepMar agreed to again set aside the financial provisions of this Joint Venture Agreement in favor of an annual payment of \$2,000,000, payable in quarterly installments of \$500,000 through December 31, 2009. During the year ended September 30, 2007, RepMar received \$1,750,000 under this Joint Venture Agreement.

Marshall Islands Social Security Administration (MISSA)

In September 2007, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2006. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$207,653,000. As of September 30, 2007, MISSA recorded total fund equity of \$69,033,933 in the Retirement Fund, as funds available to fund future benefit obligations. These conditions indicate that MISSA may be unable to meet its future benefit obligations.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(11) Contingencies and Commitments, Continued

Other Commitments

Significant commitments of the primary government as of September 30, 2007, are as follows:

- a) Guaranteed a bank debt of Tobolar Copra Processing Plant, Inc. (TCPPI) with a letter of guarantee. At September 30, 2007, TCPPI had guaranteed bank debt totaling \$650,000.
- b) Guaranteed a debt of Marshall Islands National Telecommunications Authority (MINTA) in respect of a loan from the United States Rural Utilities Service (RUS, formerly Rural Electrification Administration) with a letter of guarantee. At September 30, 2007, MINTA had guaranteed debt totaling \$14,067,779.
- c) Guaranteed a debt of Marshalls Energy Company, Inc. (MEC) in respect to a loan from the United States Rural Utilities Service (RUS) with a letter of guarantee. At September 30, 2007, MEC had guaranteed debt totaling \$8,214,607.
- d) RepMar has entered into lease agreements with certain landowners for the use of land situated at the Majuro international airport. The terms of the lease agreements are for a 25-year period commencing September 1, 1996. Annual lease rental commitments are \$305,613 per year.
- e) RepMar has issued a letter of guarantee in the amount of \$178,000 plus interest for the benefit of the Delap Assembly of God Church for a loan issued by Marshall Islands Development Bank.
- f) In accordance with Cabinet Minute C.M. 121 (2003), the Cabinet of RepMar has issued a government guarantee in the amount of \$5,000,000 for a loan obtained by the Marshall Islands Development Bank. At September 30, 2007, MIDB had guaranteed debt totaling \$2,800,000.
- g) On February 19, 2004, the Cabinet of RepMar approved a joint venture Memorandum of Agreement with a local private corporation whereby RepMar granted and conveyed controlling ownership interest to the corporation of the hotel facility owned by Majuro Resort, Inc. On September 9, 2004, the Cabinet of RepMar approved the appointment of a Committee to re-visit the privatization of the hotel facility including obtaining an independent valuation of the property. As of September 30, 2007, no transfer in ownership has occurred.
- h) In accordance with Cabinet Minute C.M. 057 (2004), the Cabinet of RepMar has guaranteed a credit card facility with a time certificate of deposit totaling \$55,000.
- i) In accordance with Cabinet Minute C.M. 139 (2004), the Cabinet of RepMar has issued a government guarantee in the amount of \$800,000 for a loan obtained by Air Marshall Islands, Inc. (AMI). In accordance with Cabinet Minute C.M. 145 (2005), the government guarantee was increased by \$200,000. At September 30, 2007, AMI had guaranteed debt totaling \$1,000,000.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(11) Contingencies and Commitments, Continued

- j) In accordance with Cabinet Minute C.M. 055 (2007), the Cabinet of RepMar has issued a government guarantee for and on behalf of MEC to a fuel supplier for amounts owing by MEC relating to the purchase of fuel products. At September 30, 2007, MEC had guaranteed debt to a fuel supplier totaling \$2,867,741.
- k) In accordance with Cabinet Minute C.M. 048 (2007), the Cabinet of RepMar has authorized the collateralization of General Fund tax revenues for a \$12,000,000 loan obtained by the Marshalls Energy Company, Inc. At September 30, 2007, MEC had guaranteed debt totaling \$11,724,190.

Significant commitments of the discretely presented component units as of September 30, 2007, are as follows:

RMI Ports Authority (RMIPA)

On March 31, 2006, RMIPA was awarded 95% or \$13,000,000 by the U.S. Department of Transportation Federal Aviation Administration to rehabilitate Runway 7/25-Phase I Project, with \$250,000 being appropriated as matching funds by the Nitijela of RepMar.

(12) Individual Deficit Fund Balances or Deficit Retained Earnings

Specific individual funds which had significant deficit fund balances or retained earnings as of September 30, 2007, are as follows:

Nonmajor Component Units

Majuro Water and Sewer Company, Inc. \$ 788,726

(13) Subsequent Events

On December 6, 2007, the Cabinet of RepMar, in accordance with Cabinet Minute C.M. 122 (2007), approved the extension of financial support for the College of the Marshall Islands in the annual amount of \$3,000,000 through fiscal year 2011.

On December 6, 2007, the Cabinet of RepMar, in accordance with Cabinet Minute C.M. 123 (2007), approved financial support for the Kwajalein Atoll Joint Utilities Resources, Inc. in the amount of \$1,800,000.

On December 20, 2007, a time certificate of deposit of the Marshall Islands Development Bank (MIDB) collateralizing outstanding loans of Air Marshall Islands, Inc. was utilized to pay off these loans due to loan foreclosure. In turn, MIDB effectuated the government guarantee as approved by the Cabinet of RepMar in accordance with Cabinet Minutes C.M. 139 (2004) and C.M. 145 (2005).

On January 18, 2008, the Cabinet of RepMar, in accordance with Cabinet Minute C.M. 009 (2008), approved financial support for Air Marshall Islands, Inc. in the amount of \$1,000,000.

On March 4, 2008, the Cabinet of RepMar, in accordance with Cabinet Minute C.M. 034 (2008), increased a government guarantee of \$6,500,000 for and on behalf of the Marshalls Energy Company, Inc. (MEC) to a fuel supplier for amounts owing in the event of any shortfall on MEC's obligation to the fuel supplier.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2007

(14) Restatement of Governmental Funds Fund Balance/Government-Wide Net Assets

Subsequent to the issuance of RepMar's 2006 financial statements, RepMar's management determined that investments of the Compact Trust Fund at September 30, 2006 were overstated by \$3,151,036 due to the contingent nature of the Republic of China's contributions to the "A Account". As a result, investment balances have been restated from the amounts previously reported as follows:

	<u>General</u>	U.S. Federal <u>Grants</u>	Compact <u>Sector</u>	Compact <u>Trust</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>	Government <u>Wide</u>
Fund balance (deficit)/ net assets previously reported at September 30, 2006	\$ (5,911,015)	\$ (2,272)	\$ 848,207	\$ 41,877,147	\$ 14,059,215	\$ 50,871,282	\$ 62,445,107
Overstatement of investments previously reported	-	-	-	(3,151,036)	-	(3,151,036)	(3,151,036)
Fund balance (deficit)/ net assets as restated at October 1, 2006	<u>\$ (5,911,015)</u>	<u>\$ (2,272)</u>	<u>\$ 848,207</u>	<u>\$ 38,726,111</u>	<u>\$ 14,059,215</u>	<u>\$ 47,720,246</u>	<u>\$ 59,294,071</u>

In addition, the beginning net assets of the discretely presented component units has been restated from the amounts previously reported as follows:

Net assets previously reported at September 30, 2006	\$ 49,632,659
Inclusion of Kwajalein Atoll Joint Utilities Resources, Inc. previously omitted	<u>5,800,095</u>
Net assets as restated at October 1, 2006	\$ <u>55,432,754</u>

REPUBLIC OF THE MARSHALL ISLANDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED SEPTEMBER 30, 2007

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual  
General Fund  
Year Ended September 30, 2007

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 27,051,640	\$ 27,051,640	\$ 27,078,657	\$ 27,017
Fishing rights	1,750,000	1,750,000	1,250,000	(500,000)
Fees and charges	553,463	553,463	27,386	(526,077)
Interest and dividends	75,875	75,875	232,796	156,921
Other	5,080,849	5,830,849	5,964,501	133,652
Total revenues	<u>34,511,827</u>	<u>35,261,827</u>	<u>34,553,340</u>	<u>(708,487)</u>
Expenditures:				
Current:				
General government:				
President and Cabinet	1,804,975	1,903,890	1,863,062	40,828
Office of the Chief Secretary	670,881	620,006	613,711	6,295
Special appropriations	5,381,251	5,979,310	5,895,550	83,760
Council of Iroij	406,692	422,192	425,325	(3,133)
Office of the Auditor-General	804,619	828,537	561,397	267,140
Public Service Commission	465,709	493,209	493,625	(416)
Office of the Attorney General	839,404	590,932	573,397	17,535
Ministries	21,097,910	22,610,034	21,612,563	997,471
Environmental Protection Authority	201,265	198,265	164,202	34,063
Nitijela	1,703,699	1,847,264	1,845,570	1,694
Total expenditures	<u>33,376,405</u>	<u>35,493,639</u>	<u>34,048,402</u>	<u>1,445,237</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,135,422</u>	<u>(231,812)</u>	<u>504,938</u>	<u>736,750</u>
Other financing sources:				
Operating transfers in	-	1,528,407	7,765,038	6,236,631
Other financing uses:				
Operating transfers out	<u>(1,403,853)</u>	<u>(1,366,588)</u>	<u>(355,592)</u>	<u>1,010,996</u>
Other changes in unreserved fund deficit:				
Increase in reserve for related assets	-	-	(4,199,224)	(4,199,224)
Net change in unreserved fund deficit	(268,431)	(69,993)	3,715,160	3,785,153
Unreserved fund deficit at the beginning of the year	<u>(6,251,841)</u>	<u>(6,251,841)</u>	<u>(6,251,841)</u>	-
Unreserved fund deficit at the end of the year	<u>\$ (6,520,272)</u>	<u>\$ (6,321,834)</u>	<u>\$ (2,536,681)</u>	<u>\$ 3,785,153</u>

See accompanying notes to required supplementary information - budgetary reporting.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting  
September 30, 2007

(1) Budgetary Information

The Secretary of Finance and the Chief Budget Officer present to the Cabinet, prior to September 30, proposed budget estimates for the fiscal year commencing October 1. The budget estimates include the overall and total proposed expenditures of RepMar and the means of financing those expenditures. The Cabinet reviews and approves these estimates making changes, as it deems appropriate. The Appropriation Committee of the Nitijela, during the second sitting of the regular session of the Nitijela, holds public hearings at which time Ministries and Offices are required to justify their budget estimates. During the second sitting of the Nitijela, an appropriation bill, as required by the Constitution, is introduced and budget estimates are then legally enacted by the Nitijela.

Formal budget integration is employed as a management control device during the year for all funds. The Cabinet has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at fiscal year end unless otherwise specified by law. 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 legislative action. RepMar does not establish budgets for the operations of its other governmental funds.

(2) Reconciliation - GAAP and Budgetary Bases of Accounting

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

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 Deficit - 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. Furthermore, the net change in fund balance (deficit) to the net change in unreserved fund deficit for the General Fund is as follows:

Net change in fund balance (deficit)	\$ <u>7,955,283</u>
Increase in fund balance reservations:	
Related assets	(4,199,224)
Encumbrances	<u>(40,899)</u>
	(4,240,123)
Net change in unreserved fund deficit	\$ <u>3,715,160</u>

REPUBLIC OF THE MARSHALL ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2007

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account  
 Governmental Funds  
 Year Ended September 30, 2007  
 (with comparative totals for the year ended September 30, 2006)

	General	Special Revenue		Permanent	Other Governmental Funds	Totals	
		U.S Federal Grants	Compact Sector	Compact Trust		2007	2006
Expenditures:							
Salaries and wages	\$ 14,360,203	\$ 3,109,874	\$ 14,136,165	\$ -	\$ 2,369,559	\$ 33,975,801	\$ 34,522,943
Capital outlay	440,276	319,599	16,566,550	-	2,052,363	19,378,788	14,876,083
Grants and subsidies	6,393,028	25,238	4,856,378	-	5,274,150	16,548,794	12,975,014
Medical supplies	16,419	-	36,849	-	5,654,034	5,707,302	6,828,369
Contractual services	339,720	1,960,849	956,757	-	4,992,239	8,249,565	5,209,496
Travel	1,473,227	1,192,356	411,400	-	475,973	3,552,956	4,327,535
Utilities	2,732,700	-	965,930	-	112,486	3,811,116	2,856,147
Supplies and materials	431,567	447,750	1,721,076	-	303,808	2,904,201	2,709,488
Leased housing	1,161,161	-	629,191	-	112,358	1,902,710	1,825,988
POL	514,313	41,884	155,838	-	164,611	876,646	1,264,237
Rentals	929,998	905	58,563	-	149,697	1,139,163	1,259,956
Food stuffs	490,127	12,718	1,153,273	-	44,687	1,700,805	1,105,730
Professional services	375,025	-	-	69,913	786,703	1,231,641	1,070,161
Interest	900,086	-	-	-	-	900,086	917,713
Allowances	697,096	2,400	65,800	-	-	765,296	759,733
Principal repayment	863,200	-	-	-	-	863,200	726,966
Communications	650,870	57,061	118,008	-	156,341	982,280	712,719
Freight	23,085	24,316	69,716	-	111,936	229,053	135,159
Printing and reproduction	54,132	9,179	32,521	-	24,956	120,788	115,417
Insurance	93,474	-	2,412	-	6,395	102,281	110,449
Other	1,067,796	2,385,384	686,536	-	1,120,708	5,260,424	4,127,915
	<u>\$ 34,007,503</u>	<u>\$ 9,589,513</u>	<u>\$ 42,622,963</u>	<u>\$ 69,913</u>	<u>\$ 23,913,004</u>	<u>\$ 110,202,896</u>	<u>\$ 98,437,218</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
GENERAL FUND

September 30, 2007

The general fund is used to account for resources traditionally associated with government, which are not required legally or by sound financial management to be accounted for in another fund.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures by Function, and Changes in  
Fund Balance (Deficit) - General Fund  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	2007	2006
Revenues:		
Taxes:		
Income	\$ 11,244,334	\$ 11,120,846
Import	8,455,053	7,823,578
Gross revenue	5,851,310	4,777,975
Fuel	899,228	777,634
Penalties and interest	116,071	112,570
Other	512,661	530,264
	<u>27,078,657</u>	<u>25,142,867</u>
Fishing rights	1,250,000	1,500,000
Fees and charges	27,386	114,162
Interest and dividends	232,796	143,565
Other:		
Taiwan grant	4,000,000	4,000,000
Ship registry	1,750,000	1,000,000
Other	214,501	301,184
	<u>5,964,501</u>	<u>5,301,184</u>
Total revenues	<u>34,553,340</u>	<u>32,201,778</u>
Expenditures:		
President and Cabinet:		
Office of the President	202,460	163,949
President and Ministers	574,608	582,760
Cabinet Operations	583,228	533,779
Customary Law Commission	156,611	142,450
RMI/USP Joint Secondary Education Project	222,656	272,880
National Band	123,594	128,725
	<u>1,863,157</u>	<u>1,824,543</u>
Office of the Chief Secretary:		
Administration	170,636	148,508
Deputy Chief Secretary - Ebeye	97,820	91,579
Economic Policy, Planning and Statistics Office	198,306	179,286
Office of Environmental Planning and Policy Coordination	85,884	83,253
Disaster Office	60,104	34,997
	<u>612,750</u>	<u>537,623</u>
Special appropriations:		
Jaluit Power Plant subsidy	124,250	225,000
Kwajalein Atoll Joint Utilities Resources subsidy - Ebeye	215,000	715,895
Wotje Power Plant subsidy	-	195,000
Land leases	723,295	858,081
Majuro Landowners electricity bills	756,345	-
Leased housing	258,862	247,057
Marshall Islands Visitors Authority	149,100	149,100
MWSC water subsidy	99,404	60,000
International subscriptions/membership fees	275,836	338,429
Disaster matching	48,953	18,237
Salary adjustment - Public Law 2003-72	132,699	-
Nitijela Prior Year Obligation	20,000	-
Copra price stabilization subsidy	1,192,800	894,600
ADB loan repayment	1,763,287	1,644,719
Micronesian Legal Services	-	73,000
General Election and Constitutional Convention	35,369	27,450
Past due USP Membership Fees	-	50,000
Air Marshall Islands	100,000	396,865
Past due travel	-	40,000
Past due Electoral Office overtime	-	9,945
Past due Grant-in-aid matching	-	57,058
Emergency payments	-	540,084
	<u>5,895,200</u>	<u>6,540,520</u>
Council of Iroij:		
Administration	81,318	86,163
Members	344,007	355,379
	<u>425,325</u>	<u>441,542</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures by Function, and Changes in  
Fund Balance (Deficit) - General Fund, Continued  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	2007	2006
Expenditures, continued:		
Nitijela:		
Operations	555,764	542,321
General membership	1,108,426	992,202
Speaker's contingency	94,322	80,228
Committee	15,075	65,689
Legislative counsel	61,495	57,721
	1,835,082	1,738,161
Office of the Auditor-General:		
Auditor-General salary	42,660	42,660
Operations	223,294	208,216
Single audit - local match	174,758	197,295
	440,712	448,171
Public Service Commission:		
Members	91,719	106,921
Administration	401,906	373,751
	493,625	480,672
Office of the Attorney General	577,817	630,579
Ministries:		
Ministry of Education	3,844,147	4,249,940
Ministry of Health and Environment	2,953,091	2,666,974
Ministry of Transportation and Communication	1,745,731	2,016,406
Ministry of Resources and Development	671,927	380,193
Ministry of Internal Affairs	1,818,932	1,748,622
Ministry of Justice	2,756,008	2,615,226
Ministry of Finance	4,377,322	3,325,284
Ministry of Foreign Affairs and Trade	2,265,102	2,460,959
Ministry of Public Works	1,267,373	1,343,992
	21,699,633	20,807,596
Environmental Protection Authority	164,202	-
Total expenditures	34,007,503	33,449,407
Excess (deficiency) of revenues over (under) expenditures	545,837	(1,247,629)
Other financing sources:		
Operating transfers in:		
Intergenerational Trust Fund	5,925,460	1,901,987
Section 177 Administration Fund	68,828	-
Section 111 Investment Development Fund	472,253	-
National Environmental Protection Authority Fund	92,736	-
Resident Workers Training Account Fund	360,098	-
Republic of China Fund	195,074	-
Ministry of Justice Fund	650,589	-
Total other financing sources	7,765,038	1,901,987
Other financing uses:		
Operating transfers out:		
Judiciary Fund	218,323	908,992
Postal Services Fund	66,916	112,340
Marshall Islands Scholarship, Grant and Loan Board Fund	70,353	70,353
Local Government Fund	-	394,241
Total other financing uses	355,592	1,485,926
Net change in deficit	7,955,283	(831,568)
Deficit at the beginning of the year	(5,911,015)	(5,079,447)
Fund balance (deficit) at the end of the year	\$ 2,044,268	\$ (5,911,015)

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit  
Budget and Actual - General Fund  
Year Ended September 30, 2007

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
<b>Revenues:</b>				
Taxes:				
Income	\$ 11,571,878	\$ 11,571,878	\$ 11,244,334	\$ (327,544)
Import	9,057,319	9,057,319	8,455,053	(602,266)
Gross revenue	4,429,453	4,429,453	5,851,310	1,421,857
Fuel	1,452,000	1,452,000	899,228	(552,772)
Penalties and interest	90,365	90,365	116,071	25,706
Other	450,625	450,625	512,661	62,036
	<u>27,051,640</u>	<u>27,051,640</u>	<u>27,078,657</u>	<u>27,017</u>
Fishing rights	1,750,000	1,750,000	1,250,000	(500,000)
Fees and charges	553,463	553,463	27,386	(526,077)
Interest and dividends	75,875	75,875	232,796	156,921
Taiwan grant	4,000,000	4,000,000	4,000,000	-
Ship registry	1,000,000	1,750,000	1,750,000	-
Other	80,849	80,849	214,501	133,652
	<u>5,080,849</u>	<u>5,830,849</u>	<u>5,964,501</u>	<u>133,652</u>
<b>Total revenues</b>	<u>34,511,827</u>	<u>35,261,827</u>	<u>34,553,340</u>	<u>(708,487)</u>
<b>Expenditures:</b>				
President and Cabinet:				
Office of the President	255,640	226,278	202,460	23,818
President and Ministers	574,990	574,887	574,608	279
Cabinet Operations	434,886	590,521	583,133	7,388
Customary Law Commission	174,679	165,324	156,611	8,713
RMI/USP Joint Secondary Education Project	222,656	222,656	222,656	-
National Band	142,124	124,224	123,594	630
	<u>1,804,975</u>	<u>1,903,890</u>	<u>1,863,062</u>	<u>40,828</u>
Office of the Chief Secretary:				
Administration	214,979	173,547	170,636	2,911
Deputy Chief Secretary - Ebeye	94,531	100,727	97,820	2,907
EPPSO	229,619	194,961	198,306	(3,345)
OEPPC	88,016	88,016	85,884	2,132
Disaster Office	43,736	62,755	61,065	1,690
	<u>670,881</u>	<u>620,006</u>	<u>613,711</u>	<u>6,295</u>
Special appropriations:				
Jaluit Power Plant subsidy	124,250	124,250	124,250	-
KAJUR subsidy - Ebeye	347,900	215,000	215,000	-
Land leases	358,834	848,160	723,295	124,865
Majuro landowners electricity subsidy	675,920	756,420	756,345	75
Leased housing	231,602	274,964	258,862	16,102
Marshall Islands Visitors Authority	149,100	149,100	149,100	-
MWSC water subsidy	99,404	99,404	99,404	-
International subscriptions/membership fees	275,835	275,835	275,836	(1)
Disaster matching	198,800	65,497	48,953	16,544
Salary adjustment - Public Law 2003-72	132,699	132,699	132,699	-
Nitijela prior year obligation	19,880	19,880	20,000	(120)
Copra price stabilization subsidy	1,192,800	1,192,800	1,192,800	-
ADB loan repayment	1,509,617	1,764,691	1,763,287	1,404
General Election and Constitutional Convention	39,760	35,760	35,719	41
RMI/USP MOU	24,850	24,850	-	24,850
Air Marshall Islands	-	-	100,000	(100,000)
	<u>5,381,251</u>	<u>5,979,310</u>	<u>5,895,550</u>	<u>83,760</u>
Council of Iroij:				
Administration	82,545	81,084	81,318	(234)
Members	324,147	341,108	344,007	(2,899)
	<u>406,692</u>	<u>422,192</u>	<u>425,325</u>	<u>(3,133)</u>
Office of the Auditor-General:				
Auditor-General salary	41,977	41,977	42,660	(683)
Operations	306,927	329,971	223,287	106,684
Single audit - local match	455,715	456,589	295,450	161,139
	<u>804,619</u>	<u>828,537</u>	<u>561,397</u>	<u>267,140</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit, Continued  
Budget and Actual - General Fund  
Year Ended September 30, 2007

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Expenditures, continued:				
Public Service Commission:				
Members	93,250	93,250	91,719	1,531
Administration	372,459	399,959	401,906	(1,947)
	465,709	493,209	493,625	(416)
Office of the Attorney General	839,404	590,932	573,397	17,535
Ministries:				
Ministry of Education	4,202,006	4,096,895	3,770,616	326,279
Ministry of Health and Environment	3,126,009	3,074,974	2,943,580	131,394
Ministry of Transportation and Communication	1,953,465	1,808,886	1,743,291	65,595
Ministry of Resources and Development	721,776	712,472	670,048	42,424
Ministry of Internal Affairs	2,009,042	1,986,753	1,823,832	162,921
Ministry of Justice	2,821,704	2,798,391	2,755,722	42,669
Ministry of Finance	2,382,707	4,442,609	4,378,003	64,606
Ministry of Foreign Affairs and Trade	2,459,596	2,246,092	2,262,253	(16,161)
Ministry of Public Works	1,421,605	1,442,962	1,265,218	177,744
	21,097,910	22,610,034	21,612,563	997,471
Environmental Protection Authority	201,265	198,265	164,202	34,063
Nitijela:				
Operations	561,753	546,849	555,764	(8,915)
General Membership	965,592	1,124,806	1,120,206	4,600
Speaker's Contingency	61,272	98,047	93,564	4,483
Committee	56,284	15,512	14,541	971
Legislative Counsel	58,798	62,050	61,495	555
	1,703,699	1,847,264	1,845,570	1,694
Total expenditures	33,376,405	35,493,639	34,048,402	1,445,237
Excess (deficiency) of revenues over (under) expenditures	1,135,422	(231,812)	504,938	736,750
Other financing sources:				
Operating transfers in:				
Intergenerational Trust Fund	-	1,333,333	5,925,460	4,592,127
Section 177 Administration Fund	-	-	68,828	68,828
Section 111 Investment Development Fund	-	-	472,253	472,253
National Environmental Protection Authority Fund	-	-	92,736	92,736
Resident Workers Training Account Fund	-	-	360,098	360,098
Republic of China Fund	-	195,074	195,074	-
Ministry of Justice Fund	-	-	650,589	650,589
	-	1,528,407	7,765,038	6,236,631
Other financing uses:				
Operating transfers out:				
Judiciary Fund	908,992	908,992	218,323	690,669
Postal Services Fund	30,267	30,267	66,916	(36,649)
Marshall Islands Scholarship, Grant and Loan Board Fund	70,353	70,353	70,353	-
Local Government Fund	394,241	356,976	-	356,976
	1,403,853	1,366,588	355,592	1,010,996
Other changes to unreserved fund deficit:				
Increase in reserve for related assets	-	-	(4,199,224)	(4,199,224)
Net change in unreserved fund deficit	(268,431)	(69,993)	3,715,160	3,785,153
Unreserved fund deficit at the beginning of the year	(6,251,841)	(6,251,841)	(6,251,841)	-
Unreserved fund deficit at the end of the year	\$ (6,520,272)	\$ (6,321,834)	\$ (2,536,681)	\$ 3,785,153

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Balance Sheet  
 Nonmajor Governmental Funds  
 September 30, 2007  
 (with comparative totals as of September 30, 2006)

	Other Special Revenue	Other Capital Projects	Other Permanent	Totals	
				2007	2006
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,839,121	\$ 22,268	\$ -	\$ 1,861,389	\$ 2,361,847
Time certificates of deposit	593,040	-	-	593,040	518,958
Investments	-	318,630	-	318,630	318,630
Receivables, net:					
Taxes	36,672	-	-	36,672	45,071
Federal agencies	293,168	-	-	293,168	364,023
General	1,165,776	-	-	1,165,776	1,137,228
Other	255,446	-	-	255,446	420,844
Due from other funds	3,056,756	-	-	3,056,756	6,698,756
Due from component units	-	-	-	-	5,669,213
Advances	78,478	-	-	78,478	18,022
<b>Total assets</b>	<b>\$ 7,318,457</b>	<b>\$ 340,898</b>	<b>\$ -</b>	<b>\$ 7,659,355</b>	<b>\$ 17,552,592</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 2,315,493	\$ -	\$ -	\$ 2,315,493	\$ 1,530,376
Other liabilities and accruals	583,689	-	-	583,689	431,296
Retention payable	410,810	-	-	410,810	-
Due to other funds	1,026,502	-	-	1,026,502	1,531,705
<b>Total liabilities</b>	<b>4,336,494</b>	<b>-</b>	<b>-</b>	<b>4,336,494</b>	<b>3,493,377</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Related assets	-	318,630	-	318,630	6,010,111
Encumbrances	2,607,874	2,692	-	2,610,566	2,070,857
Continuing appropriations	4,755,474	-	-	4,755,474	-
<b>Unreserved:</b>					
Special revenue funds	(4,381,385)	-	-	(4,381,385)	5,405,613
Capital projects funds	-	19,576	-	19,576	469,561
Permanent fund	-	-	-	-	103,073
<b>Total fund balances</b>	<b>2,981,963</b>	<b>340,898</b>	<b>-</b>	<b>3,322,861</b>	<b>14,059,215</b>
<b>Total liabilities and fund balance</b>	<b>\$ 7,318,457</b>	<b>\$ 340,898</b>	<b>\$ -</b>	<b>\$ 7,659,355</b>	<b>\$ 17,552,592</b>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Schedule of Revenues, Expenditures by Function,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	Other Special Revenue	Other Capital Projects	Other Permanent	Totals	
				2007	2006
<b>Revenues:</b>					
Compact funding	\$ 183,758	\$ -	\$ -	\$ 183,758	\$ 197,294
Federal and other grants	11,678,817	-	-	11,678,817	8,206,685
Interest and dividends	-	-	153,758	153,758	279,315
Fees and charges	7,549,484	-	-	7,549,484	7,628,896
Sales	148,508	-	-	148,508	358,014
Other	308,651	-	-	308,651	169,851
<b>Total revenues</b>	<b>19,869,218</b>	<b>-</b>	<b>153,758</b>	<b>20,022,976</b>	<b>16,840,055</b>
<b>Expenditures by Function:</b>					
<b>Current:</b>					
<b>General government:</b>					
President and Cabinet	225,000	-	-	225,000	333,692
Office of the Chief Secretary	470,089	-	-	470,089	297,598
Special appropriations	3,129,274	-	-	3,129,274	400,000
Council of Iroij	-	-	-	-	425
Nitijela	267,910	-	-	267,910	187,389
Office of the Auditor-General	183,758	-	-	183,758	197,294
Public Service Commission	147,993	-	-	147,993	-
Judiciary	855,029	-	-	855,029	830,773
Office of the Attorney-General	13,733	-	-	13,733	17,059
Ministry of Education	1,734,141	-	-	1,734,141	1,247,063
Ministry of Health and Environment	7,643,517	-	-	7,643,517	7,965,086
Ministry of Transportation and Communication	564,981	58,612	-	623,593	437,842
Ministry of Resources and Development	398,361	-	-	398,361	1,015,860
Ministry of Internal Affairs	1,161,351	-	-	1,161,351	818,742
Ministry of Justice	202,755	-	-	202,755	810,629
Ministry of Finance	946,945	-	-	946,945	765,745
Ministry of Foreign Affairs and Trade	48,024	-	-	48,024	303,266
Ministry of Public Works	5,218,681	-	-	5,218,681	922,408
Nuclear claims related	642,266	-	-	642,266	3,552,465
Other	-	-	584	584	45,522
<b>Total expenditures</b>	<b>23,853,808</b>	<b>58,612</b>	<b>584</b>	<b>23,913,004</b>	<b>20,148,858</b>
Excess (deficiency) of revenues over (under) expenditures	(3,984,590)	(58,612)	153,174	(3,890,028)	(3,308,803)
<b>Other financing sources (uses):</b>					
Loan proceeds	-	58,612	-	58,612	97,939
Operating transfers in	5,022,980	-	-	5,022,980	8,763,300
Operating transfers out	(5,530,205)	(472,253)	(5,925,460)	(11,927,918)	(5,296,464)
<b>Total other financing sources (uses), net</b>	<b>(507,225)</b>	<b>(413,641)</b>	<b>(5,925,460)</b>	<b>(6,846,326)</b>	<b>3,564,775</b>
<b>Net change in fund balances</b>	<b>(4,491,815)</b>	<b>(472,253)</b>	<b>(5,772,286)</b>	<b>(10,736,354)</b>	<b>255,972</b>
Fund balances at the beginning of the year	7,473,778	813,151	5,772,286	14,059,215	13,803,243
Fund balances at the end of the year	\$ 2,981,963	\$ 340,898	\$ -	\$ 3,322,861	\$ 14,059,215

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combined Schedule of Revenues, Expenditures by Account,  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	Other	Other	Other	Totals	
	Special Revenue	Capital Projects	Permanent	2007	2006
<b>Revenues:</b>					
Compact funding	\$ 183,758	\$ -	\$ -	\$ 183,758	\$ 197,294
Federal and other grants	11,678,817	-	-	11,678,817	8,206,685
Interest and dividends	-	-	153,758	153,758	279,315
Fees and charges	7,549,484	-	-	7,549,484	7,628,896
Sales	148,508	-	-	148,508	358,014
Other	308,651	-	-	308,651	169,851
<b>Total revenues</b>	<b>19,869,218</b>	<b>-</b>	<b>153,758</b>	<b>20,022,976</b>	<b>16,840,055</b>
<b>Expenditures by Account:</b>					
Grants and subsidies	5,274,150	-	-	5,274,150	4,939,167
Salaries and wages	2,369,559	-	-	2,369,559	2,374,190
Medical supplies	5,654,034	-	-	5,654,034	6,798,211
Contractual services	4,933,627	58,612	-	4,992,239	2,116,729
Capital outlay	2,052,363	-	-	2,052,363	1,098,653
Travel	475,973	-	-	475,973	546,162
Food stuffs	44,687	-	-	44,687	125,009
Supplies and materials	303,808	-	-	303,808	218,242
POL	164,611	-	-	164,611	392,107
Rentals	149,697	-	-	149,697	134,554
Communications	156,341	-	-	156,341	124,707
Insurance	6,395	-	-	6,395	3,696
Utilities	112,486	-	-	112,486	83,463
Leased housing	112,358	-	-	112,358	73,500
Freight	111,936	-	-	111,936	16,883
Professional services	786,703	-	-	786,703	276,724
Printing and reproduction	24,956	-	-	24,956	7,855
Other	1,120,124	-	584	1,120,708	819,006
<b>Total expenditures</b>	<b>23,853,808</b>	<b>58,612</b>	<b>584</b>	<b>23,913,004</b>	<b>20,148,858</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(3,984,590)</b>	<b>(58,612)</b>	<b>153,174</b>	<b>(3,890,028)</b>	<b>(3,308,803)</b>
<b>Other financing sources (uses):</b>					
Loan proceeds	-	58,612	-	58,612	97,939
Operating transfers in	5,022,980	-	-	5,022,980	8,763,300
Operating transfers out	(5,530,205)	(472,253)	(5,925,460)	(11,927,918)	(5,296,464)
<b>Total other financing sources (uses), net</b>	<b>(507,225)</b>	<b>(413,641)</b>	<b>(5,925,460)</b>	<b>(6,846,326)</b>	<b>3,564,775</b>
<b>Net change in fund balances</b>	<b>(4,491,815)</b>	<b>(472,253)</b>	<b>(5,772,286)</b>	<b>(10,736,354)</b>	<b>255,972</b>
<b>Fund balances at the beginning of the year</b>	<b>7,473,778</b>	<b>813,151</b>	<b>5,772,286</b>	<b>14,059,215</b>	<b>13,803,243</b>
<b>Fund balances at the end of the year</b>	<b>\$ 2,981,963</b>	<b>\$ 340,898</b>	<b>\$ -</b>	<b>\$ 3,322,861</b>	<b>\$ 14,059,215</b>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2007

Special revenue funds are used to account for specific revenues that are legally restricted for particular purposes. A brief discussion of RepMar's Nonmajor Governmental Funds - Special Revenue Funds as of September 30, 2007, follows:

Reimbursable Fund

This fund accounts for the operations of the Majuro Weather Station that is funded by the United States Department of Commerce National Weather Service and overtime charges for Customs and Immigration personnel whose attendance is required at the various ports of entry into the Marshall Islands.

Public Works Fund

This fund was established under Public Law No. 2003-24 and accounts for all charges, fees and other monies collected or generated by the Ministry of Public Works.

Land Registration Authority Fund

This fund accounts for the operations of the Marshall Islands Land Registration Authority. This Authority was established under Public Law No. 2001-26 to provide a legal framework for registration of land in the Marshall Islands in order to encourage investment and to protect land interest holders.

Changed Circumstances Fund

This fund accounts for the expenditures related to the Changed Circumstances Study using excess annual proceeds from the Section 177 Nuclear Claims Trust Fund.

Labor (General) Fund

This fund accounts for the collection of all fees and charges levied under the Labor (Non-Resident Workers) Act of 2006 (Public Law No. 2006-60) as administered by the Ministry of Foreign Affairs and Trade.

Labor (Bond) Fund

This fund accounts for the collection of all bonds paid or forfeited by employers under the Labor (Non-Resident Workers) Act of 2006 (Public Law No. 2006-60) as administered by the Ministry of Foreign Affairs and Trade.

Judiciary Fund

This fund accounts for all financial transactions related to RepMar's judicial system as required under Public Law No. 1989-69.

Ministry of Justice Fund

This fund accounts for specific operations of both the Department of Public Safety and Ministry of Justice. This fund was established under Public Law No. 1989-70 and administers fees and fines, as collected by the courts with respect to violation of National Government laws, and any appropriations made by the Nitijela for related purposes.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2007

Marshall Islands Revised Code Fund

This fund accounts for the maintenance of the Marshall Islands Revised Code.. This fund was established under Public Law No. 2006-61 to administer revenue received with respect to the sale and distribution of the Marshall Islands Revised code, and any appropriations made by the Nitijela for related purposes.

Alternative Energy Fund

This fund accounts for the development, marketing, and operation of alternative energy systems. This fund was established under Public Law No. 1989-63 to administer revenue received with respect to alternative energy systems, and any appropriations made by the Nitijela for related purposes.

National Environmental Protection Authority Fund

This fund accounts for the operations of the National Environmental Protection Authority. This fund was established under Public Law No. 1984-31, as amended by Public Law No. 1987-2, for the protection and management of the environment.

Resident Workers Training Account Fund

This fund was established under Public Law No. 1987-6 and accounts for all monies collected under the provisions of the Nonresident Workers Act 1983 from employers who employ non-resident workers, and accounts for all financial transactions of the National Training Council.

Postal Service Fund

This fund was established under Public Law No. 1985-4 to account for and administer monies collected and paid under the provisions of the Postal Service Act 1983 and any appropriations made by the Nitijela for related purposes.

Sea Patrol Fund

This fund was established under Public Law No. 1991-143 and accounts for all charges, fees and fines generated and received by the Sea Patrol Division through the use of the patrol boat M.V. Lomor.

Transportation Services Fund

This fund was established under Public Law No. 2001-38 and accounts for all charges, fees and other monies collected or generated by the Ministry of Transportation and Communications through the use of their shipping vessels.

Registrar General Fund

This fund was established under Public Law No. 1992-4 and accounts for all charges, fees and monies collected or generated by the Ministry of Internal Affairs Registrar-General of Births, Deaths and Marriages.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2007

Ministry of Internal Affairs Fund

This fund was established under Public Law No. 2003-84 and accounts for all charges, fees and monies collected or generated by Ministry of Internal Affairs through Radio V7AB, the Lands and Survey Division, the ID Card Section, the Sports and Recreation Division, and any other funds generated by the Ministry for a specific purpose.

Local Government Fund

This fund accounts for the disbursement of funds to Local Governments. The fund was established under Public Law No. 1981-2 to channel monies appropriated by the Nitijela and granted by RepMar to local governments.

Four-Atoll Medical Fund

This fund accounts for transactions from the distribution of annual proceeds from the Nuclear Claims Trust Fund in accordance with Article II, Section 1(a) of the agreement between the Government of the United States and RepMar for the implementation of Section 177 of the Compact of Free Association.

Section 177 Administration Fund

This fund accounts for transactions, prior to the establishment of the Nuclear Claims Tribunal, from the distribution of annual proceeds from the Nuclear Claims Trust Fund in accordance with Article II, Section 6(a) of the agreement between the Government of the United States and the Government of the Marshall Islands for the administration of Section 177 of the Compact of Free Association.

Section 215(a)(1) Communications Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title II, Article I, Section 215(a)(1) and approved by Nitijela resolution 62.

Section 216(a)(1) Surveillance and Enforcement Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title II, Article I, Section 216(a)(1) and approved by Nitijela resolution 62.

Section 216(a)(3) Scholarship Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title II, Article I, Section 216(a)(3) and approved by Nitijela resolution 62.

Section 221(b) Education and Health Care Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title II, Article I, Section 221(b) and approved by Nitijela resolution 62.

Section 213 Audit Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 213 and approved by Nitijela resolution 123.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2007

Other Direct Assistance Fund

This fund accounts for all financial transactions related to direct grants received from non-U.S. agencies, which have historically been accounted for herein, and also includes grants from other world organizations.

Republic of China Projects Fund

This fund accounts for all financial transactions related to direct grants received from the Republic of China relating to designated projects.

Marshall Islands Scholarship Grant and Loan Board

This fund was established under Public Law No. 1979-19 and accounts for all disbursements of scholarship funds.

Health Care Revenue Fund

This fund was established under Public Law No. 1989-59 within the Ministry of Health and Environment to control the expenditure of funds for health care related services.

Marshall Islands Health Fund

This fund was established under Public Law No. 1990-75, as amended by Public Law Nos. 2001-31 and 2001-35, to account for the operations of the Basic and Supplemental Health Funds delivering comprehensive medical care to the residents of the Marshall Islands.

Nuclear Claims Tribunal

This fund accounts for all financial transactions arising from distributions made under the (Compact of Free Association) Section 177 Agreement as a result of the Nuclear Testing Program.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Balance Sheet  
September 30, 2007  
(with comparative totals as of September 30, 2006)

ASSETS	Reimbursable	Public Works	Land Distribution Authority	Changed Circumstances	Lebor (General)	Lebor (Bond)	Judiciary	Ministry of Justice	Marshall Islands Revised Code	Alternative Energy	National Environmental Protection Authority
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-	-	-
Receivables, net:											
Taxes	-	-	-	-	-	-	-	-	-	-	-
Federal agencies	156,231	-	-	-	-	-	-	-	-	-	-
General	5,607	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	49,123	18,118	54,458	22,790	22,760	855	23,404	3,400	416	-
Advances	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 161,838	\$ 49,123	\$ 18,118	\$ 54,458	\$ 22,790	\$ 22,760	\$ 855	\$ 23,404	\$ 3,400	\$ 416	\$ -
LIABILITIES AND FUND BALANCES											
(DEFICITS)											
Liabilities:											
Accounts payable	\$ 4,301	\$ 3,253	\$ -	\$ -	\$ -	\$ -	\$ 855	\$ 22,950	\$ -	\$ -	\$ -
Other liabilities and accruals	1,676	-	-	-	-	22,760	-	454	-	-	-
Retention payable	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	137,002	-	-	-	-	-	-	-	-	-	-
Total liabilities	142,979	3,253	-	-	-	22,760	855	23,404	-	-	-
Fund balances (deficits):											
Reserved for:											
Encumbrances	110	510	-	-	-	-	12,338	-	-	-	-
Continuing appropriations	18,749	45,360	18,118	54,458	22,790	-	(12,338)	-	3,400	416	-
Unreserved (deficit)	18,859	45,870	18,118	54,458	22,790	-	-	-	3,400	416	-
Total fund balances (deficits)	\$ 161,838	\$ 49,123	\$ 18,118	\$ 54,458	\$ 22,790	\$ 22,760	\$ 855	\$ 23,404	\$ 3,400	\$ 416	\$ -
Total liabilities and fund balances											

Continued

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet, Continued  
September 30, 2007  
(with comparative totals as of September 30, 2006)**

	Resident Workers Training Account	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement
<b>ASSETS</b>											
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-	-	-
Receivables, net:											
Taxes	36,672	-	-	-	-	-	-	-	-	-	-
Federal agencies	-	-	-	-	-	-	-	-	-	-	-
General	-	-	-	-	-	-	48,289	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	368,024	753	5,793	9,822	391	47,607	43,845	97,635	-	40,380	690
Advances	-	-	-	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 404,696</b>	<b>\$ 753</b>	<b>\$ 5,793</b>	<b>\$ 9,822</b>	<b>\$ 391</b>	<b>\$ 47,607</b>	<b>\$ 43,845</b>	<b>\$ 145,924</b>	<b>\$ -</b>	<b>\$ 40,380</b>	<b>\$ 690</b>
<b>LIABILITIES AND FUND BALANCES (DEFICITS)</b>											
Liabilities:											
Accounts payable	\$ 8,032	\$ 43	\$ -	\$ -	\$ -	\$ 5,526	\$ 4,023	\$ -	\$ -	\$ -	\$ -
Other liabilities and accruals	114,120	710	-	-	-	-	-	-	-	-	-
Retention payable	-	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>122,152</b>	<b>753</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,526</b>	<b>4,023</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Fund balances (deficits):											
Reserved for:											
Encumbrances	-	700	-	4,070	-	-	-	-	-	40,380	-
Continuing appropriations	-	-	-	-	-	-	-	-	-	-	-
Unreserved (deficit)	282,544	(700)	5,793	5,752	391	42,081	39,822	145,924	-	-	690
<b>Total fund balances (deficits)</b>	<b>282,544</b>	<b>-</b>	<b>5,793</b>	<b>9,822</b>	<b>391</b>	<b>42,081</b>	<b>39,822</b>	<b>145,924</b>	<b>-</b>	<b>40,380</b>	<b>690</b>
<b>Total liabilities and fund balances</b>	<b>\$ 404,696</b>	<b>\$ 753</b>	<b>\$ 5,793</b>	<b>\$ 9,822</b>	<b>\$ 391</b>	<b>\$ 47,607</b>	<b>\$ 43,845</b>	<b>\$ 145,924</b>	<b>\$ -</b>	<b>\$ 40,380</b>	<b>\$ 690</b>

Continued

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet, Continued  
September 30, 2007  
(with comparative totals as of September 30, 2006)**

Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Totals	
									2007	2006
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 196,714	\$ 806,536	\$ 656,407	\$ 179,464	\$ 1,839,121	\$ 2,339,579
-	-	-	-	-	50,000	-	530,379	12,661	593,040	518,958
-	-	-	-	-	-	-	-	-	36,672	45,071
-	-	136,937	-	-	-	-	-	-	293,168	364,023
-	-	-	-	-	-	37,300	1,074,580	-	1,165,776	1,137,228
-	-	-	-	-	-	4,422	235,364	15,660	255,446	317,875
1,593	-	-	-	1,582,018	-	662,881	-	-	3,056,756	6,226,399
-	-	-	-	730	-	77,348	400	-	78,478	18,022
<u>\$ 1,593</u>	<u>\$ -</u>	<u>\$ 136,937</u>	<u>\$ -</u>	<u>\$ 1,582,748</u>	<u>\$ 246,714</u>	<u>\$ 1,588,487</u>	<u>\$ 2,497,130</u>	<u>\$ 207,785</u>	<u>\$ 7,318,457</u>	<u>\$ 10,967,155</u>
\$ -	\$ -	\$ -	\$ 16,364	\$ 1,112,755	\$ -	\$ 392,242	\$ 691,272	\$ 53,877	\$ 2,315,493	\$ 1,530,376
-	-	-	3,070	-	-	353,727	-	87,172	583,689	431,296
-	-	-	-	410,810	-	-	-	-	410,810	-
-	4,280	136,937	85,402	-	-	-	662,881	-	1,026,502	1,531,705
-	4,280	136,937	104,836	1,523,565	-	745,969	1,354,153	141,049	4,336,494	3,493,377
-	-	534,424	19,209	1,572,062	402,514	-	-	21,557	2,607,874	2,068,165
-	-	-	-	4,755,474	-	-	-	-	4,755,474	-
1,593	(4,280)	(534,424)	(124,045)	(6,268,353)	(155,800)	842,518	1,142,977	45,179	(4,381,285)	5,405,613
1,593	(4,280)	-	(104,836)	59,183	246,714	842,518	1,142,977	66,736	2,981,963	7,473,778
<u>\$ 1,593</u>	<u>\$ -</u>	<u>\$ 136,937</u>	<u>\$ -</u>	<u>\$ 1,582,748</u>	<u>\$ 246,714</u>	<u>\$ 1,588,487</u>	<u>\$ 2,497,130</u>	<u>\$ 207,785</u>	<u>\$ 7,318,457</u>	<u>\$ 10,967,155</u>

**ASSETS**

Cash and cash equivalents

Time certificates of deposit

Receivables, net:

Taxes

Federal agencies

General

Other

Due from other funds

Advances

Total assets

**LIABILITIES AND FUND BALANCES**

**(DEFICITS)**

Liabilities:

Accounts payable

Other liabilities and accruals

Retention payable

Due to other funds

Total liabilities

Fund balances (deficits):

Reserved for:

Encumbrances

Continuing appropriations

Unreserved (deficit)

Total fund balances (deficits)

Total liabilities and fund balances

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits)  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	Reimbursable	Public Works	Land Distribution Authority	Changed Circumstances	Labor (General)	Labor (Bond)	Judiciary	Ministry of Justice	Marshall Islands Revised Code	Alternative Energy	National Environmental Protection Authority
Revenues:											
Compact funding	\$ 331,740	-	-	-	-	-	-	-	-	-	-
Federal and other grants	86,124	37,610	-	-	-	-	572	577,769	3,400	-	-
Fees and charges	-	-	-	-	22,790	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-	11,554	-	-	-
Other	-	-	-	-	-	-	-	589,323	-	-	-
Total revenues	417,864	37,610	-	-	22,790	-	572	589,323	3,400	-	-
Expenditures by Function:											
Current:											
General government:											
President and Cabinet	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	-	-	-	-
Council of Iroij	-	-	-	-	-	-	-	-	-	-	-
Nijilela	-	-	-	-	-	-	-	-	-	-	-
Office of the Auditor-General	-	-	-	-	-	-	-	-	-	-	-
Public Service Commission	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	-	855,029	-	-	-	-
Attorney-General	9,865	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	-
Ministry of Transportation and Communication	-	-	-	-	-	-	-	-	-	-	-
Ministry of Resources and Development	5,982	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	-	-	-	149,505	-	-	-
Ministry of Finance	403,733	-	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	23,686	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	419,580	23,686	-	-	-	-	855,029	149,505	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(1,716)	13,924	-	-	22,790	-	(854,457)	439,818	3,400	-	-
Other financing sources (uses):											
Operating transfers in	-	-	-	-	-	-	218,323	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	(650,589)	-	-	(92,736)
Total other financing sources (uses), net	-	-	-	-	-	-	218,323	(650,589)	-	-	(92,736)
Net change in fund balances (deficit)	(1,716)	13,924	-	-	22,790	-	(636,134)	(210,771)	3,400	-	(92,736)
Fund balances (deficits) at the beginning of the year	20,575	31,946	18,118	54,458	-	-	636,134	210,771	-	416	92,736
Fund balances (deficits) at the end of the year	18,859	45,870	18,118	54,458	22,790	-	-	-	3,400	416	-

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	Resident Workers Training Account	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement
Revenues:											
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal and other grants	175,248	8,136	-	-	-	-	-	-	-	-	-
Fees and charges	-	148,508	-	1,398	-	35,999	-	-	-	-	-
Sales	-	85,540	-	25,649	-	14,870	-	-	-	-	-
Other	-	242,184	-	27,047	-	50,869	-	-	-	-	-
Total revenues	175,248	242,184	-	27,047	-	50,869	-	-	-	-	-
Expenditures by Function:											
Current:											
General government:											
President and Cabinet	-	-	-	-	-	-	-	-	-	-	-
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	-
Special appropriations	-	-	-	-	-	-	-	-	-	-	-
Council of Iroij	-	-	-	-	-	-	-	-	-	-	-
Nitijela	-	-	-	-	-	-	-	-	-	-	-
Office of the Auditor-General	-	-	-	-	-	-	-	-	-	-	-
Public Service Commission	-	-	-	-	-	-	-	-	-	-	-
Judiciary	-	-	-	-	-	-	-	-	-	-	-
Attorney-General	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	-	-
Ministry of Health and Environment	48,087	-	-	-	-	-	-	-	-	-	-
Ministry of Transportation and Communication	-	-	-	43,178	-	-	-	-	-	-	-
Ministry of Resources and Development	-	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	44,856	260,070	-	-	-	-
Ministry of Justice	-	-	-	-	-	-	-	-	-	-	-
Ministry of Finance	-	309,100	-	-	-	-	-	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	-	-	-
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	48,087	309,100	-	43,178	-	44,856	260,070	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	127,161	(66,916)	-	(16,131)	-	6,013	(260,070)	-	-	-	-
Other financing sources (uses):											
Operating transfers in	-	66,916	-	-	-	-	-	-	-	-	-
Operating transfers out	(360,098)	-	-	-	-	-	-	-	(68,828)	-	-
Total other financing sources (uses), net	(360,098)	66,916	-	-	-	-	-	-	(68,828)	-	-
Net change in fund balances (deficit)	(232,937)	-	-	(16,131)	-	6,013	(260,070)	-	(68,828)	-	-
Fund balances (deficits) at the beginning of the year	515,481	-	5,793	25,953	391	36,068	299,892	145,924	68,828	40,380	690
Fund balances (deficits) at the end of the year	\$ 282,544	\$ -	\$ 5,793	\$ 9,822	\$ 391	\$ 42,081	\$ 39,822	\$ 145,924	\$ -	\$ 40,380	\$ 690

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	Other Direct Assistance	Republic of China Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Totals
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>										
Compact funding	\$ -	\$ -	\$ 183,758	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 183,758
Federal and other grants	-	-	-	2,447,908	8,657,362	10,000	231,807	-	-	11,678,817
Fees and charges	-	-	-	-	-	-	271,380	6,329,058	-	7,549,484
Sales	-	-	-	-	-	13,684	114,130	23,868	19,356	148,508
Other	-	-	183,758	2,447,908	8,657,362	23,684	617,317	6,352,926	308,651	358,014
Total revenues	-	-	183,758	2,447,908	8,657,362	23,684	617,317	6,352,926	19,356	16,560,740
<b>Expenditures by Function:</b>										
<b>Current:</b>										
General government:										
President and Cabinet	-	-	-	-	225,000	-	-	-	-	225,000
Office of the Chief Secretary	-	-	-	459,789	10,300	-	-	-	-	470,089
Special appropriations	-	-	-	2,000,000	1,129,274	-	-	-	-	3,129,274
Council of Iroij	-	-	-	-	-	-	-	-	-	425
Nitijela	-	-	-	93,410	174,500	-	-	-	-	267,910
Office of the Auditor-General	-	-	183,758	-	-	-	-	-	-	183,758
Public Service Commission	-	-	-	-	147,993	-	-	-	-	147,993
Judiciary	-	-	-	-	-	-	-	-	-	855,029
Attorney-General	-	-	-	-	3,868	-	-	-	-	3,868
Ministry of Education	-	-	-	-	697,847	-	-	-	-	697,847
Ministry of Health and Environment	-	-	-	-	205,154	-	3,570,342	3,868,021	-	1,734,141
Ministry of Transportation and Communication	-	-	-	-	521,803	-	-	-	-	521,803
Ministry of Resources and Development	-	-	-	143,879	248,500	-	-	-	-	398,361
Ministry of Internal Affairs	-	-	-	-	856,425	-	-	-	-	1,161,351
Ministry of Justice	-	-	-	-	53,250	-	-	-	-	202,755
Ministry of Finance	-	-	-	-	234,112	-	-	-	-	946,945
Ministry of Foreign Affairs and Trade	-	-	-	770	47,254	-	-	-	-	48,024
Ministry of Public Works	-	-	-	-	5,194,995	-	-	-	-	5,218,881
Nuclear claims related	-	-	-	-	-	-	-	-	642,266	642,266
Total expenditures	-	-	183,758	2,697,848	9,750,275	988,207	3,570,342	3,868,021	642,266	23,853,808
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(249,940)	(1,092,913)	(964,523)	(2,953,025)	2,484,905	(622,910)	(3,984,590)
Other financing sources (uses):										
Operating transfers in	-	-	-	-	-	1,039,053	3,168,438	-	530,250	5,022,980
Operating transfers out	-	-	-	-	(1,140,046)	-	(49,470)	(3,168,438)	-	(5,330,205)
Total other financing sources (uses), net	-	-	-	-	(1,140,046)	1,039,053	3,118,968	(3,168,438)	530,250	(307,225)
Net change in fund balances (deficit)	-	-	-	(249,940)	(2,232,959)	74,530	165,943	(683,533)	(92,660)	(4,491,815)
Fund balances (deficits) at the beginning of the year	1,593	(4,280)	-	145,104	2,292,142	172,184	676,575	1,826,510	159,396	7,473,778
Fund balances (deficits) at the end of the year	1,593	(4,280)	-	(104,836)	59,183	246,714	842,518	1,142,977	66,736	2,981,963
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

Combining Schedule of Revenues, Expenditures By Account,  
and Changes in Fund Balances (Deficits)  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	Reimbursable	Public Works	Land Distribution Authority	Changed Circumstances	Labor (General)	Labor (Bond)	Judiciary	Ministry of Justice	Marshall Islands Revised Code	Alternative Energy	National Environmental Protection Authority
\$											
Revenues:											
Compact funding											
Federal and other grants	331,740	-	-	-	-	-	-	-	-	-	-
Fees and charges	86,124	37,610	-	-	22,790	-	572	577,769	3,400	-	-
Sales	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
Total revenues	417,864	37,610	-	-	22,790	-	572	11,554	3,400	-	-
Expenditures by Account:											
Grants and subsidies											
Salaries and wages	335,436	-	-	-	-	-	618,895	-	-	-	-
Medical supplies	-	-	-	-	-	-	7,257	-	-	-	-
Contractual services	2,182	15,051	-	-	-	-	11,107	14,921	-	-	-
Capital outlay	8,571	-	-	-	-	-	39,729	27,043	-	-	-
Travel	-	-	-	-	-	-	605	7,594	-	-	-
Food stuffs	1,402	8,777	-	-	-	-	(1,712)	17,974	-	-	-
Supplies and materials	4,445	-	-	-	-	-	14,799	55,786	-	-	-
P.O.L.	-	-	-	-	-	-	2,278	1,060	-	-	-
Rentals	30,683	-	-	-	-	-	21,189	8,656	-	-	-
Communications	-	-	-	-	-	-	674	549	-	-	-
Insurance	26,894	-	-	-	-	-	17,027	-	-	-	-
Utilities	-	-	-	-	-	-	71,250	-	-	-	-
Leased housing	-	-	-	-	-	-	-	-	-	-	-
Freight	-	(195)	-	-	-	-	-	1,361	-	-	-
Professional services	2,950	-	-	-	-	-	6,990	250	-	-	-
Printing and reproduction	-	-	-	-	-	-	2,772	2,616	-	-	-
Other	7,017	53	-	-	-	-	42,169	11,695	-	-	-
Total expenditures	419,580	23,686	-	-	-	-	855,029	149,505	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(1,716)	13,924	-	-	22,790	-	(854,457)	439,818	3,400	-	-
Other financing sources (uses):											
Operating transfers in	-	-	-	-	-	-	218,323	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	(650,589)	-	-	(92,736)
Total other financing sources (uses), net	-	-	-	-	-	-	218,323	(650,589)	-	-	(92,736)
Net change in fund balances (deficit)	(1,716)	13,924	-	-	22,790	-	(636,134)	(210,771)	3,400	-	(92,736)
Fund balances (deficits) at the beginning of the year	20,575	31,946	18,118	54,458	-	-	636,134	210,771	-	416	92,736
Fund balances (deficits) at the end of the year	18,859	45,870	18,118	54,458	22,790	-	-	-	3,400	416	-

Continued

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Account,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)**

Resident Workers Training Account	Postal Service	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	Local Government	Four-Atoll Medical	Section 177 Administration	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
175,248	8,136	-	1,398	-	35,999	-	-	-	-	-
-	148,508	-	-	-	-	-	-	-	-	-
-	85,540	-	25,649	-	14,870	-	-	-	-	-
175,248	242,184	-	27,047	-	50,869	-	-	-	-	-
-	-	-	-	-	-	260,070	-	-	-	-
-	238,308	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
860	1,095	-	1,550	-	11,140	-	-	-	-	-
11,712	6,614	-	-	-	9,362	-	-	-	-	-
-	-	-	-	-	3,108	-	-	-	-	-
7,754	405	-	8,362	-	11,881	-	-	-	-	-
-	1,970	-	605	-	2,488	-	-	-	-	-
-	28,849	-	31,602	-	-	-	-	-	-	-
2,316	4,641	-	-	-	2,950	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	10,489	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
-	1,684	-	82	-	-	-	-	-	-	-
-	15,000	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-
25,445	45	-	977	-	3,927	-	-	-	-	-
48,087	309,100	-	43,178	-	44,856	260,070	-	-	-	-
127,161	(66,916)	-	(16,131)	-	6,013	(260,070)	-	-	-	-
(360,098)	66,916	-	-	-	-	-	-	(68,828)	-	-
(360,098)	66,916	-	-	-	-	-	-	(68,828)	-	-
(232,937)	-	-	(16,131)	-	6,013	(260,070)	-	(68,828)	-	-
515,481	-	5,793	25,953	391	36,068	299,892	145,924	68,828	40,380	690
\$ 282,544	\$ -	\$ 5,793	\$ 9,822	\$ 391	\$ 42,081	\$ 39,822	\$ 145,924	\$ -	\$ 40,380	\$ 690

Revenues:  
Compact funding  
Federal and other grants  
Fees and charges  
Sales  
Other  
Total revenues

Expenditures by Account:  
Grants and subsidies  
Salaries and wages  
Medical supplies  
Contractual services  
Capital outlay  
Travel  
Food stuffs  
Supplies and materials  
POL  
Rentals  
Communications  
Insurance  
Utilities  
Leased housing  
Freight  
Professional services  
Printing and reproduction  
Other  
Total expenditures

Excess (deficiency) of revenues over (under) expenditures  
Other financing sources (uses):  
Operating transfers in  
Operating transfers out  
Total other financing sources (uses), net  
Net change in fund balances (deficit)  
Fund balances (deficits) at the beginning of the year  
Fund balances (deficits) at the end of the year

See Accompanying Independent Auditors' Report.

Continued

**REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Account,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)**

	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	Other Direct Assistance			Republic of China Projects	Marshall Islands		Healths Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Totals	
				2,447,908	2,447,908	8,657,362		Scholarship, Grant and Loan Board	2007				2006	
Revenues:	\$ -	\$ -	\$ 183,758	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 231,807	\$ -	\$ -	\$ 183,758	\$ 197,294
Compact funding	-	-	-	2,447,908	-	8,657,362	10,000	-	-	271,380	-	-	11,678,817	8,206,685
Federal and other grants	-	-	-	-	-	-	-	-	-	6,329,058	-	-	7,549,484	7,623,896
Fees and charges	-	-	-	-	-	-	-	-	-	-	-	-	148,508	358,014
Sales	-	-	-	-	-	-	-	-	-	-	-	-	308,651	169,851
Other	-	-	-	-	-	-	13,684	-	114,130	-	23,868	19,356	-	-
Total revenues	-	-	183,758	2,447,908	8,657,362	23,684	617,317	-	19,356	-	6,352,926	19,356	19,869,218	16,560,740
Expenditures by Account:														
Grants and subsidies	-	-	-	2,000,000	1,890,399	951,494	-	-	-	30,718	-	172,187	5,274,150	4,939,167
Salaries and wages	-	-	-	64,146	337,781	-	-	-	2,849,797	-	410,154	334,121	2,569,559	2,374,190
Medical supplies	-	-	-	-	152,195	-	-	-	-	2,804,237	-	-	5,654,034	6,798,211
Contractual services	-	-	-	17,780	4,753,691	-	-	-	-	-	-	20,484	4,933,627	1,970,034
Capital outlay	-	-	-	168,030	1,899,522	-	-	-	77,155	-	-	-	2,052,363	1,098,653
Travel	-	-	-	5,390	5,390	-	-	-	59,284	-	-	6,884	475,973	546,162
Food stuffs	-	-	-	20,709	4,309	-	-	-	-	-	-	-	44,687	125,009
Supplies and materials	-	-	-	26,948	229,774	-	-	-	-	-	-	-	303,808	218,242
POL	-	-	-	3,741	49,780	-	-	-	-	-	-	-	164,611	392,107
Rentals	-	-	-	12,902	34,520	12,000	-	-	-	-	-	-	149,697	134,554
Communications	-	-	-	14,346	11,903	4,498	-	-	-	-	34,214	-	156,341	124,707
Insurance	-	-	-	221	4,951	-	-	-	-	-	-	-	6,395	3,696
Utilities	-	-	-	-	19,100	-	-	-	-	-	38,976	-	112,486	83,463
Leased housing	-	-	-	806	40,302	-	-	-	-	-	-	-	112,558	73,500
Freight	-	-	-	482	1,701	-	-	-	106,821	-	-	-	111,936	16,883
Professional services	-	-	-	110,936	10,000	-	-	-	346,819	-	110,000	-	786,703	276,724
Printing and reproduction	-	-	-	19,328	240	-	-	-	-	-	-	-	24,956	7,855
Other	-	-	-	85,278	456,912	11,716	-	-	99,748	-	345,585	29,557	1,120,124	773,484
Total expenditures	-	-	183,758	2,697,848	9,750,275	988,207	3,570,342	-	642,266	-	3,868,021	642,266	23,853,808	19,956,641
Excess (deficiency) of revenues over (under) expenditures	-	-	-	(249,940)	(1,092,913)	(964,523)	(2,953,025)	-	(622,910)	-	2,484,905	(622,910)	(3,984,590)	(3,395,901)
Other financing sources (uses):														
Operating transfers in	-	-	-	-	-	1,039,053	3,168,438	-	530,250	-	-	-	5,022,980	8,763,300
Operating transfers out	-	-	-	-	(1,140,046)	-	(49,470)	-	-	-	(3,168,438)	-	(5,530,205)	(3,293,404)
Total other financing sources (uses), net	-	-	-	-	(1,140,046)	1,039,053	3,118,968	-	530,250	-	(3,168,438)	-	(507,225)	5,469,896
Net change in fund balances (deficit)	-	-	-	(249,940)	(2,232,959)	74,530	165,943	-	(92,660)	-	(683,533)	-	(4,491,815)	2,073,995
Fund balances (deficits) at the beginning of the year	1,593	(4,280)	-	145,104	2,292,142	172,184	676,575	1,826,510	159,396	-	1,826,510	159,396	7,473,778	5,399,783
Fund balances (deficits) at the end of the year	\$ 1,593	\$ (4,280)	\$ -	\$ (104,836)	\$ 59,183	\$ 246,714	\$ 842,518	\$ 1,142,977	\$ 66,736	\$ -	\$ 1,142,977	\$ 66,736	\$ 2,981,963	\$ 7,473,778

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2007

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. A brief discussion of RepMar's Nonmajor Governmental Funds - Capital Projects Funds as of September 30, 2007, follows:

Section 211 Compact Capital Account

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Title II, Article I, Section 211(a)(1) and approved by Nitijela resolution 62. The aforementioned section requires no less than 40% of the total amounts appropriated by the United States Congress to be applied to the capital account.

Section 111 Investment Development Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Compact of Free Association, Section 111 and approved by Nitijela resolution 62. These funds were subsequently transferred to and vested in the Marshall Islands Development Bank under Public Law No. 1988-21.

Marshall Islands Development Authority (MIDA) Fund

This fund accounts for capital projects specified under Public Law No. 1988-14, Section 12 and Schedule 3, appropriated to MIDA from Capital Account funds provided under Section 211 of the Compact of Free Association. Those appropriations do not lapse at the end of the fiscal year, but continue until either the purpose of the appropriation is complete, or the funds are expended, whichever occurs first.

Asian Development Bank (ADB) Development Projects

This fund accounts for capital projects funded by Asian Development Bank loans. These projects include the fisheries development (ADB Loan Number 1102 MAR (SF)), typhoon emergency rehabilitation program (ADB Loan Number 1218 MAR (SF)), improvement of basic education (ADB Loan Number 1249 MAR (SF)), Majuro water supply project (ADB Loan Numbers 1250 MAR (SF) and 1389 RMI (SF)), improvement of health care (ADB Loan Number 1316 RMI (SF)), the Ebeye health and infrastructure project (ADB Loan Number 1694 RMI (SF)), and the skills training and vocational education project (ADB Loan Number 1791 RMI (SF)).

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Balance Sheet  
September 30, 2007  
(with comparative totals as of September 30, 2006)

	Section 211 Capital Account	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
					2007	2006
<b>ASSETS</b>						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 22,268	\$ 22,268	\$ 22,268
Investments	-	-	318,630	-	318,630	318,630
Due from other funds	-	-	-	-	-	472,253
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318,630</u>	<u>\$ 22,268</u>	<u>\$ 340,898</u>	<u>\$ 813,151</u>
<b>FUND BALANCES</b>						
Fund balances:						
Reserved for:						
Related assets	\$ -	\$ -	\$ 318,630	\$ -	\$ 318,630	\$ 318,630
Encumbrances	2,692	-	-	-	2,692	2,692
Unreserved	(2,692)	-	-	22,268	19,576	491,829
Total fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 318,630</u>	<u>\$ 22,268</u>	<u>\$ 340,898</u>	<u>\$ 813,151</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Schedule of Expenditures by Function,  
and Changes in Fund Balances  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	Section	Section 111	MIDA	ADB	Totals	
	211 Capital Account	Investment Development		Development Projects	2007	2006
Expenditures by function:						
Ministry of Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 48,756
Ministry of Transportation and Communication	-	-	-	58,612	58,612	97,939
Total expenditures	-	-	-	58,612	58,612	146,695
Other financing sources (uses):						
Loan proceeds	-	-	-	58,612	58,612	97,939
Operating transfers out	-	(472,253)	-	-	(472,253)	-
Other financing sources (uses), net	-	(472,253)	-	58,612	(413,641)	97,939
Net change in fund balances	-	(472,253)	-	-	(472,253)	(48,756)
Fund balances at the beginning of the year	-	472,253	318,630	22,268	813,151	861,907
Fund balances at the end of the year	\$ -	\$ -	\$ 318,630	\$ 22,268	\$ 340,898	\$ 813,151

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR CAPITAL PROJECTS FUNDS

Combining Schedule of Expenditures by Account,  
and Changes in Fund Balances  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)

	Section 211 Capital Account	Section 111 Investment Development	MIDA	ADB Development Projects	Totals	
					2007	2006
Expenditures by account:						
Contractual services	\$ -	\$ -	\$ -	\$ 58,612	\$ 58,612	\$ 146,695
Total expenditures	-	-	-	58,612	58,612	146,695
Other financing sources (uses):						
Loan proceeds	-	-	-	58,612	58,612	97,939
Operating transfers out	-	(472,253)	-	-	(472,253)	-
Other financing sources (uses), net	-	(472,253)	-	58,612	(413,641)	97,939
Net change in fund balances	-	(472,253)	-	-	(472,253)	(48,756)
Fund balances at the beginning of the year	-	472,253	318,630	22,268	813,151	861,907
Fund balances at the end of the year	\$ -	\$ -	\$ 318,630	\$ 22,268	\$ 340,898	\$ 813,151

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR GOVERNMENTAL FUNDS - PERMANENT FUNDS

September 30, 2007

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used to support programs for the benefit of the government. A brief discussion of RepMar's Permanent Funds as of September 30, 2007, follows:

Intergenerational Trust Fund

Intergenerational Trust Fund, a Governmental Fund Type - Permanent Fund. This fund was established under Public Law No. 1999-90 to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding. Earnings from funds invested would not be available for distribution until October 2023. During the year ended September 30, 2005, RepMar made a one-time transfer of \$33,861,929 from the Intergenerational Trust Fund to the Compact Trust Fund representing the establishment of the Trust Fund in accordance with Section 216 of the Compact of Free Association.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2007

Private purpose trusts are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund "under which principal and income benefit individuals, private organizations, or other governments." A brief discussion of RepMar's Private Purpose Trusts as of September 30, 2007, follows:

Marshall Islands Social Security Administration (MISSA)

This fund established MISSA under Public Law No. 1990-75, which administers the Marshall Islands Social Security Retirement Fund, to provide a financially sound social security system with pension benefits and early retirement.

Kwajalein Atoll Trust Fund

This fund accounts for funds received under the Interim Use Agreement, to be disbursed to various Kwajalein landowners.

Section 212 Kwajalein Landowners Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 212 and approved by Nitijela resolution 123 in accordance with the Military Use and Operating Rights Agreement.

Nuclear Claims Trust Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, Compact of Free Association, Section 177(c) which were paid and distributed in accordance with an agreement between the Government of the United States and RepMar for the implementation of Section 177 of the Compact of Free Association.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Fiduciary Net Assets  
 Fiduciary Funds - Private Purpose Trusts  
 September 30, 2007  
 (with comparative totals as of September 30, 2006)

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Totals	
					2007	2006
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,623,181	\$ -	\$ -	\$ -	\$ 1,623,181	\$ 1,474,481
Time certificates of deposit	4,284,756	-	-	-	4,284,756	4,060,743
Receivables, net:						
Contributions	2,072,535	-	-	-	2,072,535	2,088,814
Other	578,927	-	-	-	578,927	637,182
Investments	60,900,111	-	-	856,893	61,757,004	54,750,258
Due from other funds	-	421,658	15,323,831	-	15,745,489	12,754,144
Capital assets, net of accumulated depreciation	83,454	-	-	-	83,454	104,279
Total assets	<u>69,542,964</u>	<u>421,658</u>	<u>15,323,831</u>	<u>856,893</u>	<u>86,145,346</u>	<u>75,869,901</u>
<b>LIABILITIES</b>						
Accounts payable	115,748	-	-	-	115,748	123,479
Other liabilities and accruals	399,014	-	-	-	399,014	592,703
Total liabilities	<u>514,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>514,762</u>	<u>716,182</u>
<b>NET ASSETS</b>						
Held in trust for:						
Social security benefits	69,028,202	-	-	-	69,028,202	61,179,319
Nuclear claims	-	-	-	856,893	856,893	1,244,135
Land use distributions	-	421,658	15,323,831	-	15,745,489	12,730,265
Total net assets	<u>\$ 69,028,202</u>	<u>\$ 421,658</u>	<u>\$ 15,323,831</u>	<u>\$ 856,893</u>	<u>\$ 85,630,584</u>	<u>\$ 75,153,719</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Changes in Fiduciary Net Assets  
 Fiduciary Funds - Private Purpose Trusts  
 Year Ended September 30, 2007  
 (with comparative totals for the year ended September 30, 2006)

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Totals	
					2007	2006
<b>Additions:</b>						
<b>Contributions:</b>						
Private employees	\$ 8,118,383	\$ -	\$ -	\$ -	\$ 8,118,383	\$ 7,487,349
Government employees	4,008,304	-	-	-	4,008,304	3,642,155
Penalties and interest	381,807	-	-	-	381,807	314,022
<b>Total contributions</b>	<b>12,508,494</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,508,494</b>	<b>11,443,526</b>
<b>Investment earnings:</b>						
Net increase in the fair value of investments	5,883,151	-	-	130,186	6,013,337	4,049,646
Interest and dividends	1,876,731	-	68,984	29,079	1,974,794	1,544,682
<b>Total investment earnings</b>	<b>7,759,882</b>	<b>-</b>	<b>68,984</b>	<b>159,265</b>	<b>7,988,131</b>	<b>5,594,328</b>
Less investment expense	132,299	-	-	-	132,299	139,718
<b>Net investment earnings</b>	<b>7,627,583</b>	<b>-</b>	<b>68,984</b>	<b>159,265</b>	<b>7,855,832</b>	<b>5,454,610</b>
<b>Other:</b>						
Compact funding	-	-	15,793,397	-	15,793,397	15,414,200
Other	384,316	-	-	-	384,316	409,031
	<b>384,316</b>	<b>-</b>	<b>15,793,397</b>	<b>-</b>	<b>16,177,713</b>	<b>15,823,231</b>
<b>Total additions</b>	<b>20,520,393</b>	<b>-</b>	<b>15,862,381</b>	<b>159,265</b>	<b>36,542,039</b>	<b>32,721,367</b>
<b>Deductions:</b>						
Land use distributions	-	453,565	12,393,592	-	12,847,157	11,489,373
Benefits	11,653,271	-	-	-	11,653,271	11,018,951
Administrative expenses	1,018,239	-	-	16,257	1,034,496	896,473
Transfers out	-	-	-	530,250	530,250	2,015,800
<b>Total deductions</b>	<b>12,671,510</b>	<b>453,565</b>	<b>12,393,592</b>	<b>546,507</b>	<b>26,065,174</b>	<b>25,420,597</b>
<b>Change in net assets</b>	<b>7,848,883</b>	<b>(453,565)</b>	<b>3,468,789</b>	<b>(387,242)</b>	<b>10,476,865</b>	<b>7,300,770</b>
Net assets at the beginning of the year	61,179,319	875,223	11,855,042	1,244,135	75,153,719	67,852,949
<b>Net assets at the end of the year</b>	<b>\$ 69,028,202</b>	<b>\$ 421,658</b>	<b>\$ 15,323,831</b>	<b>\$ 856,893</b>	<b>\$ 85,630,584</b>	<b>\$ 75,153,719</b>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR COMPONENT UNITS

September 30, 2007

Component units are legally separate organizations for which the elected officials of RepMar are financially accountable. A brief discussion of RepMar's Nonmajor Component Units as of September 30, 2007, follows:

Air Marshall Islands, Inc. (AMI)

AMI was granted a corporate charter by the Cabinet of RepMar on October 12, 1989 to provide domestic and international carrier service within and from the Marshall Islands. AMI is governed by a seven-member Board of Directors appointed by the President upon approval of the Cabinet of RepMar.

College of the Marshall Islands (CMI)

CMI was established as an independent institution pursuant to the College of the Marshall Islands Act of 1992 (Public Law No. 1992-13) to provide post-secondary education services to meet the needs of the Marshall Islands. CMI is governed by a nine-member Board of Regents appointed by the President upon approval of the Cabinet of RepMar.

Majuro Resort, Inc. (MRI)

MRI was granted a corporate charter by the Cabinet of RepMar on November 8, 1995 to engage in the operation of a 150-room hotel on the atoll of Majuro. MRI is governed by a seven-member Board of Directors appointed by the President upon approval of the Cabinet of RepMar.

Majuro Water and Sewer Company, Inc. (MWSC)

MWSC was granted a corporate charter by the Cabinet of RepMar on January 26, 1989 to engage in the business of collecting and distributing fresh water, waste water and maintaining the sewer system. MWSC is governed by a seven-member Board of Directors appointed by the President upon approval of the Cabinet of RepMar.

Marshall Islands Marine Resources Authority (MIMRA)

MIMRA was established as a body corporate pursuant to the Marshall Islands Marine Resources Authority Act of 1997 (Public Law No. 1997-60) to facilitate the sustainable and responsible use of the marine resources in the Marshall Islands. MIMRA is governed by a seven-member Board of Directors, including the Minister of Resources and Development, the Minister of Foreign Affairs, the Minister of Internal Affairs, and four members appointed by the President.

Marshall Islands Shipping Corporation (MISC)

MISC was established as a body corporate pursuant to the Marshall Islands Shipping Corporation Act of 2004 (Public Law No. 2005-41) to operate services for the transportation of goods, mails and passengers by sea and to carry on business as ship owners, charterers of ships and vessels, ship brokers, and shipping agents, and to make provision for purposes connected with the aforesaid matters. MISC is governed by a five-member Board of Directors appointed by the President upon approval of the Cabinet of RepMar.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR COMPONENT UNITS

September 30, 2007

Marshall Islands Visitors Authority (MIVA)

MIVA was established as a body corporate pursuant to the Tourism Act of 1991 (Public Law No. 1991-109) to develop and promote the natural, scenic, cultural, historical and recreation attractions of the Marshall Islands. MIVA is governed by a six-member Board of Directors (with the General Manager serving ex officio and without vote), including the Secretary of Resources and Development, the Secretary of Internal Affairs (or designee), three members from the private sector appointed by the Minister of Resources and Development upon approval of the Cabinet of RepMar.

RMI Environmental Protection Authority (EPA)

EPA was established for the protection and management of the environment. EPA is governed by a five-member Board of Directors appointed by the President in consultation with the Minister of Resources and Development.

Tobolar Copra Processing Plant, Inc. (TCPPI)

TCPPI was granted a corporate charter by the Cabinet of RepMar on August 13, 1977 for the primary purpose of engaging in the production, processing, and marketing of copra products. TCPPI is governed by a six-member Board of Directors (with the President serving ex officio and without vote) appointed by the President upon approval by the Cabinet of RepMar.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR COMPONENT UNITS

Combining Schedule of Net Assets  
September 30, 2007  
(with comparative totals as of September 30, 2006)

	Air Marshall Islands, Inc.	College of the Marshall Islands	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Marine Resources Authority	Marshall Islands Shipping Corporation	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobacco Copra Processing Plant, Inc.	Totals
	2007	2007	2007	2007	2007	2007	2007	2007	2007	2006
<b>ASSETS</b>										
Current assets:										
Cash and cash equivalents	\$ 6,526	\$ 1,619,838	\$ 48,104	\$ 24,999	\$ 265,566	\$ 230,641	\$ 208,177	\$ 11,479	\$ 19,595	\$ 2,434,925
Time certificates of deposit	-	-	-	-	728,019	-	-	-	-	728,019
Receivables, net:										
General	179,308	766,021	263,229	99,044	86,753	10,288	14,269	124,483	153,551	1,696,946
Federal agencies	-	1,853,280	-	-	-	-	-	-	-	1,853,280
Other	-	-	38,569	4,447	38,497	6,599	-	-	-	88,112
Inventories	535,399	283,258	68,353	122,204	-	-	-	-	1,857,400	2,866,614
Due from primary government	233,524	-	-	-	-	-	-	-	-	233,524
Other current assets	141,284	38,484	28,922	8,233	1,474	-	1,351	13,168	-	272,089
Total current assets	1,096,041	4,560,881	447,177	258,927	1,120,309	247,528	223,797	149,130	2,069,719	10,173,509
Noncurrent assets:										
Investments	-	538,596	-	-	-	-	-	-	-	538,596
Capital assets, net of accumulated depreciation	3,583,790	7,524,627	1,989,658	31,324	233,272	166,493	28,806	61,566	818,663	14,438,199
Total noncurrent assets	3,583,790	8,063,223	1,989,658	31,324	233,272	166,493	28,806	61,566	818,663	14,976,795
Total assets	\$ 4,679,831	\$ 12,624,104	\$ 2,436,835	\$ 290,251	\$ 1,353,581	\$ 414,021	\$ 252,603	\$ 210,696	\$ 2,888,382	\$ 25,150,304
<b>LIABILITIES</b>										
Current liabilities:										
Current portion of long-term debt	\$ 237,155	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 650,000	\$ 887,155
Accounts payable	820,918	175,798	484,138	24,360	246,996	33,080	8,307	1,029	473,759	2,268,385
Other liabilities and accruals	406,776	648,765	301,092	192,010	90,248	172,226	9,901	4,608	119,211	1,944,837
Retention payable	-	101,505	-	-	-	-	-	-	-	101,505
Contracts payable	-	635,430	-	-	-	-	-	-	-	635,430
Due to component units	-	-	143,350	775,589	-	-	-	-	50,000	968,939
Deferred revenue	187,011	492,493	-	-	-	-	-	-	-	679,504
Total current liabilities	1,651,860	2,053,991	928,580	991,959	337,244	205,306	18,208	5,637	1,292,970	7,485,755
Noncurrent liabilities:										
Noncurrent portion of long-term debt	762,845	-	-	-	-	-	-	-	-	762,845
Due to primary government	2,000,000	-	-	-	-	-	-	-	-	2,000,000
Other noncurrent liabilities	-	-	-	-	-	-	-	-	-	-
Total noncurrent liabilities	2,762,845	-	-	-	-	-	-	-	-	2,762,845
Total liabilities	4,414,705	2,053,991	928,580	991,959	337,244	205,306	18,208	5,637	1,292,970	10,248,600
<b>NET ASSETS</b>										
Invested in capital assets, net of related debt	3,583,790	7,524,627	1,989,658	31,324	232,272	166,493	28,806	61,566	818,663	14,437,199
Restricted	(3,318,664)	538,796	(481,403)	(735,032)	784,065	42,222	205,589	143,493	776,749	538,796
Unrestricted	265,126	10,570,113	1,508,255	(701,708)	1,016,337	208,715	234,395	205,059	1,595,412	1,013,498
Total net assets	\$ 4,679,831	\$ 12,624,104	\$ 2,436,835	\$ 290,251	\$ 1,353,581	\$ 414,021	\$ 252,603	\$ 210,696	\$ 2,888,382	\$ 25,150,304

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
NONMAJOR COMPONENT UNITS

Combining Schedule of Revenues, Expenses,  
and Changes in Net Assets

Year Ended September 30, 2007

(with comparative totals for the year ended September 30, 2006)

	Air Marshall Islands, Inc.	College of the Marshall Islands	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Marine Resources Authority	Marshall Islands Shipping Corporation	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Totals
										2007
Operating revenues:										
Charges for services	\$ 3,040,165	\$ 184,536	\$ 2,554,871	\$ 981,010	\$ 988,351	\$ 902,389	\$ -	\$ 44,080	\$ -	\$ 8,695,402
Sales		316,855				36,925		129,335		2,902,706
Other	342,784	3,388,918		29,125	216,817	30,343	257	8,226	2,399,591	4,016,470
Total operating revenues	3,382,949	3,910,309	2,554,871	1,010,135	1,205,168	969,657	257	181,641	2,399,591	15,614,578
Operating expenses:										
Cost of services	3,017,848	7,569,612	1,432,467	1,245,474	1,662,460	2,116,020			2,661,483	19,705,364
Administration costs	459,440		1,106,483				269,663	165,525	286,178	2,287,289
Depreciation and amortization	491,564	263,855	204,094	27,047	98,545					1,085,105
Total operating expenses	3,968,852	7,833,467	2,743,044	1,272,521	1,761,005	2,116,020	269,663	165,525	2,947,661	23,077,758
Operating income (loss)	(585,903)	(3,923,158)	(188,173)	(262,386)	(555,837)	(1,146,363)	(269,406)	16,116	(548,070)	(7,463,180)
Nonoperating revenues (expenses):										
Contributions from the primary government	2,100,000	3,237,237		349,404		1,192,448	265,292		1,200,000	8,344,381
Interest income	207	30,511			56,029					86,747
Interest expense	(74,575)								(118,358)	(192,933)
Other	(342,100)	(19,324)	(2,058)		12,670		(1,516)	60,301	11,257	(280,770)
Total nonoperating revenues (expenses), net	1,683,532	3,248,424	(2,058)	349,404	68,699	1,192,448	263,776	60,301	1,092,899	7,957,425
Capital contributions		5,507,034				162,630				5,669,664
Net income (loss)	1,097,629	4,832,300	(190,231)	87,018	(487,138)	208,715	(5,630)	76,417	544,829	6,163,909
Net assets at the beginning of the year	(832,503)	5,737,813	1,698,486	(788,726)	1,503,475		240,025	128,642	1,050,583	8,737,795
Net assets at the end of the year	\$ 265,126	\$ 10,570,113	\$ 1,508,255	\$ (701,708)	\$ 1,016,337	\$ 208,715	\$ 234,395	\$ 205,059	\$ 1,595,412	\$ 14,901,704
										\$ 8,737,795

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
COMPACT OF FREE ASSOCIATION SECTOR GRANTS**

**Combining Balance Sheet  
September 30, 2007  
(with comparative totals as of September 30, 2006)**

	Section 211(a)(1) Education		Section 211(a)(2) Health		Section 211(a)(3) Private Sector Development		Section 211(a)(4) Capacity Building		Section 211(a)(5) Environment		Section 211(b)(1) Ebye Special Needs		Section 211(b)(2) Landowners Special Needs		Section 211(b)(3) Kwajalein Environment		Section 211(b)(4) Public Infrastructure		Section 211(b)(5) Infrastructure Maintenance		Supplemental Education		Totals											
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006								
<b>ASSETS</b>																																		
Receivables:																																		
Federal agencies	\$ 158,721	\$ 15,806	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -						
Due from other funds	1,039,244	435,622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-						
Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-						
Total assets	\$ 1,197,965	\$ 451,428	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -						
<b>LIABILITIES AND FUND BALANCES</b>																																		
Liabilities:																																		
Accounts payable	\$ 122,233	\$ 34,493	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Payable to federal agencies	228,853	364,380	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Retention payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Contracts payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Total liabilities	\$ 351,086	\$ 398,873	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Fund balances:																																		
Reserved for:																																		
Encumbrances	308,064	36,749	-	-	-	-	-	-	-	-	27,521	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Continuing appropriations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Unreserved (deficit)	528,815	15,806	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total fund balances	846,879	52,555	-	-	-	-	-	-	-	-	27,521	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total liabilities and fund balances	\$ 1,197,965	\$ 451,428	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 948,372	\$ 319,863	\$ 18,637	\$ 1,402,016	\$ 2,541,194	\$ 1,402,016	\$ 2,541,194	\$ 1,402,016	\$ 2,541,194	\$ 1,402,016	\$ 2,541,194	\$ 1,402,016	\$ 593,239	\$ 593,239	\$ 7,472,714	\$ 2,307,439	\$ 4,838,578	\$ 1,439,232	\$ 3,903,944	\$ 7,058,963	\$ 15,505,070	\$ (6,210,756)	\$ 2,614,136	\$ 848,207

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS  
COMPACT OF FREE ASSOCIATION SECTOR GRANTS**

**Combining Schedule of Revenues, Expenditures by Function,  
and Changes in Fund Balances (Deficits)  
Year Ended September 30, 2007  
(with comparative totals for the year ended September 30, 2006)**

	Section 211(a)(1) Education	Section 211(a)(2) Health	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(5) Environment	Section 211(b)(X1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(X1) Public Infrastructure	Section 211(g)(2) Infrastructure Maintenance	Supplemental Education	2007	2006
Revenues:													
Compact funding	\$ 11,251,642	\$ 5,364,922	\$ (7,206)	\$ 36,159	\$ (34,763)	\$ 2,480,111	\$ 3,293,329	\$ 234,894	\$ 16,582,564	\$ 974,908	\$ 4,184,490	\$ 44,363,150	\$ 35,312,542
Expenditures by Function:													
Current:													
General government:													
Special appropriations	-	-	-	-	-	-	-	-	-	-	-	-	100,000
Ministry of Education	10,509,579	-	-	-	-	820,905	-	-	-	-	4,317,782	15,648,266	14,272,953
Ministry of Health and Environment	-	5,479,255	-	-	-	1,531,685	-	-	-	-	-	7,010,940	6,564,087
Ministry of Resources and Development	-	-	-	-	-	-	3,347,325	-	-	-	-	3,347,333	254,734
Ministry of Finance	-	-	-	8	-	-	-	201,982	-	-	-	201,982	1,688,306
Environmental Protection Authority	-	-	-	-	-	-	-	-	15,890,087	524,355	-	16,414,442	425,814
Capital outlay	10,509,579	5,479,255	-	8	-	2,552,590	3,347,325	201,982	15,890,087	524,355	4,317,782	42,622,963	11,997,657
Total expenditures	742,063	(114,333)	(7,206)	36,151	(34,763)	127,521	(51,996)	32,912	692,577	450,553	(133,292)	1,740,187	8,981
Excess (deficiency) of revenues over (under) expenditures	-	49,470	-	-	-	(100,000)	-	-	-	944,972	-	994,442	490,244
Other financing sources (uses):													
Operating transfers in	(642,875)	49,470	-	-	-	(100,000)	-	-	-	-	(225,825)	(968,700)	(980,126)
Operating transfers out	(642,875)	-	-	-	-	(100,000)	-	-	-	944,972	(225,825)	2,5742	(489,882)
Total other financing sources (uses), net	99,188	(64,863)	(7,206)	36,151	(34,763)	27,521	(51,996)	32,912	692,577	1,395,525	(359,117)	1,765,929	(480,901)
Net changes in fund balances (deficits)	747,691	117,418	7,206	(36,151)	34,763	-	51,996	(32,895)	(692,577)	(83,399)	794,155	848,207	1,329,108
Fund balances (deficits) at the beginning of the year	\$ 846,879	\$ 52,555	\$ -	\$ -	\$ -	\$ 27,521	\$ -	\$ 17	\$ -	\$ 1,312,126	\$ 375,038	\$ 2,614,136	\$ 848,207
Fund balances at the end of the year													

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS  
COMPACT OF FREE ASSOCIATION SECTOR GRANTS

Combining Schedule of Revenues, Expenditures by Account,  
and Changes in Fund Balances (Deficits)  
Year Ended September 30, 2007

(with comparative totals for the year ended September 30, 2006)

	Section 211(a)(1) Education		Section 211(a)(2) Health		Section 211(a)(3) Private Sector Development		Section 211(a)(4) Capacity Building		Section 211(a)(5) Environment		Section 211(b)(1) Ebeye		Section 211(b)(2) Landowners		Section 211(b)(3) Kwajalein Environment		Section 211(d)(1) Public Infrastructure		Section 211(d)(2) Infrastructure Maintenance		Supplemental Education		Totals				
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	
Revenues:																											
Compact funding	\$ 11,251,642	\$ 5,364,922	\$ (7,206)	\$ 36,159	\$ (34,763)	\$ 2,480,111	\$ 3,295,329	\$ 234,894	\$ 16,582,664	\$ 4,184,490	\$ 44,363,150	\$ 35,312,542															
Expenditures by Account:																											
Salaries and wages	7,096,598	3,778,904	-	-	-	1,692,912	-	143,438	102,310	-	-	-	-	-	-	-	-	-	-	-	-	1,322,003	-	14,136,165	14,273,182		
Capital outlay	76,002	62,866	-	-	-	95,108	-	10,565	15,775,304	-	-	-	-	-	-	-	-	-	-	-	-	22,350	-	16,566,550	12,437,116		
Grants and subsidies	1,346,173	-	-	-	-	-	3,326,805	-	-	-	-	-	-	-	-	-	-	-	-	-	-	183,400	-	4,856,378	2,084,611		
Utilities	392,292	448,526	-	-	-	44,261	20,520	9,909	-	-	-	-	-	-	-	-	-	-	-	-	-	50,422	-	965,930	881,625		
Leased housing	318,581	310,610	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	629,191	385,810		
Supplies and materials	218,708	148,857	-	-	-	126,572	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,226,939	-	956,757	1,405,988		
Contractual services	142,240	39,533	-	8	-	61,226	-	10,000	1,473	-	-	-	-	-	-	-	-	-	-	-	-	703,750	-	956,757	1,309,173		
Travel	136,858	180,148	-	-	-	18,652	-	10,009	-	-	-	-	-	-	-	-	-	-	-	-	-	64,260	-	411,400	628,272		
Food stuffs	350,865	213,629	-	-	-	177,292	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	411,487	-	1,153,273	401,764		
Allowances	64,800	-	-	-	-	1,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65,800	42,950		
Professional services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,340	21,340		
Medical supplies	-	36,849	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	36,849	23,217		
Communications	41,551	35,430	-	-	-	19,336	-	10,000	-	-	-	-	-	-	-	-	-	-	-	-	-	11,691	-	118,008	93,742		
POL	61,302	56,084	-	-	-	14,547	-	4,971	-	-	-	-	-	-	-	-	-	-	-	-	-	18,934	-	155,838	138,808		
Rentals	23,145	29,078	-	-	-	3,340	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,000	58,563		
Freight	23,708	32,027	-	-	-	786	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,195	-	69,716	83,678		
Printing and reproduction	23,256	7,178	-	-	-	1,100	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	987	-	32,521	28,022		
Insurance	149	2,263	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,412	12,895		
Other	193,351	97,273	-	-	-	96,458	-	3,090	-	-	-	-	-	-	-	-	-	-	-	-	-	296,364	-	686,536	897,574		
Total expenditures	10,509,579	5,479,255	-	8	-	2,352,590	3,347,325	201,982	15,890,087	4,317,782	42,622,963	35,303,561															
Excess (deficiency) of revenues over (under) expenditures	742,063	(114,333)	(7,206)	36,151	(34,763)	127,521	(51,996)	32,912	692,577	(133,292)	1,740,187	8,981															
Other financing sources (uses):																											
Operating transfers in	(642,875)	49,470	-	-	-	(100,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	944,972	-	994,442	490,244		
Operating transfers out	(642,875)	49,470	-	-	-	(100,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(225,825)	-	(968,700)	(980,126)		
Total other financing sources (uses), net	99,188	(64,863)	(7,206)	36,151	(34,763)	27,521	(51,996)	32,912	692,577	(133,292)	1,740,187	8,981															
Net change in fund balances (deficits) of the year	747,691	117,418	7,206	(36,151)	34,763	-	51,996	(32,895)	(692,577)	734,155	1,765,929	(480,901)															
Fund balances at the end of the year	\$ 846,879	\$ 52,555	\$ -	\$ -	\$ -	\$ 27,521	\$ -	\$ 17	\$ -	\$ 1,312,126	\$ 2,614,136	\$ 848,207															

See Accompanying Independent Auditors' Report.

JUN 30 2008

**REPUBLIC OF THE MARSHALL ISLANDS**

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

**YEAR ENDED SEPTEMBER 30, 2007**

**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**

His Excellency Litokwa Tomeing  
President  
Republic of the Marshall Islands:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2007, which collectively comprise RepMar's basic financial statements and have issued our report thereon dated June 25, 2008. 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.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Nuclear Claims Tribunal, the Marshall Islands Social Security Administration, and the discretely presented component units, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered RepMar'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 RepMar's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RepMar'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 36) as items 2007-13 through 2007-15 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

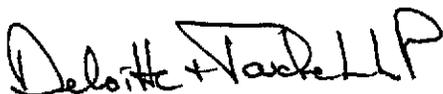
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether RepMar's basic 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 2007-2, 2007-4, 2007-6 and 2007-7.

We noted certain matters that we reported to management of RepMar in a separate letter dated June 25, 2008.

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

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



June 25, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO 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**

His Excellency Litokwa Tomeing  
President  
Republic of the Marshall Islands:

Compliance

We have audited the compliance of the Republic of the Marshall Islands (RepMar) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. RepMar's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 36). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of RepMar's management. Our responsibility is to express an opinion on RepMar's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, RepMar's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2007. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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 RepMar'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 RepMar's compliance with those requirements.

As described in items 2007-8, 2007-9 and 2007-12 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding cash management, and equipment and real property management that are applicable to its IDEA Special Education - Grants to States major program (CFDA # 84.027), and equipment and real property management, and reporting that are applicable to its Compact of Free Association Sector Grants major program (CFDA # 15.875). Compliance with such requirements is necessary, in our opinion, for RepMar to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, RepMar complied, in all material respects, with the requirements referred to above that are applicable to its IDEA Special Education - Grants to States major program (CFDA # 84.027) and its Compact of Free Association Sector Grants major program (CFDA # 15.875) for the year ended September 30, 2007. Also, in our opinion, RepMar complied, in all material respects, with the requirements referred to above that are applicable to its Kwajalein Landowner Payments major program (CFDA # 15.875). The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2007-1, 2007-3, 2007-5, 2007-10 and 2007-11.

#### Internal Control Over Compliance

The management of RepMar 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 RepMar's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 RepMar's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-1, 2007-3, 2007-5, and 2007-8 through 2007-12 to be significant deficiencies.

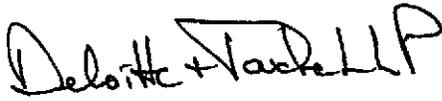
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2007-8, 2007-9, and 2007-12 to be material weaknesses.

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

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of RepMar as of and for the year ended September 30, 2007, and have issued our report thereon dated June 25, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise RepMar's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 and 8) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of RepMar. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

  
June 25, 2008

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2007

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Education	84.027	IDEA Special Education - Grants to States	\$ <u>2,170,637</u>
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States: Compact of Free Association, As Amended, Public Law 99-239, Sector Grants:	
		Education	11,432,633
		Supplemental Education Grant	4,543,607
		Health	5,479,255
		Capacity Building	8
		Ebeye Special Needs	2,452,590
		Landowners Special Needs	3,347,325
		Kwajalein Environment	201,982
		Public Infrastructure	15,890,087
		Infrastructure Maintenance	<u>262,178</u>
			<u>43,609,665</u>
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States: Compact of Free Association, As Amended, Public Law 99-239, Kwajalein Landowner Payments:	
		Kwajalein Impact and Use	12,393,592
		Kwajalein Landowners	<u>453,565</u>
			<u>12,847,157</u>
		Total program expenditures tested	\$ <u>58,627,459</u>
		Total federal program expenditures	\$ <u>66,578,999</u>
		% of total federal program expenditures tested	<u>88%</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2007

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
<b>GENERAL FUND AND REIMBURSABLE FUND:</b>		
	<u>U.S. Department of Commerce:</u>	
11.460	Special Oceanic and Atmospheric Projects	\$ 348,906
	Total U.S. Department of Commerce	<u>\$ 348,906</u>
<b>U.S. FEDERAL GRANTS FUND:</b>		
	<u>U.S. Department of Agriculture:</u>	
10.567	Food Distribution Program on Indian Reservations	\$ 332,081
10.664	Cooperative Forestry Assistance	36,810
	Total U.S. Department of Agriculture	<u>\$ 368,891</u>
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories and Freely Associated States	
	Audit Training Grant	\$ 11,604
	OMIP - MOE Procurement	19,164
	EPA Environmental Standards Conference	9,534
	Four Atoll Health Care	656,808
	Rongelap Ecotourism	14,000
	Land Survey Registration	2,524
	RMI Passport Personalization System Upgrade	39,928
	Tax Enhancement System	21,499
	Tax Financial Consultant	400
	RMI Revenue Enhancements Initiative	117,001
	Utrik Atoll Local Government Fiscal Management Improvement	73,000
	Component Units Reconciliation	49,062
	Majuro Hospital Redevelopment Plan	47,008
	MEC Operations and Maintenance Improvement	88,516
	RMI Comprehensive Survey	7,311
	RMI NGO Committee	41,620
	Sub-total CFDA # 15.875	<u>1,198,979</u>
15.904	Historic Preservation Fund Grants-In-Aid	129,457
	Total U.S. Department of the Interior	<u>\$ 1,328,436</u>
	<u>U.S. Small Business Administration:</u>	
59.037	Small Business Development Center	\$ 16,278
	Total U.S. Small Business Administration	<u>\$ 16,278</u>
	<u>U.S. Department of Homeland Security</u>	
83.505	State Disaster Preparedness Grant	\$ 58,188
	Total U.S. Department of Homeland Security	<u>\$ 58,188</u>
	<u>U.S. Department of Education:</u>	
84.027	Special Education-Grants to States	\$ 2,170,637
84.048	Vocational Education-Basic Grants to States	24,000
84.256	Freely Associated States-Education Grant Program	142,283
84.276	Goals 2000 - State and Local Education Systemic Improvement	9,225
84.336	Teacher Quality Enhancement Grant	1,105,745
84.346	Vocational Education-Occupational and Employment Information State Grants	7,620
	Total U.S. Department of Education	<u>\$ 3,459,510</u>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2007

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
U.S. FEDERAL GRANTS FUND, CONTINUED:		
	<u>U.S. Department of Health and Human Services:</u>	
93.110	Maternal and Child Health Federal Consolidated Programs	\$ 427,807
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	107,948
93.118	Acquired Immunodeficiency Syndrome (AIDs) Activity	216,575
93.136	Injury Prevention and Control Research and State and Community Based Programs	18,603
93.163	Health Services in the Pacific Basin	555,899
93.217	Family Planning-Services	290,254
93.230	Consolidated Knowledge Development and Application (KD&A) Program	116,515
93.268	Immunization Grants	813,378
93.283	CDC and Prevention-Investigations and Technical Assistance	1,002,785
93.917	HIV Care Formula Grants	20,477
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to to Prevent the Spread of HIV and Other Important Health Problems	80,599
93.958	Block Grant for Community Mental Health Services	111,241
93.959	Block Grants for Prevention and Treatment of Substance Abuse	262,785
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	181,445
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	82,677
93.991	Preventive Health and Health Services Block Grant	69,222
	Total U.S. Department of Health and Human Services	<u>\$ 4,358,210</u>
	TOTAL U.S. FEDERAL GRANTS FUND	<u>\$ 9,589,513</u>
KWAJALEIN ATOLL TRUST FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Compact of Free Association - Section 211(a) 231/232 Military Use and Operating Rights Agreement (MUORA) Extension - Kwajalein Landowners	\$ 453,565
	Total U.S. Department of the Interior	<u>\$ 453,565</u>
COMPACT SECTOR GRANTS FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Compact of Free Association Program, As Amended, Sector Grants:	
	Section 211(a)(1) Education Sector	\$ 11,432,633
	Supplemental Education Grant	4,543,607
	Section 211(a)(2) Health Sector	5,479,255
	Section 211(a)(4) Public Sector Capacity Building	8
	Section 211(b)(1) Ebeye Special Needs	2,452,590
	Section 211(b)(2) Landowners Special Needs	3,347,325
	Section 211(b)(3) Kwajalein Environment	201,982
	Section 211(d)(1) Public Infrastructure Development	15,890,087
	Section 211(d)(2) Infrastructure Maintenance	262,178
	Total U.S. Department of the Interior	<u>\$ 43,609,665</u>
SECTION 212 KWAJALEIN LANDOWNERS FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Compact of Free Association Program, As Amended:	
	Section 212 Kwajalein Impact and Use	\$ 12,393,592
	Total U.S. Department of the Interior	<u>\$ 12,393,592</u>
SECTION 213 AUDIT FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Compact of Free Association Program, As Amended:	
	Section 213 Audit	\$ 183,758
	Total U.S. Department of the Interior	<u>\$ 183,758</u>
	GRAND TOTAL	<u>\$ 66,578,999</u>

See accompanying notes to schedule of expenditures of federal awards.

## REPUBLIC OF THE MARSHALL ISLANDS

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2007

#### (1) Scope of Audit

The Republic of the Marshall Islands (RepMar) is a governmental entity governed by its own Constitution. All significant operations of RepMar 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 RepMar's cognizant agency for the Single Audit.

##### a. Programs Subject to Single Audit

Schedules of Expenditures of Federal Awards are presented for each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Homeland Security
- U.S. Department of the Interior
- U.S. Small Business Administration

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

##### a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of RepMar 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. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. All expenses and capital outlays are reported as expenditures.

##### b. Reporting Entity

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, RepMar's reporting entity is defined in Note 1A to its September 30, 2007 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, the Nuclear Claims Tribunal, the Marshall Islands Social Security Administration, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by RepMar, as defined above, for the year ended September 30, 2007.

##### c. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2007

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees

Certain program funds are passed through RepMar to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees, outside of RepMar's control, utilized the funds. The following is a summary of program funds that are passed through to subgrantee organizations:

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2007 Amount of Pass-through</u>
<u>U.S. Department of the Interior - CFDA #15.875</u>		
Compact of Free Association, As Amended, Sector Grant	College of the Marshall Islands	\$ 6,100,000
Compact of Free Association, As Amended, Sector Grant	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 3,326,805
Compact of Free Association, As Amended, Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 1,052,100

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2007. RepMar did not charge federal programs for indirect costs during fiscal year 2007.

f. CFDA # 15.875

CFDA # 15.875 represents 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.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2007

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information expressed an unqualified opinion.
2. Significant deficiencies in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. RepMar's major programs were as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Economic, Social and Political Development of the Territories and the Freely Associated States:	
Compact of Free Association, As Amended, Sector Grants	15.875
Kwajalein Landowner Payments	15.875
IDEA Special Education - Grants to States	84.027

8. A threshold of \$1,997,370 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. RepMar did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2007-13	Cash and Investment Balances	33 - 34
2007-14	Travel Advances/Accounts Payable	35
2007-15	Accounts Payable	36

**Section III - Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2007-1	Allowable Costs/Cost Principles	\$ -	13
2007-2 - 4	Allowable Costs/Cost Principles and Procurement and Suspension and Debarment	\$ 423,905	14 - 20
2007-5 - 6	Procurement and Suspension and Debarment	\$ 182,842	21 - 24
2007-7	Procurement and Suspension and Debarment/ Period of Availability of Federal Funds	\$ 19,712	25
2007-8	Cash Management	Undeterminable	26
2007-9	Equipment and Real Property Management	\$ -	27 - 28
2007-10	Period of Availability of Federal Funds	\$ 82,161	29
2007-11	Subrecipient Monitoring	\$ -	30
2007-12	Reporting	\$ -	31 - 32
2007-15	Reporting	\$ -	36

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-1

Allowable Costs/Cost Principles

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$0

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives.

Condition: Of \$265,954 in payroll expenditures of the Compact Sector grants relating to the employer share for group life insurance premiums, two items, totaling \$5,419, were tested and the following exception was noted:

<u>Employee #</u>	<u>Actual Employer Share</u>	<u>Expected Employer Share</u>	<u>Variance</u>	<u>Actual Employee Share</u>	<u>Expected Employee Share</u>	<u>Variance</u>
31104	\$ 5,394.00	\$ 5.94	\$ 5,388.06	\$ 4.05	\$ 4.05	\$ -

The variance of \$5,388.06 represented an overpayment of group life insurance premiums for the selected pay period. We examined the detailed payroll transaction reports for the entire 2007 fiscal year and noted that the same overpayment occurred for all 26 pay periods. Additionally, we examined the detailed payroll transaction reports for the 2006 fiscal year and noted that the same overpayment occurred for all 26 pay periods in 2006. No overpayments were noted for pay periods prior to the beginning of fiscal year 2006; however, 6 pay periods for the 2008 fiscal year included overpayments prior to the payroll master file being corrected. On March 7, 2008, RepMar reimbursed the Compact Sector bank account in the amount of \$307,119.

Cause: The cause of the above condition is the lack of independent verification after input of changes to the payroll master file for group life insurance premiums.

Effect: The effect of the above condition is the overpayment of group life insurance premiums. As RepMar subsequently reimbursed the Compact Sector bank account, no questioned cost is reported.

Recommendation: We recommend that management obtain reimbursement from the insurance company in the amount of \$280,179 representing overpayments for fiscal years 2006 and 2007, and reimbursement of \$26,940 representing overpayments for fiscal year 2008. Additionally, we recommend that management establish internal control procedures to ensure that changes made to the payroll master file are independently verified.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The overpayment to the Insurance Company occurred as a result of an input error during the maintenance of the Employee's file back in October 2005. Subsequently, the Insurance Company has returned the overpayment amount.

To prevent this from occurring in the future, the Ministry of Finance's (MOF) Payroll supervisor has been assigned as the Ministry's designated official in charge of reviewing and ensuring that Employee/Employer's contributions reflect the correct amount being remitted to the Insurance Company.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-2

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment

U.S. Department of the Interior - CFDA # 15.875: RMI Revenue Enhancements Initiative Grant

U.S. Department of Homeland Security - CFDA # 83.505: State Disaster Preparedness Grant

Questioned Costs: \$118,491 (Comprising CFDA # 15.875 \$100,000; CFDA # 83.505 \$18,491)

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives. Additionally, the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the Common Rule.

Condition: Of \$5,907,484 in non-payroll expenditures of the Federal Grants Fund (excluding the IDEA Special Education – Grants to States program, which was separately tested), sixty-six items, totaling \$2,061,514, were tested. We noted the following items where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>CFDA #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	15.875	C0172201	42602	Contractual Services	\$ 100,000
2	83.505	P1996201	48063	Other Charges and Expenses	\$ 18,491

For item #s 1 and 2, no evidence supporting the procurement process was noted on file. Furthermore, for item # 2, the expenditure related to costs associated with the National Disaster Management Office meetings (1/31/05, 3/17/06 – 3/20/06, and 10/14/06 – 10/18/06), SOPAC meeting (5/28/07 – 6/8/07), and the 13<sup>th</sup> SOPAC Regional conference (6/26/07 – 6/29/07). These expenditures included costs associated with entertainment and bar charges, which are unallowable under OMB Circular A-87.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with procurement standards as required by the Common Rule, and allowable costs/cost principles as required by OMB Circular A-87.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-2, Continued

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment, Continued

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements as required by the Common Rule. 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.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The MOF has taken initiative with the Director of Budget and especially the Chief of the Procurement and Supply to come up to par under the federal procurement requirements on documentation. In addition, RepMar has established a no-host bar policy which came into effect recently.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-3

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$127,497

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives. Additionally, Article VI, Section 1(j) (1) of the Fiscal Procedures Agreement (FPA) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

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. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. 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: Of \$30,503,282 in non-payroll expenditures of the Compact Sector Grant Fund, one hundred and three items, totaling \$13,105,675, were tested. We noted the following expenditures where documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>Fund</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	410100	P1750701	39420	Food Stuffs	\$ 30,435
2	410110	P1798401	40109	Food Stuffs	\$ 740
3	410102	P1912901	42289	Food Stuffs	\$ 477
4	410110	Q0353301	8265	Other Supplies and Materials	\$ 1,721
5	410102	P2042901	45492	Food Stuffs	\$ 315
6	410102	P2044801	45492	Food Stuffs	\$ 1,200
7	410110	P2133601	47959	Repairs	\$ 4,929
8	510100	C0178901	47558/48759	Construction	\$ 87,680

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-3, Continued

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment, Continued

Condition, Continued:

For item #s 1 and 8, the procurement process was limited to informal price quotations; however, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding.

For item #s 2, 3, 4, 5, 6, and 7 no evidence supporting the procurement process was noted on file. Furthermore, item # 4 was not adequately supported by a vendor invoice. Accordingly, we were unable to determine whether the expenditures were necessary and reasonable for the program needs and were directly related to and in accordance with program intent and objectives.

Cause: The cause of the above condition is the lack of vendor invoices supporting recorded expenditures, and the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and procurement standards.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with allowable costs/cost principles, and federal procurement requirements as stipulated in the FPA. 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.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The MOF is in the process of establishing a new manual of procurement procedures that will simplify, clarify and modernize the procurement system of the RMI Government. In addition, the Chief of Procurement and Supply has already taken steps to ensure that all procurement made with all public funds, including federal funds, are expended in accordance with the program needs and are directly related to and in accordance with program intent and objectives.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-4

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment

U.S. Department of Health and Human Services:

- CFDA # 93.110 - MCH Services Community Based Health Education
- CFDA # 93.118 - Acquired Immune Deficiency (AIDS) Activity
- CFDA # 93.136 - Rape Prevention and Education
- CFDA # 93.217 - Title X Family Planning Services
- CFDA # 93.268 - Immunization and Vaccines for Children
- CFDA # 93.283 - Public Health Preparedness and Response to Bioterrorism
- CFDA # 93.977 - Comprehensive STD Prevention Systems
- CFDA # 93.988 - State-based Diabetes Program

Questioned Costs: \$179,482 (Comprising CFDA # 93.110 \$3,163; CFDA # 93.118 \$16,539; CFDA # 93.136 \$4,917; CFDA # 93.217 \$17,851; CFDA # 93.268 \$36,170; CFDA # 93.283 \$91,358; CFDA # 93.977 \$7,919; CFDA # 93.988 \$1,565)

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives. Additionally, the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the Common Rule.

Condition: Of \$5,907,484 in non-payroll expenditures of the Federal Grants Fund (excluding the IDEA Special Education – Grants to States program, which was separately tested), sixty-six items, totaling \$2,061,514, were tested. We noted the following items pertaining to RepMar’s Ministry of Health where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>CFDA #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	93.110	A0669301	39642	International Travel	\$ 3,163
2	93.118	P1856601	41328	Office and Computer Supplies	\$ 16,539
3	93.136	P1976401	44153	Other Charges and Expenses	\$ 4,917
4	93.217	P1884901	41882	Other Charges and Expenses	\$ 15,165
5	93.217	A0755801	45629	International Travel	\$ 2,686
6	93.268	P1848601	40976	Other Charges and Expenses	\$ 24,821
7	93.268	A0707101	42570	International Travel	\$ 3,589
8	93.268	P1980001	43839	Other Charges and Expenses	\$ 5,000
9	93.268	P2062401	46904	Equipment	\$ 2,320
10	93.268	P1972201	47248	POL (Fuel)	\$ 440
11	93.283	P1891101	42054	Other Charges and Expenses	\$ 4,000
12	93.283	C0185401	48065	Equipment	\$ 16,250
13	93.283	P2097601	N/A	Contractual Services	\$ 71,108
14	93.977	P2022201	44969	Other Charges and Expenses	\$ 7,919
15	93.988	A0807901	48996	International Travel	\$ 1,565

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-4, Continued

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment, Continued

Condition, Continued:

For item # 1, expenditures related to international travel for which no supporting documentation was on file evidencing the procurement process, indicating the nature of the expenditure, and how the expenditure was directly related to and in accordance with program intent and objectives. For item #s 5, 7 and 15, expenditures related to international travel on full economy fares. No evidence of obtaining the least expensive economy class airfare purchased was on file. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination.

For item #s 2, 3, 9 and 14, the purchase requisition dates preceded the dates of the informal price quotations on file. Hence, it appears that the vendors were already selected before all price quotations were obtained.

For item #4, two informal price quotations were on file; however, one of the quotations was not on vendor letterhead. We enquired with this vendor who indicated that such did not represent a price quotation from their company.

For item # 6, three informal price quotations were on file; however, only two vendors indicated items in stock. The Ministry of Health selected the higher price quotation without adequate documentation indicating the rationale for vendor selection.

For item # 8, three informal price quotations were on file; however, two quotations were dated 10/30/06 and 10/31/06 and related to a Ministry of Education vehicle. Additionally, the services were provided on 2/4/06, which pre-dates the price quotations and purchase requisition date of 12/5/06.

For item #s 10, 11 and 12, no evidence supporting the procurement process were noted on file. Furthermore, item # 11 related to two functions dated June 2006 and October 2006. The June 2006 function related to off-site catering whereas the October 2006 function was not adequately supported by a vendor invoice. The purchase requisition referred to a Ministry of Health Pandemic Flu workshop to be held in January 2007. Accordingly, we were unable to determine whether the expenditures were necessary and reasonable for the program needs and were directly related to and in accordance with program intent and objectives.

For item # 13, expenditures related to Bioterrorism/Hazmat contract for which we were unable to determine if the actual services were provided by the contractor. As of June 6, 2008, this item was still recorded as accounts payable, hence no check disbursement has been made to the vendor.

As the supporting documentation was not adequately maintained for item #s 1 through 12, 14 and 15 indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs will be reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-4, Continued

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment, Continued

Cause: The cause of the above condition is the lack of vendor invoices supporting recorded expenditures, and the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and procurement standards as required by the Common Rule.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with allowable costs/cost principles, and with federal procurement requirements as required by the Common Rule. 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.

Auditee Response and Corrective Action Plan: We agree with the auditor finding and recommendation. The MOF, particularly the Procurement and Supply Division, will take immediate corrective actions to ensure that supporting documentation includes procurement history, rationale for and method of procurement, criterion used in selecting or rejecting contractor(s), and the bases for the contract price.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-5

Procurement and Suspension and Debarment

U.S. Department of Education - CFDA # 84.027: IDEA Special Education - Grants to States

Questioned Costs: \$16,679

Criteria: Section 80.36 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in this section.

Condition: Of \$852,722 in non-payroll expenditures of the IDEA Special Education - Grants to States program, thirty-five items, totaling \$173,545, were tested. We noted the following items where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	A0697601	41951	International Travel	\$ 2,876
2	P1939301	42970	Other Charges and Expenses	\$ 287
3	P1939301	43184	Other Charges and Expenses	\$ 363
4	P2046501	46893	Equipment	\$ 5,500
5	A0784401	47915	International Travel	\$ 3,153
6	P2162001	48501	Training and Staff Development	\$ 4,500

For item #s 1 and 5, expenditures related to international travel on full economy fares. No evidence of obtaining the least expensive economy class airfare purchased was on file. RepMar's travel policy requires that economy class travel be the standard class for government officials, going through the most direct and inexpensive route available to and from the place of destination. As no supporting documentation was maintained indicating the history of procurement, including the rationale for purchasing full economy fares, a questioned cost will be reported.

For item #s 2, 3, and 6, we noted only one price quotation from a local vendor for each purchase. Accordingly, RepMar appears to have sole-sourced these purchases. Section 128 of RepMar's Procurement Code states 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. No supporting documentation was noted to indicate the sole-source procurement process. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, a questioned cost will be reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-5, Continued

Procurement and Suspension and Debarment, Continued

Condition, Continued:

For item # 4, we noted three price quotations from vendors for the purchase of audiometers. Section 127 of RepMar's Procurement Code states any procurement not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchases procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Two of the price quotations were not obtained by the Ministry of Education but rather were obtained for and on behalf of the Ministry by the vendor who was ultimately awarded the purchase. As no supporting documentation was maintained indicating the history of procurement, including the rationale for allowing the selected vendor to obtain price quotations for and on behalf of the Ministry of Education, a questioned cost will be reported.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with procurement standards as required by the Common Rule.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements as required by the Common Rule. 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.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The MOF's Procurement and Supply Division established a policy allied by improved working procedures to ascertain appropriate internal control. In that respect, the Procurement and Supply Unit will take superior measures by ensuring that the process of procuring and supplying, including observation of the relevant procedures as disclosed in the Procurement Code, are fully complied with.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-6

Procurement and Suspension and Debarment

U.S. Department of Agriculture - CFDA # 10.567: Food Distribution Program Grant

U.S. Department of the Interior - CFDA # 15.875: OMIP-MOE Procurement Grant

U.S. Department of Education:

CFDA # 84.256 - Freely Associated States Education Grant

CFDA # 84.276 - Goals 2000-State and Local Education Systemic Improvement Grant

Questioned Costs: \$166,163 (Comprising CFDA # 10.567 \$119,989; CFDA # 15.875 \$9,950; CFDA # 84.256 \$24,999; CFDA # 84.276 \$11,225)

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule), states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the Common Rule.

Condition: Of \$5,907,484 in non-payroll expenditures of the Federal Grants Fund (excluding the IDEA Special Education – Grants to States program, which was separately tested), sixty-six items, totaling \$2,061,514, were tested. We noted the following items pertaining to RepMar's Ministry of Education where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>CFDA #</u>	<u>PO #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>Amount</u>
1	10.567	P2123601	47914	Other Charges and Expenses	\$ 41,561
2	10.567	P2123401	47919	Other Charges and Expenses	\$ 59,038
3	10.567	P2123301	47928	Other Charges and Expenses	\$ 19,390
4	15.875	P2025401	45296	Office Equipment	\$ 9,950
5	84.256	P2127601	48067	Office and Computer Supplies	\$ 24,999
6	84.276	P1890101	41882	Other Charges and Expenses	\$ 11,225

For item #s 1, 2 and 3, no evidence supporting the procurement process were noted on file.

For item #s 4 and 6, the purchase requisition dates preceded the dates of the informal price quotations on file. Hence, it appears that the vendors were already selected before all price quotations were obtained.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-6, Continued

Procurement and Suspension and Debarment, Continued

Condition, Continued:

For item # 5, three informal price quotations were on file for a multitude of school supplies; however, there was no documentation on file indicating the vendor selection process.

As the supporting documentation was not adequately maintained for item #s 1 through 6 indicating the history of procurement, including the rationale for and method of procurement, the contractor selection or rejection, and the basis for the contract price, questioned costs will be reported.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with federal procurement requirements.

Effect: The effect of the above condition is noncompliance with procurement standards as required by the Common Rule.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements as required by the Common Rule. 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.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The MOF, particularly Procurement and Supply Division, will take immediate corrective actions to ensure that supporting documentation includes procurement history, rationale for and method of procurement, criterion used in selecting or rejecting contractor(s), and the basis for the contract price.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-7

Procurement and Suspension and Debarment and Period of Availability of Federal Funds

U.S. Department of the Interior - CFDA # 15.875: Utrik Atoll Local Government (UalGov)  
Financial Management Improvement Project Grant

Questioned Costs: \$19,712

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to and in accordance with program intent and objectives.

Condition: Of \$1,791,959 in payroll expenditures of the Federal Grants Fund (excluding the IDEA Special Education – Grants to States program, which was separately tested), twenty items, totaling \$76,404, were tested. One item related to the reimbursement of costs incurred (APV # 60619, check # 38654 for \$68,485) for annual salaries and wages of two UalGov employees (\$63,510) and the purchase of computer equipment and cell phones (\$4,975). The grant was for the period July 2004 through September 2005. Based on the supporting salaries and wages schedule and vendor invoices attached to check voucher, salaries and wages of \$14,737 related to the period October 2005 to December 2005. Additionally, the computer equipment and cell phones were purchased in October 2005 and January 2006, which is also outside of the grant period. Furthermore, no formal documentation was noted to indicate the competitive bidding process as to how the vendor was selected by UalGov. Accordingly, questioned costs are reported.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with federal procurement requirements, and adequate policies and procedures requiring the incurrence of costs within the period of availability.

Effect: The effect of the above condition is noncompliance with procurement and period of availability standards as required by the Common Rule.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements as required by the Common Rule. 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. Additionally, we recommend RepMar ensure that expenditures are incurred within the grant period of availability.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. Recently, the MOF, in collaboration with the Office of the Chief Secretary, have had open discussions with the leadership of the four nuclear affected atolls on ways to ensure that the intended purposes of this program is met and at the same time RepMar complies with the federal requirements as required by the Common Rule. Furthermore, the Ministry of Finance agrees, and will ensure, that expenditures are incurred within the grant period of availability.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-8

Cash Management

U.S. Department of Education - CFDA # 84.027: IDEA Special Education - Grants to States

Questioned Costs: Undeterminable

Criteria: Section 80.21 of 34 CFR 80 and Section 92.21 of 45 CFR 92, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR 205.

Condition: Of \$852,722 in non-payroll expenditures for the IDEA Special Education – Grants to States program, thirty-five items, totaling \$177,393, were tested. For one item, we noted Federal funds were received prior to payments being disbursed to vendors:

<u>Check #</u>	<u>Amount</u>	<u>Reimbursement Date</u>	<u>Check Clearance Date</u>	<u>Excess Days</u>
42947	\$ 60,000	03/15/07	08/23/07	161

For the remaining thirty-four items, we were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not made available for examination.

Cause: The cause of the above condition is the lack of a formal methodology and procedures over the draw down of Federal funds to ensure compliance with cash management requirements.

Effect: The effect of the above condition is noncompliance with cash management requirements. Due to the lack of available information provided by the grantee, the amount of questioned costs, if any, applicable to this finding are undeterminable.

Recommendation: We recommend that the Ministry of Finance establish a formal methodology governing the drawdown of Federal funds to minimize the time elapsed between the receipt of Federal funds and the date of applicable payments clear in the bank.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Our corrective action plan will involve the Assistant Secretary of Accounting and Assistant Secretary of Budget and OIDA to establish a spending pattern and a draw down schedule for all Federal program grants to minimize time elapsed between receipt and disbursement of funds. The anticipated completion of this corrective action plan is September 30, 2008.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-9

Equipment and Real Property Management

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

U.S. Department of Education - CFDA # 84.027: IDEA Special Education - Grants to States

Questioned Costs: \$0

Criteria: Article VI , Section 1(f)(4) of the Fiscal Procedures Agreement (FPA) and the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

- a. Property records must be maintained, which include (1) a description of the property, (2) a serial number or other identification number, (3) the source of property, (4) who holds title, (5) the acquisition date and cost of the property, (6) the percentage of United States funding used in the purchase, (7) the location, use and condition of the property, and (8) any ultimate disposition data including the date of disposal and sale price.;
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition: No inventory of fixed assets has been performed to ensure compliance with the FPA and the Common Rule.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures to ensure compliance with federal property rules and regulations.

Effect: The effect of the above condition is noncompliance with federal property standards as required in the Common Rule.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-9, Continued

Equipment and Real Property Management, Continued

Recommendation: We recommend that the Ministry of Finance perform an inventory of RepMar's fixed assets as a basis for recording all assets in the financial statements and to ensure that it is in compliance with applicable federal property rules and regulations.

Prior Year Status: Lack of a complete fixed assets listing was reported as a finding in the Single Audits of RepMar for fiscal years 1988 through 2006.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The MOF is organizing a nationwide physical inventory count of all RMI fixed assets particularly to address and include all fixed assets worth \$5,000 and greater to comply with the Federal requirement. The Ministry has in place newly installed software (database) to record and monitor all government fixed assets valued at \$5,000 dollar and greater. With the software, the Ministry of Finance is in a better position to update its fixed assets inventory in Fiscal Year 2008 and to maintain effort in continuing the updating process in the long run.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-10

Period of Availability of Federal Funds

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$82,161

Criteria: The grant award for the FY 2006 Supplemental Education Grant (SEG) stipulates that the effective date of the grant is September 1, 2006 through March 31, 2008. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period.

Condition: Of \$30,503,282 in non-payroll expenditures of the Compact Sector Grant Fund, one hundred and three items, totaling \$13,105,675, were tested. We noted one item in the amount of \$82,161 (PO # M0286401 - Check # 38292) paid to the College of Marshall Islands for the reimbursement for expenditures incurred by the College on its GED Program. However, the supporting documentation attached to the check voucher indicated that the expenditures incurred by the College related to the period of May 26, 2006 through August 31, 2006. Hence the provision of services was obligated outside the period of availability resulting in a questioned cost amount of \$82,161.

Cause: The cause of the above condition is the obligation of SEG funds for services that were incurred outside of the funding period.

Effect: The effect of the above condition is noncompliance with period of availability requirements as stipulated in the grant award.

Recommendation: We recommend that RepMar comply with the period of availability requirements as stipulated in the SEG grant award.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The incurrence of the expenditures outside the period of availability of the grants is an oversight during the certification process. It is standard practice in the MOF's budget department to obligate funds and incur expenditures within the grant period availability as stipulated under the grant awards.

Going forward, the MOF will exert its best effort to comply with period of availability of the federal grant requirements.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-11

Subrecipient Monitoring

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$0

Criteria: Article VI, Section 1(a)(1) of the Fiscal Procedures Agreement (FPA) states that fiscal control and accounting procedures of RepMar, as well as its Sub-Grantees, shall be sufficient to: (i) permit the preparation of reports required by the FPA and the Compact, as amended; and (ii) permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used in compliance with the provisions of the Compact, as amended, and applicable agreements. Furthermore, Article VI, Section 1(k) (1) of the Fiscal Procedures Agreement (FPA) states that RepMar shall ensure that: (i) every Sub-Grant includes any clauses required by the Compact, as amended, the sector Grant awards and the FPA; (ii) Sub-Grantees are aware of requirements imposed upon them by the Compact, as amended, the sector Grants and the FPA; and (iii) the Sub-Grantee can meet the financial management standards of the FPA.

Condition: During the year ended September 30, 2007, RepMar sub-granted funds to the College of the Marshall Islands, and the Marshall Islands Scholarship, Grant and Loan Board; however, no contracts or Memoranda of Understanding (MOUs) were executed with these Sub-Grantees until subsequent to the fiscal year end.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the execution of contracts or MOUs with Sub-Grantees and ensuring compliance with special tests and provisions.

Effect: The effect of the above condition is noncompliance with specific provisions of the FPA.

Recommendation: We recommend that RepMar comply with the specific provisions of the FPA and execute contracts or MOUs with all Sub-Grantees.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. In the past, the MOF used to execute Memorandum of Understanding (MOU) with Sub-recipients on the usage of Compact sector grants at the start of each financial year. It is standard practice in the MOF to execute MOUs between the Ministry and the Sub grantee before funds are released to sub-recipients. However, in FY 2007 an oversight occurred and the MOUs were not executed until the year end. Although the MOUs were not in place, the sub-recipients were complying with the FPA by providing the required financial reports, namely, the quarterly SF269 and SF272 to the MOF, as required by the FPA.

Going forward and to insure compliance with the FPA, the Accounting Department has been assigned and designated as the MOF's responsible division ensuring execution of MOUs with sub recipients of these Compact grants.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No 2007-12

Reporting

U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Questioned Costs: \$0

Criteria: Required quarterly Financial Status Reports (FSRs) for Federal awards should include all activity of the reporting period.

Condition: During the year ended September 30, 2007, the Ministry of Finance submitted quarterly FSRs for Compact Sector Grants as required under the Fiscal Procedures Agreement. We obtained the quarterly FSRs submitted to the grantor agency for fiscal year 2007 program activity and agreed reported amounts to the underlying accounting records and noted the following exceptions:

<u>Fund #</u>	<u>Sector Grant</u>	<u>Expenditure Balances</u>		<u>Variance</u>
		<u>Per FSR</u>	<u>Per DILOG 134-P</u>	
410100	Education Sector	\$ 11,581,977	\$ 11,740,698	\$ 158,721
410102	Supplemental Education Grant	\$ 4,566,629	\$ 4,583,136	\$ 16,507
410110	Health Sector	\$ 5,450,728	\$ 5,466,534	\$ 15,806
410120	Capacity Building Sector	\$ -	\$ 8	\$ 8
510100	Public Infrastructure Sector	\$ 16,089,689	\$ 17,210,181	\$ 1,120,492
510110	Infrastructure Maintenance Fund	\$ 468,826	\$ 497,654	\$ 28,828
510130	Single Audit Grant	\$ -	\$ 183,758	\$ 183,758

The above expenditure balances reported on the FSRs were based on DILOG 240-P management reports generated from the 4Gov accounting system; however, no reconciliation was performed to expenditure balances reported per the DILOG 134-P reports.

Cause: For Fund #s 410100, 410102, 410110 and 410120, it appears that the variances were the result of expenditures recorded within certain Cost Centers that were excluded from the established parameters used to generate the DILOG 240-P management reports. For Fund #s 510100 and 510110, it appears that the variances were the result of expenditures recorded subsequent to the submission of the final FSRs. For Fund # 510130, it appears that management inadvertently failed to submit the required report.

Effect: The effect of the above condition is the understatement of federal expenditures as submitted on the quarterly financial status SF-269 reports.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No 2007-12, Continued

Reporting, Continued

Recommendation: We recommend that management establish internal control policies and procedures to ensure that reported federal expenditures are based on expenditures per the underlying accounting records. Furthermore, for Fund #s 410100 and 410110, we recommend that the Ministry of Finance submit revised final FSRs for fiscal year 2007 and request the necessary reimbursement from the grantor agency.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The variances noted in the audit finding is a result of several payroll related expenditures still using old Cost Centers and were inadvertently excluded from the established parameters. As a result, the expenditures recorded under these Cost Centers were not reported in the SF269.

Our corrective action for fund #410100 and 410110 will involve submitting revised final FSRs for FY 2007 and to request the necessary reimbursement from the grantor agency (DOI). Furthermore, the MOF will exert its best effort to ensure that expenditures that are being incurred are properly recorded and reported. Currently, we are in the process of reviewing all payroll related files to ensure they are using valid Cost Centers.

The MOF, while continuing to work with the line ministries on updating the personnel list every year, will take stronger measure through its Payroll Department in close collaboration with General Accounting and Budget on the changing of personnel account/cost centers process. Similar approach shall be applied to the federal programs and other roll-over funds.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-13

Cash and Investment Balances

**Criteria:** Bank reconciliations should be performed on a monthly basis and in a timely fashion, and be independently reviewed for accuracy.

**Condition:** Three months subsequent to September 30, 2007 (December 31, 2007), bank reconciliations were not completed by the Ministry of Finance for the following cash and investment accounts:

<u>G/L Acct #</u>	<u>Account Name</u>	<u>G/L Balance</u>
300614-19060	NCT Investments	\$ 1,244,135
300617-15030	Investment – MIDB	\$ 4,638,849
300618-15020	Trust Fund – FHB	\$ 41,627,147
800405-12062	Imprest Account ADB Loan # 1791	\$ 22,268
950000-12010	Imprest Fund – Fiji Embassy	\$ 19,700
950000-12020	Imprest Fund – Tokyo Embassy	\$ 100,000
950000-13010	BOG – General Fund General Account	\$ (4,234,313)
950000-13015	BOMI – General Fund General Account (Ebeye)	\$ 769,423
950000-13020	BOMI – General Fund Payroll Account	\$ (66,235)
950000-13025	Payroll Clearing Account	\$ (2,330)
950000-15020	Cash and Investments – MIITF	\$ 2,500,000
950000-15040	BOMI – TCD MIMRA	\$ 58,828
950000-15070	FHB – TCD Credit Card	\$ 55,000

Of the above cash accounts, the bank reconciliation for the BOG – General Fund General Account was only completed for the month of October 2006, the bank reconciliations for the BOMI – General Fund Payroll Account were completed for the months of October 2006 through March 2007, and the bank reconciliations for the remaining cash and investment accounts were not completed for the entire fiscal year.

We received a confirmation of cash balances at September 30, 2007 from Bank of Marshall Islands, which included the account for G/L Acct # 800405-12062 with an account balance of \$17,473. No supporting documentation was made available verifying the withdrawal of \$4,795 during 2007. As the overstatement of cash balances was not considered material to the financial statements, no audit adjustment was proposed.

In addition, we received a confirmation of cash balances at September 30, 2007 from First Hawaiian Bank, which included one account balance of \$7,113 that was not recorded in the general ledger. As the understatement of cash balances was not considered material to the financial statements, no audit adjustment was proposed.

Furthermore, we received a confirmation of cash balances at September 30, 2007 from Bank of Marshall Islands, which included one account closed in fiscal year 2007 that had a general ledger balance of \$5,042. As the overstatement of cash balances was not considered material to the financial statements, no audit adjustment was proposed.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-13, Continued

Cash and Investment Balances - Bank Reconciliations, Continued

Cause: The cause of the above condition is the lack of established policies and procedures requiring the performance of bank reconciliations on a monthly basis and in a timely fashion, and the lack of supervisory review.

Effect: The effect of the above condition is the possibility of misstatement and misappropriation of cash and investment balances going undetected.

Recommendation: We recommend that management establish internal control policies and procedures to ensure that bank reconciliations are prepared and independently reviewed on a monthly basis and in a timely fashion.

Auditee Response and Corrective Action Plan: We agree with this audit finding and recommendation. The MOF has subsequently established internal control policies to ensure that bank reconciliations are performed in a timely manner. The policy is being imposed on the Accounting Department, the Ministry's designated department in charge of bank reconciliations. Further the policy clearly sets the timeframe in which bank reconciliations must be completed. That is, the policy requires that all bank reconciliations must be completed within thirty (30) days after the end of each month and further requires the Secretary of Finance to review each reconciliation file for completion.

As of May 31, 2008, all bank accounts have been reconciled and updated.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-14

Travel Advances/Accounts Payable

**Criteria:** Reconciliations of the subsidiary ledger for travel advances and accounts payable to the respective general ledger control accounts should be performed on a monthly basis and in a timely fashion, and be independently reviewed for accuracy.

**Condition:** Three months subsequent to September 30, 2007 (December 31, 2007), the subsidiary ledger for travel advances and accounts payable were not reconciled for the entire fiscal year by the Ministry of Finance. Furthermore, we noted the following general ledger accounts with significant unreconciled variances:

<u>Travel Advance (A/c # 28010) Balances</u>				
<u>Fund #</u>	<u>General</u>		<u>Subledger</u>	<u>Variance</u>
	<u>Ledger</u>			
100100	\$ (121,815)	\$ 38,159	\$ (159,974)	
600350	\$ 100,051	\$ 87,004	\$ 13,047	

<u>Accounts Payable (A/c # 50010) Balances</u>				
<u>Fund #</u>	<u>General</u>		<u>Subledger</u>	<u>Variance</u>
	<u>Ledger</u>			
100100	\$ 764,971	\$ 707,213	\$ 57,758	
510110	\$ (7,228)	\$ 104,603	\$ (111,831)	

Audit adjustments were proposed to correct travel advance balances within Fund # 100100 and accounts payable balances within Fund # 510110. The remaining two variances were not considered material to the financial statements, thus no audit adjustments were proposed.

**Cause:** The cause of the above condition is the lack of established policies and procedures requiring the performance of account reconciliations for travel advances and accounts payable balances on a monthly basis and in a timely fashion, and the lack of supervisory review.

**Effect:** The effect of the above condition is the possibility of misstatement of travel advance and accounts payable balances and errors going undetected.

**Recommendation:** We recommend that management establish internal control policies and procedures to ensure that account reconciliations for travel advances and accounts payable balances are prepared and independently reviewed on a monthly basis and in a timely fashion.

**Auditee Response and Corrective Action Plan:** We agree with this audit finding and recommendation. The MOF has established internal controls, more specifically an in-house policy imposed on the Accounting Department, which sets out the timeframe in which Travel Advances and Accounts Payable reconciliations must be completed. That is, the policy requires that all Travel Advances/Accounts Payable reconciliations must be completed on a monthly basis and further reviewed by the Secretary of Finance for completion.

Currently, the MOF's Accounting Department is in the process of performing the reconciliations of subsidiary ledgers to the control accounts. It is anticipated that reconciliations will be completed prior to September 30, 2008.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-15

Accounts Payable/Reporting

U.S. Department of the Interior - CFDA # 15.875: Compact Infrastructure Sector Grant

Questioned Costs: \$0

Criteria: Expenditures should be recorded in the period in which the related liability is incurred.

Condition: At September 30, 2007, the Ministry of Finance recorded accounts payable, totaling \$4,616,862, for expenditures pertaining to fiscal year 2008 as follows:

<u>G/L Acct #</u>	<u>G/L Account Name</u>	<u>Amount</u>
Compact Sector related:		
410100-50010	Education Sector	\$ 308,065
410102-50010	Supplemental Education Grant	39,530
410110-50010	Health Sector	36,749
410150-50010	Ebeye Special Needs	27,519
510100-50010	Public Infrastructure Sector	2,780,548
510110-50010	Infrastructure Maintenance Fund	28,981
Non-Compact Sector related:		
700370-50010	Republic of China Projects Fund	<u>1,395,470</u>
		<u>\$ 4,616,862</u>

Accordingly, audit adjustments were proposed to reverse these expenditures and related accounts payable.

Cause: The cause of the above condition is the lack of timely roll-over of encumbrances to the current fiscal year thus requiring the Accounts Payable Department to record fiscal year 2008 expenditures in 2007 in order to liquidate the related encumbrances for payment.

Effect: The effect of the above condition is the overstatement of expenditures and related accounts payable balances, and the overstatement of Compact Sector grant expenditures as submitted by RepMar on the quarterly financial status SF-269 reports.

Recommendation: We recommend that management establish internal control policies and procedures to ensure expenditures are recorded in the period in which the related liability is incurred.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The delay in the rolling of encumbrances from prior year to the current fiscal year has resulted in FY 2008 expenditures inadvertently being recorded and posted to the prior year. An audit adjustment has already been proposed to correct the situation to post these expenditures to the respective period in which the liability was incurred.

Currently, the MOF, led by Accounting Department is developing an in-house policy that will clearly state when encumbrances must roll. That is, the policy states that open encumbrances must roll no later than ten (10) days after year end. Furthermore, all Assistant Secretaries of Finance are the MOF's designated officials who will ensure timely rolling of open encumbrances.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Questioned Costs  
Year Ended September 30, 2007

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, 2007:

	<u>Questioned Costs</u>		
	<u>RepMar</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of RepMar as previously reported:			
Fiscal year 2004 Single Audit	\$ 1,128,841	\$ 3,514,381	\$ 4,643,222
Fiscal year 2005 Single Audit	683,490	-	683,490
Fiscal year 2006 Single Audit	<u>421,559</u>	<u>-</u>	<u>421,559</u>
	2,233,890	3,514,381	5,748,271
Less questioned costs resolved in fiscal year 2007:			
Questioned costs of fiscal year 2004 Single Audit (1)	(1,128,841)	(3,514,381)	(4,643,222)
Questioned costs of fiscal year 2005 Single Audit (2)	<u>(419,757)</u>	<u>-</u>	<u>(419,757)</u>
	685,292	-	685,292
Questioned costs of fiscal year 2007 Single Audit	<u>710,185</u>	<u>-</u>	<u>710,185</u>
Unresolved questioned costs of RepMar at September 30, 2007	\$ <u>1,395,477</u>	\$ <u>-</u>	\$ <u>1,395,477</u>

(1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as RepMar considers these findings are no longer valid as they were reported to federal agencies on July 11, 2005, which is in excess of the two year threshold.

(2) Questioned costs considered resolved as RepMar received a final determination letter from the Office of Insular Affairs, U.S. Department of the Interior.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 11 through 36).



JUN 30 2008

**Republic of the Marshall Islands**  
**Ministry of Finance**  
**P.O. Box D ~ Majuro ~ Marshall Islands ~ 96960**  
**Phone No. (692) 625-8322 ~ Fax No. (692) 625-3607 ~ Email Address: [secfin@ntamar.net](mailto:secfin@ntamar.net)**

Summary Schedule of Prior Year Federal Award Findings

**Year Ended September 30, 2006:**

- Finding No. 2006-1 - Corrective action has been taken.
- Finding No. 2006-2 - Corrective action has been taken.
- Finding No. 2006-3 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2006-4 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2006-5 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2006-6 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2006-7 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2006-8 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2006-9 - Not corrected. See corrective action plan to Finding No. 2007-9.
- Finding No. 2006-10 - Corrective action has been taken.

**Year Ended September 30, 2005:**

- Finding No. 2005-1 - Corrective action has been taken.
- Finding No. 2005-4 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2005-5 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2005-6 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.

- Finding No. 2005-7 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2005-8 - Corrective action has been taken.
- Finding No. 2005-9 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2005-10 - RepMar has not received any response of management determination letter or resolution letter from the federal agency for this finding.
- Finding No. 2005-11 - Not corrected. See corrective action plan to Finding No. 2006-9.
- Finding No. 2005-12 - Corrective action has been taken.
- Finding No. 2005-13 - Corrective action has been taken.

**Year Ended September 30, 2004:**

- Finding No. 2004-6 - This finding is considered resolved as such was included within RepMar's data collection form submitted to the Clearinghouse on July 11, 2005. Under Section 315(b)(4) of OMB Circular A-133 these questioned costs are considered resolved as they exceed the 2 year threshold.
- Finding No. 2004-7 - This finding is considered resolved as such was included within RepMar's data collection form submitted to the Clearinghouse on July 11, 2005. Under Section 315(b)(4) of OMB Circular A-133 these questioned costs are considered resolved as they exceed the 2 year threshold.
- Finding No. 2004-8 - This finding is considered resolved as such was included within RepMar's data collection form submitted to the Clearinghouse on July 11, 2005. Under Section 315(b)(4) of OMB Circular A-133 these questioned costs are considered resolved as they exceed the 2 year threshold.
- Finding No. 2004-9 - This finding is considered resolved as such was included within RepMar's data collection form submitted to the Clearinghouse on July 11, 2005. Under Section 315(b)(4) of OMB Circular A-133 these questioned costs are considered resolved as they exceed the 2 year threshold.
- Finding No. 2004-10 - Corrective action has been taken.
- Finding No. 2004-11 - Corrective action has been taken.
- Finding No. 2004-12 - Not corrected. See corrective action plan to Finding No. 2005-11.

JUN 30 2008

June 25, 2008

CONFIDENTIAL

Mr. Jefferson Barton  
Secretary, Ministry of Finance  
Republic of the Marshall Islands  
P.O. Box D  
Majuro, MH 96960

Dear Secretary Barton:

We have audited the financial statements of the Republic of the Marshall Islands (RepMar) as of and for the year ended September 30, 2007, and have issued our report thereon dated June 25, 2008. In planning and performing our audit of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of RepMar, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of RepMar's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations are intended to improve internal control or result in other operating efficiencies and are summarized below.

1. Embassy Consultant Contracts

Of \$78,116 in direct payments for two Embassy employees made by the Washington Embassy, we noted one item in the amount of \$1,731 relating to the bi-weekly salary for one employee that was not supported by a valid employment contract. Instead, the payment was supported by a contract that expired in September 1997. Additionally, of \$19,598 in direct payments for one Embassy employee made by the Tokyo Embassy, we noted one item in the amount of \$10,720 relating to reimbursement for the bi-weekly salary of the employee that was not supported by a valid employment contract. Instead, the payment was supported by a contract that expired in June 27, 2006. We recommend that the Ministry of Foreign Affairs ensure that salaries for Embassy employees are supported by valid employment contracts.

2. Revenues

Of 116 General Fund revenue items tested, we noted two items in the amounts of \$32,889 (customer # 3140-04) and \$1,244 (customer # 4863-04) that were not supported by underlying tax returns. We recommend that the Ministry of Finance ensure that all tax revenues recorded are supported by filed tax returns.

3. Unclaimed Property

On November 28, 2002, the Secretary of Finance received \$93,737 from the Bank of Hawaii representing unclaimed customer accounts when the bank closed its branch, and recorded such as a liability within G/L Acct # 300430-50080. In accordance with Public Law No. 1999-89, any unclaimed property, which escheats to RepMar under the provisions of the law, shall be deposited into an Abandoned Business Interests account within the Unclaimed Business Property Fund. The Secretary of Finance is required to publish the existence of such property within one year after receipt. As of September 30, 2007, the Secretary of Finance has not published the existence of such property in the local newspaper. We recommend that the Ministry of Finance publish the existence of escheated property in accordance with the enabling legislation.

4. Petty Cash Imprest Accounts

At September 30, 2007, the Ministry of Finance recorded twenty-seven petty cash imprest accounts, aggregating \$23,306. We selected one item for testing (G/L Acct # 950000-11044, Ebeye Thyroid Petty Cash) in the amount of \$7,585; however, it was determined that this petty cash account no longer existed. As the amount of \$7,585 was not considered material to the basic financial statements, no audit adjustment was proposed. We recommend that the Ministry of Finance examine all recorded petty cash imprest accounts and determine whether such represent valid petty cash accounts.

5. Embassy Imprest Accounts

Three months subsequent to September 30, 2007 (December 31, 2007), the imprest accounts for the Tokyo Embassy (G/L Acct # 950000-12020) and the Honolulu Consulate (G/L Acct # 950000-12070) in the amounts of \$100,000 and \$10,000, respectively, were not supported by completed imprest account reconciliations or bank statement reconciliations. We recommend that the Ministry of Finance ensure that imprest account and bank statement reconciliations are performed for all Embassy accounts on a monthly basis.

6. Payroll Clearing Account

At September 30, 2007, the Ministry of Finance recorded a credit balance within the payroll clearing account (G/L Acct # 100100-13025) in the amount of \$2,330 representing a payroll bank account with Bank of Marshall Islands that was closed in fiscal year 2004. We recommend that that Ministry of Finance determine the validity of this account balance and correct the general ledger for amounts no longer considered valid.

7. Bank Errors

The bank reconciliation for the General Fund General Account (G/L Acct # 950000-13010) and Payroll Account (G/L Acct # 950000-13020) included bank errors in the amounts of \$5,333 and \$9,878, respectively, that date back as far as fiscal year 2003 without apparent follow-up with the financial institution. Given the aging of these balances, collectibility from the financial institution may be doubtful. We recommend that the Ministry of Finance follow-up on all bank errors with the financial institution in a more timely manner.

8. Unrecorded Transactions

At September 30, 2007, the Ministry of Finance recorded a savings account (G/L Acct # 950000-15040) in the amount of \$62,427. We obtained confirmation of this account balance from Bank of Marshall Islands, which indicated an account balance of \$61,204, with the variance of \$1,223 representing unrecorded transactions. As the amount of \$1,223 was not considered material to the basic financial statements, no audit adjustment was proposed. We recommend that the Ministry of Finance ensure transactions on all bank accounts are recorded.

9. Accounts Payable – Landowners

At September 30, 2007, the Ministry of Finance recorded an amount payable to landowners (G/L Acct # 100100-55040) in the amount of \$16,499, which represented amounts received from Mobil Oil Micronesia, Inc. (MOMI) for a land lease at the airport not yet paid to the landowners. However, all payments for fiscal year 2007 were paid to the landowners thus the recorded liability may no longer be valid. As the amount of \$16,499 was not considered material to the basic financial statements, no audit adjustment was proposed. We recommend that the Ministry of Finance determine the validity of amounts payable to landowners for the MOMI land lease at the airport.

10. Payroll-related Liabilities

At September 30, 2007, the Ministry of Finance recorded accrued payroll (G/L Acct # 960000-60460) in the amount of \$4,921 relating to direct deposits for PPE 9/29/07 whereas actual direct deposits amounted to \$27,686. In addition, the Ministry of Finance recorded accruals for various allotments in the amount of \$951,914 whereas actual allotments payable amounted to \$949,719. As the net variance of \$20,570 was not considered material to the basic financial statements, no audit adjustment was proposed. We recommend that the Ministry of Finance ensure that recorded payroll-related liabilities represent actual amounts payable to employees.

11. Payroll Expenditures – Group Life Insurance Premiums

Of \$207,091 in payroll expenditures relating to the employer share for group life insurance premiums, four items, totaling \$96, were tested and the following exceptions were noted:

<u>Employee #</u>	<u>Actual Employer Share</u>	<u>Expected Employer Share</u>	<u>Variance</u>	<u>Actual Employee Share</u>	<u>Expected Employee Share</u>	<u>Variance</u>
20819	\$ 39.00	\$ 39.60	\$ (0.60)	\$ 27.00	\$ 27.00	\$ -
41519	\$ 11.88	\$ 13.86	\$ (1.98)	\$ 8.10	\$ 9.45	\$ (1.35)

Based on discussions with payroll department personnel, the item relating to employee # 20819 appears to be an input error whereas the item relating to employee # 41519 appears to be the failure of updating insurance premiums subsequent to the employee receiving a pay increment. We recommend that management establish internal control policies and procedures to ensure that changes made to the payroll master file are independently verified and that group life insurance premiums paid represent accurate amounts based on authorized employee pay rates.

12. Miscellaneous Receivables

At September 30, 2007, the Ministry of Finance recorded the following receivable balances that were not supported by underlying subledgers:

<u>G/L Acct #</u>	<u>G/L Balance</u>	<u>G/L Acct #</u>	<u>G/L Balance</u>	<u>G/L Acct #</u>	<u>G/L Balance</u>
100100-20200	\$ 39,700	100100-24012	\$ 2,367	100100-24060	\$ 13,875
100100-22005	\$ 33,419	100100-24020	\$ 12,053	100100-24090	\$ 84,295
100100-22020	\$ 18,956	100100-24027	\$ 1,298	100100-24100	\$ 193,995
				950000-24100	\$ (1,566)

No audit adjustments were proposed for the above items as these receivable balances were offset by an allowance for uncollectible accounts in the amount of \$398,392. We recommend that the Ministry of Finance reconcile these receivable accounts and determine their ultimate collectibility.

13. Loan Drawdowns

At September 30, 2007, we obtained a confirmation from the Asian Development Bank, which included a balance outstanding for Loan Number 1948 RMI (SF) – Outer Island Transport Infrastructure Project in the amount of \$507,517. This loan account was closed on September 15, 2006 yet additional loan drawdowns occurred during fiscal year 2007 in the amount of \$58,612. No documentation was made available supporting these drawdowns. We recommend that the Ministry of Finance determine the validity of these drawdowns against this loan account.

14. Loans Payable

During the year ended September 30, 2007, the Ministry of Finance remitted \$2,685,133 to the Asian Development Bank (ADB) as debt service payments on certain outstanding loan balances. We obtained confirmation from ADB for debt service payments made during the year ended September 30, 2007, and noted the following variances:

	<u>Balance per RepMar</u>	<u>Balance per ADB</u>	<u>Variance</u>
Principal repayment	\$ 1,345,970	\$ 1,404,555	\$ (58,585)
Interest payments	<u>1,339,163</u>	<u>1,260,474</u>	<u>78,689</u>
	<u>\$ 2,685,133</u>	<u>\$ 2,665,029</u>	<u>\$ 20,104</u>

In addition, we obtained confirmation from ADB of outstanding loans payable at September 30, 2007, and agreed such to the corresponding balances recorded by the Ministry of Finance. The following variances were noted:

<u>Loan #</u>	<u>Balance per RepMar</u>	<u>Balance per ADB</u>	<u>Variance</u>
1102	\$ 3,039,780	\$ 3,099,560	\$ (59,780)
1218	452,166	462,645	(10,479)
1249	7,161,764	7,252,028	(90,264)
1250	651,540	664,201	(12,661)
1316	4,882,110	4,909,565	(27,455)
1389	8,109,176	7,971,482	137,694
1513	11,290,181	11,177,293	112,888
1694	8,953,626	8,953,626	-
1791	4,923,345	4,923,345	-
1828	3,397,242	3,388,600	8,642
1829	8,388,966	8,388,966	-
1948	507,517	507,517	-
	<u>\$ 61,757,413</u>	<u>\$ 61,698,828</u>	<u>\$ 58,585</u>

We recommend that management establish internal control policies and procedures to ensure that reconciliations of loans payable balances are prepared and independently reviewed on a periodic basis and in a timely fashion.

15. Credit Card Payable

At September 30, 2007, the outstanding balance payable on RepMar's credit card amounted to \$49,959, of which only \$4,505 was recorded as a liability at year end. No reconciliation of the September 2007 credit card statement to the general ledger balance was made available. Furthermore, based on discussions with Finance personnel, no reconciliations were performed for the entire fiscal year. As the unrecorded liability of \$45,454 was not considered material to the basic financial statements, no audit adjustment was proposed. We recommend that management establish internal control policies and procedures to ensure that credit card statement reconciliations are prepared and independently reviewed on a monthly basis and in a timely fashion.

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In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and in accordance with *Government Auditing Standards* communicated them in writing to RepMar in a separate report dated June 25, 2008.

Our audit procedures are designed primarily to enable us to form opinions on the basic financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of RepMar's organization gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at your convenience.

This report is intended solely for the information and use of the members of the management of RepMar and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

