

REPUBLIC OF THE MARSHALL ISLANDS

**BASIC FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED SEPTEMBER 30, 2008

REPUBLIC OF THE MARSHALL ISLANDS

FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2008

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**FINANCIAL STATEMENTS
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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, 2008, 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.

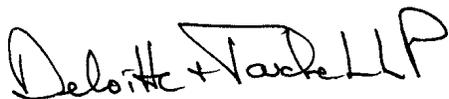
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands as of September 30, 2008, 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.

As discussed in Note 12 to the financial statements, the beginning net assets of the aggregate discretely presented component units has been restated to correct a misstatement.

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.

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 10, 2009, 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.

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

June 10, 2009

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2008

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, 2008. We encourage readers to consider the information presented here in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2007 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 \$71 million (net assets), decreasing by \$6.1 million (or 7.9%) from \$77.1 million in the prior year. This decrease is primarily attributable to the decrease in the corpus of the Compact Trust Fund of \$9.7 million offset by an increase in the infusion of resources from the Government of the Republic of China of \$3.7 million for various designated projects.
- During the current fiscal year, RepMar's expenses for governmental activities were \$104 million, including expenses recorded or payments made or due to the autonomous agencies, and were funded in part by \$51.3 million in program revenues and \$46.9 million in taxes and other general revenues. Program revenues decreased by \$22.1 million (or 30.1%) from \$73.4 million in the prior year to \$51.3 million, which was attributable primarily to the decrease in investment earnings generated by the Compact Trust Fund and resources from Public Infrastructure Sector grant funds. Expenses increased by \$5 million (or 5%) from \$99.2 million in the prior year to \$104 million. The increase in expenses was primarily attributable to the appropriation of funds from the Kwajalein Development Fund for and on behalf of Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR) for the purpose of funding the operations of KAJUR.
- For the current fiscal year, the General Fund reported revenues (and transfers in) of \$39.6 million, \$3.0 million in excess of charges to general fund appropriations (including transfers out) of \$36.6 million. General fund revenues were down \$2.7 million (or 6.3%) from prior year primarily due to a decrease in one-time transfers from other governmental funds. On the other hand, General fund appropriations were up \$1.3 million (or 3.7%) from prior year primarily due to an increase in transfers to other governmental funds of \$1.0 million (up from \$0.4 million in prior year to \$1.4 million) and the recognition of a loss of \$1.0 million as a result of the foreclosure on a component unit bank loan that was guaranteed by the primary government. Revenues collected, including transfers in, of \$39.6 million were higher than budgeted amounts of \$36.4 million. Additionally, charges to appropriations, including transfers out, of \$37.4 million were higher than budgeted amounts of \$36.7 million resulting in an overall net budgetary surplus for the current year of \$2.5 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, 2008

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, 2008

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 98 of this report.

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis Year Ended September 30, 2008

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 \$71 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 \$42.4 million while its current liabilities were \$34.9 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>2008</u>	<u>2007</u>
Current and other assets	\$ 81,673,835	\$ 83,439,545
Capital assets	<u>85,094,528</u>	<u>86,992,722</u>
Total Assets	<u>166,768,363</u>	<u>170,432,267</u>
Long-term liabilities	60,834,066	62,092,811
Other liabilities	<u>34,876,467</u>	<u>31,226,530</u>
Total Liabilities	<u>95,710,533</u>	<u>93,319,341</u>
Net assets:		
Invested in capital assets, net of related debt	63,291,638	64,866,493
Restricted net assets	44,767,765	52,588,074
Unrestricted net assets	<u>(37,001,573)</u>	<u>(40,341,641)</u>
Total net assets	<u>\$ 71,057,830</u>	<u>\$ 77,112,926</u>

At the end of the current fiscal year, RepMar's unrestricted net asset deficiency was \$37 million, an improvement on the prior year amount of \$3.3 million (or 8.3%). 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, 2008

Changes in Net Assets

As discussed earlier, net assets of the primary government decreased by \$6.1 million, which represents a decrease of 7.9% from the prior year's amount of \$77.1 million. This result indicates that RepMar's financial condition, as a whole, deteriorated 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>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 8,572,876	\$ 7,725,378
Operating grants and contributions	30,848,255	48,096,755
Capital grants and contributions	11,882,287	17,557,572
General revenues:		
Taxes	26,159,223	27,078,657
Grants and contributions not restricted	16,332,637	12,657,362
Fishing rights	1,500,000	1,250,000
Ship registry	2,000,000	1,750,000
Unrestricted investment earnings	405,302	386,554
Other	459,055	523,152
Total revenues	98,159,635	117,025,430
Expenses:		
President and Cabinet	1,841,983	2,095,006
Office of the Chief Secretary	867,656	1,312,892
Special appropriations	6,405,976	7,261,383
Council of Iroij	484,337	426,641
Nitijela	1,662,253	2,108,920
Office of the Auditor-General	946,276	637,014
Public Service Commission	475,109	658,097
Judiciary	828,340	857,907
Office of the Attorney General	598,239	594,124
Education	26,427,212	25,807,631
Health and Environment	21,425,886	22,524,449
Transportation and Communication	2,869,163	2,898,984
Resources and Development	1,083,389	1,206,447
Internal Affairs	2,768,994	3,095,233
Justice	3,569,787	3,216,587
Finance	11,202,602	9,410,639
Foreign Affairs and Trade	2,647,214	2,389,108
Public Works	5,941,489	4,308,882
Environmental Protection Authority	416,711	377,060
Nuclear claims related	1,465,647	644,361
Future operations	304,810	70,497
Interest on long-term debt	1,501,331	789,850
Capital projects	8,480,327	6,514,863
Total expenses	104,214,731	99,206,575
Change in net assets	(6,055,096)	17,818,855
Net assets – beginning of year	77,112,926	59,294,071
Net assets – end of year	\$ 71,057,830	\$ 77,112,926

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Management's Discussion and Analysis
Year Ended September 30, 2008

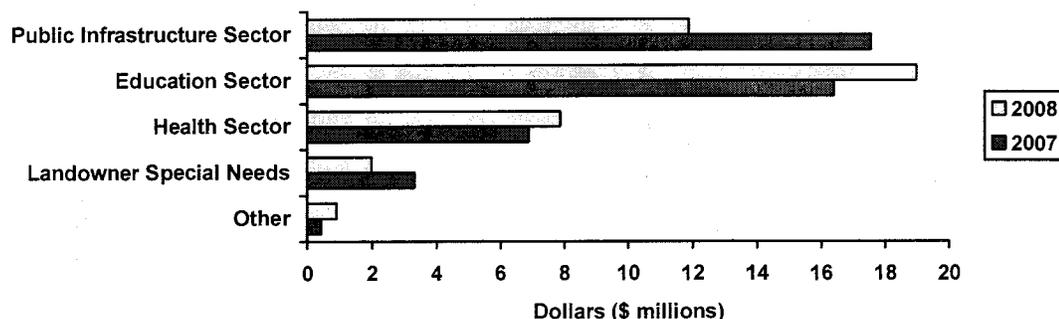
Changes in Net Assets, Continued

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

- Revenues decreased in the current year by \$18.9 million (or 16.1%) due to a decrease in program revenues of \$22.1 million (or 30.1%) offset by an increase in general revenues of \$3.2 million (or 7.4%) as compared with prior year.

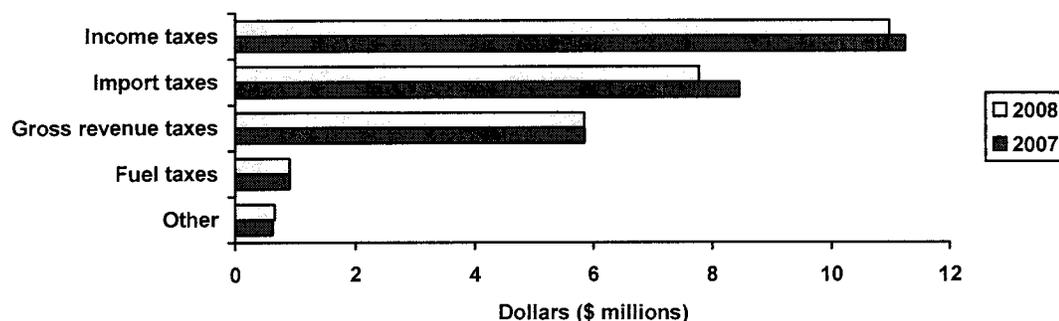
The decrease in program revenues is primarily attributable to a decrease in operating grants and contributions of \$17.2 million (or 35.9%), as compared with prior year, which is due to a reduction in the corpus of the Compact Trust Fund as a result of a decrease in the fair market value of investments. The increase in general revenues is primarily attributable to an increase in the infusion of resources from the Government of the Republic of China of \$3.7 million (or 29%), as compared with prior year, for various designated projects. A significant portion of RepMar's program revenues involve contributions from the Government of the United States under the Compact of Free Association. 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



A significant portion of RepMar's general revenues involve tax revenue collections. 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



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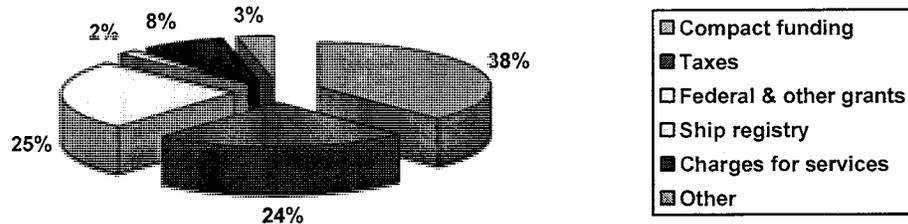
Management's Discussion and Analysis Year Ended September 30, 2008

Changes in Net Assets, Continued

- Cost of governmental activities increased in the current year by \$5 million (or 5%) compared with prior year. Education and health related expenses comprised of \$47.7 million (or 45.9%) of total expenses in the current year as compared with \$48.3 million (or 48.7%) in the prior year, which reflects RepMar's highest priorities in terms of expenditure appropriations.

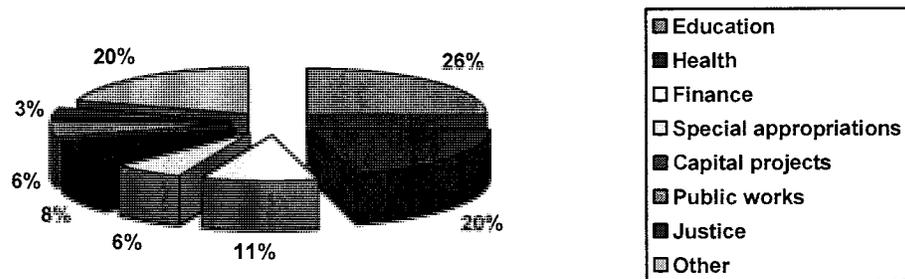
Graphs 3 and 4 below indicate the major components of revenues and cost of governmental activities.

Graph 3
RepMar's Revenue Sources
For the Year Ended September 30, 2008



As in prior years, Compact funding and federal and other grants are the major sources of revenue for RepMar, which comprise 63% of the total revenues for the current year. The remaining 37% 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, 2008



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), the Ministry of Internal Affairs (\$2.8 million), and the Ministry of Foreign Affairs and Trade (\$2.6 million); legislative expenses within the Nitijela (\$1.7 million); and executive expenses within the President's Office and Cabinet (\$1.8 million).

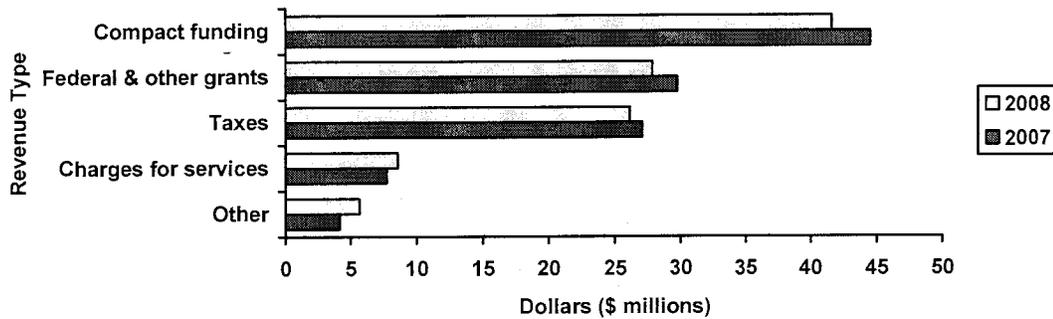
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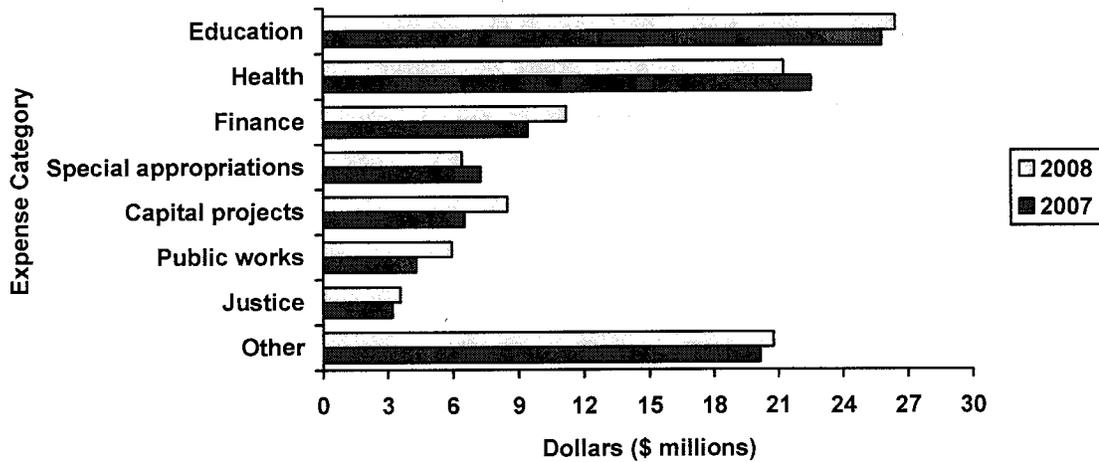
Changes in Net Assets, Continued

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2007 and 2008.

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 subsidies to component units of \$4.4 million, up from \$3.3 million (or 31%) in the prior year. Special appropriation expenses in the current year include subsidies to component units of \$3.4 million, down from \$4.2 million (or 20%) in the prior year. Other expenses in the current year includes ministerial expenses within the Ministry of Transportation and Communication of \$2.9 million, unchanged from the prior year; the Ministry of Foreign Affairs and Trade of \$2.6 million, up from \$2.4 million (or 10%) in the prior year; the Ministry of Internal Affairs of \$2.8 million, down from \$3.1 million (or 11%) from the prior year; legislative expenses within the Nitijela of \$1.7 million, down from \$2.1 million (or 21%) in the prior year; and executive expenses within the President's Office and Cabinet of \$1.8 million, down from \$2.1 million (or 12%) in the prior year.

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Management's Discussion and Analysis
Year Ended September 30, 2008

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 \$49.5 million, which represents a decrease of \$5.1 million (or 9.4%) in comparison with the prior year. This decrease is primarily attributable to a decrease in fund balance of the Compact Trust Fund. Of this total combined fund balance, \$63.8 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 (\$36.9 million); 2) to continuing appropriations through grant awards or enabling legislation (\$4.6 million); 3) to liquidate contracts and purchase orders of the prior period (\$14.3 million); or 4) for a variety of other restricted purposes (\$8 million). The combined unreserved deficit of RepMar's governmental funds is \$14.3 million, a decrease of \$10.5 million (or 41.3%) 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 \$3.6 million as compared with the prior year ending unreserved fund deficit of \$2.5 million, a deterioration of \$1.1 million (or 43.6%), while total fund balance was \$5.1 million compared with a total fund balance of \$2.0 million at the end of the prior fiscal year, an improvement of \$3.1 million. The increase in the overall fund balance of the General Fund was primarily the result of the recording of a one-time transfer in from the Republic of China Fund of \$4.6 million, which represented additional budgetary support for General Fund operations.

The Grants Assistance Fund has a total fund balance of \$3.5 million, which primarily represents Compact Sector grant revenues received not yet expended at year end. The net increase in fund balance during the current year in the Grants Assistance Fund was \$0.9 million (or 34%), which primarily was the result of a transfer in from the Republic of China Fund of \$0.6 million satisfying local matching requirements under the Fiscal Procedures Agreement.

The Compact Trust Fund has a total fund balance of \$36.9 million, all of which is reserved for the funding of future operations of the primary government commencing in fiscal year 2023. The net decrease in fund balance during the current year in the Compact Trust Fund was \$9.7 million (or 20.9%), which reflected the slump in global financial markets that commenced in January 2008.

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 \$1.4 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.

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Management's Discussion and Analysis Year Ended September 30, 2008

As previously discussed, revenues collected (including transfers in) of \$39.6 million were higher than budgeted amounts of \$36.4 million due primarily to transfers in from the Republic of China Projects Fund, which exceeded budgeted amounts. In addition, charges to appropriations (including transfers out) of \$37.4 million were higher than budgeted amounts of \$36.7 million due primarily to the recognition of a loss of \$1.0 million as a result of the foreclosure on a component unit bank loan that was guaranteed by the primary government.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

RepMar's investment in capital assets for its governmental activities as of September 30, 2008 amounted to \$164.9 million, net of accumulated depreciation of \$79.8 million, leaving a net book value of \$85.1 million. This represents a net decrease of \$1.9 million (or 2.2%) 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)

	<u>2008</u>	<u>2007</u>
Electrical distribution	\$ 5,842,772	\$ 6,860,787
Buildings	56,689,566	45,768,443
Water infrastructure system	4,960,830	5,345,506
Docks, roads and bridges	7,995,768	8,563,804
Ships	7,707,123	8,249,813
Software	591,883	739,854
Heavy equipment	858,056	899,884
Dry-dock	193,818	387,637
Construction in progress	254,712	10,176,994
	<u>\$ 85,094,528</u>	<u>\$ 86,992,722</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. II	\$ 0.3	\$ 2.1
Rairok Elementary School – Ph. II	\$ 0.8	\$ 0.8
M.I. High School – Ph. II	\$ 1.4	\$ 4.7
International Convention Center	\$ 0.2	\$ 5.3

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Management's Discussion and Analysis
Year Ended September 30, 2008

Capital Assets, Continued

- 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>
Aur/Tabal Elementary Schools	\$ 0.2	\$ 0.8

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

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 \$1.1 million (or 1.8%) in the current fiscal year.

RepMar's Outstanding Debt
Asian Development Bank
September 30,

	<u>2008</u>	<u>2007</u>
Fisheries Development Project	\$ 3,029,201	\$ 3,099,560
Typhoon Rehabilitation	452,600	462,645
Basic Education Project	7,098,982	7,252,028
Majuro Water Supply Project No. 1	649,713	664,201
Health and Population Project	4,805,064	4,909,566
Majuro Water Supply Project No. 2	7,888,332	7,971,483
Public Sector Reform Program	10,951,516	11,177,293
Ebeye Health and Infrastructure Project	8,767,093	8,953,626
Skills Training and Vocational Education Project	4,923,345	4,923,345
Fiscal and Financial Management Program No. 1	3,141,600	3,388,600
Fiscal and Financial Management Program No. 2	8,388,966	8,388,966
Outer Island Transport Infrastructure Project	<u>507,517</u>	<u>507,517</u>
	<u>\$ 60,603,929</u>	<u>\$ 61,698,830</u>

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

REPUBLIC OF THE MARSHALL ISLANDS

Management's Discussion and Analysis
Year Ended September 30, 2008

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic growth as measured by Gross Domestic Product (GDP) continued over fiscal year 2007 with modest GDP growth in fiscal year 2008 of 1.5%. This was driven predominantly by grant-financed increases in public 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 2007 through fiscal year 2008. Continued high prices for imported fuel coupled with price increases for electricity, transportation, and rice propelled inflation to 29.4% year on year in the third quarter of 2008. This represented the highest inflation rate amongst Pacific island nations, an outcome that reflected the remoteness and high import dependency of the Marshall Islands' economy. With the continued struggle with high fuel costs, efforts were made to reduce electricity usage which culminated in the signing of the Majuro Energy Declaration in January 2009. Continued financial support by RepMar to the Marshalls Energy Company, Inc. (MEC) during fiscal year 2008 assisted in alleviating short-term interruptions of electricity generation on Majuro Atoll; however, MEC continues to struggle with cash flow problems as the global price of diesel fuel remains high. Income tax collections declined marginally in fiscal year 2008 as compared with prior year, which was a direct result of a reduction in employment at the U.S. military base in Kwajalein. However, the effect of this reduction was partially offset by the continued aggressive stance taken by the Ministry of Finance's Division of Revenue and Taxation in pursuing noncompliant taxpayers. Tax revenues are expected to continue in this downward trend and, as a result, the Nitijela approved a 2009 budget with a reduction in discretionary spending. The slump in global financial markets cut the value of the Compact Trust Fund from a high of \$93.1 million in January 2008 to \$72.1 million in November 2008.

Economic growth is expected to remain low throughout 2009 at a rate of 0.5%. Inflation is expected to stabilize in 2009 at around 9% due to a decline in oil prices. On a more positive note, copra production rose in response to high international prices, with production exceeding 7,000 tons for only the third time in 50 years. Furthermore, in February 2009, the Western Association of Schools and Colleges removed its sanctions on the College of the Marshall Islands.

For fiscal year 2009, the budget approved by the Nitijela of \$124.5 million continues RepMar's focus on the education and health sectors, including their infrastructure needs. The General Fund appropriation amounts to \$33.2 million, which is a decline of \$1.8 million (or 5%) compared with the fiscal year 2008 budget. This decline is primarily attributable to a reduction in budgeted tax collections corresponding with the reduction in employment at the U.S. military base in Kwajalein. As a result, there is a corresponding decline in the annual copra subsidy of \$0.8 million (or 73%), which is due to the expectation of continued high international prices, and debt service contributions of \$0.5 million (or 34%), which will be funded through alternative means. Compact revenues for fiscal year 2009 are expected to increase by \$1.5 million (or 4%) with continued focus on the education and health sectors, including their infrastructure needs.

In a proactive response at promoting fiscal reform, the Cabinet recently formed the Comprehensive Adjustment Program (CAP) Advisory Group, which is comprised of government officials as well as private sector representatives and officials from the U.S. government. The focus of this CAP Advisory Group is to assist the Cabinet in devising a strategy to address public sector reform.

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, 2008

	<u>Primary Government</u>	<u>Component Units</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,506,423	\$ 6,537,813
Time certificates of deposit	665,574	3,236,530
Investments	-	2,592,915
Receivables, net of allowance for uncollectibles	9,078,531	25,249,739
Advances	94,765	-
Inventories	-	6,069,975
Due from primary government	-	132,078
Due from component units	4,981,548	-
Other current assets	-	755,098
Restricted assets:		
Cash and cash equivalents	24,005,078	549,833
Time certificates of deposit	55,000	-
Total current assets	<u>42,386,919</u>	<u>45,123,981</u>
Noncurrent assets:		
Restricted assets:		
Time certificates of deposit	-	750,000
Investments	36,909,157	-
Investments	318,630	4,264,009
Due from component units	2,059,129	-
Capital assets, net of accumulated depreciation	85,094,528	87,689,609
Other noncurrent assets	-	1,314,303
Total noncurrent assets	<u>124,381,444</u>	<u>94,017,921</u>
Total assets	<u>\$ 166,768,363</u>	<u>\$ 139,141,902</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term obligations	\$ 1,826,871	\$ 3,487,988
Accounts payable	5,075,287	8,058,194
Customer deposits	-	997,020
Other liabilities and accruals	2,383,483	5,803,705
Payable to federal agencies	1,522,993	-
Retention payable	943,616	430,944
Contracts payable	519,944	2,535,619
Accrued interest payable	428,492	-
Compensated absences payable	1,070,942	-
Due to primary government	-	4,981,548
Due to component units	924,191	268,614
Due to external parties	20,180,648	-
Deferred revenues	-	1,100,684
Total current liabilities	<u>34,876,467</u>	<u>27,664,316</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	59,106,225	30,818,342
Compensated absences payable, net of current portion	1,727,841	-
Due to primary government	-	5,176,019
Other noncurrent liabilities	-	2,526,813
Total noncurrent liabilities	<u>60,834,066</u>	<u>38,521,174</u>
Total liabilities	<u>95,710,533</u>	<u>66,185,490</u>
Commitments and contingencies		
NET ASSETS		
Invested in capital assets, net of related debt	63,291,638	67,551,057
Restricted for:		
Nonexpendable:		
Future operations	36,909,157	-
Expendable:		
Compact related	3,941,816	-
Other purposes	3,916,792	345,183
Unrestricted (deficits)	<u>(37,001,573)</u>	<u>5,060,172</u>
Total net assets	<u>71,057,830</u>	<u>72,956,412</u>
Total liabilities and net assets	<u>\$ 166,768,363</u>	<u>\$ 139,141,902</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Activities
Year Ended September 30, 2008

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
Primary government:						
Governmental activities:						
President and Cabinet	\$ 1,841,983	\$ -	\$ -	\$ -	\$ (1,841,983)	\$ -
Office of the Chief Secretary	867,656	-	111,225	-	(756,431)	-
Special appropriations	6,405,976	-	-	-	(6,405,976)	-
Council of Iroij	484,337	-	-	-	(484,337)	-
Nitijela	1,662,253	600	43,304	-	(1,618,349)	-
Office of the Auditor-General	946,276	-	439,570	-	(506,706)	-
Public Service Commission	475,109	-	-	-	(475,109)	-
Judiciary	828,340	226	-	-	(828,114)	-
Office of the Attorney General	598,239	24,919	-	-	(573,320)	-
Education	26,427,212	182,397	20,483,287	-	(5,761,528)	-
Health and Environment	21,425,886	7,249,950	12,987,326	-	(1,188,610)	-
Transportation and Communication	2,869,163	8,175	-	434,578	(2,426,410)	-
Resources and Development	1,083,389	11,616	149,378	-	(922,395)	-
Internal Affairs	2,768,994	53,452	220,237	-	(2,495,305)	-
Justice	3,569,787	556,451	-	-	(3,013,336)	-
Finance	11,202,602	417,461	3,863,472	-	(6,921,669)	-
Foreign Affairs and Trade	2,647,214	46,060	238,311	-	(2,362,843)	-
Public Works	5,941,489	18,610	-	-	(5,922,879)	-
Environmental Protection Authority	416,711	-	222,398	-	(194,313)	-
Nuclear claims related	1,465,647	2,959	1,531,551	-	68,863	-
Future operations	304,810	-	(9,441,804)	-	(9,746,614)	-
Capital projects	8,480,327	-	-	11,447,709	2,967,382	-
Unallocated interest - long-term debt	1,501,331	-	-	-	(1,501,331)	-
Total primary government	\$ 104,214,731	\$ 8,572,876	\$ 30,848,255	\$ 11,882,287	(52,911,313)	-
Component units:						
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 6,708,263	\$ 3,259,835	\$ -	\$ 750,199	-	(2,698,229)
Marshall's Energy Company, Inc.	36,161,442	31,709,720	-	-	-	(4,451,722)
Marshall Islands Development Bank	2,507,743	2,814,583	-	-	-	306,840
Marshall Islands National Telecom. Authority	7,849,168	7,964,259	-	245,096	-	360,187
RMI Ports Authority	3,798,968	2,223,898	-	8,808,200	-	7,233,130
Other nonmajor component units	26,507,816	16,838,383	-	4,848,301	-	(4,821,132)
Total component units	\$ 83,533,400	\$ 64,810,678	\$ -	\$ 14,651,796	-	(4,070,926)
General revenues:						
Taxes:						
Income taxes					10,979,040	-
Import taxes					7,775,583	-
Gross revenue taxes					5,849,248	-
Fuel taxes					896,766	-
Penalties and interest					108,423	-
Other					550,163	-
Grants and contributions not restricted to specific programs					16,332,637	-
Fishing rights					1,500,000	-
Ship registry					2,000,000	-
Unrestricted investment earnings					405,302	802,829
Contributions from primary government					-	12,880,003
Other					459,055	-
Total general revenues and special items					46,856,217	13,682,832
Change in net assets					(6,055,096)	9,611,906
Net assets at the beginning of the year, as restated					77,112,926	63,344,506
Net assets at the end of the year					\$ 71,057,830	\$ 72,956,412

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Balance Sheet
Governmental Funds
September 30, 2008

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 1,903,027	\$ -	\$ -	\$ 1,603,396	\$ 3,506,423
Time certificates of deposit	-	-	-	665,574	665,574
Investments	-	-	-	318,630	318,630
Receivables, net:					
Taxes	2,331,100	-	-	42,672	2,373,772
Federal agencies	27,581	1,583,324	-	275,807	1,886,712
General	2,000,000	720,000	-	1,271,517	3,991,517
Other	102,193	-	-	724,337	826,530
Due from other funds	926,999	6,332,222	-	1,909,739	9,168,960
Due from component units	7,040,677	-	-	-	7,040,677
Advances	-	46,599	-	48,166	94,765
Restricted assets:					
Cash and cash equivalents	24,005,078	-	-	-	24,005,078
Time certificates of deposit	55,000	-	-	-	55,000
Investments	-	-	36,909,157	-	36,909,157
Total assets	\$ 38,391,655	\$ 8,682,145	\$ 36,909,157	\$ 6,859,838	\$ 90,842,795
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,448,840	\$ 1,392,373	\$ -	\$ 1,234,074	\$ 5,075,287
Other liabilities and accruals	1,766,636	133,682	-	483,165	2,383,483
Payable to federal agencies	-	1,522,993	-	-	1,522,993
Loans payable	329,167	-	-	-	329,167
Interest payable	161,496	-	-	-	161,496
Retention payable	-	943,616	-	-	943,616
Contracts payable	-	519,944	-	-	519,944
Deferred revenue	122,144	-	-	-	122,144
Due to component units	924,191	-	-	-	924,191
Due to other funds	27,569,815	685,552	-	1,094,241	29,349,608
Total liabilities	33,322,289	5,198,160	-	2,811,480	41,331,929
Fund balances:					
Reserved for:					
Related assets	7,652,112	-	36,909,157	340,898	44,902,167
Encumbrances	1,059,003	12,648,030	-	547,993	14,255,026
Continuing appropriations	-	4,642,837	-	-	4,642,837
Unreserved:					
General fund	(3,641,749)	-	-	-	(3,641,749)
Special revenue funds	-	(13,806,882)	-	3,159,467	(10,647,415)
Total fund balances	5,069,366	3,483,985	36,909,157	4,048,358	49,510,866
Total liabilities and fund balances	\$ 38,391,655	\$ 8,682,145	\$ 36,909,157	\$ 6,859,838	

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	85,094,528
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	(266,996)
Loans payable	(60,603,929)
Compensated absences payable	(2,798,783)
	(63,669,708)
Net assets of governmental activities	\$ 71,057,830

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2008

	General	Special Revenue	Permanent	Other	Total
		Grants Assistance	Compact Trust	Governmental Funds	
Revenues:					
Taxes	\$ 26,159,223	\$ -	\$ -	\$ -	\$ 26,159,223
Federal and other grants	4,085,712	63,366,516	1,500,000	506,204	69,458,432
Sales	-	-	-	211,601	211,601
Ship registry	2,000,000	-	-	-	2,000,000
Fishing rights	1,500,000	-	-	-	1,500,000
Net decrease in the fair value of investments	-	-	(12,259,630)	-	(12,259,630)
Interest and dividends	405,302	-	1,317,826	-	1,723,128
Fees and charges	49,820	-	-	8,311,455	8,361,275
Other	459,055	-	-	-	459,055
Total revenues	34,659,112	63,366,516	(9,441,804)	9,029,260	97,613,084
Expenditures:					
Current:					
President and Cabinet	1,790,567	49,640	-	-	1,840,207
Office of the Chief Secretary	642,841	151,888	-	-	794,729
Special appropriations	5,520,259	886,007	-	-	6,406,266
Council of Iroij	484,779	-	-	-	484,779
Nitijela	1,559,776	102,576	-	-	1,662,352
Office of the Auditor-General	506,949	439,570	-	-	946,519
Public Service Commission	459,527	1,200	-	-	460,727
Judiciary	-	-	-	829,358	829,358
Office of the Attorney General	582,463	-	-	16,532	598,995
Ministries:					
Education	3,771,941	20,781,763	-	1,244,001	25,797,705
Health and Environment	2,334,807	11,682,743	-	7,116,995	21,134,545
Transportation and Communication	1,582,317	765,943	-	-	2,348,260
Resources and Development	587,960	412,958	-	2,912	1,003,830
Internal Affairs	1,774,269	566,564	-	377,083	2,717,916
Justice	2,848,501	308,478	-	170,074	3,327,053
Finance	4,621,054	5,658,328	-	776,540	11,055,922
Foreign Affairs and Trade	2,312,955	171,316	-	-	2,484,271
Public Works	1,230,744	1,732,605	-	14,494	2,977,843
Environmental Protection Authority	204,186	213,070	-	-	417,256
Nuclear claims related	-	-	-	1,465,647	1,465,647
Debt service:					
Principal repayment	1,094,901	-	-	-	1,094,901
Interest	1,318,809	-	-	-	1,318,809
Capital outlay	-	11,810,833	-	-	11,810,833
Other	-	-	304,810	-	304,810
Total expenditures	35,229,605	55,735,482	304,810	12,013,636	103,283,533
Excess (deficiency) of revenues over (under) expenditures	(570,493)	7,631,034	(9,746,614)	(2,984,376)	(5,670,449)
Other financing sources (uses):					
Operating transfers in	4,990,872	597,041	-	7,076,220	12,664,133
Operating transfers out	(1,395,281)	(7,348,684)	-	(3,373,617)	(12,117,582)
Total other financing sources (uses), net	3,595,591	(6,751,643)	-	3,702,603	546,551
Net change in fund balances	3,025,098	879,391	(9,746,614)	718,227	(5,123,898)
Fund balances at the beginning of the year	2,044,268	2,604,594	46,655,771	3,330,131	54,634,764
Fund balances at the end of the year	\$ 5,069,366	\$ 3,483,985	\$ 36,909,157	\$ 4,048,358	\$ 49,510,866

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, 2008

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

Net change in fund balances - total governmental funds	\$ (5,123,898)
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 depreciation exceeded capital outlays in the current period, including increases to construction in progress	(1,898,194)
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	1,094,901
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>(127,905)</u>
Change in net assets of governmental activities	\$ <u>(6,055,096)</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2008

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,452,587	\$ -
Time certificates of deposit	4,546,005	-
Receivables, net:		
Contributions	2,094,879	-
Other	1,915,390	-
Investments	54,292,428	-
Due from other funds	20,022,354	158,294
Capital assets, net of accumulated depreciation	80,197	-
Total assets	<u>84,403,840</u>	<u>\$ 158,294</u>
<u>LIABILITIES</u>		
Accounts payable	100,500	\$ 158,294
Other liabilities and accruals	818,629	-
Total liabilities	<u>919,129</u>	<u>\$ 158,294</u>
<u>NET ASSETS</u>		
Held in trust for:		
Social security benefits	63,186,661	
Nuclear claims	275,696	
Land use distributions	20,022,354	
Total net assets	<u>\$ 83,484,711</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, 2008

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 8,729,978
Government employees	3,824,273
Penalties and interest	<u>916,781</u>
Total contributions	<u>13,471,032</u>
Investment loss:	
Net decrease in the fair value of investments	(8,543,750)
Interest and dividends	<u>2,111,088</u>
Total investment loss	(6,432,662)
Less investment expense	<u>140,054</u>
Net investment loss	<u>(6,572,716)</u>
Other	<u>17,048,542</u>
Total additions	<u>23,946,858</u>
Deductions:	
Land use distributions	11,981,095
Benefits	12,548,715
Administrative expenses	1,016,370
Transfers out	<u>546,551</u>
Total deductions	<u>26,092,731</u>
Change in net assets	(2,145,873)
Net assets at the beginning of the year	<u>85,630,584</u>
Net assets at the end of the year	<u>\$ 83,484,711</u>

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Combining Statement of Net Assets
Component Units
September 30, 2008

	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
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 172,578	\$ 1,235,531	\$ 33,995	\$ 471,303	\$ 959,565	\$ 3,664,841	\$ 6,537,813
Cash and cash equivalents - restricted	-	-	549,833	-	-	-	549,833
Time certificates of deposit	-	-	-	1,034,886	1,038,187	1,163,457	3,236,530
Investments	-	-	423,748	2,169,167	-	-	2,592,915
Receivables, net:							
General	351,599	4,180,772	-	634,727	167,091	1,832,434	7,166,623
Federal agencies	-	-	-	-	1,771,746	865,317	2,637,063
Loans	-	-	13,898,260	-	-	-	13,898,260
Other	3,314	713,927	223,589	121,038	323,978	161,947	1,547,793
Inventories	1,063,088	2,901,472	-	214,080	-	1,891,335	6,069,975
Due from primary government	-	-	-	-	-	132,078	132,078
Other current assets	133,220	41,778	-	475	50,604	529,021	755,098
Total current assets	<u>1,723,799</u>	<u>9,073,480</u>	<u>15,129,425</u>	<u>4,645,676</u>	<u>4,311,171</u>	<u>10,240,430</u>	<u>45,123,981</u>
Noncurrent assets:							
Time certificates of deposit - restricted	-	-	-	-	750,000	-	750,000
Investments	-	-	-	-	-	4,264,009	4,264,009
Capital assets, net of accumulated depreciation	5,070,229	9,479,186	1,363,674	17,011,518	35,844,590	18,920,412	87,689,609
Other noncurrent assets	-	-	193,591	1,120,712	-	-	1,314,303
Total noncurrent assets	<u>5,070,229</u>	<u>9,479,186</u>	<u>1,557,265</u>	<u>18,132,230</u>	<u>36,594,590</u>	<u>23,184,421</u>	<u>94,017,921</u>
Total assets	<u>\$ 6,794,028</u>	<u>\$ 18,552,666</u>	<u>\$ 16,686,690</u>	<u>\$ 22,777,906</u>	<u>\$ 40,905,761</u>	<u>\$ 33,424,851</u>	<u>\$ 139,141,902</u>
LIABILITIES							
Current liabilities:							
Current portion of long-term debt	\$ -	\$ 1,953,031	\$ 400,000	\$ 860,572	\$ 274,385	\$ -	\$ 3,487,988
Accounts payable	626,115	3,364,350	630,118	274,550	313,453	2,849,608	8,058,194
Customer deposits	-	-	734,931	262,089	-	-	997,020
Other liabilities and accruals	1,191,392	2,843,370	288,555	64,249	91,916	1,324,223	5,803,705
Retention payable	-	-	-	-	-	430,944	430,944
Contracts payable	-	-	-	550,000	1,677,312	308,307	2,535,619
Due to primary government	-	4,981,548	-	-	-	-	4,981,548
Due to component units	-	-	-	-	-	268,614	268,614
Deferred revenues	147,192	-	-	-	39,000	914,492	1,100,684
Total current liabilities	<u>1,964,699</u>	<u>13,142,299</u>	<u>2,053,604</u>	<u>2,011,460</u>	<u>2,396,066</u>	<u>6,096,188</u>	<u>27,664,316</u>
Noncurrent liabilities:							
Noncurrent portion of long-term debt	-	16,389,299	2,000,000	12,388,443	40,600	-	30,818,342
Due to primary government	-	-	2,059,129	-	-	3,116,890	5,176,019
Other noncurrent liabilities	-	-	-	-	-	2,526,813	2,526,813
Total noncurrent liabilities	<u>-</u>	<u>16,389,299</u>	<u>4,059,129</u>	<u>12,388,443</u>	<u>40,600</u>	<u>5,643,703</u>	<u>38,521,174</u>
Total liabilities	<u>1,964,699</u>	<u>29,531,598</u>	<u>6,112,733</u>	<u>14,399,903</u>	<u>2,436,666</u>	<u>11,739,891</u>	<u>66,185,490</u>
NET ASSETS							
Invested in capital assets, net of related debt	5,070,229	1,783,922	1,363,674	4,883,215	35,529,605	18,920,412	67,551,057
Restricted	-	-	273,783	-	-	71,400	345,183
Unrestricted	(240,900)	(12,762,854)	8,936,500	3,494,788	2,939,490	2,693,148	5,060,172
Total net assets	<u>4,829,329</u>	<u>(10,978,932)</u>	<u>10,573,957</u>	<u>8,378,003</u>	<u>38,469,095</u>	<u>21,684,960</u>	<u>72,956,412</u>
	<u>\$ 6,794,028</u>	<u>\$ 18,552,666</u>	<u>\$ 16,686,690</u>	<u>\$ 22,777,906</u>	<u>\$ 40,905,761</u>	<u>\$ 33,424,851</u>	<u>\$ 139,141,902</u>

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, 2008

	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	\$ 2,976,317	\$ 18,690,921	\$ 2,398,540	\$ 7,739,142	\$ 2,055,058	\$ 7,995,582	\$ 41,855,560
Sales	-	13,018,799	-	139,406	-	5,157,741	18,315,946
Other	283,518	-	416,043	85,711	168,840	3,685,060	4,639,172
Total operating revenues	3,259,835	31,709,720	2,814,583	7,964,259	2,223,898	16,838,383	64,810,678
Operating expenses:							
Cost of services	5,916,221	32,144,812	296,314	4,158,894	2,102,157	21,379,110	65,997,508
Administration costs	-	1,481,397	1,580,196	785,413	-	2,478,188	6,325,194
Depreciation and amortization	471,592	1,027,392	240,585	1,932,169	1,704,962	1,748,059	7,124,759
Total operating expenses	6,387,813	34,653,601	2,117,095	6,876,476	3,807,119	25,605,357	79,447,461
Operating income (loss)	(3,127,978)	(2,943,881)	697,488	1,087,783	(1,583,221)	(8,766,974)	(14,636,783)
Nonoperating revenues (expenses):							
Contributions from the primary government	2,835,000	355,618	248,500	-	-	9,440,885	12,880,003
Contributions to the primary government	-	-	-	-	-	(450,000)	(450,000)
Equity in net earnings of joint venture	-	-	-	-	-	1,122,853	1,122,853
Net change in the fair value of investments	-	-	153,342	(671,759)	-	-	(518,417)
Interest income	-	-	71,304	-	99,157	27,932	198,393
Interest expense	(75,884)	(1,507,841)	-	(682,160)	(34,667)	(111,463)	(2,412,015)
Other	(244,566)	-	(390,648)	(290,532)	42,818	(340,996)	(1,223,924)
Total nonoperating revenues (expenses), net	2,514,550	(1,152,223)	82,498	(1,644,451)	107,308	9,689,211	9,596,893
Capital contributions	750,199	-	-	245,096	8,808,200	4,848,301	14,651,796
Net income (loss)	136,771	(4,096,104)	779,986	(311,572)	7,332,287	5,770,538	9,611,906
Net assets at the beginning of the year, as restated	4,692,558	(6,882,828)	9,793,971	8,689,575	31,136,808	15,914,422	63,344,506
Net assets at the end of the year	\$ 4,829,329	\$ (10,978,932)	\$ 10,573,957	\$ 8,378,003	\$ 38,469,095	\$ 21,684,960	\$ 72,956,412

See accompanying notes to basic financial statements.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(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, 2008

(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, 2008

(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, 2008

(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:

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.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

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 \$44,767,765 of restricted net assets, of which \$3,916,792 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.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

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.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

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.

ii. Agency Funds

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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. 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:

Grants Assistance Fund, a Governmental Fund Type - Special Revenue Fund, which accounts for all financial transactions that are subgranted to RepMar, including 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 as well as other direct grants that RepMar received from the United States government and other donor countries.

Compact Trust Fund, a Governmental Fund Type - Permanent Fund, which 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.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

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 uncollectible accounts 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.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

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, 2008

(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, 2008, is represented by the following assets:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 22,268	\$ 22,268
Investments	-	-	-	318,630	318,630
Due from other funds	76,435	-	-	-	76,435
Due from component units	7,040,677	-	-	-	7,040,677
Restricted assets:					
Cash and cash equivalents	480,000	-	-	-	480,000
Time certificates of deposit	55,000	-	-	-	55,000
Investments	-	-	36,909,157	-	36,909,157
	<u>\$ 7,652,112</u>	<u>\$ -</u>	<u>\$ 36,909,157</u>	<u>\$ 340,898</u>	<u>\$ 44,902,167</u>

The reserve for continuing appropriations within the Grants Assistance Fund of \$4,642,837 represents grant awards approved by the U.S. Department of the Interior under the Public Infrastructure Sector grant for projects that have not yet commenced.

Q. Dedicated Revenues and Pledges

RepMar has pledged, as security in the event of default for debt issued by the Marshalls Energy Company, Inc. (MEC), a portion of the General Fund's tax revenues. The debt, issued by MEC in May 2007 in the amount of \$12,000,000 to: (i) refinance debts to a fuel supplier; (ii) refinance a commercial bank loan; and (iii) to finance working capital requirements, is payable through April 2017. Total principal and interest remaining on the debt is \$13,838,265, with annual requirements of \$1,920,000 through to maturity.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

R. 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.

S. New Accounting Standards

During fiscal year 2008, RepMar implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. 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, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

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 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

S. New Accounting Standards, Continued

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.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

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

T. 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.

U. 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, 2007 from which summarized information was derived.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(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.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

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, 2008, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$28,232,075 and the corresponding bank balance was \$28,513,287. Of the bank balances, \$27,787,088 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2008, bank deposits in the amount of \$659,713 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.

As of September 30, 2008, the carrying amount of the fiduciary fund's total cash and cash equivalents and time certificates of deposit was \$5,998,592 and the corresponding bank balance was \$6,420,679. Of the bank balances, \$115,767 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, 2008, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$11,074,176 and the corresponding bank balance was \$11,507,661. Of the bank balances, \$6,381,372 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2008, bank deposits in the amount of \$904,378 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2008

(2) Deposits and Investments, Continued

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, 2008, are as follows:

Compact Trust Fund:	
Money market funds	\$ 4,128,183
Equity mutual funds	32,036,135
Fixed income mutual funds	731,631
Other	<u>13,208</u>
	<u>\$ 36,909,157</u>

Additionally, as of September 30, 2008, the primary government 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, 2008.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

B. Investments, Continued

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, 2008, there were no investments in any one issuer that exceeded 5% of total investments.

Investments of the fiduciary funds as of September 30, 2008, are as follows:

Marshall Islands Social Security Administration (MISSA):	
Money market funds	\$ 87,906
Common equity securities	8,556,594
Mutual funds	<u>37,668,345</u>
	\$ <u>46,312,845</u>

Additionally, as of September 30, 2008, 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 \$7,673,887, which is accounted for under the equity method.

A summary of unaudited financial information as of and for the nine months ended September 30, 2008, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>60,117,844</u>
Liabilities	\$ <u>36,126,520</u>
Net earnings	\$ <u>2,554,362</u>

As of September 30, 2008, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$1,047,358.

Nuclear Claims Trust Fund (NCTF):	
U.S. Treasury obligations	\$ 24,701
U.S. Government agencies	14,468
Corporate notes and bonds	<u>42,154</u>
Total fixed income securities	81,323
Equity mutual funds	3,403
Common equity securities	128,216
Money market funds	61,429
Other	<u>1,325</u>
	\$ <u>275,696</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

B. Investments, Continued

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.
- (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, 2008.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

B. Investments, Continued

As of September 30, 2008, the NCTF's investments in debt securities were as follows:

	Moody's Credit Rating	Investment Maturities (In Years)				Fair Value
		Less Than 1	1 to 5	6 to 10	Greater Than 10	
U.S. Treasury obligations	Aaa	\$ 7,034	\$ 17,667	\$ -	\$ -	\$ 24,701
U.S. Government agencies	Aaa	-	4,316	5,242	4,910	14,468
Corporate notes	Aa3	-	4,653	-	-	4,653
Corporate notes	Aa2	-	-	3,862	-	3,862
Corporate notes	Aa1	-	3,084	-	-	3,084
Corporate notes	A2	-	9,346	2,900	-	12,246
Corporate notes	A1	-	7,566	2,848	-	10,414
Corporate notes	Baa2	-	3,965	-	-	3,965
Corporate notes	Baa1	-	3,930	-	-	3,930
		<u>\$ 7,034</u>	<u>\$ 54,527</u>	<u>\$ 14,852</u>	<u>\$ 4,910</u>	<u>\$ 81,323</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, 2008, 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, 2008, 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.

Marshall Islands National Telecommunications Authority (MINTA):
Common equity securities \$ 2,015,079
Money market funds 154,088
\$ 2,169,167

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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

B. Investments, Continued

College of the Marshall Islands (CMI):	
Mutual funds	\$ 58,266
Common equity securities	11,203
Money market funds	<u>1,931</u>
	\$ <u>71,400</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.

Marshall Islands Marine Resources Authority (MIMRA):	
Investment in joint venture	\$ <u>4,192,609</u>

On May 1, 2005, MIMRA entered into a joint venture agreement with a third party to form the Marshall Islands Fishing Corporation (MIFCO), an ongoing association for the purpose of engaging in the purse seine fishing business. The association was formally organized during fiscal year 2006 with the purchase of the vessel, RMI201. MIMRA's contributed capital was \$2,940,000, which represented a 49% interest of the vessel's value of \$6,000,000. The parties agreed that MIMRA's contribution to working capital will be provided by the third party and shall be classified as a loan provided to MIMRA at an annual rate of 3%. 100% of MIMRA's share of the profits will be used to pay off this loan for the first two years of operations; thereafter, it will be 50%. The parties agreed that the joint venture will be operated by the third party and MIMRA will not be liable to the joint venture. The outstanding balance of this loan payable amounted to \$2,526,813 at September 30, 2008 and is recorded within the accompanying financial statements as other noncurrent liabilities of the aggregate discretely presented component units.

A summary of unaudited financial information as of and for the year ended December 31, 2008, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>14,468,589</u>
Liabilities	\$ <u>5,343,491</u>
Net earnings	\$ <u>2,275,009</u>

As of September 30, 2008, MIMRA recognized equity in net earnings of MIFCO amounting to \$1,122,853. During the year ended September 30, 2008, MIMRA received a dividend of \$450,000 from MIFCO, which was recognized as a reduction in MIMRA's investment in joint venture.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(3) Receivables

Receivables as of September 30, 2008, for the primary government's individual major governmental funds, nonmajor governmental funds in the aggregate, and fiduciary funds, including applicable allowance for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Fiduciary Funds</u>	<u>Totals</u>
Receivables:						
Taxes	\$ 2,331,100	\$ -	\$ -	\$ 42,672	\$ -	\$ 2,373,772
Federal agencies	27,581	1,583,324	-	275,807	-	1,886,712
General	2,084,918	872,776	-	1,553,126	2,094,879	6,605,699
Loans	-	-	-	17,381,122	-	17,381,122
Other	<u>362,364</u>	<u>-</u>	<u>-</u>	<u>771,205</u>	<u>5,503,842</u>	<u>6,637,411</u>
	4,805,963	2,456,100	-	20,023,932	7,598,721	34,884,716
Less: allowance for uncollectible						
Accounts	<u>(345,089)</u>	<u>(152,776)</u>	<u>-</u>	<u>(17,709,599)</u>	<u>(3,588,452)</u>	<u>(21,795,916)</u>
Net receivables	<u>\$ 4,460,874</u>	<u>\$ 2,303,324</u>	<u>\$ -</u>	<u>\$ 2,314,333</u>	<u>\$ 4,010,269</u>	<u>\$ 13,088,800</u>

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 uncollectible accounts. During the year ended September 30, 2008, loans in the amount of \$199,301 were converted to grants as the recipients met the criteria for conversion. \$ 13,012,335

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 uncollectible accounts. 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 uncollectible accounts. 2,588,787

\$ 17,381,122

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2008, for the discretely presented component units, including applicable allowance for uncollectible accounts, are as follows:

	Kwajalein Atoll Joint Utilities Resources, Inc.	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands National Telecom. Authority	RMI Ports Authority	Non-major Component Units	Totals
Receivables:							
Federal agencies	\$ -	\$ -	\$ -	\$ -	1,771,746	\$ 865,317	\$ 2,637,063
General	4,812,676	6,578,681	-	1,044,727	1,425,593	4,727,155	18,588,832
Loans	-	-	29,252,835	-	-	-	29,252,835
Other	<u>380,426</u>	<u>713,927</u>	<u>231,777</u>	<u>121,038</u>	<u>323,978</u>	<u>1,222,657</u>	<u>2,993,803</u>
	5,193,102	7,292,608	29,484,612	1,165,765	3,521,317	6,815,129	53,472,533
Less: allowance for uncollectible accounts	<u>(4,838,189)</u>	<u>(2,397,909)</u>	<u>(15,362,763)</u>	<u>(410,000)</u>	<u>(1,258,502)</u>	<u>(3,955,431)</u>	<u>(28,222,794)</u>
Net receivables	<u>\$ 354,913</u>	<u>\$ 4,894,699</u>	<u>\$ 14,121,849</u>	<u>\$ 755,765</u>	<u>\$ 2,262,815</u>	<u>\$ 2,859,698</u>	<u>\$ 25,249,739</u>

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	\$ 4,211,026
Compact Section 211	1,075,906
Republic of the Marshall Islands	23,952,349
Housing Preservation Grant	<u>13,554</u>
	<u>\$ 29,252,835</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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(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, 2008, are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Grants Assistance	\$ 685,552
General	Nonmajor governmental funds	241,447
Grants Assistance	General	6,332,222
Nonmajor governmental funds	General	1,056,9465
Nonmajor governmental funds	Nonmajor governmental funds	852,794
Fiduciary Funds - Private Purpose Trust	General	20,022,354
Fiduciary Funds - Agency	General	<u>158,294</u>
		<u>\$ 29,349,608</u>

Receivables and payables between funds reflected as due to/from component units in the statement of net assets at September 30, 2008, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
<u>Primary Government</u>		
General Fund:		
Marshall's Energy Company, Inc.	\$ 4,981,548	\$ -
Marshall Islands Development Bank	2,059,129	-
RMI Ports Authority	-	152,678
Nonmajor component units	<u>-</u>	<u>771,513</u>
	<u>\$ 7,040,677</u>	<u>\$ 924,191</u>

Discretely Presented Component Units

Marshall's Energy Company, Inc:		
Nonmajor component units	\$ <u>-</u>	\$ <u>268,614</u>

The amount recorded as due from component units of the primary government of \$7,040,677 does not equal the corresponding due to primary government of the discretely presented component units of \$10,157,567 due to an allowance for doubtful accounts recorded by the General Fund and the nonmajor governmental funds of \$1,516,890 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 \$268,614 due to an allowance for doubtful accounts recorded by the Marshall's Energy Company, Inc. of \$268,614.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(4) Interfund Receivables and Payables, Continued

Discretely Presented Component Units, Continued

The amount recorded by the General Fund due from the Marshall Islands Development Bank (MIDB) of \$2,059,129 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.

Receivables and payables between funds reflected as due to/from primary government in the statement of net assets at September 30, 2008, are summarized as follows:

<u>Discretely Presented Component Units</u>	<u>Due From</u>	<u>Due To</u>
Marshalls Energy Company, Inc.:		
General Fund	\$ -	\$ 4,981,548
Marshall Islands Development Bank:		
General Fund	-	2,059,129
Nonmajor component units:		
General Fund	132,078	1,516,890
Nonmajor governmental funds	<u>-</u>	<u>1,600,000</u>
	\$ <u>132,078</u>	\$ <u>10,157,567</u>

The amount recorded as due from primary government of the discretely presented component units of \$132,078 does not equal the corresponding due to component units of the primary government of \$924,191 due to an allowance for doubtful accounts of \$152,678 recorded by the RMI Ports Authority and \$639,435 recorded by the nonmajor component units.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(5) Capital Assets

Capital asset activities of the primary government's governmental activities for the year ended September 30, 2008, are as follows:

	Estimated Useful Lives	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008
Depreciable capital assets:					
Electrical distribution	30 yrs	\$ 30,540,465	\$ -	\$ -	\$ 30,540,465
Buildings	30 – 40 yrs	76,178,554	13,252,788	-	89,431,342
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	2,338,665	227,720	-	2,566,385
Dry-dock	15 yrs	<u>2,907,282</u>	-	-	<u>2,907,282</u>
		<u>151,115,649</u>	<u>13,480,508</u>	-	<u>164,596,157</u>
Less accumulated depreciation:					
Electrical distribution		(23,679,678)	(1,018,015)	-	(24,697,693)
Buildings		(30,410,111)	(2,331,665)	-	(32,741,776)
Water infrastructure system		(4,271,402)	(384,676)	-	(4,656,078)
Docks, roads and bridges		(5,923,009)	(568,036)	-	(6,491,045)
Ships		(5,317,441)	(542,690)	-	(5,860,131)
Software		(739,854)	(147,971)	-	(887,825)
Heavy equipment		(1,438,781)	(269,548)	-	(1,708,329)
Dry-dock		<u>(2,519,645)</u>	<u>(193,819)</u>	-	<u>(2,713,464)</u>
		<u>(74,299,921)</u>	<u>(5,456,420)</u>	-	<u>(79,756,341)</u>
Total depreciable capital assets, net		76,815,728	8,024,088	-	84,839,816
Construction in progress		<u>10,176,994</u>	<u>3,051,600</u>	<u>(12,973,882)</u>	<u>254,712</u>
		<u>\$ 86,992,722</u>	<u>\$ 11,075,688</u>	<u>\$(12,973,882)</u>	<u>\$ 85,094,528</u>

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	876,807
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	164,656
Public Works	2,965,731
Nitijela	<u>1,303</u>
	<u>\$ 5,456,420</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(6) Short-term Debt

Discretely Presented Component Units

As of September 30, 2008, the discretely presented component units had no short-term debt outstanding.

Short-term debt activity for the year ended September 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
Tobolar Copra Processing Plant, Inc.				
Bank credit line	\$ <u>650,000</u>	\$ <u>1,600,000</u>	\$ <u>(2,250,000)</u>	\$ <u>-</u>

(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, 2008, 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.	\$ 3,029,201
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.	452,600
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.	7,098,982
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.	649,713

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2008

(7) Long-term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued

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.	4,805,064
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.	7,888,332
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.	10,951,516
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 commenced February 1, 2008 in an amount of SDR 144,127.	8,767,093
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.	3,141,600
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

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(7) Long-term Obligations, Continued

Primary Government, Continued

Asian Development Bank (ADB) Loans, Continued

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. 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

\$ 60,603,929

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>
2009	\$ 1,826,871	\$ 948,041	\$ 2,774,912
2010	2,152,498	797,380	2,949,878
2011	2,204,445	775,925	2,980,370
2012	2,308,777	731,968	3,040,745
2013	2,351,099	680,726	3,031,825
2014 – 2018	13,280,605	2,585,732	15,866,337
2019 – 2023	13,117,055	1,667,838	14,784,893
2024 – 2028	11,543,865	946,674	12,490,539
2029 – 2033	9,318,824	380,090	9,698,914
2034 – 2037	<u>2,499,890</u>	<u>41,240</u>	<u>2,541,130</u>
	<u>\$ 60,603,929</u>	<u>\$ 9,555,614</u>	<u>\$ 70,159,543</u>

As of September 30, 2008, RepMar is delinquent in certain debt service payments relative to the abovementioned Asian Development Bank loans. Specifically, these delinquent payments amount to \$490,663, representing \$329,167 in principal payments and \$161,496 in interest and service charges. As these delinquent amounts represent matured debt that is currently due and payable, the delinquent portion is reported as a governmental fund liability within the General Fund at September 30, 2008. On April 24, 2009, RepMar remitted certain debt service payments to the Asian Development Bank in the amount of \$1,111,538, which included payment of these delinquent amounts.

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2008, 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, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2008</u>	<u>Due Within One Year</u>
Loans payable:					
ADB loans	\$ 61,698,830	\$ -	\$ (1,094,901)	\$ 60,603,929	\$ 1,826,871
Other:					
Compensated absences	<u>2,853,400</u>	<u>1,037,224</u>	<u>(1,091,841)</u>	<u>2,798,783</u>	<u>1,070,942</u>
	<u>\$ 64,552,230</u>	<u>\$ 1,037,224</u>	<u>\$ (2,186,742)</u>	<u>\$ 63,402,712</u>	<u>\$ 2,897,813</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(7) Long-term Obligations, Continued

Discretely Presented Component Units

As of September 30, 2008, 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, 2008. \$ 7,623,991

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% (6.75% at September 30, 2008). 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. 10,718,339

\$ 18,342,330

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>
2009	\$ 1,953,031	\$ 1,222,062	\$ 3,175,093
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	2,574,270	714,602	3,288,872
2014 – 2018	<u>7,806,621</u>	<u>921,611</u>	<u>8,728,232</u>
	<u>\$ 18,342,330</u>	<u>\$ 5,621,380</u>	<u>\$ 23,963,710</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(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. \$ 2,400,000

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>
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	400,000	35,042	435,042
2014	400,000	15,250	415,250
	<u>\$ 2,400,000</u>	<u>\$ 388,280</u>	<u>\$ 2,788,280</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. \$ 13,249,015

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>
2009	\$ 860,572	\$ 642,712	\$ 1,503,284
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	611,103	508,544	1,119,647
2014 – 2018	3,557,740	2,040,496	5,598,236
2019 – 2023	4,565,856	1,032,380	5,598,236
2024 – 2027	1,716,321	81,616	1,794,937
	<u>\$ 13,249,015</u>	<u>\$ 6,009,724</u>	<u>\$ 19,258,739</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(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. \$ 314,985

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>
2009	\$ 274,385	\$ 13,615	\$ 288,000
2010	<u>40,600</u>	<u>358</u>	<u>40,958</u>
	<u>\$ 314,985</u>	<u>\$ 13,973</u>	<u>\$ 328,958</u>

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2008, are as follows:

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2008</u>	<u>Due Within One Year</u>
Loans payable:					
MEC	\$ 19,938,797	\$ -	\$ (1,596,467)	\$ 18,342,330	\$ 1,953,031
MIDB	2,800,000	-	(400,000)	2,400,000	400,000
MINTA	14,067,779	-	(818,764)	13,249,015	860,572
RMIPA	568,318	-	(253,333)	314,985	274,385
AMI	<u>1,000,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>
	38,374,894	-	(4,068,564)	34,306,330	3,487,988
Due to primary government	6,300,288	8,514,650	(4,657,371)	10,157,567	4,981,548
Other liabilities	<u>2,800,717</u>	<u>-</u>	<u>(273,904)</u>	<u>2,526,813</u>	<u>-</u>
	<u>\$ 47,475,899</u>	<u>\$ 8,514,650</u>	<u>\$ (8,999,839)</u>	<u>\$ 46,990,710</u>	<u>\$ 8,469,536</u>

(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. \$ 36,909,157

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. 19,505,706

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. 3,151,752

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(8) Restricted Assets, Continued

Primary Government, Continued

Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	599,738
Escrow account established for the benefit of landowners of Kwajalein Atoll.	203,325
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.	64,557
Time certificate of deposit collateralizing a credit card facility.	<u>55,000</u>
	<u>\$ 60,969,235</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).	\$ 517,743
Time certificate of deposit collateralizing outstanding loans issued by an affiliate bank.	<u>32,090</u>
	<u>\$ 549,833</u>

RMI Ports Authority:

Time certificate of deposit collateralizing loan payable to a bank.	<u>\$ 750,000</u>
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(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, 2008, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Grants Assistance Fund	\$ 4,280	\$ 4,604,495
Nonmajor governmental funds	<u>1,391,001</u>	<u>386,377</u>
	<u>1,395,281</u>	<u>4,990,872</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(9) Operating Transfers In/Out, Continued

	<u>Transfers Out</u>	<u>Transfers In</u>
Grants Assistance Fund:		
General Fund	4,604,495	4,280
Grants Assistance Fund	592,761	592,761
Nonmajor governmental funds	<u>2,151,428</u>	<u>-</u>
	<u>7,348,684</u>	<u>597,041</u>
Nonmajor governmental funds:		
General Fund	386,377	1,391,001
Grants Assistance Fund	-	2,151,428
Fiduciary funds	-	546,551
Nonmajor governmental funds	<u>2,987,240</u>	<u>2,987,240</u>
	<u>3,373,617</u>	<u>7,076,220</u>
Fiduciary funds:		
Nonmajor governmental funds	<u>546,551</u>	<u>-</u>
	<u>\$ 12,664,133</u>	<u>\$ 12,664,133</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, 2008, RepMar made a one-time transfer of \$4,604,495 from the Republic of China Fund representing budgetary support for General Fund operations.

(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, 2008, 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2008

(10) Compact Trust Fund, Continued

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, 2008, 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"	\$ 40,216,966
Republic of China - "A Account"	<u>3,082,025</u>
	\$ <u>43,298,991</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, 2008 is \$8,979,943.

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.

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 \$1,777,362 relating to fiscal years 2005 through 2008 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2008. 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(11) Contingencies and Commitments, Continued

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, 2008, NCT received \$546,551 from the NCTF, which included funds to fund partial payment of monetary awards. As of September 30, 2008, NCT has committed to the distribution of monetary awards for personal injury claims of \$22,645,963 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 \$275,696 as of September 30, 2008. 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 2008, RepMar appropriated \$862,724 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.

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

<u>Year ending September 30</u>	<u>Total</u>
2009	\$ 1,085,319
2010	1,161,583
2011	351,580
2012	199,864
2013	173,224
2014-2018	425,413
2019-2023	131,508
2024-2028	15,663
2029-2030	<u>4,229</u>
	\$ <u>3,548,383</u>

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(11) Contingencies and Commitments, Continued

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, 2008, RepMar received \$2,000,000 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, 2008, MISSA recorded total fund equity of \$63,194,743 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.

Other Commitments

Significant commitments of the primary government as of September 30, 2008, are as follows:

- a) Guaranteed a bank debt of Tobolar Copra Processing Plant, Inc. (TCPPI) with a letter of guarantee. At September 30, 2008, TCPPI had no recorded bank debt.
- 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, 2008, MINTA had guaranteed debt totaling \$13,249,015.
- 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, 2008, MEC had guaranteed debt totaling \$7,623,991.
- 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.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements September 30, 2008

(11) Contingencies and Commitments, Continued

Other Commitments, Continued

- 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, 2008, MIDB had guaranteed debt totaling \$2,400,000.
- 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, 2008, no transfer in ownership has occurred.
- h) In accordance with Cabinet Minute C.M. 126 (2008), 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. 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, 2008, MEC had guaranteed debt to a fuel supplier totaling \$2,512,547.
- j) 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, 2008, MEC had guaranteed debt totaling \$10,718,339.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements
September 30, 2008

(12) Restatement

Subsequent to the issuance of RepMar's 2007 basic financial statements, it was determined that certain assets and liabilities of the aggregate discretely presented component unit receivables were misstated. As a result of this determination, these account balances have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
At September 30:		
Current assets:		
Receivables, net of allowance for uncollectibles	\$ <u>25,458,244</u>	\$ <u>25,063,933</u>
Inventories	\$ <u>7,381,408</u>	\$ <u>7,683,408</u>
Noncurrent assets:		
Investments	\$ <u>538,596</u>	\$ <u>4,411,357</u>
Capital assets, net of accumulated depreciation	\$ <u>77,607,717</u>	\$ <u>75,587,145</u>
Current liabilities:		
Other liabilities and accruals	\$ <u>7,586,451</u>	\$ <u>7,682,137</u>
Noncurrent liabilities:		
Other noncurrent liabilities	\$ <u>-</u>	\$ <u>2,800,717</u>
Net assets:		
Invested in capital assets, net of related debt	\$ <u>55,973,771</u>	\$ <u>53,953,199</u>
Unrestricted	\$ <u>7,308,242</u>	\$ <u>8,206,119</u>
Year Ended September 30:		
Program expenses:		
Kwajalein Atoll Joint Utilities Resources, Inc.	\$ <u>5,495,320</u>	\$ <u>6,208,103</u>
Other nonmajor component units	\$ <u>23,551,461</u>	\$ <u>23,671,958</u>
Program revenues:		
Kwajalein Atoll Joint Utilities Resources, Inc.:		
Charges for services	\$ <u>2,674,531</u>	\$ <u>2,885,729</u>
Capital grants and contributions	\$ <u>306,844</u>	\$ <u>354,804</u>
General revenues:		
Unrestricted investment earnings	\$ <u>770,949</u>	\$ <u>1,904,164</u>
Contributions from primary government	\$ <u>13,008,952</u>	\$ <u>12,932,972</u>
Beginning net assets	\$ <u>55,432,754</u>	\$ <u>53,826,946</u>

REPUBLIC OF THE MARSHALL ISLANDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2008

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Revenues, Expenditures and Changes in Deficit - Budget and Actual
General Fund
Year Ended September 30, 2008

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 26,893,518	\$ 26,893,518	\$ 26,159,223	\$ (734,295)
Fishing rights	1,500,000	1,500,000	1,500,000	-
Fees and charges	370,079	370,079	49,820	(320,259)
Interest and dividends	129,205	129,205	405,302	276,097
Other	6,107,089	6,820,111	6,544,767	(275,344)
Total revenues	34,999,891	35,712,913	34,659,112	(1,053,801)
Expenditures:				
Current:				
General government:				
President and Cabinet	1,875,122	1,873,877	1,853,962	19,915
Office of the Chief Secretary	671,841	701,298	649,267	52,031
Special appropriations	5,426,610	6,373,025	8,066,393	(1,693,368)
Council of Iroij	406,692	496,692	503,855	(7,163)
Office of the Auditor-General	932,150	964,590	483,638	480,952
Public Service Commission	465,709	465,709	460,028	5,681
Office of the Attorney General	834,984	782,484	635,947	146,537
Ministries	21,346,688	21,683,823	21,558,266	125,557
Environmental Protection Authority	201,265	201,265	204,186	(2,921)
Nitijela	1,714,661	1,706,032	1,563,736	142,296
Total expenditures	33,875,722	35,248,795	35,979,278	(730,483)
Excess (deficiency) of revenues over (under) expenditures	1,124,169	464,118	(1,320,166)	(1,784,284)
Other financing sources:				
Operating transfers in	-	660,051	4,990,872	4,330,821
Other financing uses:				
Operating transfers out	(1,433,499)	(1,433,499)	(1,395,281)	38,218
Other changes in unreserved fund deficit:				
Increase in reserve for related assets	-	-	(3,380,493)	(3,380,493)
	-	-	(3,380,493)	(3,380,493)
Net change in unreserved fund deficit	(309,330)	(309,330)	(1,105,068)	(795,738)
Unreserved fund deficit at the beginning of the year	(2,536,681)	(2,536,681)	(2,536,681)	-
Unreserved fund deficit at the end of the year	\$ (2,846,011)	\$ (2,846,011)	\$ (3,641,749)	\$ (795,738)

See accompanying notes to required supplementary information - budgetary reporting.

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2008

(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	\$ <u>3,025,098</u>
Increase in fund balance reservations:	
Related assets	(3,380,493)
Encumbrances	<u>(749,673)</u>
	<u>(4,130,166)</u>
Net change in unreserved fund deficit	\$ <u>(1,105,068)</u>

REPUBLIC OF THE MARSHALL ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2008

REPUBLIC OF THE MARSHALL ISLANDS

Combining Schedule of Expenditures by Account
 Governmental Funds
 Year Ended September 30, 2008
 (with comparative totals for the year ended September 30, 2007)

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust			
Expenditures:						
Salaries and wages	\$ 15,402,216	\$ 17,243,693	\$ -	\$ 1,955,005	\$ 34,600,914	
Capital outlay	471,812	7,899,071	-	341,692	8,712,575	
Grants and subsidies	6,366,073	11,355,840	-	1,421,769	19,143,682	
Medical supplies	-	94,392	-	5,966,956	6,061,348	
Contractual services	101,315	4,027,462	-	22,484	4,151,261	
Travel	1,135,305	1,364,979	-	307,870	2,808,154	
Utilities	2,279,218	1,914,964	-	108,484	4,302,666	
Supplies and materials	420,593	2,730,581	-	110,527	3,261,701	
Leased housing	718,917	1,150,929	-	88,806	1,958,652	
POL	484,405	3,126,922	-	75,557	3,686,884	
Rentals	1,180,186	170,739	-	112,281	1,463,206	
Food stuffs	365,946	1,477,915	-	7,654	1,851,515	
Professional services	612,926	376,781	304,810	481,638	1,776,155	
Interest	1,318,809	-	-	-	1,318,809	
Allowances	683,080	56,450	-	-	739,530	
Principal repayment	1,094,901	-	-	-	1,094,901	
Communications	506,130	250,428	-	132,062	888,620	
Freight	28,431	52,686	-	123,027	204,144	
Printing and reproduction	44,779	74,469	-	1,149	120,397	
Insurance	101,191	103,200	-	33,760	238,151	
Other	1,913,372	2,263,981	-	722,915	4,900,268	
	<u>\$ 35,229,605</u>	<u>\$ 55,735,482</u>	<u>\$ 304,810</u>	<u>\$ 12,013,636</u>	<u>\$ 103,283,533</u>	

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GENERAL FUND

September 30, 2008

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, 2008
(with comparative totals for the year ended September 30, 2007)

	2008	2007
Revenues:		
Taxes:		
Income	\$ 10,979,040	\$ 11,244,334
Import	7,775,583	8,455,053
Gross revenue	5,849,248	5,851,310
Fuel	896,766	899,228
Penalties and interest	108,423	116,071
Other	550,163	512,661
	<u>26,159,223</u>	<u>27,078,657</u>
Fishing rights	1,500,000	1,250,000
Fees and charges	49,820	27,386
Interest and dividends	405,302	232,796
Other:		
Taiwan grant	4,000,000	4,000,000
Ship registry	2,000,000	1,750,000
Other grants	85,712	-
Other	459,055	214,501
	<u>6,544,767</u>	<u>5,964,501</u>
Total revenues	<u>34,659,112</u>	<u>34,553,340</u>
Expenditures:		
President and Cabinet:		
Office of the President	295,662	202,460
President and Ministers	570,298	574,608
Cabinet Operations	475,096	583,228
Customary Law Commission	152,442	156,611
RMI/USP Joint Secondary Education Project	222,880	222,656
National Band	74,189	123,594
	<u>1,790,567</u>	<u>1,863,157</u>
Office of the Chief Secretary:		
Administration	229,929	170,636
Deputy Chief Secretary - Ebeye	97,836	97,820
Economic Policy, Planning and Statistics Office	180,683	198,306
Office of Environmental Planning and Policy Coordination	97,993	85,884
Disaster Office	36,400	60,104
	<u>642,841</u>	<u>612,750</u>
Special appropriations:		
Jaluit Power Plant subsidy	62,388	124,250
Kwajalein Atoll Joint Utilities Resources subsidy - Ebeye	-	215,000
Land leases	862,724	723,295
Majuro Landowners electricity bills	929,271	756,345
Leased housing	210,680	258,862
Marshall Islands Visitors Authority	149,100	149,100
MWSC water subsidy	99,400	99,404
International subscriptions/membership fees	241,963	275,836
Disaster matching	-	48,953
Salary adjustment - Public Law 2003-72	-	132,699
Nitijela Prior Year Obligation	-	20,000
Copra price stabilization subsidy	1,000,000	1,192,800
ADB loan repayment	2,413,710	1,763,287
General Election and Constitutional Convention	439,179	35,369
Presidential summit	154,621	-
Air Marshall Islands	1,370,933	100,000
	<u>7,933,969</u>	<u>5,895,200</u>
Council of Iroij:		
Administration	158,873	81,318
Members	325,906	344,007
	<u>484,779</u>	<u>425,325</u>
Nitijela:		
Operations	498,484	555,764
General membership	899,235	1,108,426
Speaker's contingency	71,618	94,322
Committee	8,488	15,075
Legislative counsel	81,951	61,495
	<u>1,559,776</u>	<u>1,835,082</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, 2008
(with comparative totals for the year ended September 30, 2007)

	2008	2007
Expenditures, continued:		
Office of the Auditor-General:		
Auditor-General salary	42,733	42,660
Operations	135,746	223,294
Single audit - local match	328,470	174,758
	<u>506,949</u>	<u>440,712</u>
Public Service Commission:		
Members	92,443	91,719
Administration	367,084	401,906
	<u>459,527</u>	<u>493,625</u>
Office of the Attorney General	<u>582,463</u>	<u>577,817</u>
Ministries:		
Ministry of Education	3,771,941	3,844,147
Ministry of Health and Environment	2,334,807	2,953,091
Ministry of Transportation and Communication	1,582,317	1,745,731
Ministry of Resources and Development	587,960	671,927
Ministry of Internal Affairs	1,774,269	1,818,932
Ministry of Justice	2,848,501	2,756,008
Ministry of Finance	4,621,054	4,377,322
Ministry of Foreign Affairs and Trade	2,312,955	2,265,102
Ministry of Public Works	1,230,744	1,267,373
	<u>21,064,548</u>	<u>21,699,633</u>
Environmental Protection Authority	<u>204,186</u>	<u>164,202</u>
Total expenditures	<u>35,229,605</u>	<u>34,007,503</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(570,493)</u>	<u>545,837</u>
Other financing sources:		
Operating transfers in:		
Intergenerational Trust Fund	-	5,925,460
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	4,604,495	195,074
Ministry of Justice Fund	386,377	650,589
Total other financing sources	<u>4,990,872</u>	<u>7,765,038</u>
Other financing uses:		
Operating transfers out:		
Judiciary Fund	845,314	218,323
Section 221(b) Education and Health Care Fund	4,280	-
Postal Services Fund	51,447	66,916
Marshall Islands Scholarship, Grant and Loan Board Fund	100,000	70,353
Local Government Fund	394,240	-
Total other financing uses	<u>1,395,281</u>	<u>355,592</u>
Net change in fund balance (deficit)	<u>3,025,098</u>	<u>7,955,283</u>
Fund balance (deficit) at the beginning of the year	<u>2,044,268</u>	<u>(5,911,015)</u>
Fund balance at the end of the year	<u>\$ 5,069,366</u>	<u>\$ 2,044,268</u>

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, 2008

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Revenues:				
Taxes:				
Income	\$ 11,855,401	\$ 11,855,401	\$ 10,979,040	\$ (876,361)
Import	8,455,409	8,455,409	7,775,583	(679,826)
Gross revenue	5,020,182	5,020,182	5,849,248	829,066
Fuel	883,898	883,898	896,766	12,868
Penalties and interest	137,701	137,701	108,423	(29,278)
Other	540,927	540,927	550,163	9,236
	<u>26,893,518</u>	<u>26,893,518</u>	<u>26,159,223</u>	<u>(734,295)</u>
Fishing rights	1,500,000	1,500,000	1,500,000	-
Fees and charges	370,079	370,079	49,820	(320,259)
Interest and dividends	129,205	129,205	405,302	276,097
Taiwan grant	4,000,000	4,000,000	4,000,000	-
Ship registry	2,000,000	2,000,000	2,000,000	-
Other	107,089	820,111	544,767	(275,344)
	<u>6,107,089</u>	<u>6,820,111</u>	<u>6,544,767</u>	<u>(275,344)</u>
Total revenues	<u>34,999,891</u>	<u>35,712,913</u>	<u>34,659,112</u>	<u>(1,053,801)</u>
Expenditures:				
President and Cabinet:				
Office of the President	315,121	226,946	308,364	(81,418)
President and Ministers	586,445	593,845	575,209	18,636
Cabinet Operations	434,429	513,959	515,241	(1,282)
Customary Law Commission	174,347	174,347	157,357	16,990
RMI/USP Joint Secondary Education Project	222,656	222,656	222,880	(224)
National Band	142,124	142,124	74,911	67,213
	<u>1,875,122</u>	<u>1,873,877</u>	<u>1,853,962</u>	<u>19,915</u>
Office of the Chief Secretary:				
Administration	209,558	237,825	234,562	3,263
Deputy Chief Secretary - Ebeye	94,530	98,530	98,441	89
EPPSO	229,619	229,619	180,759	48,860
OEPPC	93,437	93,437	97,993	(4,556)
Disaster Office	44,697	41,887	37,512	4,375
	<u>671,841</u>	<u>701,298</u>	<u>649,267</u>	<u>52,031</u>
Special appropriations:				
Jaluit Power Plant subsidy	124,250	124,250	62,388	61,862
Land leases	574,532	855,976	862,724	(6,748)
Majuro landowners electricity subsidy	725,620	725,620	929,271	(203,651)
Leased housing	231,602	231,602	223,864	7,738
Marshall Islands Visitors Authority	149,100	149,100	149,100	-
MWSC water subsidy	99,400	99,400	99,400	-
International subscriptions/membership fees	272,853	272,853	241,963	30,890
RMI/USP MOU	25,446	25,446	-	25,446
Copra price stabilization subsidy	1,085,632	1,085,632	1,092,185	(6,553)
ADB loan repayment	1,509,617	2,169,668	2,413,710	(244,042)
General Election	407,890	412,810	448,462	(35,652)
Presidential summit	170,968	170,968	172,393	(1,425)
RMI Consulate (Honolulu) Office Upgrade	49,700	49,700	-	49,700
Air Marshall Islands	-	-	1,370,933	(1,370,933)
	<u>5,426,610</u>	<u>6,373,025</u>	<u>8,066,393</u>	<u>(1,693,368)</u>
Council of Iroij:				
Administration	82,545	176,767	175,449	1,318
Members	324,147	319,925	328,406	(8,481)
	<u>406,692</u>	<u>496,692</u>	<u>503,855</u>	<u>(7,163)</u>
Office of the Auditor-General:				
Auditor-General salary	41,977	41,977	42,733	(756)
Operations	312,892	345,332	136,205	209,127
Single audit - local match	577,281	577,281	304,700	272,581
	<u>932,150</u>	<u>964,590</u>	<u>483,638</u>	<u>480,952</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, 2008

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Expenditures, continued:				
Public Service Commission:				
Members	93,250	93,250	92,443	807
Administration	372,459	372,459	367,585	4,874
	465,709	465,709	460,028	5,681
Office of the Attorney General	834,984	782,484	635,947	146,537
Ministries:				
Ministry of Education	4,039,277	4,039,837	3,887,014	152,823
Ministry of Health and Environment	3,116,499	3,420,628	2,372,952	1,047,676
Ministry of Transportation and Communication	1,752,224	1,752,224	1,626,912	125,312
Ministry of Resources and Development	719,897	719,897	600,114	119,783
Ministry of Internal Affairs	1,996,450	2,066,396	1,969,496	96,900
Ministry of Justice	2,926,501	2,926,501	2,857,205	69,296
Ministry of Finance	2,904,733	2,904,733	4,647,531	(1,742,798)
Ministry of Foreign Affairs and Trade	2,471,658	2,434,158	2,346,336	87,822
Ministry of Public Works	1,419,449	1,419,449	1,250,706	168,743
	21,346,688	21,683,823	21,558,266	125,557
Environmental Protection Authority	201,265	201,265	204,186	(2,921)
Nitijela:				
Operations	561,753	555,529	509,763	45,766
General Membership	977,659	1,003,667	888,175	115,492
Speaker's Contingency	60,514	78,511	71,884	6,627
Committee	55,937	9,527	8,968	559
Legislative Counsel	58,798	58,798	84,946	(26,148)
	1,714,661	1,706,032	1,563,736	142,296
Total expenditures	33,875,722	35,248,795	35,979,278	(730,483)
Excess (deficiency) of revenues over (under) expenditures	1,124,169	464,118	(1,320,166)	(1,784,284)
Other financing sources:				
Operating transfers in:				
Republic of China Fund	-	660,051	4,604,495	3,944,444
Ministry of Justice Fund	-	-	386,377	386,377
	-	660,051	4,990,872	4,330,821
Other financing uses:				
Operating transfers out:				
Judiciary Fund	908,992	908,992	845,314	63,678
Section 221(b) Education and Health Care Fund	-	-	4,280	(4,280)
Postal Services Fund	30,267	30,267	51,447	(21,180)
Marshall Islands Scholarship, Grant and Loan Board Fund	100,000	100,000	100,000	-
Local Government Fund	394,240	394,240	394,240	-
	1,433,499	1,433,499	1,395,281	38,218
Other changes to unreserved fund deficit:				
Increase in reserve for related assets	-	-	(3,380,493)	(3,380,493)
	-	-	(3,380,493)	(3,380,493)
Net change in unreserved fund deficit	(309,330)	(309,330)	(1,105,068)	(795,738)
Unreserved fund deficit at the beginning of the year	(2,536,681)	(2,536,681)	(2,536,681)	-
Unreserved fund deficit at the end of the year	\$ (2,846,011)	\$ (2,846,011)	\$ (3,641,749)	\$ (795,738)

See Accompanying Independent Auditors' Report.

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

September 30, 2008

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, 2008, 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.

See Accompanying Independent Auditors' Report.

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

September 30, 2008

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.

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.

See Accompanying Independent Auditors' Report.

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

September 30, 2008

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.

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.

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.

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.

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 GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2008

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.

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, 2008

	200090	200105	200224	200317	200318	200319	200330	200332	200333	200335	200337	200340	200515
	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	Resident Workers Training Account	Postal Service
ASSETS													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables, net:													
Taxes	-	-	-	-	-	-	-	-	-	-	-	42,672	-
Federal	275,807	-	-	-	-	-	-	-	-	-	-	-	-
General	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	810	-
Due from other funds	-	49,986	18,118	54,458	68,850	54,760	19,576	31,119	4,000	416	-	450,295	6,449
Advances	(341)	-	-	-	-	-	(302)	(614)	-	-	-	(320)	(710)
Total assets	\$ 275,466	\$ 49,986	\$ 18,118	\$ 54,458	\$ 68,850	\$ 54,760	\$ 19,274	\$ 30,505	\$ 4,000	\$ 416	\$ -	\$ 493,457	\$ 5,739
LIABILITIES AND FUND BALANCES (DEFICITS)													
Liabilities:													
Accounts payable	\$ 1,011	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (145)	\$ 30,505	\$ -	\$ -	\$ -	\$ 142,816	\$ 5,739
Other liabilities and accruals	2,540	-	-	-	-	54,760	3,237	-	-	-	-	752	-
Due to other funds	241,447	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	244,998	-	-	-	-	54,760	3,092	30,505	-	-	-	143,568	5,739
Fund balances:													
Reserved for:													
Related assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Encumbrances	2,058	3,910	-	-	-	-	17,259	6,028	-	-	-	6,352	12,613
Unreserved (deficit)	28,410	46,076	18,118	54,458	68,850	-	(1,077)	(6,028)	4,000	416	-	343,537	(12,613)
Total fund balances	30,468	49,986	18,118	54,458	68,850	-	16,182	-	4,000	416	-	349,889	-
Total liabilities and fund balances	\$ 275,466	\$ 49,986	\$ 18,118	\$ 54,458	\$ 68,850	\$ 54,760	\$ 19,274	\$ 30,505	\$ 4,000	\$ 416	\$ -	\$ 493,457	\$ 5,739

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

Combining Balance Sheet, Continued
September 30, 2008

	200520	200525	200527	200528	300400	300600	300612	800405					
	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	MIDA	Local Government	Four-Atoll Medical	ADB Development Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
ASSETS													
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,268	\$ 284,193	\$ 847,751	\$ 285,957	\$ 163,227	\$ 1,603,396
Time certificates of deposit	-	-	-	-	-	-	-	-	100,000	-	552,522	13,052	665,574
Investments	-	-	-	-	318,630	-	-	-	-	-	-	-	318,630
Receivables, net:													
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	42,672
Federal	-	-	-	-	-	-	-	-	-	-	-	-	275,807
General	-	-	-	-	-	-	88,624	-	-	11,199	1,171,694	-	1,271,517
Other	-	-	-	-	-	-	-	-	-	-	709,527	14,000	724,337
Due from other funds	5,793	17,997	391	59,704	-	117,398	97,635	-	-	852,794	-	-	1,909,739
Advances	-	-	-	-	-	-	-	-	-	50,453	-	-	48,166
Total assets	\$ 5,793	\$ 17,997	\$ 391	\$ 59,704	\$ 318,630	\$ 117,398	\$ 186,259	\$ 22,268	\$ 384,193	\$ 1,762,197	\$ 2,719,700	\$ 190,279	\$ 6,859,838
LIABILITIES AND FUND BALANCES													
(DEFICITS)													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ 7,879	\$ -	\$ 16,711	\$ -	\$ -	\$ -	\$ 663,986	\$ 346,470	\$ 19,102	\$ 1,234,074
Other liabilities and accruals	-	-	-	-	-	-	-	-	-	345,963	-	75,913	483,165
Due to other funds	-	-	-	-	-	-	-	-	-	-	852,794	-	1,094,241
Total liabilities	-	-	-	7,879	-	16,711	-	-	-	1,009,949	1,199,264	95,015	2,811,480
Fund balances:													
Reserved for:													
Related assets	-	-	-	-	318,630	-	-	22,268	-	-	-	-	340,898
Encumbrances	-	4,070	-	4,529	-	24,618	-	-	417,225	-	-	49,331	547,993
Unreserved (deficit)	5,793	13,927	391	47,296	-	76,069	186,259	-	(33,032)	752,248	1,520,436	45,933	3,159,467
Total fund balances	5,793	17,997	391	51,825	318,630	100,687	186,259	22,268	384,193	752,248	1,520,436	95,264	4,048,358
Total liabilities and fund balances	\$ 5,793	\$ 17,997	\$ 391	\$ 59,704	\$ 318,630	\$ 117,398	\$ 186,259	\$ 22,268	\$ 384,193	\$ 1,762,197	\$ 2,719,700	\$ 190,279	\$ 6,859,838

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
Year Ended September 30, 2008

	200090	200105	200224	200317	200318	200319	200330	200332	200333	200335	200337	200340	200515
	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	Resident Workers Training Account	Postal Service
Revenues:													
Federal and other grants	\$ 351,970	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	101,088	18,600	-	-	46,060	-	226	536,196	600	-	-	182,212	193,194
Sales	-	10	-	-	-	-	-	20,255	-	-	-	-	109,894
Total revenues	453,058	18,610	-	-	46,060	-	226	556,451	600	-	-	182,212	303,088
Expenditures by Function:													
Current:													
General government:													
Judiciary	-	-	-	-	-	-	829,358	-	-	-	-	-	-
Attorney-General	16,532	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	-	-	-	-	-	114,867	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Resources and Development	2,912	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	-	-	-	170,074	-	-	-	-	-
Ministry of Finance	422,005	-	-	-	-	-	-	-	-	-	-	-	354,535
Ministry of Public Works	-	14,494	-	-	-	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	441,449	14,494	-	-	-	-	829,358	170,074	-	-	-	114,867	354,535
Excess (deficiency) of revenues over (under) expenditures	11,609	4,116	-	-	46,060	-	(829,132)	386,377	600	-	-	67,345	(51,447)
Other financing sources (uses):													
Operating transfers in	-	-	-	-	-	-	845,314	-	-	-	-	-	51,447
Operating transfers out	-	-	-	-	-	-	-	(386,377)	-	-	-	-	-
Total other financing sources (uses), net	-	-	-	-	-	-	845,314	(386,377)	-	-	-	-	51,447
Net change in fund balances	11,609	4,116	-	-	46,060	-	16,182	-	600	-	-	67,345	-
Fund balances at the beginning of the year	18,859	45,870	18,118	54,458	22,790	-	-	-	3,400	416	-	282,544	-
Fund balances at the end of the year	\$ 30,468	\$ 49,986	\$ 18,118	\$ 54,458	\$ 68,850	\$ -	\$ 16,182	\$ -	\$ 4,000	\$ 416	\$ -	\$ 349,889	\$ -

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, Continued
Year Ended September 30, 2008

	200520	200525	200527	200528	300400	300600	300612	800405					
	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	MIDA	Local Government	Four-Atoll Medical	ADB Development Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
Revenues:													
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,234	\$ -	\$ -	\$ 506,204
Fees and charges	-	495	-	33,971	-	-	-	-	-	307,611	6,888,243	2,959	8,311,455
Sales	-	7,680	-	19,481	-	-	-	-	185	39,731	14,365	-	211,601
Total revenues	<u>-</u>	<u>8,175</u>	<u>-</u>	<u>53,452</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>185</u>	<u>501,576</u>	<u>6,902,608</u>	<u>2,959</u>	<u>9,029,260</u>
Expenditures by Function:													
Current:													
General government:													
Judiciary	-	-	-	-	-	-	-	-	-	-	-	-	829,358
Attorney-General	-	-	-	-	-	-	-	-	-	-	-	-	16,532
Ministry of Education	-	-	-	-	-	-	-	-	1,129,134	-	-	-	1,244,001
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-	3,579,086	3,537,909	-	7,116,995
Ministry of Resources and Development	-	-	-	-	-	-	-	-	-	-	-	-	2,912
Ministry of Internal Affairs	-	-	-	43,708	-	333,375	-	-	-	-	-	-	377,083
Ministry of Justice	-	-	-	-	-	-	-	-	-	-	-	-	170,074
Ministry of Finance	-	-	-	-	-	-	-	-	-	-	-	-	776,540
Ministry of Public Works	-	-	-	-	-	-	-	-	-	-	-	-	14,494
Nuclear claims related	-	-	-	-	-	-	944,665	-	-	-	-	520,982	1,465,647
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,708</u>	<u>-</u>	<u>333,375</u>	<u>944,665</u>	<u>-</u>	<u>1,129,134</u>	<u>3,579,086</u>	<u>3,537,909</u>	<u>520,982</u>	<u>12,013,636</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>8,175</u>	<u>-</u>	<u>9,744</u>	<u>-</u>	<u>(333,375)</u>	<u>(944,665)</u>	<u>-</u>	<u>(1,128,949)</u>	<u>(3,077,510)</u>	<u>3,364,699</u>	<u>(518,023)</u>	<u>(2,984,376)</u>
Other financing sources (uses):													
Operating transfers in	-	-	-	-	-	394,240	985,000	-	1,266,428	2,987,240	-	546,551	7,076,220
Operating transfers out	-	-	-	-	-	-	-	-	-	-	(2,987,240)	-	(3,373,617)
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>394,240</u>	<u>985,000</u>	<u>-</u>	<u>1,266,428</u>	<u>2,987,240</u>	<u>(2,987,240)</u>	<u>546,551</u>	<u>3,702,603</u>
Net change in fund balances	<u>-</u>	<u>8,175</u>	<u>-</u>	<u>9,744</u>	<u>-</u>	<u>60,865</u>	<u>40,335</u>	<u>-</u>	<u>137,479</u>	<u>(90,270)</u>	<u>377,459</u>	<u>28,528</u>	<u>718,227</u>
Fund balances at the beginning of the year	<u>5,793</u>	<u>9,822</u>	<u>391</u>	<u>42,081</u>	<u>318,630</u>	<u>39,822</u>	<u>145,924</u>	<u>22,268</u>	<u>246,714</u>	<u>842,518</u>	<u>1,142,977</u>	<u>66,736</u>	<u>3,330,131</u>
Fund balances at the end of the year	<u>\$ 5,793</u>	<u>\$ 17,997</u>	<u>\$ 391</u>	<u>\$ 51,825</u>	<u>\$ 318,630</u>	<u>\$ 100,687</u>	<u>\$ 186,259</u>	<u>\$ 22,268</u>	<u>\$ 384,193</u>	<u>\$ 752,248</u>	<u>\$ 1,520,436</u>	<u>\$ 95,264</u>	<u>\$ 4,048,358</u>

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
Year Ended September 30, 2008

	200090	200105	200224	200317	200318	200319	200330	200332	200333	200335	200337	200340	200515
	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	Resident Workers Training Account	Postal Service
Revenues:													
Federal and other grants	\$ 351,970	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	101,088	18,600	-	-	46,060	-	226	536,196	600	-	-	182,212	193,194
Sales	-	10	-	-	-	-	-	20,255	-	-	-	-	109,894
Total revenues	453,058	18,610	-	-	46,060	-	226	556,451	600	-	-	182,212	303,088
Expenditures by Account:													
Grants and subsidies	-	-	-	-	-	-	-	-	-	-	-	-	-
Salaries and wages	362,829	-	-	-	-	-	633,148	-	-	-	-	52,630	258,511
Medical supplies	-	-	-	-	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	2,800	5,840	-	-	-	-	5,157	24,728	-	-	-	1,055	8,500
Travel	15,740	-	-	-	-	-	37,233	33,573	-	-	-	11,455	12,229
Food stuffs	-	-	-	-	-	-	1,367	5,395	-	-	-	-	-
Supplies and materials	2,133	8,654	-	-	-	-	7,527	17,808	-	-	-	15,895	5,025
POL	5,225	-	-	-	-	-	20,857	34,958	-	-	-	3,385	3,731
Rentals	4,321	-	-	-	-	-	954	1,000	-	-	-	21,066	13,702
Communications	10,639	-	-	-	-	-	16,000	-	-	-	-	13,123	5,403
Insurance	-	-	-	-	-	-	479	-	-	-	-	-	4,626
Utilities	34,424	-	-	-	-	-	17,026	1,275	-	-	-	-	18,686
Leased housing	-	-	-	-	-	-	71,063	4,943	-	-	-	-	12,800
Freight	-	-	-	-	-	-	456	-	-	-	-	-	-
Professional services	950	-	-	-	-	-	4,001	-	-	-	-	-	-
Printing and reproduction	-	-	-	-	-	-	579	-	-	-	-	426	144
Other	2,388	-	-	-	-	-	13,511	46,394	-	-	-	(4,168)	11,178
Total expenditures	441,449	14,494	-	-	-	-	829,358	170,074	-	-	-	114,867	354,535
Excess (deficiency) of revenues over (under) expenditures	11,609	4,116	-	-	46,060	-	(829,132)	386,377	600	-	-	67,345	(51,447)
Other financing sources (uses):													
Operating transfers in	-	-	-	-	-	-	845,314	-	-	-	-	-	51,447
Operating transfers out	-	-	-	-	-	-	-	(386,377)	-	-	-	-	-
Total other financing sources (uses), net	-	-	-	-	-	-	845,314	(386,377)	-	-	-	-	51,447
Net change in fund balances	11,609	4,116	-	-	46,060	-	16,182	-	600	-	-	67,345	-
Fund balances at the beginning of the year	18,859	45,870	18,118	54,458	22,790	-	-	-	3,400	416	-	282,544	-
Fund balances at the end of the year	\$ 30,468	\$ 49,986	\$ 18,118	\$ 54,458	\$ 68,850	\$ -	\$ 16,182	\$ -	\$ 4,000	\$ 416	\$ -	\$ 349,889	\$ -

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, Continued
Year Ended September 30, 2008

	200520	200525	200527	200528	300400	300600	300612	800405					
	Sea Patrol	Transportation Services	Registrar General	Ministry of Internal Affairs	MIDA	Local Government	Four-Atoll Medical	ADB Development Projects	Marshall Islands Scholarship, Grant and Loan Board	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
Revenues:													
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,234	\$ -	\$ -	\$ 506,204
Fees and charges	-	495	-	33,971	-	-	-	-	-	307,611	6,888,243	2,959	8,311,455
Sales	-	7,680	-	19,481	-	-	-	-	185	39,731	14,365	-	211,601
Total revenues	-	8,175	-	53,452	-	-	-	-	185	501,576	6,902,608	2,959	9,029,260
Expenditures by Account:													
Grants and subsidies	-	-	-	-	-	333,375	-	-	1,088,394	-	-	-	1,421,769
Salaries and wages	-	-	-	-	-	-	-	-	-	31,558	343,886	272,443	1,955,005
Medical supplies	-	-	-	-	-	-	731,788	-	-	2,604,629	2,630,539	-	5,966,956
Contractual services	-	-	-	-	-	-	-	-	-	-	-	22,484	22,484
Capital outlay	-	-	-	6,332	-	-	-	-	6,388	280,892	-	-	341,692
Travel	-	-	-	1,195	-	-	-	-	4,051	92,708	77,025	22,661	307,870
Food stuffs	-	-	-	892	-	-	-	-	-	-	-	-	7,654
Supplies and materials	-	-	-	23,036	-	-	-	-	404	28,727	-	1,318	110,527
POL	-	-	-	7,401	-	-	-	-	-	-	-	-	75,557
Rentals	-	-	-	720	-	-	-	-	12,000	-	-	58,518	112,281
Communications	-	-	-	-	-	-	-	-	3,811	43,094	26,202	13,790	132,062
Insurance	-	-	-	-	-	-	-	-	-	28,655	-	-	33,760
Utilities	-	-	-	273	-	-	-	-	-	-	36,800	-	108,484
Leased housing	-	-	-	-	-	-	-	-	-	-	-	-	88,806
Freight	-	-	-	-	-	-	-	-	-	122,571	-	-	123,027
Professional services	-	-	-	-	-	-	-	-	-	144,993	328,694	3,000	481,638
Printing and reproduction	-	-	-	-	-	-	-	-	-	-	-	-	1,149
Other	-	-	-	3,859	-	-	212,877	-	14,086	229,914	66,108	126,768	722,915
Total expenditures	-	-	-	43,708	-	333,375	944,665	-	1,129,134	3,579,086	3,537,909	520,982	12,013,636
Excess (deficiency) of revenues over (under) expenditures	-	8,175	-	9,744	-	(333,375)	(944,665)	-	(1,128,949)	(3,077,510)	3,364,699	(518,023)	(2,984,376)
Other financing sources (uses):													
Operating transfers in	-	-	-	-	-	394,240	985,000	-	1,266,428	2,987,240	-	546,551	7,076,220
Operating transfers out	-	-	-	-	-	-	-	-	-	-	(2,987,240)	-	(3,373,617)
Total other financing sources (uses), net	-	-	-	-	-	394,240	985,000	-	1,266,428	2,987,240	(2,987,240)	546,551	3,702,603
Net change in fund balances	-	8,175	-	9,744	-	60,865	40,335	-	137,479	(90,270)	377,459	28,528	718,227
Fund balances at the beginning of the year	5,793	9,822	391	42,081	318,630	39,822	145,924	22,268	246,714	842,518	1,142,977	66,736	3,330,131
Fund balances at the end of the year	\$ 5,793	\$ 17,997	\$ 391	\$ 51,825	\$ 318,630	\$ 100,687	\$ 186,259	\$ 22,268	\$ 384,193	\$ 752,248	\$ 1,520,436	\$ 95,264	\$ 4,048,358

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2008

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, 2008, 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, 2008

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Total
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,452,587	\$ -	\$ -	\$ -	\$ 1,452,587
Time certificates of deposit	4,546,005	-	-	-	4,546,005
Receivables, net:					
Contributions	2,094,879	-	-	-	2,094,879
Other	1,915,390	-	-	-	1,915,390
Investments	54,016,732	-	-	275,696	54,292,428
Due from other funds	-	421,658	19,600,696	-	20,022,354
Capital assets, net of accumulated depreciation	80,197	-	-	-	80,197
Total assets	<u>64,105,790</u>	<u>421,658</u>	<u>19,600,696</u>	<u>275,696</u>	<u>84,403,840</u>
<u>LIABILITIES</u>					
Accounts payable	100,500	-	-	-	100,500
Other liabilities and accruals	818,629	-	-	-	818,629
Total liabilities	<u>919,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>919,129</u>
<u>NET ASSETS</u>					
Held in trust for:					
Social security benefits	63,186,661	-	-	-	63,186,661
Nuclear claims	-	-	-	275,696	275,696
Land use distributions	-	421,658	19,600,696	-	20,022,354
Total net assets	<u>\$ 63,186,661</u>	<u>\$ 421,658</u>	<u>\$ 19,600,696</u>	<u>\$ 275,696</u>	<u>\$ 83,484,711</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, 2008

	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	Total
Additions:					
Contributions:					
Private employees	\$ 8,729,978	\$ -	\$ -	\$ -	\$ 8,729,978
Government employees	3,824,273	-	-	-	3,824,273
Penalties and interest	916,781	-	-	-	916,781
Total contributions	13,471,032	-	-	-	13,471,032
Investment earnings (loss):					
Net decrease in the fair value of investments	(8,503,259)	-	-	(40,491)	(8,543,750)
Interest and dividends	2,022,226	-	68,460	20,402	2,111,088
Total investment earnings (loss)	(6,481,033)	-	68,460	(20,089)	(6,432,662)
Less investment expense	125,497	-	-	14,557	140,054
Net investment earnings (loss)	(6,606,530)	-	68,460	(34,646)	(6,572,716)
Other:					
Compact funding	-	-	16,189,500	-	16,189,500
Other	859,042	-	-	-	859,042
	859,042	-	16,189,500	-	17,048,542
Total additions	7,723,544	-	16,257,960	(34,646)	23,946,858
Deductions:					
Land use distributions	-	-	11,981,095	-	11,981,095
Benefits	12,548,715	-	-	-	12,548,715
Administrative expenses	1,016,370	-	-	-	1,016,370
Transfers out	-	-	-	546,551	546,551
Total deductions	13,565,085	-	11,981,095	546,551	26,092,731
Change in net assets	(5,841,541)	-	4,276,865	(581,197)	(2,145,873)
Net assets at the beginning of the year	69,028,202	421,658	15,323,831	856,893	85,630,584
Net assets at the end of the year	\$ 63,186,661	\$ 421,658	\$ 19,600,696	\$ 275,696	\$ 83,484,711

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
NONMAJOR COMPONENT UNITS

September 30, 2008

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, 2008, 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, 2008

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, 2008

	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.	Total
ASSETS										
Current assets:										
Cash and cash equivalents	\$ 77,594	\$ 1,808,805	\$ 55,147	\$ 55,272	\$ 376,057	\$ 190,543	\$ 220,968	\$ 49,207	\$ 831,248	\$ 3,664,841
Time certificates of deposit	-	-	-	-	1,163,457	-	-	-	-	1,163,457
Receivables, net:										
General	107,974	744,978	291,625	173,027	87,480	91,235	14,269	84,194	237,652	1,832,434
Federal agencies	-	865,317	-	-	-	-	-	-	-	865,317
Other	-	-	25,583	3,238	85,372	6,042	-	-	41,712	161,947
Inventories	572,723	262,709	16,982	125,006	-	2,171	-	-	911,744	1,891,335
Due from primary government	132,078	-	-	-	-	-	-	-	-	132,078
Other current assets	176,693	305,396	12,751	-	1,474	-	1,352	1,054	30,301	529,021
Total current assets	<u>1,067,062</u>	<u>3,987,205</u>	<u>402,088</u>	<u>356,543</u>	<u>1,713,840</u>	<u>289,991</u>	<u>236,589</u>	<u>134,455</u>	<u>2,052,657</u>	<u>10,240,430</u>
Noncurrent assets:										
Investments	-	71,400	-	-	4,192,609	-	-	-	-	4,264,009
Capital assets, net of accumulated depreciation	3,965,137	11,794,464	1,826,921	44,880	175,471	298,020	28,806	17,207	769,506	18,920,412
Total noncurrent assets	<u>3,965,137</u>	<u>11,865,864</u>	<u>1,826,921</u>	<u>44,880</u>	<u>4,368,080</u>	<u>298,020</u>	<u>28,806</u>	<u>17,207</u>	<u>769,506</u>	<u>23,184,421</u>
Total assets	<u>\$ 5,032,199</u>	<u>\$ 15,853,069</u>	<u>\$ 2,229,009</u>	<u>\$ 401,423</u>	<u>\$ 6,081,920</u>	<u>\$ 588,011</u>	<u>\$ 265,395</u>	<u>\$ 151,662</u>	<u>\$ 2,822,163</u>	<u>\$ 33,424,851</u>
LIABILITIES										
Current liabilities:										
Accounts payable	\$ 1,280,878	\$ 395,311	\$ 618,234	\$ 49,916	\$ 201,011	\$ 119,283	\$ 8,307	\$ -	\$ 176,668	\$ 2,849,608
Other liabilities and accruals	47,080	512,570	354,756	137,176	137,659	99,410	9,765	5,216	20,591	1,324,223
Retention payable	-	430,944	-	-	-	-	-	-	-	430,944
Contracts payable	-	308,307	-	-	-	-	-	-	-	308,307
Due to component units	-	-	268,614	-	-	-	-	-	-	268,614
Deferred revenues	179,402	735,090	-	-	-	-	-	-	-	914,492
Total current liabilities	<u>1,507,360</u>	<u>2,382,222</u>	<u>1,241,604</u>	<u>187,092</u>	<u>338,670</u>	<u>218,693</u>	<u>18,072</u>	<u>5,216</u>	<u>197,259</u>	<u>6,096,188</u>
Noncurrent liabilities:										
Due to primary government	3,116,890	-	-	-	-	-	-	-	-	3,116,890
Other noncurrent liabilities	-	-	-	-	2,526,813	-	-	-	-	2,526,813
Total liabilities	<u>3,116,890</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,526,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,643,703</u>
Total liabilities	<u>4,624,250</u>	<u>2,382,222</u>	<u>1,241,604</u>	<u>187,092</u>	<u>2,865,483</u>	<u>218,693</u>	<u>18,072</u>	<u>5,216</u>	<u>197,259</u>	<u>11,739,891</u>
NET ASSETS										
Invested in capital assets, net of related debt	3,965,137	11,794,464	1,826,921	44,880	175,471	298,020	28,806	17,207	769,506	18,920,412
Restricted	-	71,400	-	-	-	-	-	-	-	71,400
Unrestricted	(3,557,188)	1,604,983	(839,516)	169,451	3,040,966	71,298	218,517	129,239	1,855,398	2,693,148
Total net assets	<u>407,949</u>	<u>13,470,847</u>	<u>987,405</u>	<u>214,331</u>	<u>3,216,437</u>	<u>369,318</u>	<u>247,323</u>	<u>146,446</u>	<u>2,624,904</u>	<u>21,684,960</u>
	<u>\$ 5,032,199</u>	<u>\$ 15,853,069</u>	<u>\$ 2,229,009</u>	<u>\$ 401,423</u>	<u>\$ 6,081,920</u>	<u>\$ 588,011</u>	<u>\$ 265,395</u>	<u>\$ 151,662</u>	<u>\$ 2,822,163</u>	<u>\$ 33,424,851</u>

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, 2008

	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.	Total
Operating revenues:										
Charges for services	\$ 887,133	\$ 270,692	\$ 2,290,054	\$ 1,062,278	\$ 1,958,462	\$ 1,487,619	\$ -	\$ 39,344	\$ -	\$ 7,995,582
Sales	-	311,809	-	-	-	-	-	-	4,845,932	5,157,741
Other	142,721	3,296,275	-	25,765	56,566	83,783	14,660	65,290	-	3,685,060
Total operating revenues	1,029,854	3,878,776	2,290,054	1,088,043	2,015,028	1,571,402	14,660	104,634	4,845,932	16,838,383
Operating expenses:										
Cost of services	2,396,252	7,751,071	1,382,112	1,389,411	1,411,948	2,636,171	-	-	4,412,145	21,379,110
Administration costs	507,835	-	1,193,985	-	-	-	250,832	207,878	317,658	2,478,188
Depreciation and amortization	634,151	632,380	202,246	32,850	74,877	60,253	-	15,670	95,632	1,748,059
Total operating expenses	3,538,238	8,383,451	2,778,343	1,422,261	1,486,825	2,696,424	250,832	223,548	4,825,435	25,605,357
Operating income (loss)	(2,508,384)	(4,504,675)	(488,289)	(334,218)	528,203	(1,125,022)	(236,172)	(118,914)	20,497	(8,766,974)
Nonoperating revenues (expenses):										
Contributions from the primary government	2,740,000	3,092,687	-	1,258,763	-	1,008,150	249,100	-	1,092,185	9,440,885
Contributions to the primary government	-	-	-	-	(450,000)	-	-	-	-	(450,000)
Equity in net earnings of joint venture	-	-	-	-	1,122,853	-	-	-	-	1,122,853
Interest income	716	(26,616)	-	-	53,832	-	-	-	-	27,932
Interest expense	-	-	-	-	(73,744)	-	-	-	(37,719)	(111,463)
Other	(89,509)	(508,963)	(32,561)	(8,506)	6,238	277,475	-	60,301	(45,471)	(340,996)
Total nonoperating revenues (expenses), net	2,651,207	2,557,108	(32,561)	1,250,257	659,179	1,285,625	249,100	60,301	1,008,995	9,689,211
Capital contributions	-	4,848,301	-	-	-	-	-	-	-	4,848,301
Net income (loss)	142,823	2,900,734	(520,850)	916,039	1,187,382	160,603	12,928	(58,613)	1,029,492	5,770,538
Net assets at the beginning of the year	265,126	10,570,113	1,508,255	(701,708)	2,029,055	208,715	234,395	205,059	1,595,412	15,914,422
Net assets at the end of the year	\$ 407,949	\$ 13,470,847	\$ 987,405	\$ 214,331	\$ 3,216,437	\$ 369,318	\$ 247,323	\$ 146,446	\$ 2,624,904	\$ 21,684,960

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GRANTS ASSISTANCE FUND

September 30, 2008

The Grants Assistance Fund accounts for all financial transactions that are subgranted to RepMar. A brief discussion of the funds that comprise the Grants Assistance Fund as of September 30, 2008, follows:

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 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 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.

U.S. Federal Grants 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.

European Union Grants 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 European Union.

REPUBLIC OF THE MARSHALL ISLANDS
GRANTS ASSISTANCE FUND

September 30, 2008

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.

Compact Sector Grants 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.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GRANTS ASSISTANCE FUND

Combining Balance Sheet
September 30, 2008

	350200	350210	350305	350315	350320	510130	600350	700100	700360	700370		
	Section 215(a)(1) Communi- cations	Section 211 Capital Account	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Total
ASSETS												
Receivables:												
Federal agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 273,870	\$ -	\$ -	\$ -	\$ -	\$ 1,309,454	\$ 1,583,324
General	-	-	-	-	-	-	-	-	-	720,000	-	720,000
Due from other funds	40,380	-	690	1,593	-	-	965,218	279,897	-	-	5,044,444	6,332,222
Advances	-	-	-	-	-	-	44,840	-	(1,772)	-	3,531	46,599
Total assets	<u>\$ 40,380</u>	<u>\$ -</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ -</u>	<u>\$ 273,870</u>	<u>\$ 1,010,058</u>	<u>\$ 279,897</u>	<u>\$ (1,772)</u>	<u>\$ 720,000</u>	<u>\$ 6,357,429</u>	<u>\$ 8,682,145</u>
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 120,998	\$ 449,542	\$ 609	\$ 1,142	\$ 266,125	\$ 553,957	\$ 1,392,373
Other liabilities and accruals	-	-	-	-	-	-	18,382	222	665	2,657	111,756	133,682
Payable to federal agencies	-	-	-	-	-	-	544,406	-	-	-	978,587	1,522,993
Retention payable	-	-	-	-	-	-	-	-	-	-	943,616	943,616
Contracts payable	-	-	-	-	-	-	-	-	-	-	519,944	519,944
Due to other funds	-	-	-	-	-	152,872	-	-	76,435	451,218	5,027	685,552
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>273,870</u>	<u>1,012,330</u>	<u>831</u>	<u>78,242</u>	<u>720,000</u>	<u>3,112,887</u>	<u>5,198,160</u>
Fund balances (deficits):												
Reserved for:												
Encumbrances	40,380	2,692	-	-	-	503,854	985,482	102,779	29,869	838,195	10,144,779	12,648,030
Continuing appropriations	-	-	-	-	-	-	-	-	-	-	4,642,837	4,642,837
Unreserved (deficit)	<u>-</u>	<u>(2,692)</u>	<u>690</u>	<u>1,593</u>	<u>-</u>	<u>(503,854)</u>	<u>(987,754)</u>	<u>176,287</u>	<u>(109,883)</u>	<u>(838,195)</u>	<u>(11,543,074)</u>	<u>(13,806,882)</u>
Total fund balances (deficits)	<u>40,380</u>	<u>-</u>	<u>690</u>	<u>1,593</u>	<u>-</u>	<u>-</u>	<u>(2,272)</u>	<u>279,066</u>	<u>(80,014)</u>	<u>-</u>	<u>3,244,542</u>	<u>3,483,985</u>
Total liabilities and fund balances	<u>\$ 40,380</u>	<u>\$ -</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ -</u>	<u>\$ 273,870</u>	<u>\$ 1,010,058</u>	<u>\$ 279,897</u>	<u>\$ (1,772)</u>	<u>\$ 720,000</u>	<u>\$ 6,357,429</u>	<u>\$ 8,682,145</u>

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GRANTS ASSISTANCE FUND

Combining Schedule of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2008

	350200	350210	350305	350315	350320	510130	600350	700100	700360	700370		
	Section 215(a)(1) Communi- cations	Section 211 Capital Account	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Total
Revenues:												
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 335,270	\$ 8,340,564	\$ 734,250	\$ 341,148	\$ 12,332,637	\$ 41,282,647	\$ 63,366,516
Expenditures by Function:												
Current:												
General government:												
President and Cabinet	-	-	-	-	-	-	-	-	-	49,640	-	49,640
Office of the Chief Secretary	-	-	-	-	-	-	10,558	-	141,330	-	-	151,888
Special appropriations	-	-	-	-	-	-	-	-	-	886,007	-	886,007
Nittijela	-	-	-	-	-	-	-	-	60,384	42,192	-	102,576
Office of the Auditor-General	-	-	-	-	-	335,270	104,300	-	-	-	-	439,570
Public Service Commission	-	-	-	-	-	-	-	-	-	1,200	-	1,200
Ministry of Education	-	-	-	-	-	-	2,852,710	-	-	-	17,929,053	20,781,763
Ministry of Health and Environment	-	-	-	-	-	-	3,620,566	-	-	-	8,062,177	11,682,743
Ministry of Transportation and Communications	-	-	-	-	-	-	-	-	-	331,365	434,578	765,943
Ministry of Resources and Development	-	-	-	-	-	-	19,403	-	114,405	279,150	-	412,958
Ministry of Internal Affairs	-	-	-	-	-	-	220,237	-	-	346,327	-	566,564
Ministry of Justice	-	-	-	-	-	-	-	-	-	308,478	-	308,478
Ministry of Finance	-	-	-	-	-	-	524,186	455,184	-	2,747,097	1,931,861	5,658,328
Ministry of Foreign Affairs	-	-	-	-	-	-	-	-	207	-	171,109	171,316
Ministry of Public Works	-	-	-	-	-	-	-	-	-	1,732,605	-	1,732,605
Environmental Protection Authority	-	-	-	-	-	-	3,604	-	-	-	209,466	213,070
Capital outlay	-	-	-	-	-	-	-	-	-	470,503	11,340,330	11,810,833
Total expenditures	-	-	-	-	-	335,270	7,355,564	455,184	316,326	7,194,564	40,078,574	55,735,482
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	985,000	279,066	24,822	5,138,073	1,204,073	7,631,034
Other financing sources (uses):												
Operating transfers in	-	-	-	-	4,280	-	-	-	-	-	592,761	597,041
Operating transfers out	-	-	-	-	-	-	(985,000)	-	-	(5,197,256)	(1,166,428)	(7,348,684)
Total other financing sources (uses), net	-	-	-	-	4,280	-	(985,000)	-	-	(5,197,256)	(573,667)	(6,751,643)
Net change in fund balances (deficits)	-	-	-	-	4,280	-	-	279,066	24,822	(59,183)	630,406	879,391
Fund balances (deficits) at the beginning of the year	40,380	-	690	1,593	(4,280)	-	(2,272)	-	(104,836)	59,183	2,614,136	2,604,594
Fund balances (deficits) at the end of the year	\$ 40,380	\$ -	\$ 690	\$ 1,593	\$ -	\$ -	\$ (2,272)	\$ 279,066	\$ (80,014)	\$ -	\$ 3,244,542	\$ 3,483,985

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
GRANTS ASSISTANCE FUND

Combining Schedule of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficits)
Year Ended September 30, 2008

	350200	350210	350305	350315	350320	510130	600350	700100	700360	700370		
	Section 215(a)(1) Communi- cations	Section 211 Capital Account	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 221(b) Education and Health Care	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Total
Revenues:												
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 335,270	\$ 8,340,564	\$ 734,250	\$ 341,148	\$ 12,332,637	\$ 41,282,647	\$ 63,366,516
Expenditures by Account:												
Salaries and wages	-	-	-	-	-	-	2,639,724	222	80,610	339,863	14,183,274	17,243,693
Capital outlay	-	-	-	-	-	-	728,731	-	3,952	762,281	6,404,107	7,899,071
Grants and subsidies	-	-	-	-	-	-	43,000	435,352	-	4,048,281	6,829,207	11,355,840
Utilities	-	-	-	-	-	-	7,722	-	40	5,063	1,902,139	1,914,964
Leased housing	-	-	-	-	-	-	-	-	1,467	-	1,149,462	1,150,929
Supplies and materials	-	-	-	-	-	-	333,738	-	13,960	61,597	2,321,286	2,730,581
Contractual services	-	-	-	-	-	-	1,225,211	-	120,935	1,313,709	1,367,607	4,027,462
Travel	-	-	-	-	-	-	972,375	7,829	6,532	46,615	331,628	1,364,979
Food stuffs	-	-	-	-	-	-	501,645	2,310	21,975	12,015	939,970	1,477,915
Allowances	-	-	-	-	-	-	-	-	-	-	56,450	56,450
Professional services	-	-	-	-	-	335,270	-	-	31,611	9,900	-	376,781
Medical supplies	-	-	-	-	-	-	12,911	-	-	-	81,481	94,392
Communications	-	-	-	-	-	-	57,385	-	7,951	19,224	165,868	250,428
POL	-	-	-	-	-	-	81,755	-	1,632	68,354	2,975,181	3,126,922
Rentals	-	-	-	-	-	-	13,871	475	6,563	9,737	140,093	170,739
Freight	-	-	-	-	-	-	16,940	-	-	-	35,746	52,686
Printing and reproduction	-	-	-	-	-	-	35,539	843	48	378	37,661	74,469
Insurance	-	-	-	-	-	-	-	-	221	99,140	3,839	103,200
Other	-	-	-	-	-	-	685,017	8,153	18,829	398,407	1,153,575	2,263,981
Total expenditures	-	-	-	-	-	335,270	7,355,564	455,184	316,326	7,194,564	40,078,574	55,735,482
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	-	-	985,000	279,066	24,822	5,138,073	1,204,073	7,631,034
Other financing sources (uses):												
Operating transfers in	-	-	-	-	4,280	-	-	-	-	-	592,761	597,041
Operating transfers out	-	-	-	-	-	-	(985,000)	-	-	(5,197,256)	(1,166,428)	(7,348,684)
Total other financing sources (uses), net	-	-	-	-	4,280	-	(985,000)	-	-	(5,197,256)	(573,667)	(6,751,643)
Net change in fund balances (deficits)	-	-	-	-	4,280	-	-	279,066	24,822	(59,183)	630,406	879,391
Fund balances (deficits) at the beginning of the year	40,380	-	690	1,593	(4,280)	-	(2,272)	-	(104,836)	59,183	2,614,136	2,604,594
Fund balances (deficits) at the end of the year	\$ 40,380	\$ -	\$ 690	\$ 1,593	\$ -	\$ -	\$ (2,272)	\$ 279,066	\$ (80,014)	\$ -	\$ 3,244,542	\$ 3,483,985

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPACT SECTOR GRANTS FUND

September 30, 2008

Section 211(a)(1) Education Sector Grant 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)(1) and approved by Nitijela resolution 123 to support and improve the educational system of the Republic of the Marshall Islands.

Supplemental Education Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, which takes the place of certain domestic grants once offered through the U.S. Department of Education, the U.S. Department of Health and Human Services and the U.S. Department of Labor.

Section 211(a)(2) Health Sector Grant 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)(2) and approved by Nitijela resolution 123 to support and improve the delivery of preventive, curative, and environmental healthcare services in the Republic of the Marshall Islands.

Section 211(a)(4) Capacity Building 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)(4) and approved by Nitijela resolution 123 to support the efforts in building an effective, accountable and transparent national and local government and other public sector institutions and systems in the Republic of the Marshall Islands.

Section 211(a)(3) Private Sector Development 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)(3) and approved by Nitijela resolution 123 to support the efforts to attract foreign investment and increase indigenous business activity in the Republic of the Marshall Islands.

Section 211(a)(5) Environment Sector 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)(5) and approved by Nitijela resolution 123 to increase environmental protection; establish and manage conservation areas; engage in environmental infrastructure planning, design construction and operation; and to involve the citizens of the Marshall Islands in the process of conserving their country's natural resources.

Section 211(b)(1) Ebeye Special Needs Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(b)(1) and approved by Nitijela resolution 123 to support the special needs of the community at Ebeye, Kwajalein Atoll and other Marshallese communities within Kwajalein Atoll.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPACT SECTOR GRANTS FUND

September 30, 2008

Section 211(b)(2) Landowners Special Needs Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(b)(1) and approved by Nitijela resolution 123 to support the special needs of the community at Ebeye, Kwajalein Atoll and other Marshallese communities within Kwajalein Atoll with emphasis on the Kwajalein Landowners.

Section 211(b)(1) Kwajalein Environment Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(b)(1) and approved by Nitijela resolution 123 to address the special needs of the community at Ebeye, Kwajalein Atoll, with respect to environmental protection issues.

Section 211(d)(1) Public Infrastructure Sector Grant Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(d)(1) and approved by Nitijela resolution 123. The aforementioned section requires no less than 30% and no more than 50% of the total amounts appropriated by the United States Congress under Section 211 to be made available in accordance with a list of specific projects included in the infrastructure improvement and maintenance plan prepared by RepMar.

Section 211(d)(2) Infrastructure Maintenance Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(d)(2) and approved by Nitijela resolution 123. The aforementioned section requires 5% of the total amounts appropriated by the United States Congress under Section 211(d)(1) to be set aside and made available, with an equal contribution from RepMar, as a contribution to an Infrastructure Maintenance Fund.

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS
COMPACT OF FREE ASSOCIATION SECTOR GRANTS

Combining Balance Sheet
September 30, 2008

	410100	410102	410110	410120	410130	410140	410150	410160	410170	510100	510110	Total
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(3) Private Sector Development	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	
ASSETS												
Receivables:												
Federal agencies	\$ 281,316	\$ 73,976	\$ 236,009	\$ 250,000	\$ -	\$ -	\$ 130,868	\$ -	\$ -	\$ 337,285	\$ -	\$ 1,309,454
Due from other funds	387,973	884,219	120,255	-	-	10,487	346,545	143,156	12,134	800,109	2,339,566	5,044,444
Advances	-	2,691	-	-	-	-	840	-	-	-	-	3,531
Total assets	<u>\$ 669,289</u>	<u>\$ 960,886</u>	<u>\$ 356,264</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 10,487</u>	<u>\$ 478,253</u>	<u>\$ 143,156</u>	<u>\$ 12,134</u>	<u>\$ 1,137,394</u>	<u>\$ 2,339,566</u>	<u>\$ 6,357,429</u>
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable	\$ 236,342	\$ 92,587	\$ 208,535	\$ 211	\$ -	\$ -	\$ 13,240	\$ -	\$ 3,042	\$ -	\$ -	\$ 553,957
Other liabilities and accruals	59,850	12,959	35,977	-	-	-	676	-	1,160	1,134	-	111,756
Payable to federal agencies	85,482	-	296,178	152,425	-	-	435,428	-	9,074	-	-	978,587
Retention payable	-	-	-	-	-	-	-	-	-	874,377	69,239	943,616
Contracts payable	-	-	-	-	-	-	-	-	-	261,883	258,061	519,944
Due to other funds	-	-	-	5,027	-	-	-	-	-	-	-	5,027
Total liabilities	<u>381,674</u>	<u>105,546</u>	<u>540,690</u>	<u>157,663</u>	<u>-</u>	<u>-</u>	<u>449,344</u>	<u>-</u>	<u>13,276</u>	<u>1,137,394</u>	<u>327,300</u>	<u>3,112,887</u>
Fund balances (deficits):												
Reserved for:												
Encumbrances	-	494,077	-	-	-	-	-	73,449	-	9,007,003	570,250	10,144,779
Continuing appropriations	-	-	-	-	-	-	-	-	-	4,642,837	-	4,642,837
Unreserved (deficit)	<u>287,615</u>	<u>361,263</u>	<u>(184,426)</u>	<u>92,337</u>	<u>-</u>	<u>10,487</u>	<u>28,909</u>	<u>69,707</u>	<u>(1,142)</u>	<u>(13,649,840)</u>	<u>1,442,016</u>	<u>(11,543,074)</u>
Total fund balances (deficits)	<u>287,615</u>	<u>855,340</u>	<u>(184,426)</u>	<u>92,337</u>	<u>-</u>	<u>10,487</u>	<u>28,909</u>	<u>143,156</u>	<u>(1,142)</u>	<u>-</u>	<u>2,012,266</u>	<u>3,244,542</u>
Total liabilities and fund balances	<u>\$ 669,289</u>	<u>\$ 960,886</u>	<u>\$ 356,264</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 10,487</u>	<u>\$ 478,253</u>	<u>\$ 143,156</u>	<u>\$ 12,134</u>	<u>\$ 1,137,394</u>	<u>\$ 2,339,566</u>	<u>\$ 6,357,429</u>

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, 2008

	410100	410102	410110	410120	410130	410140	410150	410160	410170	510100	510110	Total
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(3) Private Sector Development	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Total
Revenues:												
Compact funding	\$ 11,402,211	\$ 6,128,366	\$ 6,402,125	\$ 350,963	\$ -	\$ 10,487	\$ 2,910,401	\$ 1,987,500	\$ 208,307	\$ 11,289,527	\$ 592,760	\$ 41,282,647
Expenditures by Function:												
Current:												
General government:												
Ministry of Education	11,244,682	5,298,064	-	-	-	-	1,386,307	-	-	-	-	17,929,053
Ministry of Health and Environment	365	-	6,639,106	-	-	-	1,422,706	-	-	-	-	8,062,177
Ministry of Transportation and Communications	-	-	-	-	-	-	-	-	-	434,578	-	434,578
Ministry of Finance	-	-	-	87,517	-	-	-	1,844,344	-	-	-	1,931,861
Ministry of Foreign Affairs	-	-	-	171,109	-	-	-	-	-	-	-	171,109
Environmental Protection Authority	-	-	-	-	-	-	-	-	209,466	-	-	209,466
Capital outlay	-	-	-	-	-	-	-	-	-	10,854,949	485,381	11,340,330
Total expenditures	11,245,047	5,298,064	6,639,106	258,626	-	-	2,809,013	1,844,344	209,466	11,289,527	485,381	40,078,574
Excess (deficiency) of revenues over (under) expenditures	157,164	830,302	(236,981)	92,337	-	10,487	101,388	143,156	(1,159)	-	107,379	1,204,073
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	-	-	592,761	592,761
Operating transfers out	(716,428)	(350,000)	-	-	-	-	(100,000)	-	-	-	-	(1,166,428)
Total other financing sources (uses), net	(716,428)	(350,000)	-	-	-	-	(100,000)	-	-	-	592,761	(573,667)
Net change in fund balances (deficits)	(559,264)	480,302	(236,981)	92,337	-	10,487	1,388	143,156	(1,159)	-	700,140	630,406
Fund balances (deficits) at the beginning of the year	846,879	375,038	52,555	-	-	-	27,521	-	17	-	1,312,126	2,614,136
Fund balances (deficits) at the end of the year	\$ 287,615	\$ 855,340	\$ (184,426)	\$ 92,337	\$ -	\$ 10,487	\$ 28,909	\$ 143,156	\$ (1,142)	\$ -	\$ 2,012,266	\$ 3,244,542

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, 2008

	410100	410102	410110	410120	410130	410140	410150	410160	410170	510100	510110	Total
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	Section 211(a)(3) Private Sector Development	Section 211(a)(5) Environment	Section 211(b)(1) Ebeye Special Needs	Section 211(b)(2) Landowners Special Needs	Section 211(b)(3) Kwajalein Environment	Section 211(d)(1) Public Infrastructure	Section 211(d)(2) Infrastructure Maintenance	Total
Revenues:												
Compact funding	\$ 11,402,211	\$ 6,128,366	\$ 6,402,125	\$ 350,963	\$ -	\$ 10,487	\$ 2,910,401	\$ 1,987,500	\$ 208,307	\$ 11,289,527	\$ 592,760	\$ 41,282,647
Expenditures by Account:												
Salaries and wages	7,189,619	1,681,748	4,519,358	-	-	-	539,449	-	145,747	107,353	-	14,183,274
Capital outlay	308,653	243,187	55,089	-	-	-	482,865	-	5,494	4,823,438	485,381	6,404,107
Grants and subsidies	1,304,971	100,000	-	-	-	-	-	-	-	5,424,236	-	6,829,207
Utilities	572,774	55,214	783,684	-	-	-	480,467	-	10,000	-	-	1,902,139
Leased housing	361,248	-	788,214	-	-	-	-	-	-	-	-	1,149,462
Supplies and materials	499,076	1,515,018	79,701	-	-	-	217,809	-	2,373	7,309	-	2,321,286
Contractual services	102,098	573,029	-	257,110	-	-	415,370	-	20,000	-	-	1,367,607
Travel	142,624	42,163	55,624	-	-	-	76,917	-	11,033	3,267	-	331,628
Food stuffs	183,835	541,515	123,592	-	-	-	91,028	-	-	-	-	939,970
Allowances	54,350	2,100	-	-	-	-	-	-	-	-	-	56,450
Medical supplies	-	-	20,870	-	-	-	60,611	-	-	-	-	81,481
Communications	71,671	13,901	4,469	1,220	-	-	62,839	-	7,912	3,856	-	165,868
POL	179,697	21,511	24,815	296	-	-	149,812	1,672,940	6,042	920,068	-	2,975,181
Rentals	86,161	2,363	9,444	-	-	-	42,125	-	-	-	-	140,093
Freight	26,461	-	611	-	-	-	8,674	-	-	-	-	35,746
Printing and reproduction	29,313	1,989	6,359	-	-	-	-	-	-	-	-	37,661
Insurance	-	-	1,639	-	-	-	1,335	-	865	-	-	3,839
Other	132,496	504,326	165,637	-	-	-	179,712	171,404	-	-	-	1,153,575
Total expenditures	11,245,047	5,298,064	6,639,106	258,626	-	-	2,809,013	1,844,344	209,466	11,289,527	485,381	40,078,574
Excess (deficiency) of revenues over (under) expenditures	157,164	830,302	(236,981)	92,337	-	10,487	101,388	143,156	(1,159)	-	107,379	1,204,073
Other financing sources (uses):												
Operating transfers in	-	-	-	-	-	-	-	-	-	-	592,761	592,761
Operating transfers out	(716,428)	(350,000)	-	-	-	-	(100,000)	-	-	-	-	(1,166,428)
Total other financing sources (uses), net	(716,428)	(350,000)	-	-	-	-	(100,000)	-	-	-	592,761	(573,667)
Net change in fund balances (deficits)	(559,264)	480,302	(236,981)	92,337	-	10,487	1,388	143,156	(1,159)	-	700,140	630,406
Fund balances (deficits) at the beginning of the year	846,879	375,038	52,555	-	-	-	27,521	-	17	-	1,312,126	2,614,136
Fund balances (deficits) at the end of the year	\$ 287,615	\$ 855,340	\$ (184,426)	\$ 92,337	\$ -	\$ 10,487	\$ 28,909	\$ 143,156	\$ (1,142)	\$ -	\$ 2,012,266	\$ 3,244,542

See Accompanying Independent Auditors' Report.

REPUBLIC OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2008

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, 2008, which collectively comprise RepMar's basic financial statements and have issued our report thereon dated June 10, 2009. 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 12 through 29) as items 2008-3 and 2008-9 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.

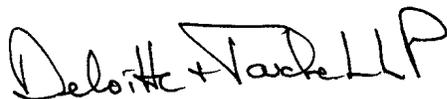
Compliance and Other Matters

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-7.

We noted certain matters that we reported to management of RepMar in a separate letter dated June 10, 2009.

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 responses and, accordingly, we express no opinion on them.

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.

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

June 10, 2009

**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, 2008. 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 12 through 29). 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, 2008. 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 2008-1, 2008-3 and 2008-4 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding cash management, and procurement and suspension and debarment that are applicable to its Food Distribution Program major program (CFDA # 10.567), and equipment and real property management that are applicable to its Compact of Free Association Sector Grants major program (CFDA # 15.875), and its Special Education - Grants to States major program (CFDA # 84.027). 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 Food Distribution Program major program (CFDA # 10.567), its Compact of Free Association Sector Grants major program (CFDA # 15.875), and its Special Education - Grants to States major program (CFDA # 84.027) for the year ended September 30, 2008. 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 2008-2, 2008-5, 2008-6, 2008-7 and 2008-8.

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 2008-1 through 2008-6 and 2008-8 to be significant deficiencies.

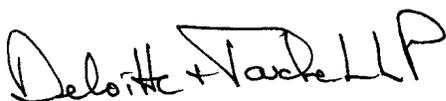
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2008-1, 2008-3, and 2008-4 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 responses and, accordingly, we express no opinion on them.

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, 2008, and have issued our report thereon dated June 10, 2009. 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.

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

June 10, 2009

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2008

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 Agriculture	10.567	Food Distribution Program	\$ <u>518,824</u>
U.S. Department of the Interior	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Public Law 99-239, Sector Grants:	
		Education	11,961,475
		Supplemental Education Grant	5,648,064
		Health	6,639,106
		Public Sector Capacity Building	258,626
		Ebeye Special Needs	2,909,013
		Landowners Special Needs	1,844,344
		Kwajalein Environment	209,466
		Public Infrastructure Development	11,289,527
		Infrastructure Maintenance	<u>485,381</u>
			<u>41,245,002</u>
U.S. Department of Education	84.027	Special Education - Grants to States	<u>2,153,035</u>
		Total program expenditures tested	\$ <u>43,916,861</u>
		Total federal program expenditures	\$ <u>62,289,098</u>
		% of total federal program expenditures tested	<u>70%</u>

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
GENERAL FUND AND REIMBURSABLE FUND:		
	<u>U.S. Department of Commerce:</u>	
11.460	Special Oceanic and Atmospheric Projects	\$ 387,167
	Total U.S. Department of Commerce	<u>\$ 387,167</u>
U.S. FEDERAL GRANTS FUND:		
	<u>U.S. Department of Agriculture:</u>	
10.567	Food Distribution Program	\$ 518,824
10.664	Cooperative Forestry Assistance	3,406
	Total U.S. Department of Agriculture	<u>\$ 522,230</u>
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories:	
	Single Audit FY 2000	\$ 12,000
	Single Audit FY 2001	20,500
	Single Audit FY 2002	24,500
	Single Audit FY 2003	47,300
	EPA Environmental Standards Conference	3,604
	Four Atoll Health Care	1,312,349
	Tax Enhancement System	319,131
	Component Units Reconciliation	634
	RMI NGO Committee	1,952
	Sub-total CFDA # 15.875	<u>1,741,970</u>
15.904	Historic Preservation Fund Grants-In-Aid	<u>220,237</u>
	Total U.S. Department of the Interior	<u>\$ 1,962,207</u>
	<u>U.S. Small Business Administration:</u>	
59.037	Small Business Development Center	\$ 17,199
	Total U.S. Small Business Administration	<u>\$ 17,199</u>
	<u>U.S. Department of Homeland Security</u>	
83.505	State Disaster Preparedness Grant	\$ 10,558
	Total U.S. Department of Homeland Security	<u>\$ 10,558</u>
	<u>U.S. Department of Education:</u>	
84.027	Special Education-Grants to States	\$ 2,153,035
84.256	Freely Associated States-Education Grant Program	6,300
84.336	Teacher Quality Enhancement Grant	118,615
	Total U.S. Department of Education	<u>\$ 2,277,950</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, 2008

<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	\$ 828,618
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	122,276
93.118	Acquired Immunodeficiency Syndrome (AIDs) Activity	91,594
93.163	Health Services in the Pacific Basin	568,837
93.217	Family Planning-Services	251,945
93.230	Consolidated Knowledge Development and Application (KD&A) Program	41,125
93.268	Immunization Grants	646,029
93.283	CDC and Prevention-Investigations and Technical Assistance	417,479
93.917	HIV Care Formula Grants	88,536
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to to Prevent the Spread of HIV and Other Important Health Problems	55,417
93.958	Block Grant for Community Mental Health Services	51,601
93.959	Block Grants for Prevention and Treatment of Substance Abuse	201,268
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	121,405
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	62,037
93.991	Preventive Health and Health Services Block Grant	2,253
	Total U.S. Department of Health and Human Services	\$ <u>3,550,420</u>
	TOTAL U.S. FEDERAL GRANTS FUND	\$ <u>8,340,564</u>
COMPACT SECTOR GRANTS FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended, Sector Grants:	
	Section 211(a)(1) Education Sector	\$ 11,961,475
	Supplemental Education Grant	5,648,064
	Section 211(a)(2) Health Sector	6,639,106
	Section 211(a)(4) Public Sector Capacity Building	258,626
	Section 211(b)(1) Ebeye Special Needs	2,909,013
	Section 211(b)(2) Landowners Special Needs	1,844,344
	Section 211(b)(3) Kwajalein Environment	209,466
	Section 211(d)(1) Public Infrastructure Development	11,289,527
	Section 211(d)(2) Infrastructure Maintenance	485,381
	Total U.S. Department of the Interior	\$ <u>41,245,002</u>
SECTION 212 KWAJALEIN LANDOWNERS FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended:	
	Section 212 Kwajalein Impact and Use	\$ 11,981,095
	Total U.S. Department of the Interior	\$ <u>11,981,095</u>
SECTION 213 AUDIT FUND:		
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association Program, As Amended:	
	Section 213 Audit	\$ 335,270
	Total U.S. Department of the Interior	\$ <u>335,270</u>
	GRAND TOTAL	\$ <u>62,289,098</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, 2008

(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, 2008 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, 2008.

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, 2008

(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>2008 Amount of Pass-through</u>
<u>U.S. Department of the Interior - CFDA #15.875</u>		
Compact of Free Association, As Amended, Education Sector Grant	College of the Marshall Islands	\$ 1,000,000
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	\$ 100,000
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	\$ 4,989,657
Compact of Free Association, As Amended, Landowner Special Needs	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,844,344
Compact of Free Association, As Amended, Public Infrastructure Development	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 1,696,507
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 716,428
Compact of Free Association, As Amended, Supplemental Education Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 350,000
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 100,000

REPUBLIC OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2008

(2) Summary of Significant Accounting Policies, Continued

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2008. RepMar did not charge federal programs for indirect costs during fiscal year 2008.

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, 2008

Section I - Summary of Auditor's Results

Financial Statements

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | | |
|-----|--|--|
| | Internal control over major programs: | |
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. | RepMar's major programs were as follows: | |
| | <u>CFDA #</u> | <u>Name of Federal Program</u> |
| | 10.567 | Food Distribution Program |
| | 15.875 | Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants |
| | 84.027 | Special Education - Grants to States |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$1,868,673 |
| 11. | RepMar qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2008-3	Equipment and Real Property Management	17 - 18
2008-7	Procurement and Suspension and Debarment	26 - 27
2008-9	Payroll Expenditures - Employer Insurance Costs	29

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2008-1	10.567/ 84.027	Cash Management	Undeterminable	14
2008-2	15.875	Cash Management	\$ -	15
2008-3	15.875/ 84.027	Equipment and Real Property Management	\$ -	17 - 18
2008-4	10.567	Procurement and Suspension and Debarment	\$ 252,507	19 - 21
2008-5	15.875	Procurement and Suspension and Debarment	\$ 74,318	22 - 23
2008-6	84.027	Procurement and Suspension and Debarment	\$ 14,966	24 - 25
2008-7	15.875/ 93.110	Procurement and Suspension and Debarment	\$ 303,827	26 - 27
2008-8	15.875	Special Tests and Provisions	\$ -	28

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No. 2008-1

Cash Management

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

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

Questioned Costs: Undeterminable

Criteria: Section 3016.21 of 7 CFR 3016, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* and 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 \$518,824 in non-payroll expenditures for the Special Feeding Program, forty-six items, totaling \$472,334, were tested. Furthermore, of \$809,682 in non-payroll expenditures for the IDEA Special Education - Grants to States program, thirty-six items, totaling \$197,514, were tested. 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 drawdown 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 audit finding and recommendation. Our corrective action plan will involve the Chief of Accounting and Senior Federal Grants Coordinator to establish a spending pattern and a draw down schedule for all Federal programs grants to minimize time elapsed between receipt and disbursement of funds. The anticipated completion date of this corrective action plan is September 30, 2009.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No. 2008-2

Cash Management

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

Questioned Costs: \$0

Criteria: Article IV, Section 5(b)(2) of the Fiscal Procedures Agreement (FPA) states that all infrastructure projects and projects that are not funded by Operational Grants will be paid on the basis of accrued expenditures, provided the Government of the Republic of the Marshall Islands maintains procedures to minimize the time elapsing between transfer of funds and their disbursement.

Condition: Of \$11,182,174 in non-payroll expenditures for the Compact Sector Public Infrastructure Grant, thirty-three items, totaling \$7,319,993, were tested. We noted the following infrastructure project expenditures that were not paid in a manner that minimized the time elapsed between transfer of funds and their disbursement:

<u>Check #</u>	<u>Expenditure Amount</u>	<u>Cash Disbursement Draw Down #</u>	<u>Drawdown Deposit Date</u>	<u>Date Check Cleared</u>	<u># of Days Elapsed</u>
51590	\$ 140,501	CD-003-2008	12/05/07	12/14/07	8
52083	\$ 684,157	CD-005-2008	12/27/07	01/10/08	13
53425	\$ 649,147	CD-007-2008	02/25/08	03/05/08	8
53432	\$ 84,956	CD-007-2008	02/25/08	03/06/08	9
53559	\$ 96,743	CD-007-2008	02/25/08	03/11/08	14
54338	\$ 22,620	CD-007-2008	02/25/08	04/08/08	42
54595	\$ 25,000	CD-008-2008	03/10/08	06/02/08	83
55260	\$ 430,914	CD-012-2008	04/25/08	05/05/08	9
55667	\$ 87,409	CD-013-2008	05/09/08	05/20/08	10
55703	\$ 579,508	CD-014-2008	05/16/08	05/22/08	5
55706	\$ 37,374	CD-012-2008	04/25/08	06/05/08	40
56368	\$ 33,163	CD-016-2008	06/17/08	06/23/08	5
57015	\$ 696,448	CD-017-2008	07/01/08	07/14/08	12
57368	\$ 69,007	CD-018-2008	07/24/08	07/31/08	6
57667	\$ 32,394	CD-019-2008	08/01/08	08/15/08	13
58064	\$ 861,058	CD-020-2008	08/14/08	08/22/08	7
58911	\$ 309,416	ESP-002-2008	09/24/08	09/29/08	4
58926	\$ 283,780	ESP-002-2008	09/24/08	10/01/08	6
59002	\$ 13,222	CD-021-2008	08/20/08	11/10/08	81
59049	\$ 90,183	CD-022-2008	09/26/08	10/10/08	13

We estimated a total interest liability of \$4,227 for the above draw downs based on the yield of 13-week U.S. Treasury bills. As this amount is below \$10,000, no questioned costs are reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-2, Continued

Cash Management

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

Questioned Costs: \$0

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

Effect: The effect of the above condition is noncompliance with FPA cash management requirements.

Recommendation: We recommend that the Ministry of Finance comply with the FPA and 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 audit finding and recommendation. Our corrective action plan will involve the Chief of Accounting and Senior Compact Grants Budget Officer to establish a formal methodology governing the drawdown of Compact Funds to minimize the time elapsed between the receipt of Fund and the date of applicable payments clear in the bank, to ensure compliance with the FPA. The anticipated completion date of this corrective action plan is September 30, 2009.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No. 2008-3

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: 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.

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.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-3, Continued

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: Special Education - Grants to States

Questioned Costs: \$0

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 2007.

Auditee Response and Corrective Plan: We agree with the audit finding and recommendation. The Ministry of Finance, particularly the Procurement and Supply Office is currently conducting a nationwide Physical Inventory count of all RMI Government Capital Asset worth \$5000 and greater. To date, the Ministry's inventory team has accomplished 80% completion of inventory, and the anticipated completed date of the Fixed Asset register is September 30, 2009.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-4

Procurement and Suspension and Debarment

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

Questioned Costs: \$252,507

Criteria: Section 3016.36 of 7 CFR 3016, *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.

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 purchase 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 \$518,824 in non-payroll expenditures for the Special Feeding Program, forty-six items, totaling \$472,334, 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	P2338301	52731	Food Stuff	\$ 39,497
2	P2338101	52816	Food Stuff	\$ 20,000
3	P2338001	52816	Food Stuff	\$ 17,194
4	P2402801	53864	Rentals	\$ 5,440
5	P2519101	56112	Food Stuff	\$ 16,922
6	P2536401	56112	Food Stuff	\$ 10,369
7	P2536401	56112	Food Stuff	\$ 25,988
8	P2536401	56112	Food Stuff	\$ 22,997
9	P2540201	56113	Food Stuff	\$ 25,222
10	P2550101	57382	Food Stuff	\$ 12,450
11	P2701701	59384	Food Stuff	\$ 5,190
12	P2697101	59496	Food Stuff	\$ 51,238

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No. 2008-4, Continued

Procurement and Suspension and Debarment

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

Questioned Costs: \$252,507

Condition, Continued:

For item # 1, three informal price quotations were on file; however, these did not appear to have been independently completed and obtained from the respective vendors. The per unit costs for certain products did not agree with the costs documented on the price quotations, there were certain items purchased that were not documented on the price quotations, and the date of the vendor invoice (9/14/07) preceded the purchase order date (1/14/08). Furthermore, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding.

For item #s 2 and 3, three informal price quotations were on file; however, these did not appear to have been independently completed and obtained from the respective vendors. The per unit costs for certain products did not agree with the costs documented on the price quotations, there were certain items purchased that were not documented on the price quotations, and the date of the vendor invoice (11/14/07 and 11/26/07) preceded the purchase order date (1/24/08) and purchase requisition date (11/29/07).

For item # 4, three informal price quotations were on file; however, such were not based on common parameters (one was based on miles while the other two were based on a daily rate).

For item # 5, procurement was supported by a memo, dated 4/17/08, from the Division of Procurement and Supply documenting sole source due to an emergency due to limited timeframe and transportation yet vendor invoice was dated 2/1/08. Such appears to be the lack of adequate planning and does not appear to relate to an emergency procurement.

For item #s 6, 7 and 8, three informal price quotations were on file; however, the purchase price exceeds \$25,000 thus the procurement should have been awarded by competitive sealed bidding.

For item # 9, procurement was supported by a memo, dated 5/14/08, from the Division of Procurement and Supply documenting sole source due to the vendor being the merchant on the ship thus freight and handling costs would be less. Furthermore, since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding.

For item # 10, procurement was not supported by informal price quotations, thus purchase appears to have been sole sourced.

For item # 11, procurement was supported by a memo, dated 9/15/08, from the Division of Procurement and Supply documenting sole source due to the vendor being the only merchant on island with rice in stock. No other documentation was on file verifying that the vendor was the sole supplier.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-4, Continued

Procurement and Suspension and Debarment

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

Questioned Costs: \$252,507

Condition, Continued:

For item # 12, procurement was supported by one informal price quotation; however, the purchase price exceeds \$25,000 thus the procurement should have been awarded by competitive sealed bidding.

For item #s 1 through 12, as supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$252,507 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.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements. 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 4-Atoll Feeding Program was recently relocated to the Ministry of Finance where the Director of Budget and the Chief of the Procurement and Supply have been designated as the Ministry's Officials in-charge of overseeing the program activities. Thus, all incoming requests will be channeled through a screening process to ensure compliance with Federal and RMI procurement regulations.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-5

Procurement and Suspension and Debarment

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

Questioned Costs: \$74,318

Criteria: 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 \$14,337,611 in non-payroll expenditures of the Compact Sector Grant, sixty-three items, totaling \$3,247,975, 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	410150	K1147501	13717	International Travel	\$ 1,606
2	410150	Q0785801	13759	Medical Supplies	\$ 19,430
3	410102	P2415701	53731	Food Stuff	\$ 1,155
4	410102	P2423801	53996	Other Supplies/Materials	\$ 5,200
5	410150	Q0821701	9639	Contractual Services	\$ 5,454
6	410102	P2428701	54974	Food Stuff	\$ 906
7	410100	P2510101	55508	POL (Fuel)	\$ 1,402
8	410150	Q0857601	9880	Training and Development	\$ 1,000
9	410100		10165	Contractual Services	\$ 4,572
10	410150		13902	Equipment	\$ 33,593

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No. 2008-5, Continued

Procurement and Suspension and Debarment

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

Questioned Costs: \$74,318

Condition, Continued:

For item #1, expenditure related to international travel on full economy fare. 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 # 2, procurement was supported by a memo, dated 9/15/07, from the Kwajalein Atoll Healthcare Bureau documenting sole source due to an emergency due to the lack of pharmaceutical supplies in stock yet vendor invoices were dated 10/18/07, 10/24/07, 11/16/07, 11/23/07 and 11/27/07. Such appears to be the lack of adequate planning and does not appear to relate to an emergency procurement.

For item #s 3 through 10, no evidence of obtaining informal price quotations were on file.

For item #s 1 through 10, as supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$74,318 will be reported.

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 Chief of Procurement and Supply and Budget Director have been designated as the Ministry's officials' in-charge to develop procedures and adequate internal control policies to ensure compliance with the procurement requirements as stipulated under the FPA. Currently, the Chief of Procurement & Supply is taking comprehensive measures to ensure all supporting documents are provided and attached to all incoming requests prior to processing.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-6

Procurement and Suspension and Debarment

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

Questioned Costs: \$14,966

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.

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 \$809,682 in non-payroll expenditures of the IDEA Special Education - Grants to States program, thirty-six items, totaling \$197,514, 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	P2255501	53502	POL (Fuel)	\$ 1,121
2	A0859801	55001	International Travel	\$ 1,959
3	A0874901	55935	International Travel	\$ 3,238
4	A0879501	56231	International Travel	\$ 1,959
5	A0883301	56394	International Travel	\$ 3,078
6	A0899801	58320	International Travel	\$ 3,486
7		59014	Travel	\$ 125

For item # 1, expenditure related to the purchase of gasoline. No evidence supporting the procurement process was noted on file. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$1,121 will be reported.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No. 2008-6, Continued

Procurement and Suspension and Debarment

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

Questioned Costs: \$14,966

Condition, Continued:

For item #s 2, 3, 4, 5 and 6, 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 supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$13,720 will be reported.

For item # 7, expenditure related to the purchase of outer island boat charter. No evidence supporting the procurement process was noted on file. As supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$125 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.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements. 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 Ministry of Finance particularly Procurement & Supply Division will make sure that adequate documentations are attached to all Purchased Requisitions, specifically, to ensure that three vendor price quotations requirements have been met before further approval for process.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-7

Procurement and Suspension and Debarment

U.S. Department of Health and Human Services - CFDA # 93.110: MCH Services Community Based Health Education

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

Questioned Costs: \$303,827

Criteria: Section 92.36 of 45 CFR 92, *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. Furthermore, Section 12.76 of 43 CFR 12, *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.

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 \$25,981,109 in non-payroll expenditures of the Grants Assistance Fund (excluding the Compact Sector Grants, IDEA Special Education - Grants to States program, and Special Feeding Program, which were separately tested), twenty-seven items, totaling \$2,972,293, 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	C0215801	53136	Contractual Services	\$ 97,000
2	93.110	A0819701	50396	International Travel	\$ 3,751
3	93.110	A0829501	51784	International Travel	\$ 1,966
4	93.110	A0855801	54197	International Travel	\$ 3,210

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-7, Continued

Procurement and Suspension and Debarment

U.S. Department of Health and Human Services - CFDA # 93.110: MCH Services Community Based Health Education

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

Questioned Costs: \$303,827

Condition, Continued:

For item # 1, the expenditure relates to services of a contractor for the installation of a Customs Management Information System in the amount of \$100,000. No documentation supporting the procurement process was on file. Since the purchase price exceeds \$25,000, the procurement should have been awarded by competitive sealed bidding. Total payments made during fiscal year 2008 under this contract amounted to \$294,900. 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 purchase price, a questioned cost in the amount of \$294,900 will be reported.

For item #s 2, 3 and 4, 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 supporting documentation was not maintained indicating the history of procurement, including the rationale for and method of procurement, a questioned cost in the amount of \$8,927 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.

Recommendation: We recommend RepMar ensure supporting documentation is adequate to comply with federal procurement requirements. 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: RMI agree with the finding and recommendation. The Office of the Secretary of Finance has directed a policy to strengthen internal control in ensuring that all proper justification, documentations and bidding requirements have been met before further approval for purchase or contract.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2008

Finding No. 2008-8

Special Tests and Provisions

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

Questioned Costs: \$0

Criteria: Article VI, Section 1(j)(14) of the Fiscal Procedures Agreement (FPA) states that all contracts paid with funds provided pursuant to the Compact, as amended, shall contain the following provisions: (i) for contracts in excess of \$100,000 - administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and the provision of such sanctions and penalties as appropriate; (ii) for contracts in excess of \$100,000 - termination for cause and for convenience by the Grantee or Sub-Grantee including the manner by which it will be effected and the basis for settlement; (iii) compliance with the local statutes regarding kickbacks and corrupt practices; (iv) access by the Government of the Republic of the Marshall Islands and its Sub-Grantees, the Government of the United States, or any of their duly authorized representatives to any books, documents, papers, and records of the contractor which are directly pertinent to that specific contract for the purpose of making audit, examination, excerpts, and transcriptions; (v) retention of all required records for three years after Grantees or Sub-Grantees make final payments and all other pending matters are closed; and (vi) compliance with all applicable standards, orders, or requirements issued under local environmental laws.

Condition: During the year ended September 30, 2008, RepMar entered into a contract (Contract # C0213601) with a contractor (Vendor # 503298) in the amount of \$14,738 that did not contain the provisions (iii) through (vi).

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring contracts to contain prerequisite provisions 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 ensure contracts contain all prerequisite provisions.

Auditee Response and Corrective Action Plan: We agree with the audit finding and recommendation. The Ministry of Finance particularly the Budget Section, when certifying incoming contracts that involve compact funding must ensure that they contain the provisions stipulated under the Fiscal Procedures Agreement.

REPUBLIC OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-9

Payroll Expenditures - Employer Insurance Costs

Criteria: Recorded changes to the payroll master files should be compared to authorized source documents to ensure that they were input accurately. Identified errors should be corrected in a timely manner.

Condition: We examined the bi-weekly employer share for group life insurance premiums for payroll periods ended 10/13/07 through 07/05/08 (20 pay periods) 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>
14888	\$ 1,716	\$ 17	\$ 1,699	\$ 12	\$ 12	\$ -

The variance of \$1,699 represented an overpayment of group life insurance premiums for each of the pay periods ended 12/27/07 through 06/07/08, which represented a total overpayment of \$18,687. A correction was made by the Payroll Supervisor for the pay period 06/21/08.

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; however, RepMar subsequently received reimbursement from the insurance company.

Recommendation: 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 Ministry of Finance's Chief of Accounting has been designated as the Ministry's official in charge of verifying all changes made to the Payroll Master File to ensure errors are detected and corrected in a timely manner.

REPUBLIC OF THE MARSHALL ISLANDS

Unresolved Prior Year Questioned Costs
Year Ended September 30, 2008

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, 2008:

	<u>Questioned Costs</u>		
	<u>RepMar</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of RepMar as previously reported:			
Fiscal year 2005 Single Audit	\$ 263,733	\$ -	\$ 263,733
Fiscal year 2006 Single Audit	421,559	-	421,559
Fiscal year 2007 Single Audit	<u>710,185</u>	<u>-</u>	<u>710,185</u>
	1,395,477	-	1,395,477
Less questioned costs resolved in fiscal year 2008:			
Questioned costs of fiscal year 2005 Single Audit (1)	<u>(263,733)</u>	<u>-</u>	<u>(263,733)</u>
	1,131,744	-	1,131,744
Questioned costs of fiscal year 2008 Single Audit	<u>645,618</u>	<u>-</u>	<u>645,618</u>
Unresolved questioned costs of RepMar at September 30, 2008	\$ <u>1,777,362</u>	\$ <u>-</u>	\$ <u>1,777,362</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 13, 2006, which is in excess of the two year threshold.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 12 through 29).