

**REPUBLIC OF THE MARSHALL ISLANDS**

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

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**YEAR ENDED SEPTEMBER 30, 2012**

**REPUBLIC OF THE MARSHALL ISLANDS**

**FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012**

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## **INDEPENDENT AUDITORS' REPORT**

His Excellency Christopher J. Loeak  
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, 2012, 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 did not audit the financial statements of the Marshall Islands National Telecommunications Authority, which represents 19%, 6% and 9%, respectively, of the assets, net assets and operating revenues of RepMar's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Marshall Islands National Telecommunications Authority, is based solely on the report of the other auditors.

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 respective 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 and the report of other auditors provide a reasonable basis for our opinions.

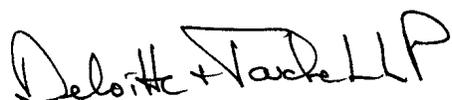
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of the Marshall Islands as of September 30, 2012, 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 3 to the financial statements, RepMar is currently negotiating with federal grantor agencies to determine the ultimate collectability of certain receivables from federal agencies. Our opinion is not modified with respect to this matter.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 14, as well as the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 64 through 66, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise RepMar's 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. The additional information was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, the combining and individual fund financial statements, as set forth in Section IV of the foregoing table of contents, are fairly stated in all material respects in relation to the financial statements as a whole.

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

July 29, 2013

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2012

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, 2012. We encourage readers to consider the information presented here in conjunction with RepMar's basic financial statements, which follow this section. Fiscal year 2011 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 \$95.5 million (net assets), increasing by \$7.1 million (or 8%) from \$88.4 million in the prior year. Of this amount, \$69.5 million represents RepMar's investment in capital assets; \$58 million represents amounts restricted for various purposes, with the remaining deficiency of \$32 million to be funded from future governmental activities.
- During the current fiscal year, RepMar's expenses for governmental activities were \$102.7 million, including special appropriations made to the autonomous agencies, and were funded in part by \$59 million in program revenues and \$43.8 million in taxes and other general revenues. Program revenues decreased by \$4.1 million (down 6.5%) from \$63.1 million in the prior year to \$59 million, which was attributable primarily to the decrease in capital grants and contributions. Expenses decreased \$1.3 million (or 1.3%) from \$104 million in the prior year to \$102.7 million, which was attributable primarily to a decrease in education expenses.
- The Compact Trust Fund had total revenues (and transfers in) of \$7.9 million in the current fiscal year, increasing RepMar's trust fund balance to \$46.3 million from \$38.4 million in the prior year (up 20.6%).
- For the current fiscal year, the General Fund expenditures (and transfers out) of \$44.2 million exceeded general fund revenues (and transfers in) of \$39.9 million. General fund revenues (and transfers in) were up \$1.0 million (0.4%) from prior year primarily due to an increase in ship registry fees and contributions from the MI Marine Resources Authority. Concurrently, General Fund appropriations (and transfers out) were up \$5.5 million (or 14.2%) from prior year primarily due to an increase in special appropriation expenditures associated with subsidies to and debt service payments on Air Marshall Islands defaulted loans, debt service payments on Asian Development Bank (ADB) loans, and increased expenditures for centralized government utility billings and Majuro landowner utility bills.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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.

#### 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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2012

- 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.

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.

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## Management's Discussion and Analysis Year Ended September 30, 2012

### 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 63 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 64 through 66 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 67 through 106 of this report.

### 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 \$95.5 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 \$28.4 million while its current liabilities were \$17.2 million. Restricted net assets represent resources that are subject to external constraints. The table below summarizes RepMar's net assets at the close of the current year compared with prior year.

	Governmental Activities 2012	Governmental Activities 2011	Total Percentage Change 2012-2011
Current and other assets	\$ 85,876,743	\$ 83,761,685	2.5%
Capital assets	88,735,435	88,382,015	0.4%
<b>Total assets</b>	<b>174,612,178</b>	<b>172,143,700</b>	<b>1.4%</b>
Long-term debt outstanding	62,159,874	64,466,367	-3.6%
Other liabilities	16,923,671	19,257,606	-12.1%
<b>Total liabilities</b>	<b>79,083,545</b>	<b>83,723,973</b>	<b>-5.5%</b>
Net assets:			
Invested in capital assets, net of related debt	69,507,170	68,536,742	1.4%
Restricted	57,980,315	50,001,628	16.0%
Unrestricted	(31,958,852)	(30,118,643)	6.1%
<b>Total net assets</b>	<b>\$ 95,528,633</b>	<b>\$ 88,419,727</b>	<b>8.0%</b>

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2012

At the end of the current fiscal year, RepMar's unrestricted net asset deficiency was \$32 million, an increase on the prior year amount by \$1.9 million (or 6.1 %). 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 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.

### Changes in Net Assets

As discussed earlier, net assets of the primary government increased by \$7.1 million, which represents an increase of 8 % from the prior year's amount of \$88.4 million. This result indicates that RepMar's financial condition, as a whole, improved from the prior year. The table below summarizes RepMar's change in net assets for the current fiscal year as compared with prior year.

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

	Activities 2012	Activities 2011	Change 2012-2011
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 8,937,456	\$ 9,010,225	-0.8%
Operating grants and contributions	44,217,305	41,671,339	6.1%
Capital grants and contributions	5,870,973	12,465,662	-52.9%
	<u>59,025,734</u>	<u>63,147,226</u>	-6.5%
General revenues:			
Taxes	25,229,449	25,258,814	-0.1%
Grants and contributions	11,231,477	11,833,717	-5.1%
Fishing rights	2,500,000	3,000,000	-16.7%
Ship registry	4,000,000	3,750,000	6.7%
Other general revenues	858,766	1,101,958	-22.1%
	<u>43,819,692</u>	<u>44,944,489</u>	-2.5%
<b>Total revenues</b>	<b><u>102,845,426</u></b>	<b><u>108,091,715</u></b>	<b>-4.9%</b>
<b>Expenses:</b>			
Education	28,070,523	34,405,086	-18.4%
Health and environment	21,968,311	20,941,601	4.9%
Special appropriations	13,047,590	10,071,326	29.6%
Finance	8,568,896	7,305,451	17.3%
Public works	3,979,986	4,495,458	-11.5%
Resources and development	3,513,060	1,672,056	110.1%
Justice	3,435,351	3,513,273	-2.2%
Internal affairs	3,160,239	3,214,426	-1.7%
Foreign affairs and trade	2,960,235	3,231,375	-8.4%
President and Cabinet	1,917,268	1,752,738	9.4%
Capital projects	1,577,546	2,351,474	-32.9%
Nitijela	1,527,911	1,794,122	-14.8%
Transportation and Communication	1,473,933	1,122,723	31.3%
Nuclear claims related	1,103,268	1,007,678	9.5%
Interest	1,407,351	1,437,971	-2.1%
Other	4,960,822	5,665,172	-12.4%
<b>Total expenses</b>	<b><u>102,672,290</u></b>	<b><u>103,981,930</u></b>	<b>-1.3%</b>
	<u>173,136</u>	<u>4,109,785</u>	-95.8%
Contributions to permanent funds	6,935,770	(3,764,929)	-284.2%
<b>Change in net assets</b>	<b>7,108,906</b>	<b>344,856</b>	<b>1961.4%</b>
<b>Net assets, beginning of year</b>	<b><u>88,419,727</u></b>	<b><u>88,074,871</u></b>	<b>0.4%</b>
<b>Net assets, end of year</b>	<b><u>\$ 95,528,633</u></b>	<b><u>\$ 88,419,727</u></b>	<b>8.0%</b>

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## Management's Discussion and Analysis Year Ended September 30, 2012

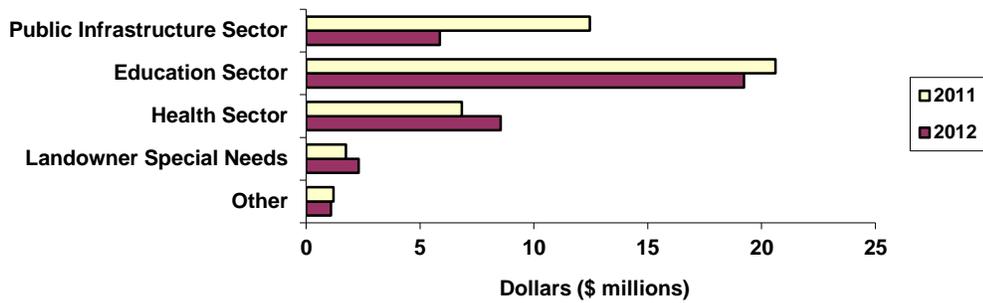
### Change in Net Assets, Continued

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

- The Compact Trust Fund contributions of \$6.9 million stand in marked contrast to the prior fiscal year when the trust fund incurred losses and contributed a loss to RepMar of \$3.8 million. Overall revenues, however, decreased in the current year by \$5.2 million (or 4.9%) due primarily to a decrease in program revenues of \$4.1 million (or 6.5%) as compared with the prior year.

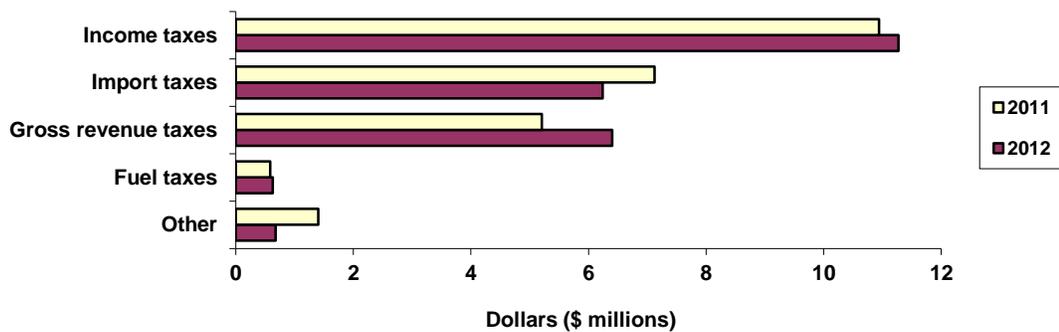
A significant portion of RepMar's program revenues involve contributions from the Government of the United States under the Compact of Free Association. The decline in program revenues was the result of fewer public infrastructure grants coming to RepMar in the current fiscal year in contrast to the prior fiscal year when infrastructure grants funded more education building projects. 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 involves tax revenue collections. At \$25.2 million in the current year, tax revenues were marginally lower than the \$25.3 million collected in the prior year. 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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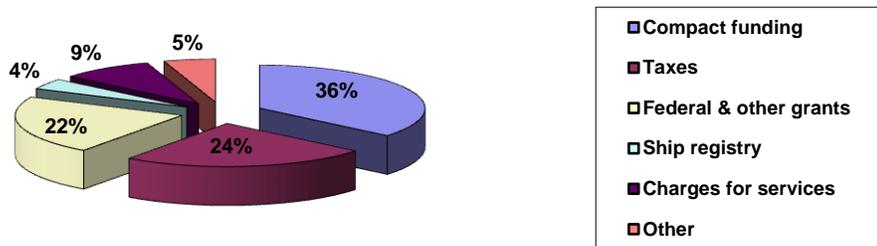
Management’s Discussion and Analysis  
Year Ended September 30, 2012

**Change in Net Assets, Continued**

- Cost of governmental activities decreased in the current year by \$1.3 million (down 1.3%) compared with prior year. Education and health related expenses comprised of \$50 million (or 48.7%) of total expenses in the current year as compared with \$55.3 million (or 53.2%) in the prior year, which reflects RepMar’s continued priorities in terms of annual appropriations.

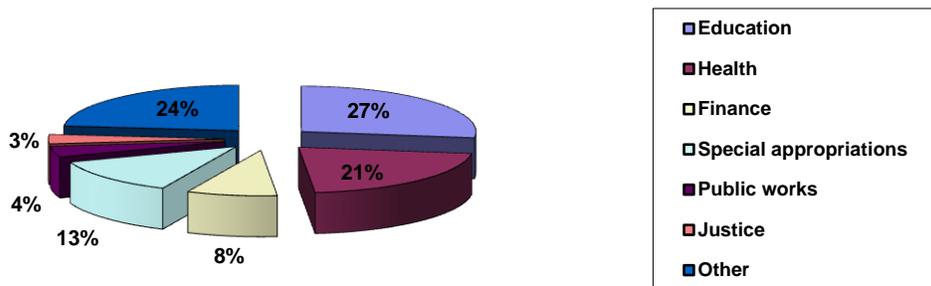
Graphs 3 and 4 below indicate the major components of revenues and cost of governmental activities.

Graph 3  
RepMar’s Revenue Sources  
For the Year Ended September 30, 2012



Compact funding, local taxes and federal and other grants are the major sources of revenue for RepMar, which comprise 82% of the total revenues for the current year. The remaining 18% is primarily comprised of ship registry contributions, fishing rights fees, and various fees and service charges.

Graph 4  
RepMar’s Cost of Governmental Activities  
For the Year Ended September 30, 2012



Other expenses that make up a portion of the costs of governmental activities include ministerial expenses within the Ministry of Foreign Affairs and Trade (\$3 million), the Ministry of Internal Affairs (\$3.1 million), the Ministry of Transportation and Communication (\$1.5 million), and the Ministry of Resources and Development (\$3.5 million); legislative expenses within the Nitijela (\$1.5 million); and executive expenses within the President’s Office and Cabinet (\$1.9 million).

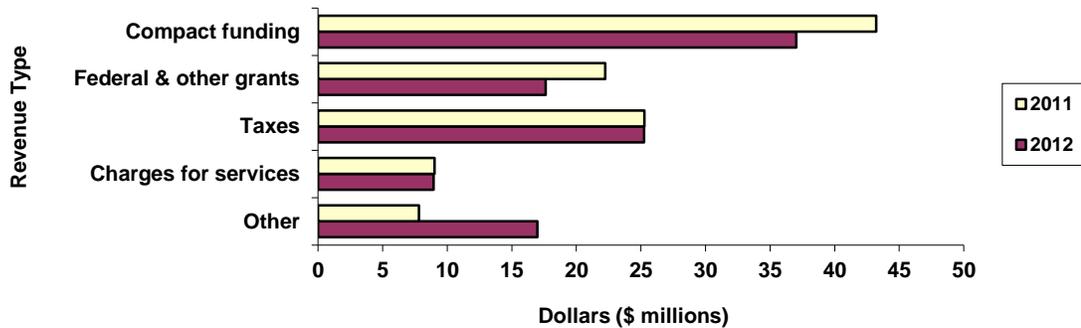
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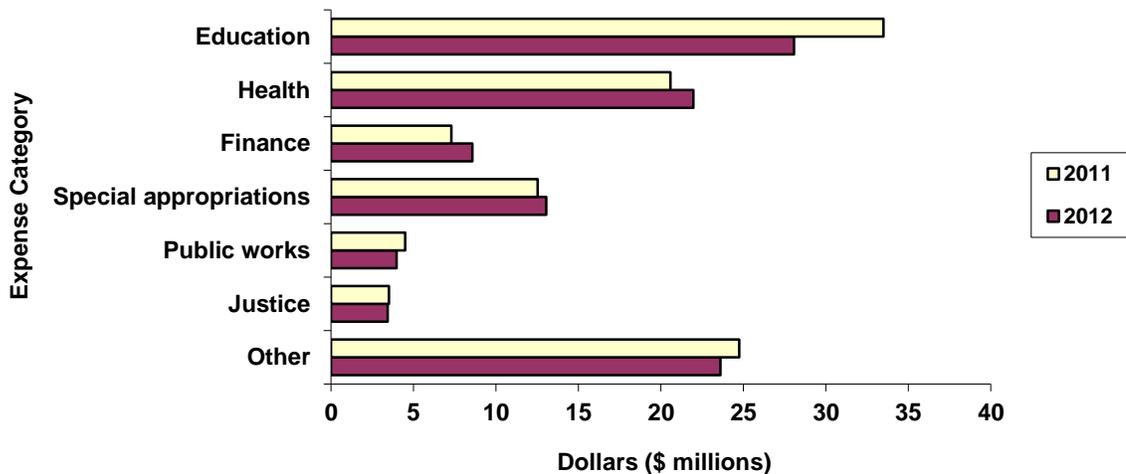
**Changes in Net Assets, Continued**

Graphs 5 and 6 below show a comparison of the major components of revenues and cost of governmental activities for fiscal years 2012 and 2011.

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



Other expenses in the current year includes ministerial expenses within the Ministry of Resources & Development of \$3.5 million, up from \$1.67 million in the prior year; the Ministry of Transportation and Communication of \$1.5 million, up from \$1.1 million in the prior year; the Ministry of Foreign Affairs and Trade of \$3 million, down from \$3.2 million in the prior year; the Ministry of Internal Affairs of \$3.1 million, down from \$3.2 million in the prior year; legislative expenses within the Nitijela of \$1.5 million, down from \$1.8 million in the prior year; and executive expenses within the President’s Office and Cabinet of \$1.9 million, up from \$1.8 million from the prior year.

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## Management's Discussion and Analysis Year Ended September 30, 2012

### Analysis of Changes in Net Assets

During the current fiscal year, RepMar's total net assets increased by \$7.1 million compared with an increase in the prior fiscal year of \$0.3 million. This represents an increase year on year in the change in net assets of \$6.8 million. The key element of this increase is Compact Trust Fund contributions of \$6.9 million in the current fiscal year, which stands in marked contrast to the prior fiscal year when the trust fund incurred losses and contributed a loss to RepMar of \$3.8 million. The elements of these changes are reflected below:

	Governmental Activities 2012	Governmental Activities 2011	Total Percentage Change 2012-2011
<b>General revenues:</b>			
Taxes	\$ 25,229,449	\$ 25,258,814	-0.1%
Grants and contributions	11,231,477	11,833,717	-5.1%
Fishing rights	2,500,000	3,000,000	-16.7%
Ship registry	4,000,000	3,750,000	6.7%
Other general revenues	858,766	1,101,958	-22.1%
<b>Total general revenues</b>	<b>43,819,692</b>	<b>44,944,489</b>	<b>-2.5%</b>
<b>Expenses, net of program revenues:</b>			
Education	5,300,184	7,346,951	-27.9%
Health and environment	3,401,215	2,537,659	34.0%
Special appropriations	11,152,126	9,071,326	22.9%
Finance	3,436,162	2,567,471	33.8%
Public works	3,962,320	4,356,325	-9.0%
Resources and development	2,883,728	1,589,950	81.4%
Justice	2,858,534	2,867,588	-0.3%
Internal affairs	2,674,343	2,918,977	-8.4%
Foreign affairs and trade	2,622,984	2,813,797	-6.8%
President and Cabinet	1,917,268	1,752,738	9.4%
Capital projects	(4,293,427)	(4,795,036)	-10.5%
Nitijela	1,527,251	1,787,821	-14.6%
Transportation and Communication	1,473,803	1,122,603	31.3%
Nuclear claims related	113,065	5,752	1865.7%
Interest	1,407,351	1,437,971	-2.1%
Other	3,209,649	3,452,811	-7.0%
<b>Total expenses</b>	<b>43,646,556</b>	<b>40,834,704</b>	<b>6.9%</b>
Contributions to permanent fund	6,935,770	(3,764,929)	-284.2%
<b>Change in net assets</b>	<b>\$ 7,108,906</b>	<b>\$ 344,856</b>	<b>1961.4%</b>

General revenues decreased by \$1.1 million (or 2.5%) from the previous fiscal year. The decrease was primarily due to decreases in fishing rights revenues of \$0.5 million (or 16.7%) compared with prior year, and grants and contributions revenues of \$0.6 million (or 5.1%) compared with prior year. Expenses, net of program revenues, increased by \$2.8 million (or 6.9%) from the previous fiscal year. The increase was primarily due to an increase in special appropriation expenses associated with subsidies to and debt service payments on Air Marshall Islands defaulted loans, debt service payments on ADB loans, and increased expenses for centralized government utility billings and Majuro landowner utility bills.

### FINANCIAL ANALYSIS OF REPMAR'S FUNDS

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

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2012

### **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, unassigned 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 \$72.5 million, which represents an increase of \$4.4 million (or 6.6%) in comparison with the prior year. This increase is primarily attributable to an increase in the fair value of RepMar's investments in the Compact Trust Fund. Of this total combined fund balance, \$58.9 million is designated as nonspendable and cannot be spent either because it is not in a spendable form or because of legal or contractual constraints; \$7.5 million is designated as restricted and is constrained for specific purposes which are externally imposed; \$6.6 million is designated as committed and is constrained for specific purposes which are internally imposed; and \$1.3 million is designated as assigned and intended to be used for specific purposes that are neither considered restricted or committed. The combined unassigned fund balance of RepMar's governmental funds is a negative \$1.8 million, indicating a deficit in unassigned fund balances.

The General Fund is the chief operating fund of RepMar. At the end of the current fiscal year, the unassigned fund balance of the General Fund reflected a deficit of \$1.8 million. Total fund balance was \$10.7 million compared with a total fund balance of \$14.5 million at the end of the prior fiscal year, a decrease of \$3.8 million. The decrease in the overall fund balance of the General Fund was primarily the result of extraordinary and non-budgeted payments for loan defaults and court judgments applicable to Air Marshall Islands, utility payments to MEC and loan default payments on behalf of NTA.

The Grants Assistance Fund has a total fund balance of \$8.5 million, which primarily represents Republic of China (ROC) and 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 \$1.2 million (or 16.4%).

The Compact Trust Fund has a total fund balance of \$46.3 million, all of which is reserved for the funding of future operations of the primary government commencing in fiscal year 2023. The net increase in fund balance during the current year in the Compact Trust Fund was \$7.9 million (or 20.6%), which reflects a transfer of \$1.0 million from RepMar's share of the Trust Fund to the United States' and Republic of China's share of the Trust Fund and a net increase in the value of trust fund investments of \$6.9 million. This contrasts sharply with the prior fiscal year when the Compact Trust Fund had losses of \$2.5 million.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the course of the fiscal year, budget revisions of \$3.4 million were made by management and elected officials of RepMar to the General Fund budget. Revenues collected (including transfers in) of \$39.8 million were higher than budgeted amounts of \$36.4 million due primarily to increased income and import tax collections, which exceeded budgeted amounts. In addition, charges to appropriations (including transfers out) of \$42.2 million were higher than budgeted amounts of \$38.8 million due primarily to expenditures associated with Majuro landowner utility billings, centralized utility billings, ADB debt service exceeding budgeted amounts, and unbudgeted loan payments on behalf of NTA's RUS loan and Air Marshall Islands loan from a commercial bank.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

RepMar's investment in capital assets for its governmental activities as of September 30, 2012 amounted to \$186.5 million (including \$4.7 million of construction in progress), net of accumulated depreciation of \$97.8 million, leaving a net book value of \$88.7 million. This is relative unchanged from the \$88.4 million reported in the prior year. RepMar's capital assets include electrical and water infrastructure, roads and bridges, heavy equipment, ships, buildings, and various projects under construction.

# REPUBLIC OF THE MARSHALL ISLANDS

## Management's Discussion and Analysis Year Ended September 30, 2012

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

	Governmental Activities 2012	Governmental Activities 2011	Total Percentage Change 2012-2011
Electrical distribution	\$ 1,770,708	\$ 2,788,724	-36.5%
Buildings	65,830,136	64,296,031	2.4%
Water infrastructure system	3,422,125	3,806,801	-10.1%
Docks, roads and bridges	5,723,626	6,291,661	-9.0%
Ships	5,735,242	6,286,972	-8.8%
Software	742,001	995,972	-25.5%
Heavy equipment	783,886	768,136	2.1%
Construction in progress	4,727,711	3,147,718	50.2%
<b>Total</b>	<b>\$ 88,735,435</b>	<b>\$ 88,382,015</b>	<b>0.4%</b>

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>
Likiep Elementary School	\$ 0.1	\$ 0.7
Loen Elementary School Ph.	\$ 0.3	\$ 1.1
Middle School Renovation	\$ 0.1	\$ 0.4
Ebeye Elementary School	\$ 0.5	\$ 0.6
MIHS/ Rita ES Window replacement	\$ 0.3	\$ 0.3

- Acquisition of heavy equipment in the amount of \$0.2 million.
- 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>
Buoj Elementary School	\$ 0.5	\$ 0.8
Rairok Elementary School, Ph III	\$ 0.3	\$ 1.1
Kaben Elementary School	\$ 0.2	\$ 0.5
Ejit Elementary School	\$ 0.2	\$ 0.4
Majuro Hospital Redevelopment	\$ 0.3	\$ 4.0

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 thirteen separate loans with the ADB (See table below). Long-term debt obligations decreased by \$2.3 million (or 3.6%) in the current fiscal year.

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2012

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

	Governmental Activities 2012	Governmental Activities 2011	Total Percentage Change 2012-2011
Fisheries Development Project	\$ 2,677,406	\$ 2,818,124	-5.0%
Typhoon Rehabilitation	412,418	422,464	-2.4%
Basic Education Project	6,474,589	6,630,687	-2.4%
Majuro Water Supply Project No. 1	591,759	606,247	-2.4%
Health and Population Project	4,387,058	4,491,559	-2.3%
Majuro Water Supply Project No. 2	7,139,978	7,306,279	-2.3%
Public Sector Reform Program	10,048,412	10,274,188	-2.2%
Ebeye Health and Infrastructure Project	7,088,293	7,461,360	-5.0%
Skills Training and Vocational Education Project	4,205,358	4,410,497	-4.7%
Fiscal and Financial Management Program No. 1	1,873,500	2,238,400	-16.3%
Fiscal and Financial Management Program No. 2	6,816,035	7,340,346	-7.1%
Outer Island Transport Infrastructure Project	465,222	486,370	-4.3%
Public Sector Program Loan	<u>9,979,846</u>	<u>9,979,846</u>	0.0%
<b>Total</b>	<b><u>\$ 62,159,874</u></b>	<b><u>\$ 64,466,367</u></b>	<b>-3.6%</b>

During the year ended September 30, 2012, the Marshall Islands National Telecommunications Authority (MINTA) defaulted on its loan payments to RUS. As the guarantor, RepMar was required to make payments on behalf of MINTA in the amount of \$619,000.

Additional information on RepMar's long-term debt can be found in notes 7 and 8 to the financial statements.

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

The slowdown in global economic growth continued to have negative impacts on RepMar's economy throughout fiscal year 2012, with downside risks also anticipated for the next fiscal year. This resulted in conservative local revenue projections and expenditure budgets for fiscal 2013. General Fund revenues were projected at \$35.7 million in fiscal 2013, less than a 1% increase from fiscal year 2012's \$34.6 million and primarily reflecting negotiated increases in fishing right fees rather than tax growth as a result of fundamental increases in economic growth. The actual collection experience in fiscal 2013 reflects these sluggish conditions in the RepMar economy and outside donor support and concessionary loans continue to play a major part in RepMar's total budget resources. The total FY-2013 expenditure budget increased significantly from fiscal year 2012's level (\$144 million compared to \$132 million) due to increased ADB loans, and World Bank and European Union grants that are targeted for specific projects and not operational support.

Although core operational expenditures of the RepMar government Ministries remain under control within these tightened fiscal constraints, a more worrisome trend is the RMI's State Owned Enterprises (SOE's) and the SOE creditors coming to the government for more operating subsidies, payment of loan guarantees that have gone into default, or advances of operating fund for normal operations. In that regard, RepMar's assumption by default of a portion of the Marshall Islands National Telecommunications Authority (MINTA) debt to the Rural Utility Service (RUS) of \$0.619 million in fiscal 2012 is expected to further increase with Cabinet guaranteed loan payments of \$0.6 million approved on April 5, 2013 and thereafter; a large and heretofore unbudgeted addition to RepMar's liabilities with RUS-guaranteed debt of \$28 million still remaining unpaid.

## REPUBLIC OF THE MARSHALL ISLANDS

### Management's Discussion and Analysis Year Ended September 30, 2012

Additionally, MINTA is now in default on a \$1 million loan from RepMar for its fiber optic investments. Likewise, the default of the Air Marshal Islands (AMI) on a previous commercial bank loan has resulted in an additional \$0.8 million to RepMar's (as loan guarantor) budget outlays; this on top of court judgments for RepMar to pay \$0.5 million for AMI's MISSA liabilities in 2012, and a new \$1.4 million court judgment for AMI's MISSA debt entered into on November 30, 2012 that will also likely negatively impact RepMar. Finally, the Marshalls Energy Company (MEC) is becoming increasingly reliant on RepMar loan guarantees and operating advances. MEC's noncompliance with certain coverage ratios relating to a loan with the RUS may result in RepMar assuming debt payments in the event of an MEC default of \$5.8 million of guaranteed RUS debt. Additionally, RepMar has guarantees of \$3.5 million on MEC's debt to commercial banks. Terms of both the RUS and commercial loans were renegotiated in fiscal 2012 to mitigate MEC's debt repayments so there is warranted concern on MEC's continued viability to routinely make its debt payments. Additionally, on October 29, 2012, the Cabinet of RepMar approved a guarantee of an MEC fuel contract for \$10 million. MEC is the only major component unit of RepMar with a net asset deficiency suggesting an overload of debt and future problems to RepMar as its problems become commingled with RepMar's.

These and other SOE commitments entail significant current and future liabilities to the RepMar and are becoming an increasing drain on local revenues. In the face of slow local revenue growth, it will become necessary for RepMar to better ensure operations at the SOE's show more viable levels of self-support and independence from the primary government so that SOE debts can be repaid from the cash flows of each enterprise.

On December 13, 2012, RepMar entered into another loan agreement with the Asian Development Bank (ADB) for \$5 million for the *Fiscal Reform and Debt Management Project*. Although this will help RepMar work through many of the fiscal risks and financial readjustments confronting it, reliance on third-party debt to correct short and mid-term fiscal challenges must only be viewed as a temporary remedy. Moreover, with long-term debt currently at a high 117% of GDP, there may be limited recourse to debt options in the future.

The significant earnings gains in fiscal year 2012 from the investments in the Compact Trust Fund point to both the potential for greater economic independence by 2023 but also the importance for RepMar to maximize its own contributions to the Trust Fund. The turmoil in overseas financial markets where Compact Trust Fund investments are held make it not possible to reliably predict the amount of those earnings in fiscal 2013 or thereafter.

The Marshall Islands economy confronts the same significant headwinds restricting growth in the near and midterm as do its regional and worldwide donor counterparts. The key to budgetary self-reliance and sustained growth will be to implement the necessary fiscal and structural reforms to boost fiscal revenues, contain public spending, and promote a vibrant private sector. Towards that goal, the implementation of tax reform, containment of public sector payroll, a reduction of subsidies to SOE's, decrease of allowances to public officials, and putting the social security system on a sounder financial footing are all necessary reforms that need to be implemented.

#### **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, 2012

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 6,270,197	\$ 5,221,348
Time certificates of deposit	365,562	8,813,714
Receivables, net of allowance for uncollectibles	15,249,742	33,444,357
Advances	449,026	-
Inventories	-	4,613,941
Due from component units	1,378,412	128,667
Due from external parties	490,423	-
Other current assets	-	1,125,340
Restricted assets:		
Cash and cash equivalents	4,196,954	-
Total current assets	28,400,316	53,347,367
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents	-	518,242
Time certificates of deposit	-	423,758
Investments	46,351,522	-
Investments	816,880	5,575,244
Due from component units	10,308,025	109,035
Capital assets:		
Nondepreciable capital assets	4,727,711	11,910,052
Other capital assets, net of accumulated depreciation	84,007,724	112,489,611
Other noncurrent assets	-	135,908
Total noncurrent assets	146,211,862	131,161,850
Total assets	\$ 174,612,178	\$ 184,509,217
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of long-term obligations	\$ 2,351,099	\$ 29,627,135
Accounts payable	8,215,800	16,558,373
Customer deposits	-	1,300,608
Other liabilities and accruals	2,917,016	8,186,158
Payable to federal agencies	809,123	-
Retention payable	458,176	118,255
Contracts payable	-	2,601,065
Accrued interest payable	268,348	-
Compensated absences payable	1,299,594	-
Due to primary government	-	5,281,016
Due to component units	551,741	2,128,667
Deferred revenues	376,429	2,463,792
Total current liabilities	17,247,326	68,265,069
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	59,808,775	8,623,152
Compensated absences payable, net of current portion	2,027,444	-
Due to primary government	-	10,308,025
Due to component units	-	109,035
Total noncurrent liabilities	61,836,219	19,040,212
Total liabilities	79,083,545	87,305,281
Commitments and contingencies		
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	69,507,170	89,886,368
Restricted for:		
Future operations - nonexpendable	46,351,522	-
Compact related	4,483,106	-
Other purposes	7,145,687	1,645,936
Unrestricted (deficits)	(31,958,852)	5,671,632
Total net assets	95,528,633	97,203,936
Total liabilities and net assets	\$ 174,612,178	\$ 184,509,217

See accompanying notes to basic financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**

**Statement of Activities  
Year Ended September 30, 2012**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
<b>Primary government:</b>						
Governmental activities:						
President and Cabinet	\$ 1,917,268	\$ -	\$ -	\$ -	\$ (1,917,268)	\$ -
Office of the Chief Secretary	856,599	-	775,378	-	(81,221)	-
Special appropriations	13,047,590	-	1,895,464	-	(11,152,126)	-
Council of Iroij	494,212	-	-	-	(494,212)	-
Nitijela	1,527,911	660	-	-	(1,527,251)	-
Office of the Auditor-General	770,851	-	155,152	-	(615,699)	-
Public Service Commission	460,574	-	-	-	(460,574)	-
Judiciary	894,178	62,959	19,915	-	(811,304)	-
Office of the Attorney General	744,813	109,935	60,834	-	(574,044)	-
Education	28,070,523	16,442	22,753,897	-	(5,300,184)	-
Health and Environment	21,968,311	7,536,260	11,030,836	-	(3,401,215)	-
Transportation and Communication	1,473,933	130	-	-	(1,473,803)	-
Resources and Development	3,513,060	29,917	599,415	-	(2,883,728)	-
Internal Affairs	3,160,239	33,632	452,264	-	(2,674,343)	-
Justice	3,435,351	576,817	-	-	(2,858,534)	-
Finance	8,568,896	511,638	4,621,096	-	(3,436,162)	-
Foreign Affairs and Trade	2,960,235	41,400	295,851	-	(2,622,984)	-
Public Works	3,979,986	17,666	-	-	(3,962,320)	-
Environmental Protection Authority	739,595	-	567,000	-	(172,595)	-
Nuclear claims related	1,103,268	-	990,203	-	(113,065)	-
Capital projects	1,577,546	-	-	5,870,973	4,293,427	-
Unallocated interest - long-term debt	1,407,351	-	-	-	(1,407,351)	-
<b>Total primary government</b>	<b>\$ 102,672,290</b>	<b>\$ 8,937,456</b>	<b>\$ 44,217,305</b>	<b>\$ 5,870,973</b>	<b>(43,646,556)</b>	<b>-</b>
<b>Component units:</b>						
College of the Marshall Islands	\$ 11,611,103	\$ 1,284,892	\$ 5,735,899	\$ 2,334,784	-	(2,255,528)
Marshalls Energy Company, Inc.	51,335,284	50,058,239	689,697	418,072	-	(169,276)
Marshall Islands Development Bank	1,328,778	2,774,646	55,457	-	-	1,501,325
Marshall Islands Marine Resources Authority	8,350,428	10,957,782	102,485	-	-	2,709,839
Marshall Islands National Telecom. Authority	9,427,930	7,959,960	-	2,520	-	(1,465,450)
RMI Ports Authority	8,059,404	2,952,758	-	3,766,816	-	(1,339,830)
Other nonmajor component units	25,993,009	14,290,795	1,254,285	1,967,868	-	(8,480,061)
<b>Total component units</b>	<b>\$ 116,105,936</b>	<b>\$ 90,279,072</b>	<b>\$ 7,837,823</b>	<b>\$ 8,490,060</b>	<b>-</b>	<b>(9,498,981)</b>
<b>General revenues:</b>						
Taxes:						
Income taxes					11,273,994	-
Import taxes					6,239,673	-
Gross revenue taxes					6,402,608	-
Immovable property					485,334	-
Fuel taxes					631,542	-
Penalties and interest					95,483	-
Other					100,815	-
Grants and contributions not restricted to specific programs					11,231,477	-
Fishing rights					2,500,000	-
Ship registry					4,000,000	-
Unrestricted investment earnings					219,176	2,465,931
Contributions from primary government					-	11,402,704
Other					639,590	-
<b>Total general revenues</b>					<b>43,819,692</b>	<b>13,868,635</b>
Contributions to permanent funds					6,935,770	-
<b>Total general revenues and contributions</b>					<b>50,755,462</b>	<b>13,868,635</b>
Change in net assets					7,108,906	4,369,654
Net assets at the beginning of the year					88,419,727	92,834,282
Net assets at the end of the year					<b>\$ 95,528,633</b>	<b>\$ 97,203,936</b>

See accompanying notes to basic financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Balance Sheet  
Governmental Funds  
September 30, 2012

		Special Revenue	Permanent		
	General	Grants Assistance	Compact Trust	Other Governmental Funds	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,004,977	\$ -	\$ -	\$ 4,265,220	\$ 6,270,197
Time certificates of deposit	-	-	-	365,562	365,562
Investments	816,880	-	-	-	816,880
Receivables, net:					
Taxes	2,784,131	-	-	90,250	2,874,381
Federal agencies	169,190	7,733,531	-	-	7,902,721
General	1,138,758	1,791,414	-	1,277,035	4,207,207
Other	28,730	-	-	236,703	265,433
Due from other funds	6,539,736	6,619,873	-	2,981,291	16,140,900
Due from component units	10,686,437	1,000,000	-	-	11,686,437
Advances	138,502	211,715	-	98,809	449,026
Restricted assets:					
Cash and cash equivalents	4,196,954	-	-	-	4,196,954
Investments	-	-	46,351,522	-	46,351,522
Total assets	<u>\$ 28,504,295</u>	<u>\$ 17,356,533</u>	<u>\$ 46,351,522</u>	<u>\$ 9,314,870</u>	<u>\$ 101,527,220</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 4,851,950	\$ 2,192,900	\$ -	\$ 1,170,950	\$ 8,215,800
Other liabilities and accruals	2,257,614	390,067	-	269,335	2,917,016
Payable to federal agencies	-	809,123	-	-	809,123
Retention payable	-	458,176	-	-	458,176
Deferred revenue	376,429	-	-	-	376,429
Due to component units	551,741	-	-	-	551,741
Due to other funds	9,747,146	4,992,355	-	910,976	15,650,477
Total liabilities	<u>17,784,880</u>	<u>8,842,621</u>	<u>-</u>	<u>2,351,261</u>	<u>28,978,762</u>
<b>Fund balances:</b>					
Nonspendable	11,503,317	1,000,000	46,351,522	-	58,854,839
Restricted	940,246	5,477,834	-	1,145,863	7,563,943
Committed	41,551	779,863	-	5,817,746	6,639,160
Assigned	-	1,298,473	-	-	1,298,473
Unassigned	(1,765,699)	(42,258)	-	-	(1,807,957)
Total fund balances	<u>10,719,415</u>	<u>8,513,912</u>	<u>46,351,522</u>	<u>6,963,609</u>	<u>72,548,458</u>
Total liabilities and fund balances	<u>\$ 28,504,295</u>	<u>\$ 17,356,533</u>	<u>\$ 46,351,522</u>	<u>\$ 9,314,870</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					88,735,435
Deferred revenue reported in the funds are recognized as revenue in the governmental activities					
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 (268,348)	
				Loans payable (62,159,874)	
				Compensated absences payable (3,327,038)	
				<u>(65,755,260)</u>	
					<u>\$ 95,528,633</u>
				Net assets of governmental activities	

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, 2012

	Special Revenue		Permanent		Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust			
<b>Revenues:</b>						
Taxes	\$ 25,229,449	\$ -	\$ -	\$ -	\$ -	\$ 25,229,449
Federal and other grants	4,230,466	54,646,503	-	-	547,322	59,424,291
Sales	-	-	-	-	61,070	61,070
Ship registry	4,000,000	-	-	-	-	4,000,000
Fishing rights	2,500,000	-	-	-	-	2,500,000
Net change in the fair value of investments	-	-	6,935,770	-	-	6,935,770
Interest and dividends	219,176	-	-	-	-	219,176
Fees and charges	272,708	-	-	8,603,678	-	8,876,386
Contributions from component units	1,895,464	-	-	-	-	1,895,464
Other	639,590	-	-	-	-	639,590
<b>Total revenues</b>	<u>38,986,853</u>	<u>54,646,503</u>	<u>6,935,770</u>	<u>9,212,070</u>	<u>9,212,070</u>	<u>109,781,196</u>
<b>Expenditures:</b>						
<b>Current:</b>						
President and Cabinet	1,914,082	-	-	-	-	1,914,082
Office of the Chief Secretary	426,362	430,237	-	-	-	856,599
Special appropriations	12,415,822	631,768	-	-	-	13,047,590
Council of Iroij	494,212	-	-	-	-	494,212
Nitijela	1,526,608	-	-	-	-	1,526,608
Office of the Auditor-General	499,528	155,152	-	-	-	654,680
Public Service Commission	445,574	-	-	-	-	445,574
Judiciary	576,744	-	-	317,434	-	894,178
Office of the Attorney General	683,979	60,834	-	-	-	744,813
<b>Ministries:</b>						
Education	3,880,328	21,162,789	-	1,854,316	-	26,897,433
Health and Environment	2,781,498	10,868,039	-	7,795,511	-	21,445,048
Transportation and Communication	550,894	595,200	-	-	-	1,146,094
Resources and Development	677,511	2,755,324	-	-	-	3,432,835
Internal Affairs	2,145,436	950,961	-	26,279	-	3,122,676
Justice	2,629,295	140,451	-	408,353	-	3,178,099
Finance	4,240,581	4,178,019	-	-	-	8,418,600
Foreign Affairs and Trade	2,515,200	261,809	-	18,570	-	2,795,579
Public Works	992,457	587,661	-	58,950	-	1,639,068
Environmental Protection Authority	182,123	557,472	-	-	-	739,595
Nuclear claims related	-	-	-	1,103,268	-	1,103,268
<b>Debt service:</b>						
Principal repayment	1,724,201	582,292	-	-	-	2,306,493
Interest	1,168,540	263,276	-	-	-	1,431,816
Capital outlay	-	7,075,262	-	-	-	7,075,262
<b>Total expenditures</b>	<u>42,470,975</u>	<u>51,256,546</u>	<u>-</u>	<u>11,582,681</u>	<u>11,582,681</u>	<u>105,310,202</u>
Excess (deficiency) of revenues over (under) expenditures	(3,484,122)	3,389,957	6,935,770	(2,370,611)	-	4,470,994
<b>Other financing sources (uses):</b>						
Operating transfers in	1,558,564	2,057,550	1,000,000	6,353,578	-	10,969,692
Operating transfers out	(1,849,200)	(4,243,890)	-	(4,876,602)	-	(10,969,692)
<b>Total other financing sources (uses), net</b>	<u>(290,636)</u>	<u>(2,186,340)</u>	<u>1,000,000</u>	<u>1,476,976</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>(3,774,758)</u>	<u>1,203,617</u>	<u>7,935,770</u>	<u>(893,635)</u>	<u>-</u>	<u>4,470,994</u>
Fund balances at the beginning of the year	14,494,173	7,310,295	38,415,752	7,857,244	-	68,077,464
<b>Fund balances at the end of the year</b>	<u>\$ 10,719,415</u>	<u>\$ 8,513,912</u>	<u>\$ 46,351,522</u>	<u>\$ 6,963,609</u>	<u>\$ -</u>	<u>\$ 72,548,458</u>

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, 2012

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

Net change in fund balances - total governmental funds	\$ 4,470,994
--------------------------------------------------------	--------------

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

Capital outlays, net of disposals	5,497,716	
Depreciation expense, net	<u>(5,144,296)</u>	
		353,420

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

Repayment of ADB Loans	2,306,493
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Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds: For the current year, these activities consist of:

Deferred revenues	(116,171)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Change in accrued interest payable	24,465	
Change in compensated absences payable	<u>69,705</u>	
		<u>94,170</u>

Change in net assets of governmental activities	\$ <u>7,108,906</u>
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See accompanying notes to basic financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

## Statement of Fiduciary Net Assets Fiduciary Funds September 30, 2012

	<u>Private Purpose Trust</u>	<u>Agency</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 310,475	\$ -
Receivables, net:		
Contributions	2,063,491	-
Other	279,217	-
Investments	68,027,451	-
Due from other funds	892,474	164,484
Capital assets, net of accumulated depreciation	42,149	-
Total assets	<u>71,615,257</u>	<u>\$ 164,484</u>
<u>LIABILITIES</u>		
Accounts payable	56,822	\$ -
Other liabilities and accruals	146,745	164,484
Due to other funds	1,547,381	-
Total liabilities	<u>1,750,948</u>	<u>\$ 164,484</u>
<u>NET ASSETS</u>		
Held in trust for:		
Social security benefits	68,969,546	
Nuclear claims	57,862	
Land use distributions	836,901	
Total net assets	<u>\$ 69,864,309</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, 2012

	<u>Private Purpose Trust</u>
Additions:	
Contributions:	
Private employees	\$ 8,105,433
Government employees	4,170,888
Penalties and interest	323,805
	<u>12,600,126</u>
Allowance for doubtful accounts	(152,745)
Total contributions	<u>12,447,381</u>
Investment income:	
Net change in the fair value of investments	7,312,882
Interest and dividends	1,080,461
Total investment income	8,393,343
Less investment expense	140,864
Net investment income	<u>8,252,479</u>
Other:	
Compact funding	17,035,800
Other	335,567
	<u>17,371,367</u>
Total additions	<u>38,071,227</u>
Deductions:	
Land use distributions	17,160,578
Benefits	16,252,193
Administrative expenses	799,218
Total deductions	<u>34,211,989</u>
Change in net assets	3,859,238
Net assets at the beginning of the year	<u>66,005,071</u>
Net assets at the end of the year	<u>\$ 69,864,309</u>

See accompanying notes to basic financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

## Combining Statement of Net Assets (Deficiency) Component Units September 30, 2012

	College of the Marshall Islands	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands Marine Resources Authority	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 351,015	\$ 686,696	\$ 386,349	\$ 457,460	\$ 701,105	\$ 76,408	\$ 2,562,315	\$ 5,221,348
Time certificates of deposit	-	-	-	6,803,256	372,485	1,637,973	-	8,813,714
Receivables, net	1,343,879	7,097,540	19,661,777	707,956	1,338,710	2,119,385	1,175,110	33,444,357
Inventories	260,981	1,740,265	-	-	222,469	-	2,390,226	4,613,941
Due from component units	-	-	-	-	-	128,667	-	128,667
Other current assets	257,026	382,178	-	-	-	31,314	454,822	1,125,340
<b>Total current assets</b>	<b>2,212,901</b>	<b>9,906,679</b>	<b>20,048,126</b>	<b>7,968,672</b>	<b>2,634,769</b>	<b>3,993,747</b>	<b>6,582,473</b>	<b>53,347,367</b>
Noncurrent assets:								
Cash and cash equivalents - restricted	-	-	518,242	-	-	-	-	518,242
Time certificates of deposit - restricted	-	-	128,758	-	-	295,000	-	423,758
Investments	1,012,510	-	366,748	4,195,986	-	-	-	5,575,244
Capital assets:								
Nondepreciable capital assets	347,306	441,828	104,893	-	385,722	9,043,061	1,587,242	11,910,052
Capital assets, net of accumulated depreciation	19,732,541	6,852,320	1,350,529	194,231	32,983,951	41,389,811	9,986,228	112,489,611
Due from component units	-	-	-	-	-	109,035	-	109,035
Other noncurrent assets	-	100,000	35,908	-	-	-	-	135,908
<b>Total noncurrent assets</b>	<b>21,092,357</b>	<b>7,394,148</b>	<b>2,505,078</b>	<b>4,390,217</b>	<b>33,369,673</b>	<b>50,836,907</b>	<b>11,573,470</b>	<b>131,161,850</b>
<b>Total assets</b>	<b>\$ 23,305,258</b>	<b>\$ 17,300,827</b>	<b>\$ 22,553,204</b>	<b>\$ 12,358,889</b>	<b>\$ 36,004,442</b>	<b>\$ 54,830,654</b>	<b>\$ 18,155,943</b>	<b>\$ 184,509,217</b>
<b>LIABILITIES</b>								
Current liabilities:								
Current portion of long-term debt	\$ -	\$ 277,556	\$ 963,700	\$ -	\$ 28,102,158	\$ 53,434	\$ 230,287	\$ 29,627,135
Accounts payable	766,226	9,019,518	225,939	124,163	701,615	345,611	5,375,301	16,558,373
Customer deposits	-	-	999,839	-	300,769	-	-	1,300,608
Other liabilities and accruals	1,308,030	2,773,535	22,374	122,362	204,053	277,879	3,477,925	8,186,158
Retention payable	118,255	-	-	-	-	-	-	118,255
Contracts payable	147,514	-	-	-	-	2,453,551	-	2,601,065
Due to primary government	-	378,412	-	-	1,000,000	785,714	3,116,890	5,281,016
Due to component units	-	2,000,000	-	-	-	-	128,667	2,128,667
Deferred revenues	1,642,086	146,820	380,162	-	-	-	294,724	2,463,792
<b>Total current liabilities</b>	<b>3,982,111</b>	<b>14,595,841</b>	<b>2,592,014</b>	<b>246,525</b>	<b>30,308,595</b>	<b>3,916,189</b>	<b>12,623,794</b>	<b>68,265,069</b>
Noncurrent liabilities:								
Noncurrent portion of long-term debt	-	5,896,757	2,726,395	-	-	-	-	8,623,152
Due to primary government	-	8,502,976	1,805,049	-	-	-	-	10,308,025
Due to component units	-	-	-	-	-	-	109,035	109,035
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>14,399,733</b>	<b>4,531,444</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>109,035</b>	<b>19,040,212</b>
<b>Total liabilities</b>	<b>3,982,111</b>	<b>28,995,574</b>	<b>7,123,458</b>	<b>246,525</b>	<b>30,308,595</b>	<b>3,916,189</b>	<b>12,732,829</b>	<b>87,305,281</b>
<b>NET ASSETS (DEFICIENCY)</b>								
Invested in capital assets, net of related debt	20,079,847	1,936,445	1,455,422	194,231	4,267,515	50,379,438	11,573,470	89,886,368
Restricted	1,012,510	-	278,805	-	-	-	354,621	1,645,936
Unrestricted	(1,769,210)	(13,631,192)	13,695,519	11,918,133	1,428,332	535,027	(6,504,977)	5,671,632
<b>Total net assets (deficiency)</b>	<b>19,323,147</b>	<b>(11,694,747)</b>	<b>15,429,746</b>	<b>12,112,364</b>	<b>5,695,847</b>	<b>50,914,465</b>	<b>5,423,114</b>	<b>97,203,936</b>
	<b>\$ 23,305,258</b>	<b>\$ 17,300,827</b>	<b>\$ 22,553,204</b>	<b>\$ 12,358,889</b>	<b>\$ 36,004,442</b>	<b>\$ 54,830,654</b>	<b>\$ 18,155,943</b>	<b>\$ 184,509,217</b>

See accompanying notes to basic financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Combining Statement of Revenues, Expenses, and Changes in Net Assets (Deficiency)  
Component Units  
Year Ended September 30, 2012

	College of the Marshall Islands	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands Marine Resources Authority	Marshall Islands National Telecom. Authority	RMI Ports Authority	Nonmajor Component Units	Total
<b>Operating revenues:</b>								
Charges for services	\$ 417,479	\$ 18,674,599	\$ 2,737,853	\$ 10,924,463	\$ 7,959,960	\$ 2,952,758	\$ 9,004,345	\$ 52,671,457
Sales	684,383	31,383,640	-	-	-	-	4,946,636	37,014,659
Other	183,030	-	36,793	33,319	-	-	339,814	592,956
Total operating revenues	1,284,892	50,058,239	2,774,646	10,957,782	7,959,960	2,952,758	14,290,795	90,279,072
<b>Operating expenses:</b>								
Cost of services	9,212,661	47,431,837	177,017	2,138,888	4,670,860	2,693,757	21,409,502	87,734,522
Administration costs	3,268,314	1,475,185	1,684,761	2,000,000	803,384	-	2,089,607	11,321,251
Depreciation and amortization	-	1,603,211	258,831	46,540	2,613,844	4,854,290	2,275,457	11,652,173
Total operating expenses	12,480,975	50,510,233	2,120,609	4,185,428	8,088,088	7,548,047	25,774,566	110,707,946
Operating income (loss)	(11,196,083)	(451,994)	654,037	6,772,354	(128,128)	(4,595,289)	(11,483,771)	(20,428,874)
<b>Nonoperating revenues (expenses):</b>								
Contributions from the primary government	3,089,061	874,944	-	-	619,000	-	6,819,699	11,402,704
Equity in net earnings of joint venture	-	-	-	1,826,838	-	-	-	1,826,838
Net change in the fair value of investments	106,477	-	187,418	-	22,043	-	-	315,938
Interest income	-	-	4,995	191,853	-	126,307	-	323,155
Interest expense	-	(870,297)	-	-	(1,340,842)	(9,055)	(149,603)	(2,369,797)
Grants and other contributions	5,735,899	689,697	55,457	102,485	-	-	1,254,285	7,837,823
Contributions to the primary government	-	-	-	(4,100,000)	-	(500,000)	-	(4,600,000)
Other	869,872	45,246	791,831	(65,000)	1,000	(2,302)	(68,840)	1,571,807
Total nonoperating revenues (expenses), net	9,801,309	739,590	1,039,701	(2,043,824)	(698,799)	(385,050)	7,855,541	16,308,468
Capital contributions	2,334,784	418,072	-	-	2,520	3,766,816	1,967,868	8,490,060
Change in net assets (deficiency)	940,010	705,668	1,693,738	4,728,530	(824,407)	(1,213,523)	(1,660,362)	4,369,654
Net assets (deficiency) at the beginning of the year	18,383,137	(12,400,415)	13,736,008	7,383,834	6,520,254	52,127,988	7,083,476	92,834,282
Net assets (deficiency) at the end of the year	\$ 19,323,147	\$ (11,694,747)	\$ 15,429,746	\$ 12,112,364	\$ 5,695,847	\$ 50,914,465	\$ 5,423,114	\$ 97,203,936

See accompanying notes to basic financial statements.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

## (1) Summary of Significant Accounting Policies

The Republic of the Marshall Islands (“RepMar”) was constituted on May 1, 1979, under the provisions of the Constitution of the Republic of the Marshall Islands (the “Constitution”) as approved by the people of the Marshall Islands. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government. RepMar assumes responsibility for general government, public safety, health, education, and economic development.

The accompanying financial statements of 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.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

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

### A. Reporting Entity, Continued

#### i. Blended Component Units

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:

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.

Marshall Islands Judiciary Fund, a Governmental Fund Type - Special Revenue Fund. This fund was established to account for all activities of the Marshall Islands Judiciary not accounted for within the General Fund.

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:

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

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

### A. Reporting Entity, Continued

#### ii. Discretely Presented Component Units, Continued

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. RepMar provides financial support to CMI through legislative appropriations.

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. RepMar guarantees principal and interest payments to the Rural Utilities Service in the event of default by MEC on a Federal Financing Bank loan. RepMar provides financial support to MEC through legislative appropriations.

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. RepMar guarantees principal and interest payments to the International Commercial Bank of China in the event of default by MIDB. RepMar has the ability to impose its will on MIDB.

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. RepMar has the ability to impose its will on MIMRA.

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 an eight-member Board of Directors elected by a majority vote of its shareholders. RepMar owns a voting majority of MINTA stock. RepMar guarantees principal and interest payments to the Rural Utilities Service in the event of default by MINTA on Rural Electrification and Telephone Revolving Fund loans.

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. RepMar has the ability to impose its will on RMIPA.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

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

### A. Reporting Entity, Continued

#### ii. Discretely Presented Component Units, Continued

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., Kwajalein Atoll Joint Utilities Resources, Inc., Majuro Atoll Waste Company, Inc., Majuro Resort, Inc., Majuro Water and Sewer Company, Inc., Marshall Islands Postal Service Authority, Marshall Islands Shipping Corporation, Marshall Islands Visitors Authority, RMI Environmental Protection Authority, and Tobolar Copra Processing Authority.

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.

#### 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:

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.

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.

Global Fund: This fund was established under Public Law No. 2009-18 to account for all monies received from the Secretariat of the Pacific Community to fight HIV/AIDS and tuberculosis in the Marshall Islands.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

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

### A. Reporting Entity, Continued

#### iv. Omitted Governmental Funds, Continued

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

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.

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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

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

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

- 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 \$57,980,315 of restricted net assets, of which \$6,963,609 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.

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

##### Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting, 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.

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

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

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

#### Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of 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.

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:

#### Governmental Funds:

**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.

**Grants Assistance Fund** - a Special Revenue Fund that 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 Permanent Fund that 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.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

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

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

#### Fiduciary Funds:

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.

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

#### Component Unit Financial Statements:

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.

### 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 (FASB) 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, 2012

## (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, 2012

### (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.

#### 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.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

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

### P. Fund Equity

Fund balance classifications are based on the extent to which RepMar is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

RepMar has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of RepMar is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

### Q. Risk Financing

RepMar is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, RepMar management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, RepMar reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these policies in any of the past three fiscal years.

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

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

### R. New Accounting Standards

During fiscal year 2012, RepMar implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. 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, 2012

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

#### R. New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of RepMar.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of RepMar.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of RepMar.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of RepMar.

#### S. Encumbrances

RepMar utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2012, RepMar has significant encumbrances summarized as follows:

<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 527,444	\$ 10,964,353	\$ -	\$ 96,320	\$ 11,588,117

#### 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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

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

#### 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, 2011 from which summarized information was derived.

### (2) Deposits and Investments

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.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

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

#### A. Deposits

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, 2012, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit was \$10,832,713 and the corresponding bank balances were \$11,398,038. Of the bank balances, \$9,781,034 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012, bank deposits in the amount of \$2,666,759 were FDIC insured. The remaining bank deposits of \$1,617,004 are maintained in financial institutions not subject to depository 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, 2012, the carrying amount of the fiduciary fund's total cash and cash equivalents was \$310,475 and the corresponding bank balances were \$825,794. Of the bank balances, \$177,685 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2012, bank deposits in the amount of \$177,685 were FDIC insured. The remaining bank deposits of \$648,109 are maintained in financial institutions not subject to depository 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, 2012, the carrying amount in the aggregate of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$14,977,062 and the corresponding bank balances were \$15,523,840. Of the bank balances, \$4,799,029 is maintained in financial institutions subject to FDIC insurance. As of September 30, 2012, bank deposits in the amount of \$4,333,517 were FDIC insured. The remaining bank deposits of \$10,724,811 are maintained in financial institutions not subject to depository insurance. 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, 2012

### (2) Deposits and Investments, Continued

#### B. Investments

Investments of the primary government as of September 30, 2012, are as follows:

Compact Trust Fund:	
Money market funds	\$ 1,023,295
Equity mutual funds	29,896,536
Fixed income mutual funds	11,399,592
Other	<u>4,032,099</u>
	\$ <u>46,351,522</u>

Additionally, as of September 30, 2012, the primary government holds approximately 4% of the outstanding shares of Pacific Forum Lines and Pacific Islands Development Bank with carrying amounts of \$318,630 and \$498,250, respectively. As the fair market value of these investments 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, 2012.

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

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. As of September 30, 2012, there were no investments in any one issuer that exceeded 5% of total investments.

Investments in marketable securities of the fiduciary funds as of September 30, 2012, are as follows:

Marshall Islands Social Security Administration (MISSA):	
Money market funds	\$ 59,436
Common equity securities	5,743,196
Mutual funds	<u>52,129,172</u>
	\$ <u>57,931,804</u>
Nuclear Claims Trust Fund (NCTF):	
Money market funds	\$ <u>2,289</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

Additionally, as of September 30, 2012, MISSA holds approximately 10% of the outstanding shares of Marshall Islands Service Corporation, totaling \$30,000, which is accounted for at cost, and approximately 31% of the outstanding shares of Bank of Marshall Islands (BOMI), totaling \$10,063,358, which is accounted for under the equity method. During the year ended September 30, 2012, MISSA received dividend payments from BOMI of \$359,068.

A summary of unaudited financial information as of and for the nine months ended September 30, 2012, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>69,832,553</u>
Liabilities	\$ <u>39,949,130</u>
Net earnings	\$ <u>1,733,219</u>

For the year ended September 30, 2012, net increase in fair value of investments included equity in net earnings of BOMI amounting to \$963,692.

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%) 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%) of the market value of the Fund shall be invested in any one industry group.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

### (2) Deposits and Investments, Continued

#### B. Investments, Continued

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

The deposit and investment policies of the NCTF are governed by an agreement between the Government of the United States and RepMar for the implementation of Section 177 of the Compact of Free Association. Generally, the Fund shall be invested in bonds, notes and other instruments of investment grade and of United States nationality, including 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, 2012.

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, 2012, 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, 2012, are as follows:

College of the Marshall Islands (CMI):	
Money market funds	\$ 49,346
Common equity securities	142,658
Mutual funds	<u>820,506</u>
	\$ <u>1,012,510</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 Development Bank:	
Common equity securities	\$ <u>366,748</u>

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

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(2) Deposits and Investments, Continued

B. Investments, Continued

Marshall Islands Marine Resources Authority (MIMRA):  
Investment in joint venture \$ 4,195,968

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.

A summary of unaudited financial information as of and for the year ended December 31, 2012, for investees accounted for using the equity method of accounting for investments, is as follows:

Assets	\$ <u>13,761,157</u>
Liabilities	\$ <u>4,344,979</u>
Net earnings	\$ <u>3,416,178</u>

For the year ended September 30, 2012, MIMRA recognized equity in net earnings of MIFCO of \$1,826,838 and received dividend payments from MIFCO of \$2,890,726.

(3) Receivables

Primary Government

Receivables as of September 30, 2012, 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:

	General	Grants Assistance	Compact Trust	Nonmajor Governmental Funds	Fiduciary Funds	Totals
Receivables:						
Taxes	\$ 2,784,131	\$ -	\$ -	\$ 90,250	\$ -	\$ 2,874,381
Federal agencies	169,190	7,733,551	-	-	-	7,902,721
General	1,749,060	1,983,350	-	1,277,035	-	5,009,445
Contributions	-	-	-	-	11,454,166	11,454,166
Loans	4,368,787	-	-	17,630,409	-	21,999,196
Other	<u>261,944</u>	<u>-</u>	<u>-</u>	<u>274,712</u>	<u>58,998</u>	<u>595,654</u>
	9,333,112	9,716,881	-	19,272,406	11,513,164	49,835,563
Less: allowance for uncollectible accounts	<u>(5,212,303)</u>	<u>(191,936)</u>	<u>-</u>	<u>(17,668,418)</u>	<u>(9,170,456)</u>	<u>(32,243,113)</u>
Net receivables	<u>\$ 4,120,809</u>	<u>\$ 9,524,945</u>	<u>\$ -</u>	<u>\$ 1,603,988</u>	<u>\$ 2,342,708</u>	<u>\$ 17,592,450</u>

Certain receivables due from federal grantor agencies recorded within the Grants Assistance Fund remain uncollected. RepMar is currently negotiating with these grantors for a final determination insofar as collection on these amounts. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(3) Receivables, Continued

Primary Government, Continued

Loans receivable of the primary government are summarized as follows:

General Fund:

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

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

\$ 4,368,787

Nonmajor Governmental Funds:

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, 2012, loans in the amount of \$670,435 were converted to grants as the recipients met the criteria for conversion. \$ 17,630,409

Discretely Presented Component Units

Receivables as of September 30, 2012, for the discretely presented component units, including applicable allowance for uncollectible accounts, are as follows:

	College of the Marshall Islands	Marshalls Energy Company, Inc.	Marshall Islands Development Bank	Marshall Islands Marine Resources Authority	Marshall Islands National Telecom. Authority	RMI Ports Authority	Non-major Component Units	Totals
Receivables:								
Federal agencies	\$ 96,184	\$ -	\$ -	\$ -	\$ -	\$ 1,646,564	\$ -	\$ 1,742,748
General	2,357,528	11,234,519	-	813,274	1,274,235	983,135	5,234,256	21,896,947
Loans	-	-	30,936,866	-	-	-	-	30,936,866
Other	<u>180,170</u>	<u>1,119,441</u>	<u>373,028</u>	<u>1,275,274</u>	<u>398,316</u>	<u>261,837</u>	<u>378,792</u>	<u>3,968,858</u>
	2,633,882	12,353,960	31,309,894	2,088,548	1,672,551	2,891,536	5,613,048	58,563,419
Less: allowance for uncollectible accounts	<u>(1,290,003)</u>	<u>(5,256,420)</u>	<u>(11,648,117)</u>	<u>(1,380,592)</u>	<u>(333,841)</u>	<u>(772,151)</u>	<u>(4,437,938)</u>	<u>(25,119,062)</u>
Net receivables	<u>\$ 1,343,879</u>	<u>\$ 7,097,540</u>	<u>\$ 19,661,777</u>	<u>\$ 707,956</u>	<u>\$ 1,338,710</u>	<u>\$ 2,119,385</u>	<u>\$ 1,175,110</u>	<u>\$ 33,444,357</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(3) Receivables, Continued

Discretely Presented Component Units, Continued

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

Marshall Islands Development Bank (MIDB):

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

Investment Development Fund	\$ 1,294,319
Compact Section 211	316,054
Republic of the Marshall Islands	29,315,810
Housing Preservation Grant	<u>10,683</u>
	<u>\$ 30,936,866</u>

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

(4) Interfund Receivables and Payables

Primary Government

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2012, are summarized as follows:

Receivable Fund	Payable Fund	Due From Other Funds	Due To Other Funds
General	Grants Assistance	\$ 4,992,355	\$ 4,992,355
Grants Assistance	General	6,619,873	6,619,873
Nonmajor governmental funds	General	2,070,315	2,070,315
Nonmajor governmental funds	Nonmajor governmental funds	910,976	910,976
Nonmajor governmental funds	Fiduciary Funds - Private Purpose Trust	1,547,381	-
Fiduciary Funds - Private Purpose Trust	General	-	892,474
Fiduciary Funds - Agency	General	<u>-</u>	<u>164,484</u>
		<u>\$ 16,140,900</u>	<u>\$ 15,650,477</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

Receivables and payables between funds reflected as due to/from component units at September 30, 2012, are summarized as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Marshalls Energy Company, Inc.	\$ 8,881,388	\$ -
Marshall Islands Development Bank	1,805,049	-
Marshall Islands Marine Resources Authority	-	330,000
Marshall Islands National Telecommunications Authority	1,000,000	-
RMI Ports Authority	-	152,678
Nonmajor component units	-	69,063
	<u>\$ 11,686,437</u>	<u>\$ 551,741</u>

The amount recorded by the General Fund due from the Marshalls Energy Company, Inc. of \$8,881,388 represents a subsidiary loan agreement under an Asian Development Bank (ADB) loan (Loan Number 2659 RMI (SF)) received by RepMar from the ADB. Interest accrues at the rate of 1% per annum through September 30, 2018 and at 1.5% per annum thereafter with principal and interest payments due of \$34,758 and matures on May 31, 2034.

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

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 378,412	\$ 87,029	\$ 465,441
2014	372,193	83,327	455,520
2015	375,932	79,588	455,520
2016	379,709	75,811	455,520
2017	383,523	71,997	455,520
2018 – 2022	1,858,818	418,782	2,277,600
2023 – 2027	1,964,148	313,452	2,277,600
2028 – 2032	2,117,025	160,575	2,277,600
2033 – 2034	1,051,628	17,815	1,069,443
	<u>\$ 8,881,388</u>	<u>\$ 1,308,376</u>	<u>\$ 10,189,764</u>

The amount recorded by the General Fund due from the Marshall Islands Development Bank (MIDB) of \$1,805,049 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.

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(4) Interfund Receivables and Payables, Continued

Primary Government, Continued

The amount recorded by the Grants Assistance Fund due from the Marshall Islands National Telecommunications Authority (MINTA) of \$1,000,000 represents Compact of Free Association Public Infrastructure Sector grant funds borrowed by MINTA. This loan is unsecured and interest free with annual payments due of \$100,000 commencing March 2012 to be deposited into a savings account established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended. MINTA is currently in default of loan payments and, as a result, all amounts due have been reclassified as current liabilities.

The amount recorded as due from component units of the primary government of \$11,686,437 does not equal the corresponding due to primary government of the discretely presented component units of \$15,589,041 due to an allowance for doubtful accounts recorded by the General Fund and the Grants Assistance Fund of \$2,302,604 and \$1,600,000, respectively. The amount recorded as due to component units of the primary government of \$551,741 does not equal the corresponding due from primary government of the discretely presented component units due to allowance for doubtful accounts recorded by the respective component units of \$551,741.

Discretely Presented Component Units

	Due From	Due To
Marshalls Energy Company, Inc.:		
Marshall Islands Marine Resources Authority	\$ -	\$ 2,000,000
Marshall Islands Marine Resources Authority:		
Marshalls Energy Company, Inc.	-	-
RMI Ports Authority:		
Nonmajor component units	237,702	-
Nonmajor component units:		
RMI Ports Authority	-	237,702
	\$ 237,702	\$ 2,237,702

The amount recorded as due to component units of \$2,237,702 does not equal the corresponding due from component units due to allowance for doubtful accounts recorded by the Marshall Islands Marine Resources Authority of \$2,000,000. The amount recorded by the RMI Ports Authority due from the nonmajor component units of \$237,702 accrues interest at the rate of 8% per annum and matures on March 30, 2013.

Receivables and payables between funds reflected as due to/from primary government at September 30, 2012, are summarized as follows:

	Due From	Due To
Marshalls Energy Company, Inc.:		
General Fund	\$ -	\$ 8,881,388
Marshall Islands Development Bank:		
General Fund	-	1,805,049
Marshall Islands National Telecommunications Authority:		
Grants Assistance Fund	-	1,000,000
Nonmajor component units:		
General Fund	-	2,302,064
Grants Assistance Fund	-	1,600,000
	\$ -	\$ 15,589,041

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(5) Capital Assets

Capital asset activities for the year ended September 30, 2012, are as follows:

Primary Government

	Estimated Useful Lives	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012
Depreciable capital assets:					
Electrical distribution	30 yrs	\$ 30,540,465	\$ -	\$ -	\$ 30,540,465
Buildings	30 - 40 yrs	104,479,025	3,701,973	-	108,180,998
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	13,793,254	-	-	13,793,254
Software	10 yrs	2,539,710	-	-	2,539,710
Heavy equipment	3 - 10 yrs	2,401,523	215,750	-	2,617,273
Dry-dock	15 yrs	<u>2,907,282</u>	-	<u>(2,907,282)</u>	-
		<u>180,764,980</u>	<u>3,917,723</u>	<u>(2,907,282)</u>	<u>181,775,421</u>
Less accumulated depreciation:					
Electrical distribution		(27,751,741)	(1,018,016)	-	(28,769,757)
Buildings		(40,182,994)	(2,167,868)	-	(42,350,862)
Water infrastructure system		(5,810,107)	(384,676)	-	(6,194,783)
Docks, roads and bridges		(8,195,152)	(568,035)	-	(8,763,187)
Ships		(7,506,282)	(551,730)	-	(8,058,012)
Software		(1,543,738)	(253,971)	-	(1,797,709)
Heavy equipment		(1,633,387)	(200,000)	-	(1,833,387)
Dry-dock		<u>(2,907,282)</u>	-	<u>2,907,282</u>	-
		<u>(95,530,683)</u>	<u>(5,144,296)</u>	<u>2,907,282</u>	<u>(97,767,697)</u>
Total depreciable capital assets, net		85,234,297	(1,226,573)	-	84,007,724
Nondepreciable capital assets:					
Construction in progress		<u>3,147,718</u>	<u>5,281,966</u>	<u>(3,701,973)</u>	<u>4,727,711</u>
		<u>\$ 88,382,015</u>	<u>\$ 4,055,393</u>	<u>\$ (3,701,973)</u>	<u>\$ 88,735,435</u>

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

President and Cabinet	\$ 3,186
Public Service Commission	15,000
Education	1,242,795
Health and Environment	523,263
Transportation and Communication	327,839
Resources and Development	80,225
Internal Affairs	37,563
Justice	257,252
Finance	150,296
Foreign Affairs and Trade	164,656
Public Works	2,340,918
Nitijela	<u>1,303</u>
	<u>\$ 5,144,296</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(5) Capital Assets, Continued

Discretely Presented Component Units

	Estimated Useful Lives	Balance October 1, 2011	Additions	Retirements	Balance September 30, 2012
Depreciable capital assets:					
Buildings	3 - 34 yrs	\$ 46,451,353	\$ 3,982,050	\$ (163,539)	\$ 50,269,864
Utility plant	3 - 40 yrs	94,108,008	2,029,698	(450,659)	95,687,047
Machinery and equipment	2 - 25 yrs	37,184,236	1,995,986	(306,577)	38,873,645
Infrastructure	5 - 50 yrs	<u>46,060,612</u>	<u>-</u>	<u>(1,027,270)</u>	<u>45,033,342</u>
		<u>223,804,209</u>	<u>8,007,734</u>	<u>(1,948,045)</u>	<u>229,863,898</u>
Less accumulated depreciation		<u>(105,144,885)</u>	<u>(13,007,937)</u>	<u>778,535</u>	<u>(117,374,287)</u>
Total depreciable capital assets, net		118,659,324	(5,000,203)	(1,169,510)	112,489,611
Nondepreciable capital assets:					
Construction in progress		<u>6,226,508</u>	<u>9,797,544</u>	<u>(4,114,000)</u>	<u>11,910,052</u>
		<u>\$124,885,832</u>	<u>\$ 4,797,341</u>	<u>\$ (5,283,510)</u>	<u>\$124,399,663</u>

(6) Short-term Debt

Discretely Presented Component Units

Marshall's Energy Company, Inc. (MEC):

During 2011, MEC obtained ninety-day term loans with a bank, interest at 7.5% per annum, to finance fuel purchases collateralized by a guarantee from RepMar. On July 12, 2012, MEC and the bank agreed to extend the maturity of the short-term loans from September 30, 2012 to July 20, 2015.

Tobolar Copra Processing Authority (TCPA):

In the normal course of the company's operations, TCPA obtains short-term borrowings primarily for the purpose of funding the purchase of raw copra from producers. TCPA has a bank credit line amounting to \$1,500,000 as of September 30, 2012, which is collateralized by a general security agreement over all assets of TCPA and a guarantee from RepMar. Notes drawn are subject to interest at bank's reference rate plus 2.5% per annum and are repaid on various maturity dates but not to exceed 180 days from loan drawdown.

Short-term debt activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Draws	Repayments	Ending Balance
MEC:				
Bank credit line	\$ 3,577,014	\$ -	\$ (3,577,014)	\$ -
TCPA:				
Bank credit line	<u>-</u>	<u>800,000</u>	<u>(800,000)</u>	<u>-</u>
	<u>\$ 3,577,014</u>	<u>\$ 800,000</u>	<u>\$ (4,377,014)</u>	<u>\$ -</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

### (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, 2012, the primary government had the following long-term debt outstanding and payable to the Asian Development Bank (ADB):

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. Semi-annual loan payments commenced January 1, 2002 in an amount of SDR 24,300, increasing to SDR 48,600 on January 1, 2012.	\$ 2,677,406
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. Semi-annual loan payments commenced May 15, 2003 in an amount of SDR 3,600, increasing to SDR 7,300 on May 15, 2013.	412,418
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. Semi-annual loan payments commenced April 15, 2004 in an amount of SDR 57,200, increasing to SDR 114,300 on April 15, 2014.	6,474,589
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. Semi-annual loan payments commenced November 15, 2003 in an amount of SDR 4,800, increasing to SDR 9,600 on November 15, 2013.	591,759
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. Semi-annual loan payments commenced January 1, 2005 in an amount of SDR 38,600, increasing to SDR 77,200 on January 1, 2015.	4,387,058
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. Semi-annual loan payments commenced March 1, 2006 in an amount of SDR 60,700, increasing to SDR 121,200 on March 1, 2016.	7,139,978
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. Semi-annual loan payments commenced June 1, 2007 in an amount of SDR 82,400, increasing to SDR 164,800 on June 1, 2017.	10,048,412

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

## (7) Long-term Obligations, Continued

### Primary Government, Continued

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. Semi-annual loan payments commenced February 1, 2008 in an amount of SDR 144,127. 7,088,293

Loan Number 1791 RMI (SF) - Skills Training and Vocational Education Project Loan (SDR 3,483,174), non-interest bearing with a service charge of 1.5% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commenced May 15, 2009 in an amount of SDR 72,566. 4,205,358

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 (5.03% at September 30, 2012), 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. Semi-annual 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. 1,873,500

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. Semi-annual 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. 6,816,035

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. Semi-annual 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. 465,222

Loan Number 2659 RMI (SF) - Public Sector Program Loan (SDR 6,413,000), non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. Semi-annual loan payments commence February 15, 2019 in an amount of SDR 200,406, at which time the service charge increases to 1.5% per annum. Concurrently, RepMar entered into a subsidiary loan agreement with the Marshalls Energy Company, Inc. whereby RepMar will on lend a portion of the loan proceeds for the purpose of restructuring certain commercial bank debt. 9,979,846

\$ 62,159,874

The abovementioned ADB loans payable are uncollateralized and are backed by the full faith and credit of RepMar. The abovementioned loans are designated and measured by the ADB using Special Drawing Rights. (SDRs). The value of a SDR is defined by a weighted currency basket of four major currencies; the U.S. dollar, the euro, the British pound, and the Japanese yen. The International Monetary Fund re-evaluates this currency basket every five years. The effects of foreign currency transaction gains or losses resulting from this re-evaluation are included in the government-wide financial statements in the period when such re-evaluation occurs.

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(7) Long-term Obligations, Continued

Primary Government, Continued

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>
2013	\$ 2,351,099	\$ 782,189	\$ 3,133,288
2014	2,489,869	729,417	3,219,286
2015	2,720,209	672,358	3,392,567
2016	2,936,607	611,682	3,548,289
2017	2,510,509	544,070	3,064,579
2018 – 2022	14,988,275	2,440,158	17,428,433
2023 – 2027	15,186,930	1,589,252	16,776,182
2028 – 2032	13,105,194	757,722	13,862,916
2033 – 2037	<u>5,871,182</u>	<u>127,670</u>	<u>5,998,852</u>
	<u>\$ 62,159,874</u>	<u>\$ 8,264,518</u>	<u>\$ 70,424,392</u>

Discretely Presented Component Units

As of September 30, 2012, 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, interest based on the FFB rates at the date of the loan advances and range from 5.49% to 7.25% per annum, with principal and interest 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, 2012. \$ 5,357,703

Short-term loan renegotiated to mature on July 20, 2015 with interest at 7.5% per annum, with principal and interest payable in monthly installments of \$27,444. 816,610

\$ 6,174,313

On June 15, 2012, the Cabinet of RepMar approved the debt deferral agreement between the Marshalls Energy Company, Inc. (MEC) and RUS wherein RUS and MEC agreed to a combined grant and loan deferment package of \$4,300,000. RUS granted a two-year \$2,000,000 loan deferment giving MEC a two-year break from having to make payments to RUS. A separate \$2,300,000 grant was awarded for the purpose of funding the purchase of parts for an engine overhaul.

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(7) Long-term Obligations, Continued

Marshalls Energy Company, Inc. (MEC), Continued:

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>
2013	\$ 277,556	\$ 151,767	\$ 429,323
2014	719,313	258,251	977,564
2015	1,121,851	322,592	1,444,443
2016	938,650	257,833	1,196,483
2017	999,682	196,801	1,196,483
2018 – 2021	<u>2,117,261</u>	<u>195,993</u>	<u>2,313,254</u>
	<u>\$ 6,174,313</u>	<u>\$ 1,283,237</u>	<u>\$ 7,457,550</u>

Marshall Islands Development Bank (MIDB):

Loan payable to the International Commercial Bank of China, due August 6, 2014, payable in semi-annual installments of \$200,000 plus interest at 5% per annum. The loan has been unconditionally guaranteed by RepMar, under which RepMar will make debt service payments to the bank in the event of default by MIDB. \$ 800,000

Loan with a bank, dated June 14, 2012, interest at 5% per annum, with principal and interest payable in monthly installments of \$40,000 through March 14, 2017, collateralized by loans receivable in the amount of \$15,232,330. Loan proceeds of \$2,000,000 were used to fund housing loans. 1,903,004

Loan with a bank, dated August 15, 2012, interest at 5% per annum, with principal and interest payable in monthly installments of \$18,920 through August 31, 2017, collateralized by the MAKO Building and a time certificate of deposit. Loan proceeds of \$1,000,000 were used to fund housing loans. 987,091

\$ 3,690,095

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>
2013	\$ 963,700	\$ 178,381	\$ 1,142,081
2014	995,232	127,058	1,122,290
2015	628,533	78,507	707,040
2016	663,568	43,472	707,040
2017	<u>439,062</u>	<u>8,584</u>	<u>447,646</u>
	<u>\$ 3,690,095</u>	<u>\$ 436,002</u>	<u>\$ 4,126,097</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(7) Long-term Obligations, Continued

Discretely Presented Component Units, Continued

Marshall Islands National Telecommunications Authority (MINTA):

Loans with the RUS (formerly the Rural Electrification Administration) from the Rural Electrification and Telephone Revolving Fund, dated August 17, 1989 of \$18,800,000, increased by \$3,999,000 on April 23, 1993, and further increased by \$18,500,000, with interest at 3.64% to 5% per annum. Certain portions of these loans have 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. \$ 28,102,158

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>
2013	\$ 1,328,026	\$ 1,423,863	\$ 2,751,889
2014	1,286,608	1,261,025	2,547,633
2015	1,350,280	1,197,352	2,547,632
2016	1,416,258	1,131,374	2,547,632
2017	1,488,040	1,059,592	2,547,632
2018 – 2022	8,618,191	4,119,969	12,738,160
2023 – 2027	8,123,666	1,929,349	10,053,015
2028 – 2032	<u>4,491,089</u>	<u>381,226</u>	<u>4,872,315</u>
	<u>\$ 28,102,158</u>	<u>\$ 12,503,750</u>	<u>\$ 40,605,908</u>

In April 2012, MINTA defaulted on its loan payments to RUS. As the guarantor, RepMar was required to make payments on behalf of MINTA in the amount of \$619,000. Since the loan is currently in default, all amounts due have been reclassified as current liabilities.

RMI Ports Authority (RMIPA):

Loan with a bank, dated April 6, 2010, interest at 8.5% per annum, with principal and interest payable in monthly installments of \$9,330 through March 28, 2013. The loan has been collateralized by a TCD of RMIPA of \$295,000. \$ 53,434

Air Marshall Islands, Inc. (AMI):

Loan with a bank, dated November 27, 2009, interest at 13.5% per annum, with principal and interest payable in monthly installments of \$31,500 through May 27, 2013. The loan has been collateralized by certain aircraft operated by AMI. \$ 230,287

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(8) Change in Long-term Obligations

Primary Government

Other long-term liabilities will be liquidated in the future primarily from the General Fund and the Grants Assistance Fund. During the year ended September 30, 2012, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net assets:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2012	Due Within <u>One Year</u>
Loans payable:					
ADB loans	\$ 64,466,367	\$ -	\$ (2,306,493)	\$ 62,159,874	\$ 2,351,099
Other:					
Compensated absences	<u>3,396,743</u>	<u>1,961,438</u>	<u>(2,031,143)</u>	<u>3,327,038</u>	<u>1,299,594</u>
	<u>\$ 67,863,110</u>	<u>\$ 1,961,438</u>	<u>\$ (4,337,636)</u>	<u>\$ 65,486,912</u>	<u>\$ 3,650,693</u>

Discretely Presented Component Units

Changes in long-term liabilities of discretely presented component units for the year ended September 30, 2012, are as follows:

	Balance October 1, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2012</u>	Due Within <u>One Year</u>
Loans payable:					
MEC	\$ 5,890,008	\$ 3,577,014	\$ (3,292,709)	\$ 6,174,313	\$ 277,556
MIDB	1,269,120	3,000,000	(579,025)	3,690,095	963,700
MINTA	29,169,994	-	(1,067,836)	28,102,158	28,102,158
RMIPA	164,529	-	(111,095)	53,434	53,434
AMI	<u>937,128</u>	<u>69,920</u>	<u>(776,761)</u>	<u>230,287</u>	<u>230,287</u>
	37,430,779	6,646,934	(5,827,426)	38,250,287	29,627,135
Due to primary government	14,370,256	1,565,060	(346,275)	15,589,041	5,281,016
Due to component units	<u>237,341</u>	<u>2,000,361</u>	<u>-</u>	<u>2,237,702</u>	<u>2,128,667</u>
	<u>\$ 52,038,376</u>	<u>\$ 10,212,355</u>	<u>\$ (6,173,701)</u>	<u>\$ 56,077,030</u>	<u>\$ 37,036,818</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

### (9) Restricted Assets

#### Primary Government

Restricted cash and cash equivalents of the primary government are as follows:

Escrow account established for the benefit of landowners of Kwajalein Atoll.	\$ 291,270
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.	1,215,366
Savings account established in accordance with Section 211(e) of the Compact of Free Association, as amended, for the purpose of funding RepMar's disaster assistance emergency fund.	1,489,412
Deposit account established for the purpose of receiving payments pursuant to the Compact of Free Association, as amended.	204,875
Savings account collateralizing a credit card facility.	62,435
Deposit account established in accordance with ADB Loan 2659-RMI (SF).	855,543
Savings account established for the purpose of accounting for funds held by RepMar in a custodial capacity relating to unclaimed property.	<u>78,053</u>
	<u>\$ 4,196,954</u>

Restricted investments 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.	\$ <u>46,351,522</u>
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#### Discretely Presented Component Units

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

Marshall Islands Development Bank:

Savings account collateralizing loans funded by Rural Housing Service (RHS).	\$ 518,242
Time certificate of deposit collateralizing loan payable to a bank.	128,758

RMI Ports Authority:

Time certificate of deposit collateralizing loan payable to a bank.	<u>295,000</u>
	<u>\$ 942,000</u>

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

(10) 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, 2012, are as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund:		
Grants Assistance Fund	\$ 1,332,840	\$ 250,000
Nonmajor governmental funds	<u>516,360</u>	<u>1,308,564</u>
	<u>1,849,200</u>	<u>1,558,564</u>
Grants Assistance Fund:		
General Fund	250,000	1,332,840
Grants Assistance Fund	724,710	724,710
Compact Trust Fund	1,000,000	-
Nonmajor governmental funds	<u>2,269,180</u>	<u>-</u>
	<u>4,243,890</u>	<u>2,057,550</u>
Compact Trust Fund:		
Grants Assistance Fund	<u>-</u>	<u>1,000,000</u>
Nonmajor governmental funds:		
General Fund	1,308,564	516,360
Grants Assistance Fund	-	2,269,180
Nonmajor governmental funds	<u>3,568,038</u>	<u>3,568,038</u>
	<u>4,876,602</u>	<u>6,353,578</u>
	<u>\$ 10,969,692</u>	<u>\$ 10,969,692</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. Specifically, RepMar transferred \$2,269,180 from the Grants Assistance Fund to the Nonmajor Governmental Funds to finance scholarships and Four-atoll medical costs; \$1,332,840 from the General Fund to the Grants Assistance Fund to finance subsidy to the Marshalls Energy Company, Inc. and Ministry of Health and Environment utility billings; \$1,000,000 from the Grants Assistance Fund to the Compact Trust Fund as contributions to permanent funds; \$516,360 from the General Fund to the Nonmajor Governmental Funds to primarily finance Judicial branch operations and scholarships; \$250,000 from the Grants Assistance Fund to the General Fund to finance certain debt service payments; and \$1,308,564 from the Nonmajor Governmental Funds to the General Fund to finance general operations.

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Financial Statements  
September 30, 2012

**(11) Fund Balances**

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Nonmajor Governmental Funds</u>	<u>Totals</u>
Fund balances:					
Nonspendable:					
Pacific Forum Lines investment	\$ 318,630	\$ -	\$ -	\$ -	\$ 318,630
Pacific Islands Development Bank investment	498,250	-	-	-	498,250
Loan receivable – MEC	8,881,388	-	-	-	8,881,388
Loan receivable – MIDB	1,805,049	-	-	-	1,805,049
Loan receivable – MINTA	-	1,000,000	-	-	1,000,000
Permanent fund principal	-	-	46,351,522	-	46,351,522
Restricted:					
Education	-	655,536	-	-	655,536
Capacity building	-	279,398	-	-	279,398
Environmental	-	10,487	-	-	10,487
Ebeye special needs	-	200,710	-	-	200,710
Landowner special needs	-	10,472	-	-	10,472
Infrastructure maintenance	-	2,310,686	-	-	2,310,686
Disaster assistance	-	1,726,902	-	-	1,726,902
Compact – other	-	41,070	-	-	41,070
Education – scholarships	-	1,593	-	886,422	888,015
ADB loan projects	877,811	-	-	-	877,811
Credit card collateralization	62,435	-	-	-	62,435
Nuclear claims related	-	-	-	259,441	259,441
Committed:					
Nitijela	-	-	-	5,260	5,260
Judiciary	27,300	-	-	326,122	353,422
Health and environment	-	-	-	5,388,146	5,388,146
Transportation and communication	-	-	-	18,587	18,587
Internal affairs	14,251	-	-	391	14,642
Justice	-	-	-	6,228	6,228
Public works	-	-	-	54,894	54,894
Land registration authority	-	-	-	18,118	18,118
Capital projects	-	779,863	-	-	779,863
Assigned:					
Majuro Capital Improvement Projects	-	613,133	-	-	613,133
Infrastructure maintenance	-	429,373	-	-	429,373
Other ROC projects	-	255,967	-	-	255,967
Unassigned	(1,765,699)	(42,258)	-	-	(1,807,957)
	<u>\$ 10,719,415</u>	<u>\$ 8,513,912</u>	<u>\$ 46,351,522</u>	<u>\$ 6,963,609</u>	<u>\$ 72,548,458</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

### (12) 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 \$25,000,000 on October 1, 2003, \$2,500,000 prior to October 1, 2004, and a final \$2,500,000 prior to October 1, 2005. As of September 30, 2012, RepMar has contributed the required amounts to the "A Account" as required under Article 16 of the Trust Fund Agreement; however, Article 21 of the Trust Fund Agreement states that the United States may withdraw the Present Market Value of its contributions to the "A Account" if certain events occur.

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

In addition to the "A Account", the Trust Fund Agreement requires a "C Account" be created into which annual income earnings over 6% from the "A Account" shall be deposited. The "C Account" is maintained as a memorandum account within the Trust Fund and is not separately invested.

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 and the related "C Account" as well as associated undistributed income summarized as follows:

RepMar - "A Account" and "C Account"	\$ 36,554,383
RepMar - "D Account"	<u>9,797,139</u>
	\$ <u>46,351,522</u>

At September 30, 2012, 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, and the related "C Account" is as follows:

United States: - "A Account" and "C Account"	\$ 112,422,116
Republic of China - "A Account" and "C Account"	<u>16,591,885</u>
	\$ <u>129,014,001</u>

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

## (13) 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, 2012 is \$9,751,361.

### Marshall Islands Social Security Administration (MISSA)

In March 2012, MISSA obtained an actuarial valuation of the Retirement Fund as of October 1, 2011. The valuation reported actuarial accrued liabilities for the Retirement Fund of \$287,327,000. As of September 30, 2012, MISSA recorded total fund equity of \$68,969,546 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.

### 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. Questioned costs relating to fiscal years 2005 through 2012 have been set forth in RepMar's Single Audit Report for the year ended September 30, 2012. In addition, RepMar is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of OMB Circular A-133. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

### Nuclear Claims Trust Fund (NCTF)

Section 177(c) of the Compact of Free Association (the Compact) provides, on a one-time grant basis, the amount of \$150,000,000 to RepMar to be used to establish a trust fund from which annual distributions are to be made in accordance with Article II of the Agreement between the Government of the United States and RepMar for Implementation of Section 177 of the Compact (the Agreement). Pursuant to the Agreement, RepMar established the NCTF from which these distributions are made. Over a period of fifteen years, the Nuclear Claims Tribunal (NCT) received \$45,750,000 from the NCTF that was made available for whole or partial payment of monetary awards. As of September 30, 2012, NCT has committed to the distribution of monetary awards for personal injury claims of \$23,159,963 and of property damage claims of \$2,284,108,436, 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 \$57,862 as of September 30, 2012. 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.

### Insurance Coverage

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

# REPUBLIC OF THE MARSHALL ISLANDS

Notes to Financial Statements  
September 30, 2012

## (13) Contingencies and Commitments, Continued

### Marshalls Energy Company, Inc. (MEC)

MEC is currently in noncompliance with certain coverage ratio requirements relating to a loan agreement with Rural Utilities Service (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.

### Marshall Islands National Telecommunications Authority (MINTA)

In April 2012, MINTA defaulted on its loan payments to RUS. As the guarantor, RepMar was required to make payments on behalf of MINTA in the amount of \$619,000. RepMar has demonstrated the ability and willingness in the past to provide financing for MINTA's debt payments, however, no such support was provided until 2012 when MINTA defaulted on its loan payments to RUS. It is uncertain whether RepMar is willing to continue to support MINTA. The ability of MINTA to continue as a going concern is dependent upon MINTA management's plan and the resolution of the aforementioned issues. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

### 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.

### 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 2012, RepMar appropriated \$923,445 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</u> <u>September 30</u>	<u>Total</u>
2013	\$ 657,765
2014	650,688
2015	644,112
2016	103,350
2017	84,804
2018 - 2022	424,019
2023 - 2027	408,752
2028 - 2032	<u>316,744</u>
	\$ <u>3,290,234</u>

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

### (13) Contingencies and Commitments, Continued

#### 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. On June 8, 2009, RepMar agreed to further amend the financial provisions of this Joint Venture Agreement whereby an annual payment of \$3,000,000 is payable by TCMI through December 31, 2010 in monthly installments of \$250,000, with an effective date of July 1, 2008. For the period January 1, 2011 through December 31, 2013, the annual payment amount increases to \$4,000,000, payable in monthly installments of \$333,333 and further increases to an annual payment amount of \$5,000,000 for the period January 1, 2014 through December 31, 2018, payable in monthly installments of \$416,667. During the year ended September, 30, 2012, RepMar received \$4,000,000 under this Joint Venture Agreement.

The abovementioned annual payments are contingent upon continued net earnings being generated by TCMI. In the event that net earnings of TCMI fall below 2007 levels, the annual payments are to be adjusted accordingly on a prorated basis.

#### Air Marshall Islands, Inc. (AMI)

At September 30, 2012, AMI is liable to the Marshall Islands Social Security Administration (MISSA) for certain delinquent employee and employer contributions, totaling \$1,109,707, which includes related penalties and interest. On December 28, 2010, AMI entered into a promissory note with MISSA in the amount of \$1,059,068 associated with these delinquent contributions. The note bears interest at 12% per annum with monthly payments of \$15,000 commencing January 10, 2011. In addition, a \$50,000 payment is due on or before January 31, 2011 and another on or before April 30, 2011. On September 23, 2011, MISSA filed suit against AMI for defaulting on the above promissory note. On June 22, 2012, the Cabinet of RepMar approved financial support for AMI in the amount of \$500,000 for the purpose of funding delinquent contributions to MISSA (see Note 14).

#### Budgetary Compliance

For the year ended September 30, 2012, significant over-expenditures exceeding appropriations within the General Fund were as follows:

Centralized Utility Billings	\$ 1,833,414
Majuro Landowner Electric Bills	\$ 1,821,403
Prior Year Liabilities	\$ 333,916
ADB Loan Repayment	\$ 611,516
Ministry of Finance	\$ 1,593,936
Section 211(a)(2) Compact Health Sector Fund	\$ 505,385
Other Direct Assistance Fund	\$ 827,455

These over-expenditures of the General Fund have not been funded by legislative authorization.

## REPUBLIC OF THE MARSHALL ISLANDS

### Notes to Financial Statements September 30, 2012

#### (13) Contingencies and Commitments, Continued

##### Other Commitments

Significant commitments of the primary government as of September 30, 2012, are as follows:

- a) Guaranteed a bank debt of Tobolar Copra Processing Authority (TCPA) with a letter of guarantee. At September 30, 2012, TCPA 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, 2012, MINTA had guaranteed debt totaling \$28,102,158.
- 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, 2012, MEC had guaranteed debt totaling \$5,357,703.
- d) Guaranteed a bank debt of MEC with a letter of guarantee. At September 30, 2012, MEC had guaranteed bank debt totaling \$816,610.
- e) 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.
- f) 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.
- g) 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, 2012, MIDB had guaranteed debt totaling \$800,000.
- h) In accordance with Cabinet Minutes C.M. 055 (2007) and C.M. 064 (2011), 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, 2012, MEC had guaranteed debt to a fuel supplier totaling \$7,358,557.
- i) In accordance with Cabinet Minute C.M. 029 (2012), the Cabinet of RepMar approved the extension of financial support for the College of the Marshall Islands in the annual amount of \$3,000,000 through fiscal year 2017.

# REPUBLIC OF THE MARSHALL ISLANDS

## Notes to Financial Statements September 30, 2012

### (14) Subsequent Events

On October 29, 2012, the Cabinet of RepMar approved a guarantee for the Marshalls Energy Company, Inc. fuel contract in the amount of \$10,000,000.

On November 30, 2012, the High Court entered judgment against Air Marshall Islands, Inc. (AMI) in favor of the Marshall Islands Social Security Administration for \$1,411,985, inclusive of penalties, relating to delinquent contributions.

On December 13, 2012, RepMar entered into a loan agreement (Loan Number 2950 (SF)) with the Asian Development Bank in the amount of \$5,000,000 (SDR 3,242,000) for the Fiscal Reform and Debt Management Project. The loan is non-interest bearing and requires a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account.

On April 5, 2013, the Cabinet of RepMar approved additional RUS loan guarantee payments in the amount of \$600,000 for the Marshall Islands National Telecommunications Authority.

On May 24, 2013, the Cabinet of RepMar approved a loan from the Marshall Islands Development Bank to AMI in the amount of \$2,500,000 for the purpose of funding the Dash 8 D-Check.

**REPUBLIC OF THE MARSHALL ISLANDS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2012**

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
General Fund (Fund 100100)  
Year Ended September 30, 2012

	Budgeted Amounts		Actual - Budgetary Basis (see Note 1)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 23,394,060	\$ 23,394,060	\$ 25,229,449	\$ 1,835,389
Fishing rights	2,500,000	2,500,000	2,500,000	-
Fees and charges	204,032	204,032	31,957	(172,075)
Interest and dividends	-	-	219,176	219,176
Other	8,293,824	9,893,824	10,341,531	447,707
<b>Total revenues</b>	<b>34,391,916</b>	<b>35,991,916</b>	<b>38,322,113</b>	<b>2,330,197</b>
<b>Expenditures:</b>				
President and Cabinet	1,871,034	2,129,233	1,914,082	215,151
Office of the Chief Secretary	646,441	643,410	426,559	216,851
Special appropriations	8,469,477	11,238,161	15,308,563	(4,070,402)
Council of Iroij	437,106	463,967	494,212	(30,245)
Office of the Auditor-General	932,495	896,167	795,454	100,713
Public Service Commission	468,283	462,430	445,629	16,801
Office of the Attorney General	765,141	761,883	607,097	154,786
Ministries	18,472,027	18,887,084	19,756,287	(869,203)
Environmental Protection Authority	189,813	189,813	182,123	7,690
Nitijela	1,636,195	1,619,200	1,526,608	92,592
<b>Total expenditures</b>	<b>33,888,012</b>	<b>37,291,348</b>	<b>41,456,614</b>	<b>(4,165,266)</b>
Excess (deficiency) of revenues over (under) expenditures	503,904	(1,299,432)	(3,134,501)	(1,835,069)
<b>Other financing sources (uses):</b>				
Operating transfers in	250,000	548,852	1,558,564	1,009,712
Operating transfers out	(1,533,525)	(1,533,525)	(2,758,184)	(1,224,659)
<b>Other financing sources (uses), net</b>	<b>(1,283,525)</b>	<b>(984,673)</b>	<b>(1,199,620)</b>	<b>(214,947)</b>
	(779,621)	(2,284,105)	(4,334,121)	(2,050,016)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	521,639	521,639	521,639	-
<b>Net change in fund balance</b>	<b>\$ (257,982)</b>	<b>\$ (1,762,466)</b>	<b>\$ (3,812,482)</b>	<b>\$ (2,050,016)</b>

See accompanying notes to required supplementary information - budgetary reporting.

## REPUBLIC OF THE MARSHALL ISLANDS

### Notes to Required Supplementary Information - Budgetary Reporting September 30, 2012

#### (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.

The Budget Act for fiscal year 2012, Public Law No. 2011-58, was passed by the Nitijela on September 23, 2011. 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.

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.

#### (2) Reconciliation of Budgetary Schedule

Net change in fund balance - budgetary basis	\$ <u>(3,812,482)</u>
GASB 54 Funds included within the General Fund;	
Reimbursable Fund	36,036
Judiciary Fund	<u>1,688</u>
	<u>37,724</u>
Net change in fund balance - General Fund	\$ <u>(3,774,758)</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**OTHER SUPPLEMENTARY INFORMATION**

**YEAR ENDED SEPTEMBER 30, 2012**

# REPUBLIC OF THE MARSHALL ISLANDS

## Combining Schedule of Expenditures by Account Governmental Funds Year Ended September 30, 2012

	General	Special Revenue	Permanent	Other	Total
		Grants Assistance	Compact Trust	Governmental Funds	
Expenditures:					
Salaries and wages	\$ 16,730,064	\$ 19,058,409	\$ -	\$ 645,020	\$ 36,433,493
Grants and subsidies	8,308,193	8,837,410	-	1,597,021	18,742,624
Utilities	5,430,236	3,205,834	-	75,008	8,711,078
Contractual services	927,289	3,278,513	-	3,361,741	7,567,543
Capital outlay	483,353	5,465,716	-	603,650	6,552,719
Travel	1,251,419	1,542,968	-	854,861	3,649,248
Medical supplies	-	54,259	-	3,178,013	3,232,272
Principal repayment	1,724,201	582,292	-	-	2,306,493
Supplies and materials	323,828	1,651,406	-	86,027	2,061,261
Leased housing	645,341	1,174,411	-	72,000	1,891,752
Rentals	1,389,041	171,527	-	21,711	1,582,279
Food stuffs	243,517	1,256,499	-	43,582	1,543,598
Interest	1,168,540	263,276	-	-	1,431,816
Communications	523,248	263,623	-	133,482	920,353
POL	348,002	405,351	-	102,223	855,576
Allowances	718,195	40,301	-	42,904	801,400
Professional services	68,859	230,413	-	291,628	590,900
Printing and reproduction	43,168	95,342	-	4,998	143,508
Insurance	68,913	30,040	-	12,242	111,195
Freight	10,600	61,161	-	15,153	86,914
Other	2,064,968	3,587,795	-	441,417	6,094,180
	<u>\$ 42,470,975</u>	<u>\$ 51,256,546</u>	<u>\$ -</u>	<u>\$ 11,582,681</u>	<u>\$ 105,310,202</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GENERAL FUND**

September 30, 2012

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 - General Fund (Fund 100100) Year Ended September 30, 2012 (with comparative totals for the year ended September 30, 2011)

	2012	2011
Revenues:		
Taxes:		
Income	\$ 11,273,994	\$ 10,940,722
Import	5,263,051	6,212,481
Import - CMI	976,622	913,355
Gross revenue	6,402,608	5,203,741
Immovable property	485,334	1,175,051
Fuel	631,542	586,005
Penalties and interest	95,483	96,234
Other	100,815	131,225
	<u>25,229,449</u>	<u>25,258,814</u>
Fishing rights	2,500,000	3,000,000
Fees and charges	31,957	25,219
Interest and dividends	219,176	194,545
Other:		
Taiwan grant	3,600,000	3,600,000
Ship registry	4,000,000	3,750,000
Contribution from MI Marine Resources Authority	1,600,000	-
Contribution from RMI Ports Authority	295,464	214,286
Japan grant	206,477	619,431
Other	639,590	907,413
	<u>10,341,531</u>	<u>9,091,130</u>
Total revenues	<u>38,322,113</u>	<u>37,569,708</u>
Expenditures:		
President and Cabinet:		
Office of the President	504,205	269,647
President and Ministers	567,681	578,794
Cabinet Operations	425,457	378,455
Customary Law Commission	159,880	194,055
RMI/USP Joint Secondary Education Project	256,859	257,117
	<u>1,914,082</u>	<u>1,678,068</u>
Office of the Chief Secretary:		
Administration	180,199	216,448
Deputy Chief Secretary - Ebeye	17,823	16,212
Economic Policy, Planning and Statistics Office	138,197	142,519
Office of Environmental Planning and Policy Coordination	58,515	78,087
Disaster Office	31,628	42,163
	<u>426,362</u>	<u>495,429</u>
Special appropriations:		
Marshall Islands Shipping Corporation	801,135	844,546
Alele Corporation	64,298	82,669
General Election	382,350	121,564
Majuro Capital Improvement Projects	-	23,950
Dry Dock (RMIS Lomor)	-	180,010
MOF Accounting System Upgrade	76,000	122,600
RMI Operating Vehicles	49,600	-
Air Marshall Islands	1,495,598	362,378
Centralized Utility Billings	2,743,250	2,007,792
Land leases	957,255	1,204,003
Majuro Landowners electricity bills	2,252,530	1,537,118
Leased housing	205,101	212,727
Marshall Islands Visitors Authority	245,816	37,535
MWSC water subsidy	32,245	90,382
International subscriptions/membership fees	345,608	329,941
Prior Year Liabilities	635,796	777,627
Copra price stabilization subsidy	1,190,400	1,245,600
ADB loan repayment	2,892,741	2,559,060
Marshall Islands Resort	300,000	-
Constitution Day	19,840	28,152
Micronesia Legal Service Corporation	-	19,860
Marshall Islands National Telecommunications Authority	619,000	-
	<u>15,308,563</u>	<u>11,787,514</u>

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Revenues, Expenditures by Function, and Changes in Fund Balance - General Fund (Fund 100100), Continued Year Ended September 30, 2012 (with comparative totals for the year ended September 30, 2011)

	2012	2011
Expenditures, continued:		
Council of Iroij:		
Administration	113,656	88,083
Members	380,556	365,231
	494,212	453,314
Nitijela:		
Operations	443,796	432,457
General membership	852,423	1,198,339
Speaker's contingency	66,662	37,711
Committee	41,744	13,699
Legislative counsel	121,983	106,089
	1,526,608	1,788,295
Office of the Auditor-General:		
Operations	347,826	248,078
Single audit - local match	151,702	351,676
	499,528	599,754
Public Service Commission:		
Members	92,200	92,564
Administration	353,374	362,590
	445,574	455,154
Office of the Attorney General	577,102	635,371
Ministries:		
Ministry of Education	3,880,328	3,374,352
Ministry of Health and Environment	2,781,498	2,829,635
Ministry of Transportation and Communication	550,894	491,178
Ministry of Resources and Development	658,004	607,519
Ministry of Internal Affairs	1,813,196	1,734,910
Ministry of Justice	2,629,295	2,590,348
Ministry of Finance	3,739,949	2,674,711
Ministry of Foreign Affairs and Trade	2,515,200	2,619,720
Ministry of Public Works	992,457	956,605
	19,560,821	17,878,978
Environmental Protection Authority	182,123	176,718
Total expenditures	40,934,975	35,948,595
Excess (deficiency) of revenues over (under) expenditures	(2,612,862)	1,621,113
Other financing sources:		
Loan proceeds	-	9,979,846
Operating transfers in:		
Republic of China Fund	250,000	-
Labor (General) Fund	166,713	-
Resident Workers Training Account Fund	811,552	-
Ministry of Internal Affairs Fund	112,983	-
Health Care Revenue Fund	48,852	-
Ministry of Justice Fund	168,464	253,240
	1,558,564	253,240
Total other financing sources	1,558,564	10,233,086
Other financing uses:		
Operating transfers out:		
Compact Trust Fund	-	819,197
Section 211(a)(1) Compact Health Sector Fund	505,385	-
Other Direct Assistance Fund	827,455	-
Judiciary Fund	576,744	603,756
Marshall Islands Scholarship, Grant and Loan Board Fund	117,359	17,511
Marshall Islands Judiciary Fund	342,751	208,710
Nuclear Claims Tribunal	56,250	49,650
Local Government Fund	332,240	330,906
Total other financing uses	2,758,184	2,029,730
Net change in fund balance	(3,812,482)	9,824,469
Fund balance at the beginning of the year	14,111,606	4,287,137
Fund balance at the end of the year	\$ 10,299,124	\$ 14,111,606

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund (Fund 100100) Year Ended September 30, 2012

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Revenues:				
Taxes:				
Income	\$ 9,564,056	\$ 9,564,056	\$ 11,273,994	\$ 1,709,938
Import	6,100,000	6,100,000	5,263,051	(836,949)
Import - CMI	900,000	900,000	976,622	76,622
Gross revenue	5,797,023	5,797,023	6,402,608	605,585
Immovable property	242,668	242,668	485,334	242,666
Fuel	650,000	650,000	631,542	(18,458)
Penalties and interest	54,123	54,123	95,483	41,360
Other	86,190	86,190	100,815	14,625
	<u>23,394,060</u>	<u>23,394,060</u>	<u>25,229,449</u>	<u>1,835,389</u>
Fishing rights	2,500,000	2,500,000	2,500,000	-
Fees and charges	204,032	204,032	31,957	(172,075)
Interest and dividends	-	-	219,176	219,176
Taiwan grant	3,600,000	3,600,000	3,600,000	-
Ship registry	4,000,000	4,000,000	4,000,000	-
MI Marine Resources Authority	-	1,600,000	1,600,000	-
RMI Ports Authority	500,000	500,000	295,464	(204,536)
Japan grant	-	-	206,477	206,477
Other	193,824	193,824	639,590	445,766
	<u>8,293,824</u>	<u>9,893,824</u>	<u>10,341,531</u>	<u>447,707</u>
Total revenues	<u>34,391,916</u>	<u>35,991,916</u>	<u>38,322,113</u>	<u>2,330,197</u>
Expenditures:				
President and Cabinet:				
Office of the President	361,574	599,535	504,205	95,330
President and Ministers	585,427	584,670	567,681	16,989
Cabinet Operations	425,128	447,606	425,457	22,149
Customary Law Commission	183,481	181,998	159,880	22,118
RMI/USP Joint Secondary Education Project	256,859	256,859	256,859	-
National Training Council	58,565	58,565	-	58,565
	<u>1,871,034</u>	<u>2,129,233</u>	<u>1,914,082</u>	<u>215,151</u>
Office of the Chief Secretary:				
Administration	287,033	284,832	180,396	104,436
Deputy Chief Secretary - Ebeye	66,021	66,021	17,823	48,198
EPPSO	197,330	197,330	138,197	59,133
OEPPC	93,732	93,732	58,515	35,217
Disaster Office	2,325	1,495	31,628	(30,133)
	<u>646,441</u>	<u>643,410</u>	<u>426,559</u>	<u>216,851</u>
Special appropriations:				
Marshall Islands Shipping Corporation	801,135	801,135	801,135	-
Alele Corporation	64,298	64,298	64,298	-
General Election	299,339	447,678	382,350	65,328
Majuro Capital Improvement Projects	49,900	49,900	-	49,900
MOF Accounting System Upgrade	76,373	76,373	76,000	373
Air Marshall Islands	-	1,600,000	1,495,598	104,402
Centralized Utility Billings	909,836	909,836	2,743,250	(1,833,414)
Ebeye KALGOV	119,040	119,040	-	119,040
Land leases	916,057	916,057	957,255	(41,198)
Majuro Landowners electricity bills	431,127	431,127	2,252,530	(1,821,403)
Leased housing	279,176	278,426	205,101	73,325
Marshall Islands Visitors Authority	245,818	245,818	245,816	2
MWSC water subsidy	84,370	84,370	32,245	52,125
International subscriptions/membership fees	327,358	327,358	345,608	(18,250)
Prior Year Liabilities	299,785	301,880	635,796	(333,916)
Copra price stabilization subsidy	1,190,400	1,190,400	1,190,400	-
ADB loan repayment	2,281,225	2,281,225	2,892,741	(611,516)
Marshall Islands Resort	-	300,000	300,000	-
Constitutional Convention	19,840	19,840	19,840	-
Micronesian Legal Service Corporation	24,800	24,800	-	24,800
RMI Operating Vehicles	49,600	49,600	49,600	-
MI National Telecommunications Authority	-	719,000	619,000	100,000
	<u>8,469,477</u>	<u>11,238,161</u>	<u>15,308,563</u>	<u>(4,070,402)</u>
Council of Iroij:				
Administration	97,819	113,520	113,656	(136)
Members	339,287	350,447	380,556	(30,109)
	<u>437,106</u>	<u>463,967</u>	<u>494,212</u>	<u>(30,245)</u>
Office of the Auditor-General:				
Auditor-General salary	57,773	57,773	-	57,773
Operations	319,537	397,960	347,826	50,134
Single audit - local match	555,185	440,434	447,628	(7,194)
	<u>932,495</u>	<u>896,167</u>	<u>795,454</u>	<u>100,713</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Revenues, Expenditures and Changes in Fund Balance, Continued  
Budget and Actual - General Fund (Fund 100100)  
Year Ended September 30, 2012

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final		
Expenditures, continued:				
Public Service Commission:				
Members	92,638	92,046	92,200	(154)
Administration	375,645	370,384	353,429	16,955
	<u>468,283</u>	<u>462,430</u>	<u>445,629</u>	<u>16,801</u>
Office of the Attorney General	765,141	761,883	607,097	154,786
Ministries:				
Ministry of Education	4,042,056	3,973,993	3,880,328	93,665
Ministry of Health and Environment	2,942,035	2,923,127	2,905,142	17,985
Ministry of Transportation and Communication	625,489	622,691	550,894	71,797
Ministry of Resources and Development	670,917	690,212	658,004	32,208
Ministry of Internal Affairs	1,858,144	1,970,904	1,813,196	157,708
Ministry of Justice	2,699,362	2,691,282	2,631,406	59,876
Ministry of Finance	2,064,452	2,214,412	3,808,348	(1,593,936)
Ministry of Foreign Affairs and Trade	2,500,108	2,737,478	2,516,200	221,278
Ministry of Public Works	1,069,464	1,062,985	992,769	70,216
	<u>18,472,027</u>	<u>18,887,084</u>	<u>19,756,287</u>	<u>(869,203)</u>
Environmental Protection Authority	189,813	189,813	182,123	7,690
Nitijela:				
Operations	503,630	515,196	443,796	71,400
General Membership	878,423	853,124	852,423	701
Speaker's Contingency	83,881	78,409	66,662	11,747
Committee	44,349	43,349	41,744	1,605
Legislative Counsel	125,912	129,122	121,983	7,139
	<u>1,636,195</u>	<u>1,619,200</u>	<u>1,526,608</u>	<u>92,592</u>
Total expenditures	33,888,012	37,291,348	41,456,614	(4,165,266)
Excess (deficiency) of revenues over (under) expenditures	503,904	(1,299,432)	(3,134,501)	(1,835,069)
Other financing sources:				
Operating transfers in:				
Republic of China Fund	-	250,000	250,000	-
Labor (General) Fund	-	-	166,713	166,713
Resident Workers Training Account Fund	-	-	811,552	811,552
Ministry of Internal Affairs Fund	-	-	112,983	112,983
Health Care Revenue Fund	-	48,852	48,852	-
Ministry of Justice Fund	250,000	250,000	168,464	(81,536)
	<u>250,000</u>	<u>548,852</u>	<u>1,558,564</u>	<u>1,009,712</u>
Other financing uses:				
Operating transfers out:				
Section 211(a)(2) Compact Health Sector Fund	-	-	505,385	(505,385)
Other Direct Assistance Assistance Fund	-	-	827,455	(827,455)
Judiciary Fund	628,595	628,595	576,744	51,851
Marshall Islands Scholarship, Grant and Loan Board Fund	122,237	122,237	117,359	4,878
Marshall Islands Judiciary Fund	336,485	336,485	342,751	(6,266)
Nuclear Claims Tribunal	74,400	74,400	56,250	18,150
Local Government Fund	371,808	371,808	332,240	39,568
	<u>1,533,525</u>	<u>1,533,525</u>	<u>2,758,184</u>	<u>(1,224,659)</u>
	(779,621)	(2,284,105)	(4,334,121)	(2,050,016)
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	521,639	521,639	521,639	-
Net change in fund balance	\$ (257,982)	\$ (1,762,466)	\$ (3,812,482)	\$ (2,050,016)

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2012

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, 2012, follows:

#### 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.

#### 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.

#### 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.

#### 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.

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2012

#### Sea Patrol Fund

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

#### Transportation Services Fund

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

#### Registrar General Fund

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

#### 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.

#### 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.

#### Marshall Islands Judiciary Fund

This fund was established to account for all activities of the Marshall Islands Judiciary not accounted for within the General Fund.

#### 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.

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS**

September 30, 2012

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, 2012**

	200105	200224	200318	200319	200332	200333	200340	200520	200525
	Public Works	Land Registration Authority	Labor (General)	Labor (Bond)	Ministry of Justice	Marshall Islands Revised Code	Resident Workers Training Account	Sea Patrol	Transportation Services
<b>ASSETS</b>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Time certificates of deposit	-	-	-	-	-	-	-	-	-
Receivables, net:									
Taxes	-	-	-	-	-	-	90,250	-	-
General	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	810	-	-
Due from other funds	54,924	18,118	-	121,760	141,546	5,260	58,561	5,868	18,587
Advances	-	-	-	-	8,158	-	402	-	-
Total assets	<u>\$ 54,924</u>	<u>\$ 18,118</u>	<u>\$ -</u>	<u>\$ 121,760</u>	<u>\$ 149,704</u>	<u>\$ 5,260</u>	<u>\$ 150,023</u>	<u>\$ 5,868</u>	<u>\$ 18,587</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable	\$ 30	\$ -	\$ -	\$ (1,500)	\$ 149,344	\$ -	\$ 149,108	\$ -	\$ -
Other liabilities and accruals	-	-	-	123,260	-	-	915	-	-
Due to other funds	-	-	-	-	-	-	-	-	-
Total liabilities	<u>30</u>	<u>-</u>	<u>-</u>	<u>121,760</u>	<u>149,344</u>	<u>-</u>	<u>150,023</u>	<u>-</u>	<u>-</u>
<b>Fund balances:</b>									
Restricted	-	-	-	-	-	-	-	-	-
Committed	54,894	18,118	-	-	360	5,260	-	5,868	18,587
Total fund balances	<u>54,894</u>	<u>18,118</u>	<u>-</u>	<u>-</u>	<u>360</u>	<u>5,260</u>	<u>-</u>	<u>5,868</u>	<u>18,587</u>
Total liabilities and fund balances	<u>\$ 54,924</u>	<u>\$ 18,118</u>	<u>\$ -</u>	<u>\$ 121,760</u>	<u>\$ 149,704</u>	<u>\$ 5,260</u>	<u>\$ 150,023</u>	<u>\$ 5,868</u>	<u>\$ 18,587</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Balance Sheet, Continued  
September 30, 2012**

	200527	200528	300612						
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
<b>ASSETS</b>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 522,075	\$ 300,376	\$ 3,073,589	\$ 369,180	\$ -	\$ 4,265,220
Time certificates of deposit	-	-	-	365,562	-	-	-	-	365,562
Receivables, net:									
Taxes	-	-	-	-	-	-	-	-	90,250
General	-	-	-	-	-	-	1,277,035	-	1,277,035
Other	-	-	161,806	-	-	46,643	27,444	-	236,703
Due from other funds	391	284	97,635	-	-	910,976	1,547,381	-	2,981,291
Advances	-	772	-	-	27,670	15,557	46,250	-	98,809
Total assets	<u>\$ 391</u>	<u>\$ 1,056</u>	<u>\$ 259,441</u>	<u>\$ 887,637</u>	<u>\$ 328,046</u>	<u>\$ 4,046,765</u>	<u>\$ 3,267,290</u>	<u>\$ -</u>	<u>\$ 9,314,870</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>Liabilities:</b>									
Accounts payable	\$ -	\$ 356	\$ -	\$ 1,215	\$ 1,924	\$ 337,805	\$ 532,668	\$ -	\$ 1,170,950
Other liabilities and accruals	-	700	-	-	-	127,607	16,853	-	269,335
Due to other funds	-	-	-	-	-	-	910,976	-	910,976
Total liabilities	<u>-</u>	<u>1,056</u>	<u>-</u>	<u>1,215</u>	<u>1,924</u>	<u>465,412</u>	<u>1,460,497</u>	<u>-</u>	<u>2,351,261</u>
<b>Fund balances:</b>									
Restricted	-	-	259,441	886,422	-	-	-	-	1,145,863
Committed	391	-	-	-	326,122	3,581,353	1,806,793	-	5,817,746
Total fund balances	<u>391</u>	<u>-</u>	<u>259,441</u>	<u>886,422</u>	<u>326,122</u>	<u>3,581,353</u>	<u>1,806,793</u>	<u>-</u>	<u>6,963,609</u>
Total liabilities and fund Balances	<u>\$ 391</u>	<u>\$ 1,056</u>	<u>\$ 259,441</u>	<u>\$ 887,637</u>	<u>\$ 328,046</u>	<u>\$ 4,046,765</u>	<u>\$ 3,267,290</u>	<u>\$ -</u>	<u>\$ 9,314,870</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits)  
Year Ended September 30, 2012**

	200105	200224	200318	200319	200332	200333	200340	200520	200525
	Public Works	Land Registration Authority	Labor (General)	Labor (Bond)	Ministry of Justice	Marshall Islands Revised Code	Resident Workers Training Account	Sea Patrol	Transportation Services
<b>Revenues:</b>									
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	269	-	41,400	-	546,777	-	380,470	-	-
Sales	17,397	-	-	-	30,040	660	-	-	130
Total revenues	17,666	-	41,400	-	576,817	660	380,470	-	130
<b>Expenditures by Function:</b>									
<b>Current:</b>									
Judiciary	-	-	-	-	-	-	-	-	-
Ministry of Education	-	-	-	-	-	-	159,471	-	-
Ministry of Health and Environment	-	-	-	-	-	-	-	-	-
Ministry of Internal Affairs	-	-	-	-	-	-	-	-	-
Ministry of Justice	-	-	-	-	408,353	-	-	-	-
Ministry of Foreign Affairs and Trade	-	-	18,570	-	-	-	-	-	-
Ministry of Public Works	58,950	-	-	-	-	-	-	-	-
Nuclear claims related	-	-	-	-	-	-	-	-	-
Total expenditures	58,950	-	18,570	-	408,353	-	159,471	-	-
Excess (deficiency) of revenues over (under) expenditures	(41,284)	-	22,830	-	168,464	660	220,999	-	130
<b>Other financing sources (uses):</b>									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	(166,713)	-	(168,464)	-	(811,552)	-	-
Total other financing sources (uses), net	-	-	(166,713)	-	(168,464)	-	(811,552)	-	-
Net change in fund balances (deficits)	(41,284)	-	(143,883)	-	-	660	(590,553)	-	130
Fund balances at the beginning of the year	96,178	18,118	143,883	-	360	4,600	590,553	5,868	18,457
Fund balances at the end of the year	\$ 54,894	\$ 18,118	\$ -	\$ -	\$ 360	\$ 5,260	\$ -	\$ 5,868	\$ 18,587

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits), Continued  
Year Ended September 30, 2012**

	200527	200528	300612						
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
<b>Revenues:</b>									
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ 19,915	\$ 527,407	\$ -	\$ -	\$ 547,322
Fees and charges	-	20,789	-	16,442	61,271	398,969	7,137,291	-	8,603,678
Sales	-	12,843	-	-	-	-	-	-	61,070
Total revenues	-	33,632	-	16,442	81,186	926,376	7,137,291	-	9,212,070
<b>Expenditures by Function:</b>									
<b>Current:</b>									
Judiciary	-	-	-	-	317,434	-	-	-	317,434
Ministry of Education	-	-	-	1,694,845	-	-	-	-	1,854,316
Ministry of Health and Environment	-	-	-	-	-	4,147,386	3,648,125	-	7,795,511
Ministry of Internal Affairs	-	26,279	-	-	-	-	-	-	26,279
Ministry of Justice	-	-	-	-	-	-	-	-	408,353
Ministry of Foreign Affairs and Trade	-	-	-	-	-	-	-	-	18,570
Ministry of Public Works	-	-	-	-	-	-	-	-	58,950
Nuclear claims related	-	-	1,047,018	-	-	-	-	56,250	1,103,268
Total expenditures	-	26,279	1,047,018	1,694,845	317,434	4,147,386	3,648,125	56,250	11,582,681
Excess (deficiency) of revenues over (under) expenditures	-	7,353	(1,047,018)	(1,678,403)	(236,248)	(3,221,010)	3,489,166	(56,250)	(2,370,611)
<b>Other financing sources (uses):</b>									
Operating transfers in	-	-	990,203	1,396,336	342,751	3,568,038	-	56,250	6,353,578
Operating transfers out	-	(112,983)	-	-	-	(48,852)	(3,568,038)	-	(4,876,602)
Total other financing sources (uses), net	-	(112,983)	990,203	1,396,336	342,751	3,519,186	(3,568,038)	56,250	1,476,976
Net change in fund balances (deficits)	-	(105,630)	(56,815)	(282,067)	106,503	298,176	(78,872)	-	(893,635)
Fund balances at the beginning of the year	391	105,630	316,256	1,168,489	219,619	3,283,177	1,885,665	-	7,857,244
Fund balances at the end of the year	\$ 391	\$ -	\$ 259,441	\$ 886,422	\$ 326,122	\$ 3,581,353	\$ 1,806,793	\$ -	\$ 6,963,609

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, 2012**

	200105	200224	200318	200319	200332	200333	200340	200520	200525
	Public Works	Land Registration Authority	Labor (General)	Labor (Bond)	Ministry of Justice	Marshall Islands Revised Code	Resident Workers Training Account	Sea Patrol	Transportation Services
Revenues:									
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fees and charges	269	-	41,400	-	546,777	-	380,470	-	-
Sales	17,397	-	-	-	30,040	660	-	-	130
Total revenues	<u>17,666</u>	<u>-</u>	<u>41,400</u>	<u>-</u>	<u>576,817</u>	<u>660</u>	<u>380,470</u>	<u>-</u>	<u>130</u>
Expenditures by Account:									
Grants and subsidies	-	-	-	-	-	-	-	-	-
Salaries and wages	-	-	-	-	-	-	28,427	-	-
Medical supplies	-	-	-	-	-	-	-	-	-
Contractual services	-	-	-	-	-	-	89,487	-	-
Capital outlay	35,143	-	8,287	-	204,627	-	150	-	-
Travel	-	-	-	-	29,395	-	2,924	-	-
Food stuffs	-	-	-	-	41,108	-	-	-	-
Supplies and materials	17,231	-	10,283	-	10,151	-	4,538	-	-
POL	-	-	-	-	58,202	-	-	-	-
Rentals	350	-	-	-	1,827	-	6,000	-	-
Allowances	-	-	-	-	-	-	-	-	-
Communications	-	-	-	-	37,508	-	10,533	-	-
Insurance	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	70	-	-
Leased housing	-	-	-	-	-	-	-	-	-
Freight	1,340	-	-	-	2,462	-	-	-	-
Professional services	-	-	-	-	-	-	-	-	-
Printing and reproduction	-	-	-	-	-	-	1,273	-	-
Other	4,886	-	-	-	23,073	-	16,069	-	-
Total expenditures	<u>58,950</u>	<u>-</u>	<u>18,570</u>	<u>-</u>	<u>408,353</u>	<u>-</u>	<u>159,471</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(41,284)</u>	<u>-</u>	<u>22,830</u>	<u>-</u>	<u>168,464</u>	<u>660</u>	<u>220,999</u>	<u>-</u>	<u>130</u>
Other financing sources (uses):									
Operating transfers in	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	(166,713)	-	(168,464)	-	(811,552)	-	-
Total other financing sources (uses), net	<u>-</u>	<u>-</u>	<u>(166,713)</u>	<u>-</u>	<u>(168,464)</u>	<u>-</u>	<u>(811,552)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(41,284)</u>	<u>-</u>	<u>(143,883)</u>	<u>-</u>	<u>-</u>	<u>660</u>	<u>(590,553)</u>	<u>-</u>	<u>130</u>
Fund balances at the beginning of the year	<u>96,178</u>	<u>18,118</u>	<u>143,883</u>	<u>-</u>	<u>360</u>	<u>4,600</u>	<u>590,553</u>	<u>5,868</u>	<u>18,457</u>
Fund balances at the end of the year	<u>\$ 54,894</u>	<u>\$ 18,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360</u>	<u>\$ 5,260</u>	<u>\$ -</u>	<u>\$ 5,868</u>	<u>\$ 18,587</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, Continued  
Year Ended September 30, 2012**

	200527	200528	300612	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
	Registrar General	Ministry of Internal Affairs	Four-Atoll Medical	Marshall Islands Scholarship, Grant and Loan Board	Marshall Islands Judiciary	Health Care Revenue	Marshall Islands Health	Nuclear Claims Tribunal	Total
Revenues:									
Federal and other grants	\$ -	\$ -	\$ -	\$ -	\$ 19,915	\$ 527,407	\$ -	\$ -	\$ 547,322
Fees and charges	-	20,789	-	16,442	61,271	398,969	7,137,291	-	8,603,678
Sales	-	12,843	-	-	-	-	-	-	61,070
Total revenues	-	33,632	-	16,442	81,186	926,376	7,137,291	-	9,212,070
Expenditures by Account:									
Grants and subsidies	-	-	-	1,550,141	-	46,880	-	-	1,597,021
Salaries and wages	-	699	-	72,865	-	249,333	293,696	-	645,020
Medical supplies	-	-	-	-	-	3,016,811	161,202	-	3,178,013
Contractual services	-	-	1,047,018	-	11,900	-	2,213,336	-	3,361,741
Capital outlay	-	3,552	-	-	1,760	350,131	-	-	603,650
Travel	-	7,082	-	21,762	46,153	168,416	579,129	-	854,861
Food stuffs	-	-	-	-	2,474	-	-	-	43,582
Supplies and materials	-	4,543	-	-	22,056	17,225	-	-	86,027
POL	-	-	-	-	13,261	-	30,760	-	102,223
Rentals	-	-	-	12,000	1,534	-	-	-	21,711
Allowances	-	-	-	-	42,904	-	-	-	42,904
Communications	-	10,403	-	21,967	38,345	2,255	12,471	-	133,482
Insurance	-	-	-	-	323	-	11,919	-	12,242
Utilities	-	-	-	-	38,488	-	36,450	-	75,008
Leased housing	-	-	-	-	72,000	-	-	-	72,000
Freight	-	-	-	-	-	11,351	-	-	15,153
Professional services	-	-	-	-	2,761	69,941	218,926	-	291,628
Printing and reproduction	-	-	-	-	3,725	-	-	-	4,998
Other	-	-	-	16,110	19,750	215,043	90,236	56,250	441,417
Total expenditures	-	26,279	1,047,018	1,694,845	317,434	4,147,386	3,648,125	56,250	11,582,681
Excess (deficiency) of revenues over (under) expenditures	-	7,353	(1,047,018)	(1,678,403)	(236,248)	(3,221,010)	3,489,166	(56,250)	(2,370,611)
Other financing sources (uses):									
Operating transfers in	-	-	990,203	1,396,336	342,751	3,568,038	-	56,250	6,353,578
Operating transfers out	-	(112,983)	-	-	-	(48,852)	(3,568,038)	-	(4,876,602)
Total other financing sources (uses), net	-	(112,983)	990,203	1,396,336	342,751	3,519,186	(3,568,038)	56,250	1,476,976
Net change in fund balances	-	(105,630)	(56,815)	(282,067)	106,503	298,176	(78,872)	-	(893,635)
Fund balances at the beginning of the year	391	105,630	316,256	1,168,489	219,619	3,283,177	1,885,665	-	7,857,244
Fund balances at the end of the year	\$ 391	\$ -	\$ 259,441	\$ 886,422	\$ 326,122	\$ 3,581,353	\$ 1,806,793	\$ -	\$ 6,963,609

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### FIDUCIARY FUNDS - PRIVATE PURPOSE TRUSTS

September 30, 2012

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, 2012, 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, 2012

DILOG Fund Number	350610	510610	300614		
	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust	
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	
				Total	
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	
<b><u>ASSETS</u></b>					
Cash and cash equivalents	\$ 310,475	\$ -	\$ -	\$ -	\$ 310,475
Receivables, net:					
Contributions	2,063,491	-	-	-	2,063,491
Other	279,217	-	-	-	279,217
Investments	68,025,162	-	-	2,289	68,027,451
Due from other funds	-	421,658	415,243	55,573	892,474
Capital assets, net of accumulated depreciation	42,149	-	-	-	42,149
Total assets	<u>70,720,494</u>	<u>421,658</u>	<u>415,243</u>	<u>57,862</u>	<u>71,615,257</u>
<b><u>LIABILITIES</u></b>					
Accounts payable	56,822	-	-	-	56,822
Other liabilities and accruals	146,745	-	-	-	146,745
Due to other funds	1,547,381	-	-	-	1,547,381
Total liabilities	<u>1,750,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,750,948</u>
<b><u>NET ASSETS</u></b>					
Held in trust for:					
Social security benefits	68,969,546	-	-	-	68,969,546
Nuclear claims	-	-	-	57,862	57,862
Land use distributions	-	421,658	415,243	-	836,901
Total net assets	<u>\$ 68,969,546</u>	<u>\$ 421,658</u>	<u>\$ 415,243</u>	<u>\$ 57,862</u>	<u>\$ 69,864,309</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, 2012

DILOG Fund Number	350610	510610	300614	
	Marshall Islands Social Security Admin.	Kwajalein Atoll Trust	Section 212 Kwajalein Landowners	Nuclear Claims Trust
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
				Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Additions:				
Contributions:				
Private employees	\$ 8,105,433	\$ -	\$ -	\$ -
Government employees	4,170,888	-	-	-
Penalties and interest	323,805	-	-	-
	<u>12,600,126</u>	<u>-</u>	<u>-</u>	<u>-</u>
Allowance for doubtful accounts	(152,745)	-	-	-
	<u>12,447,381</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total contributions	<u>12,447,381</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment earnings:				
Net increase in the fair value of investments	7,312,882	-	-	-
Interest and dividends	1,080,461	-	-	-
	<u>8,393,343</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investment earnings	<u>8,393,343</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less investment expense	140,864	-	-	-
	<u>8,252,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net investment earnings	<u>8,252,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:				
Compact funding	-	-	17,035,800	-
Other	335,567	-	-	-
	<u>335,567</u>	<u>-</u>	<u>17,035,800</u>	<u>-</u>
Total additions	<u>21,035,427</u>	<u>-</u>	<u>17,035,800</u>	<u>-</u>
Deductions:				
Land use distributions	-	-	17,160,578	-
Benefits	16,252,193	-	-	-
Administrative expenses	799,218	-	-	-
	<u>17,051,411</u>	<u>-</u>	<u>17,160,578</u>	<u>-</u>
Total deductions	<u>17,051,411</u>	<u>-</u>	<u>17,160,578</u>	<u>-</u>
Change in net assets	3,984,016	-	(124,778)	-
Net assets at the beginning of the year	<u>64,985,530</u>	<u>421,658</u>	<u>540,021</u>	<u>57,862</u>
Net assets at the end of the year	<u>\$ 68,969,546</u>	<u>\$ 421,658</u>	<u>\$ 415,243</u>	<u>\$ 57,862</u>
	<u>\$ 69,864,309</u>			

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## FIDUCIARY FUNDS - AGENCY

September 30, 2012

Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. A brief discussion of RepMar's Agency Funds as of September 30, 2012, follows:

### Unclaimed Property Fund

This fund accounts for funds received in a fiduciary capacity for distribution to other individuals that primarily consists of Bank of Hawaii deposits and share dividends from United Micronesia Development Association.

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

Statement of Changes in Assets and Liabilities  
Fiduciary Funds - Agency  
September 30, 2012

	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012
<u>ASSETS</u>				
Due from other funds	\$ 164,484	\$ -	\$ -	\$ 164,484
Total assets	<u>\$ 164,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,484</u>
<u>LIABILITIES</u>				
Other liabilities and accruals	\$ 164,484	\$ -	\$ -	\$ 164,484
Total liabilities	<u>\$ 164,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,484</u>

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### NONMAJOR COMPONENT UNITS

September 30, 2012

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, 2012, 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. RepMar provides financial support to AMI through legislative appropriations.

#### 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. RepMar provides financial support to KAJUR through legislative appropriations.

#### Majuro Atoll Waste Company, Inc. (MAWC)

MAWC was incorporated under the laws of the Republic of the Marshall Islands on January 30, 2007 to engage in, but not limited to, the collection and disposal of solid waste on Majuro Atoll. MAWC is governed by a five-member Board of Directors comprising the Secretary of Public Works or Secretary responsible for solid waste, the Councilman on the Executive Committee responsible for solid waste management on the Majuro Atoll Local Government, one member from a list of two or more nominations by the Marshall Islands Chamber of Commerce, one member from a list of two or more nominations by the Marshall Islands Tourism Association, and one member from a list of two or more nominations by the Marshall Islands Conservation Society. RepMar provides financial support to MAWC through legislative appropriations.

#### 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. RepMar has the ability to impose its will on MRI.

#### 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. RepMar provides financial support to MWSC through legislative appropriations.

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## NONMAJOR COMPONENT UNITS

September 30, 2012

### Marshall Islands Postal Services Authority (MIPSA)

MIPSA was created by the Postal Service Act of 1983 for the purpose of establishing an effective and efficient postal service for the Republic, both domestic and international, from three service outlets - the Uliga and Delap postal stations located on Majuro Atoll, and the Ebeye postal station located on Kwajalein Atoll. MIPSA is governed by a five-member Board of Directors appointed by the President of RepMar. The Board of Directors, in turn, is responsible for the appointment of the Postmaster General who oversees the day-to-day operations of the Authority. RepMar has the ability to impose its will on MIPSA.

### 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. RepMar provides financial support to MISC through legislative appropriations.

### 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. RepMar provides financial support to MIVA through legislative appropriations.

### 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. RepMar provides financial support to EPA through legislative appropriations.

### Tobolar Copra Processing Authority (TCPA)

TCPA 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. TCPA 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. RepMar provides financial support to TCPA through legislative appropriations.

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## NONMAJOR COMPONENT UNITS

### Combining Schedule of Net Assets (Deficiency) September 30, 2012

	Air Marshall Islands, Inc.	Kwajalein Atoll Joint Utilities Resources, Inc.	Majuro Atoll Waste Company, Inc.	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Postal Service Authority	Marshall Islands Shipping Corporation	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Total
<b>ASSETS</b>											
<b>Current assets:</b>											
Cash and cash equivalents	\$ 4,582	320,316	\$ 21,650	\$ 133,095	\$ 190,503	\$ 144,893	\$ 76,205	\$ 52,990	\$ 110,042	\$ 1,508,039	\$ 2,562,315
Receivables, net	14,124	308,114	44,076	191,371	149,619	34,543	65,978	84,763	81,392	201,130	1,175,110
Inventories	498,662	717,292	-	31,267	211,506	10,704	3,507	-	-	917,288	2,390,226
Other current assets	129,578	86,604	2,000	36,250	162,617	930	28,059	1,351	-	7,433	454,822
<b>Total current assets</b>	<b>646,946</b>	<b>1,432,326</b>	<b>67,726</b>	<b>391,983</b>	<b>714,245</b>	<b>191,070</b>	<b>173,749</b>	<b>139,104</b>	<b>191,434</b>	<b>2,633,890</b>	<b>6,582,473</b>
<b>Noncurrent assets:</b>											
Nondepreciable capital assets	1,572,207	-	-	-	-	-	-	-	-	15,035	1,587,242
Other capital assets, net of accumulated depreciation	3,623,383	2,681,991	672,778	1,485,197	370,526	55,228	127,034	32,843	36,695	900,553	9,986,228
<b>Total noncurrent assets</b>	<b>5,195,590</b>	<b>2,681,991</b>	<b>672,778</b>	<b>1,485,197</b>	<b>370,526</b>	<b>55,228</b>	<b>127,034</b>	<b>32,843</b>	<b>36,695</b>	<b>915,588</b>	<b>11,573,470</b>
<b>Total assets</b>	<b>\$ 5,842,536</b>	<b>\$ 4,114,317</b>	<b>\$ 740,504</b>	<b>\$ 1,877,180</b>	<b>\$ 1,084,771</b>	<b>\$ 246,298</b>	<b>\$ 300,783</b>	<b>\$ 171,947</b>	<b>\$ 228,129</b>	<b>\$ 3,549,478</b>	<b>\$ 18,155,943</b>
<b>LIABILITIES</b>											
<b>Current liabilities:</b>											
Current portion of long-term debt	\$ 230,287	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 230,287
Accounts payable	2,802,101	18,938	31,704	2,332,655	70,408	6,104	48,009	-	10,966	54,416	5,375,301
Other liabilities and accruals	550,529	1,033,546	58,535	465,612	701,760	137,985	342,818	15,754	-	171,386	3,477,925
Due to primary government	3,116,890	-	-	-	-	-	-	-	-	-	3,116,890
Due to component units	128,667	-	-	-	-	-	-	-	-	-	128,667
Deferred revenues	211,825	45,282	-	-	15,740	21,877	-	-	-	-	294,724
<b>Total current liabilities</b>	<b>7,040,299</b>	<b>1,097,766</b>	<b>90,239</b>	<b>2,798,267</b>	<b>787,908</b>	<b>165,966</b>	<b>390,827</b>	<b>15,754</b>	<b>10,966</b>	<b>225,802</b>	<b>12,623,794</b>
<b>Noncurrent liabilities:</b>											
Due to component units	109,035	-	-	-	-	-	-	-	-	-	109,035
<b>Total liabilities</b>	<b>7,149,334</b>	<b>1,097,766</b>	<b>90,239</b>	<b>2,798,267</b>	<b>787,908</b>	<b>165,966</b>	<b>390,827</b>	<b>15,754</b>	<b>10,966</b>	<b>225,802</b>	<b>12,732,829</b>
<b>NET ASSETS (DEFICIENCY)</b>											
Invested in capital assets, net of related debt	5,195,590	2,681,991	672,778	1,485,197	370,526	55,228	127,034	32,843	36,695	915,588	11,573,470
Restricted	-	-	61,801	-	223,648	-	-	-	69,172	-	354,621
Unrestricted	(6,502,388)	334,560	(84,314)	(2,406,284)	(297,311)	25,104	(217,078)	123,350	111,296	2,408,088	(6,504,977)
<b>Total net assets (deficiency)</b>	<b>(1,306,798)</b>	<b>3,016,551</b>	<b>650,265</b>	<b>(921,087)</b>	<b>296,863</b>	<b>80,332</b>	<b>(90,044)</b>	<b>156,193</b>	<b>217,163</b>	<b>3,323,676</b>	<b>5,423,114</b>
	<b>\$ 5,842,536</b>	<b>\$ 4,114,317</b>	<b>\$ 740,504</b>	<b>\$ 1,877,180</b>	<b>\$ 1,084,771</b>	<b>\$ 246,298</b>	<b>\$ 300,783</b>	<b>\$ 171,947</b>	<b>\$ 228,129</b>	<b>\$ 3,549,478</b>	<b>\$ 18,155,943</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**NONMAJOR COMPONENT UNITS**

**Combining Schedule of Revenues, Expenses,  
and Changes in Net Assets (Deficiency)  
Year Ended September 30, 2012**

	Air Marshall Islands, Inc.	Kwajalein Atoll Joint Utilities Resources, Inc.	Majuro Atoll Waste Company, Inc.	Majuro Resort, Inc.	Majuro Water and Sewer Company, Inc.	Marshall Islands Postal Service Authority	Marshall Islands Shipping Corporation	Marshall Islands Visitors Authority	RMI Environmental Protection Authority	Tobolar Copra Processing Plant, Inc.	Total
<b>Operating revenues:</b>											
Charges for services	\$ 1,683,310	\$ 4,349,098	\$ 154,111	\$ 1,034,459	\$ 1,118,140	\$ 81,442	\$ 544,890	\$ -	\$ 38,895	\$ -	\$ 9,004,345
Sales	-	-	-	1,013,946	-	380,130	259,747	-	-	3,292,813	4,946,636
Other	195,109	-	-	16,984	39,028	10,018	36,971	14,274	27,430	-	339,814
<b>Total operating revenues</b>	<b>1,878,419</b>	<b>4,349,098</b>	<b>154,111</b>	<b>2,065,389</b>	<b>1,157,168</b>	<b>471,590</b>	<b>841,608</b>	<b>14,274</b>	<b>66,325</b>	<b>3,292,813</b>	<b>14,290,795</b>
<b>Operating expenses:</b>											
Cost of services	2,044,387	6,757,855	764,040	2,596,046	1,481,953	8,545	1,925,582	331,672	610,037	4,889,385	21,409,502
Administration costs	903,420	-	-	305,485	-	429,545	-	-	-	451,157	2,089,607
Depreciation and amortization	638,771	834,202	186,647	195,326	80,494	30,738	81,556	9,963	21,290	196,470	2,275,457
<b>Total operating expenses</b>	<b>3,586,578</b>	<b>7,592,057</b>	<b>950,687</b>	<b>3,096,857</b>	<b>1,562,447</b>	<b>468,828</b>	<b>2,007,138</b>	<b>341,635</b>	<b>631,327</b>	<b>5,537,012</b>	<b>25,774,566</b>
<b>Operating income (loss)</b>	<b>(1,708,159)</b>	<b>(3,242,959)</b>	<b>(796,576)</b>	<b>(1,031,468)</b>	<b>(405,279)</b>	<b>2,762</b>	<b>(1,165,530)</b>	<b>(327,361)</b>	<b>(565,002)</b>	<b>(2,244,199)</b>	<b>(11,483,771)</b>
<b>Nonoperating revenues (expenses):</b>											
Contributions from the primary government	772,872	2,025,000	533,411	300,000	-	-	1,396,335	245,816	346,265	1,200,000	6,819,699
Interest expense	(91,890)	(36,171)	-	(5,229)	-	-	-	-	-	(16,313)	(149,603)
Grants and other contributions	-	827,455	116,531	-	89,099	-	-	-	221,200	-	1,254,285
Other	-	(55,530)	-	(7,171)	(6,139)	-	-	-	-	-	(68,840)
<b>Total nonoperating revenues (expenses), net</b>	<b>680,982</b>	<b>2,760,754</b>	<b>649,942</b>	<b>287,600</b>	<b>82,960</b>	<b>-</b>	<b>1,396,335</b>	<b>245,816</b>	<b>567,465</b>	<b>1,183,687</b>	<b>7,855,541</b>
<b>Capital contributions</b>	<b>1,495,598</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>283,468</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>188,802</b>	<b>1,967,868</b>
<b>Change in net assets (deficiency)</b>	<b>468,421</b>	<b>(482,205)</b>	<b>(146,634)</b>	<b>(743,868)</b>	<b>(38,851)</b>	<b>2,762</b>	<b>230,805</b>	<b>(81,545)</b>	<b>2,463</b>	<b>(871,710)</b>	<b>(1,660,362)</b>
<b>Net assets (deficiency) at the beginning of the year</b>	<b>(1,775,219)</b>	<b>3,498,756</b>	<b>796,899</b>	<b>(177,219)</b>	<b>335,714</b>	<b>77,570</b>	<b>(320,849)</b>	<b>237,738</b>	<b>214,700</b>	<b>4,195,386</b>	<b>7,083,476</b>
<b>Net assets (deficiency) at the end of the year</b>	<b>\$ (1,306,798)</b>	<b>\$ 3,016,551</b>	<b>\$ 650,265</b>	<b>\$ (921,087)</b>	<b>\$ 296,863</b>	<b>\$ 80,332</b>	<b>\$ (90,044)</b>	<b>\$ 156,193</b>	<b>\$ 217,163</b>	<b>\$ 3,323,676</b>	<b>\$ 5,423,114</b>

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## GRANTS ASSISTANCE FUND

September 30, 2012

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, 2012, 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 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 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 grants that RepMar received from the European Union.

### 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.

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GRANTS ASSISTANCE FUND**

September 30, 2012

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, 2012

<b>DILOG Fund Number</b>	<b>350200</b>	<b>350305</b>	<b>350315</b>	<b>510130</b>	<b>600350</b>	<b>700100</b>	<b>700360</b>	<b>700370</b>		
	Section 215(a)(1) Commu- nications	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Total
<b>ASSETS</b>										
Receivables:										
Federal agencies	\$ -	\$ -	\$ -	\$ 1,078,078	\$ 2,106,629	\$ -	\$ -	\$ -	\$ 4,548,824	\$ 7,733,531
General	-	-	-	-	-	-	(58,586)	1,850,000	-	1,791,414
Due from other funds	40,380	690	1,593	-	-	-	345,205	350,811	5,881,194	6,619,873
Due from component units	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Advances	-	-	-	-	87,269	-	10,108	2,102	112,236	211,715
Total assets	<u>\$ 40,380</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ 1,078,078</u>	<u>\$ 2,193,898</u>	<u>\$ -</u>	<u>\$ 296,727</u>	<u>\$ 2,202,913</u>	<u>\$ 11,542,254</u>	<u>\$ 17,356,533</u>
<b>LIABILITIES AND FUND BALANCES</b>										
<b>(DEFICITS)</b>										
Liabilities:										
Accounts payable	\$ -	\$ -	\$ -	\$ 91,203	\$ 249,957	\$ -	\$ 50,023	\$ 119,866	\$ 1,681,851	\$ 2,192,900
Other liabilities and accruals	-	-	-	-	62,476	435	5,724	4,711	316,721	390,067
Payable to federal agencies	-	-	-	-	-	-	-	-	809,123	809,123
Retention payable	-	-	-	-	-	-	-	-	458,176	458,176
Due to other funds	-	-	-	986,875	1,881,465	28,453	-	-	2,095,562	4,992,355
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,078,078</u>	<u>2,193,898</u>	<u>28,888</u>	<u>55,747</u>	<u>124,577</u>	<u>5,361,433</u>	<u>8,842,621</u>
Fund balances (deficits):										
Nonspendable	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Restricted	40,380	690	1,593	-	-	-	240,980	-	5,194,191	5,477,834
Committed	-	-	-	-	-	-	-	779,863	-	779,863
Assigned	-	-	-	-	-	-	-	1,298,473	-	1,298,473
Unassigned	-	-	-	-	-	(28,888)	-	-	(13,370)	(42,258)
Total fund balances (deficits)	<u>40,380</u>	<u>690</u>	<u>1,593</u>	<u>-</u>	<u>-</u>	<u>(28,888)</u>	<u>240,980</u>	<u>2,078,336</u>	<u>6,180,821</u>	<u>8,513,912</u>
Total liabilities and fund balances	<u>\$ 40,380</u>	<u>\$ 690</u>	<u>\$ 1,593</u>	<u>\$ 1,078,078</u>	<u>\$ 2,193,898</u>	<u>\$ -</u>	<u>\$ 296,727</u>	<u>\$ 2,202,913</u>	<u>\$ 11,542,254</u>	<u>\$ 17,356,533</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, 2012

<b>DILOG Fund Number</b>	<b>350200</b>	<b>350305</b>	<b>350315</b>	<b>510130</b>	<b>600350</b>	<b>700100</b>	<b>700360</b>	<b>700370</b>		
	Section 215(a)(1) Communi- cations	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	Section 213 Audit	U.S. Federal Grants	European Union Grants	Other Direct Assistance	Republic of China Projects	Compact Sector	Total
<b>Revenues:</b>										
Federal and other grants	\$ -	\$ -	\$ -	\$ 155,152	\$ 8,471,795	\$ 49,975	\$ 1,511,995	\$ 7,425,000	\$ 37,032,586	\$ 54,646,503
<b>Expenditures by Function:</b>										
<b>Current:</b>										
Office of the Chief Secretary	-	-	-	-	33,473	6,000	340,812	-	49,952	430,237
Special appropriations	-	-	-	-	-	-	-	631,768	-	631,768
Office of the Auditor-General	-	-	-	155,152	-	-	-	-	-	155,152
Office of the Attorney General	-	-	-	-	60,834	-	-	-	-	60,834
Ministry of Education	-	-	-	-	1,819,170	-	-	-	19,343,619	21,162,789
Ministry of Health and Environment	-	-	-	-	3,496,631	-	83,361	19,298	7,268,749	10,868,039
Ministry of Transportation and Communications	-	-	-	-	-	-	-	595,200	-	595,200
Ministry of Resources and Development	-	-	-	-	41,605	-	1,360,930	1,352,789	-	2,755,324
Ministry of Internal Affairs	-	-	-	-	185,124	-	256,877	508,960	-	950,961
Ministry of Justice	-	-	-	-	-	-	-	140,451	-	140,451
Ministry of Finance	-	-	-	-	1,844,755	9,223	21,664	-	2,302,377	4,178,019
Ministry of Foreign Affairs	-	-	-	-	-	-	4,861	39,431	217,517	261,809
Ministry of Public Works	-	-	-	-	-	-	-	587,661	-	587,661
Environmental Protection Authority	-	-	-	-	-	-	-	-	557,472	557,472
<b>Debt service:</b>										
Principal repayment	-	-	-	-	-	-	-	582,292	-	582,292
Interest	-	-	-	-	-	-	-	263,276	-	263,276
Capital outlay	-	-	-	-	-	-	-	547,363	6,527,899	7,075,262
Total expenditures	-	-	-	155,152	7,481,592	15,223	2,068,505	5,268,489	36,267,585	51,256,546
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	990,203	34,752	(556,510)	2,156,511	765,001	3,389,957
<b>Other financing sources (uses):</b>										
Operating transfers in	-	-	-	-	-	-	827,455	-	1,230,095	2,057,550
Operating transfers out	-	-	-	-	(990,203)	-	-	(1,974,710)	(1,278,977)	(4,243,890)
Total other financing sources (uses), net	-	-	-	-	(990,203)	-	827,455	(1,974,710)	(48,882)	(2,186,340)
Net change in fund balances (deficits)	-	-	-	-	-	34,752	270,945	181,801	716,119	1,203,617
Fund balances (deficits) at the beginning of the year	40,380	690	1,593	-	-	(63,640)	(29,965)	1,896,535	5,464,702	7,310,295
Fund balances (deficits) at the end of the year	\$ 40,380	\$ 690	\$ 1,593	\$ -	\$ -	\$ (28,888)	\$ 240,980	\$ 2,078,336	\$ 6,180,821	\$ 8,513,912

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, 2012

DILOG Fund Number	350200	350305	350315	510130	600350	700100	700360	700370		
	Section 215(a)(1) Commu- nications	Section 216(a)(1) Surveillance and Enforcement	Section 216(a)(3) Scholarship	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	\$ -	\$ -	\$ -	\$ 155,152	\$ 8,471,795	\$ 49,975	\$ 1,511,995	\$ 7,425,000	\$ 37,032,586	\$ 54,646,503
Expenditures by Account:										
Salaries and wages	-	-	-	-	3,050,718	3,132	224,333	368,289	15,411,937	19,058,409
Capital outlay	-	-	-	-	257,494	4,158	14,293	158,987	5,030,784	5,465,716
Grants and subsidies	-	-	-	-	85,227	-	1,290,663	2,257,972	5,203,548	8,837,410
Utilities	-	-	-	-	99,770	-	-	766	3,105,298	3,205,834
Leased housing	-	-	-	-	4,618	-	29,127	-	1,140,666	1,174,411
Supplies and materials	-	-	-	-	151,528	1,933	64,639	307,450	1,125,856	1,651,406
Contractual services	-	-	-	-	1,557,404	-	233,981	2,823	1,484,305	3,278,513
Travel	-	-	-	-	1,005,332	-	72,892	330	464,414	1,542,968
Food stuffs	-	-	-	-	480,927	-	39,165	52,763	683,644	1,256,499
Allowances	-	-	-	-	-	-	-	-	40,301	40,301
Professional services	-	-	-	155,152	-	-	4,861	-	70,400	230,413
Principal repayment	-	-	-	-	-	-	-	582,292	-	582,292
Interest	-	-	-	-	-	-	-	263,276	-	263,276
Medical supplies	-	-	-	-	1,672	-	-	-	52,587	54,259
Communications	-	-	-	-	51,407	-	11,645	-	200,571	263,623
POL	-	-	-	-	87,225	-	3,459	37,456	277,211	405,351
Rentals	-	-	-	-	45,220	-	16,145	14,780	95,382	171,527
Freight	-	-	-	-	4,529	6,000	2,029	-	48,603	61,161
Printing and reproduction	-	-	-	-	34,978	-	21,648	-	38,716	95,342
Insurance	-	-	-	-	-	-	-	10,920	19,120	30,040
Other	-	-	-	-	563,543	-	39,625	1,210,385	1,774,242	3,587,795
Total expenditures	-	-	-	155,152	7,481,592	15,223	2,068,505	5,268,489	36,267,585	51,256,546
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-	990,203	34,752	(556,510)	2,156,511	765,001	3,389,957
Other financing sources (uses):										
Operating transfers in	-	-	-	-	-	-	827,455	-	1,230,095	2,057,550
Operating transfers out	-	-	-	-	(990,203)	-	-	(1,974,710)	(1,278,977)	(4,243,890)
Total other financing sources (uses), net	-	-	-	-	(990,203)	-	827,455	(1,974,710)	(48,882)	(2,186,340)
Net change in fund balances (deficits)	-	-	-	-	-	34,752	270,945	181,801	716,119	1,203,617
Fund balances (deficits) at the beginning of the year	40,380	690	1,593	-	-	(63,640)	(29,965)	1,896,535	5,464,702	7,310,295
Fund balances (deficits) at the end of the year	\$ 40,380	\$ 690	\$ 1,593	\$ -	\$ -	\$ (28,888)	\$ 240,980	\$ 2,078,336	\$ 6,180,821	\$ 8,513,912

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### COMPACT OF FREE ASSOCIATION SECTOR GRANTS FUND

September 30, 2012

#### 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)(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.

#### 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.

See Accompanying Independent Auditors' Report.

## REPUBLIC OF THE MARSHALL ISLANDS

### COMPACT OF FREE ASSOCIATION SECTOR GRANTS FUND

September 30, 2012

#### 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.

#### Section 211(e)(1) Disaster Assistance Emergency Fund

This fund accounts for United States Congress appropriations under United States Public Law 99-239, as amended, Title II, Article I, Section 211(e)(1) and approved by Nitijela resolution 123 to support the establishment of a disaster assistance emergency fund.

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**COMPACT OF FREE ASSOCIATION SECTOR GRANTS**

Combining Balance Sheet

September 30, 2012

<b>DILOG Fund Number</b>	<b>410100</b>	<b>410102</b>	<b>410110</b>	<b>410120</b>	<b>410140</b>	<b>410150</b>	<b>410160</b>	<b>410170</b>	<b>510100</b>	<b>510110</b>	<b>510120</b>	<b>Total</b>
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	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	Section 211(e)(1) Disaster Assistance	
<b>ASSETS</b>												
Receivables:												
Federal agencies	\$ 44,151	\$ 446,265	\$ 266,027	\$ 137,976	\$ -	\$ 68,138	\$ 65,520	\$ 2,019	\$ 2,794,018	\$ 497,910	\$ 226,800	\$ 4,548,824
Due from other funds	1,581,561	183,272	328,760	187,770	10,487	221,899	-	-	-	1,867,343	1,500,102	5,881,194
Due from component units	-	-	-	-	-	-	-	-	-	1,000,000	-	1,000,000
Advances	14,290	14,961	2,440	-	-	79,379	-	302	864	-	-	112,236
Total assets	<u>\$ 1,640,002</u>	<u>\$ 644,498</u>	<u>\$ 597,227</u>	<u>\$ 325,746</u>	<u>\$ 10,487</u>	<u>\$ 369,416</u>	<u>\$ 65,520</u>	<u>\$ 2,321</u>	<u>\$ 2,794,882</u>	<u>\$ 3,365,253</u>	<u>\$ 1,726,902</u>	<u>\$ 11,542,254</u>
<b>LIABILITIES AND FUND BALANCES</b>												
<b>(DEFICITS)</b>												
Liabilities:												
Accounts payable	\$ 304,051	\$ 356,576	\$ 505,097	\$ 37,980	\$ -	\$ 119,713	\$ 32,760	\$ 1,859	\$ 269,608	\$ 54,207	\$ -	\$ 1,681,851
Other liabilities and accruals	152,567	45,036	92,130	-	-	18,972	-	4,971	2,685	360	-	316,721
Payable to federal agencies	770,734	-	-	8,368	-	30,021	-	-	-	-	-	809,123
Retention payable	-	-	-	-	-	-	-	-	458,176	-	-	458,176
Due to other funds	-	-	-	-	-	-	22,288	8,861	2,064,413	-	-	2,095,562
Total liabilities	<u>1,227,352</u>	<u>401,612</u>	<u>597,227</u>	<u>46,348</u>	<u>-</u>	<u>168,706</u>	<u>55,048</u>	<u>15,691</u>	<u>2,794,882</u>	<u>54,567</u>	<u>-</u>	<u>5,361,433</u>
Fund balances (deficits):												
Nonspendable	-	-	-	-	-	-	-	-	-	1,000,000	-	1,000,000
Restricted	412,650	242,886	-	279,398	10,487	200,710	10,472	-	-	2,310,686	1,726,902	5,194,191
Unassigned	-	-	-	-	-	-	-	(13,370)	-	-	-	(13,370)
Total fund balances (deficits)	<u>412,650</u>	<u>242,886</u>	<u>-</u>	<u>279,398</u>	<u>10,487</u>	<u>200,710</u>	<u>10,472</u>	<u>(13,370)</u>	<u>-</u>	<u>3,310,686</u>	<u>1,726,902</u>	<u>6,180,821</u>
Total liabilities and fund balances	<u>\$ 1,640,002</u>	<u>\$ 644,498</u>	<u>\$ 597,227</u>	<u>\$ 325,746</u>	<u>\$ 10,487</u>	<u>\$ 369,416</u>	<u>\$ 65,520</u>	<u>\$ 2,321</u>	<u>\$ 2,794,882</u>	<u>\$ 3,365,253</u>	<u>\$ 1,726,902</u>	<u>\$ 11,542,254</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, 2012**

<b>DILOG Fund Number</b>	<b>410100</b>	<b>410102</b>	<b>410110</b>	<b>410120</b>	<b>410140</b>	<b>410150</b>	<b>410160</b>	<b>410170</b>	<b>510100</b>	<b>510110</b>	<b>510120</b>	
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	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	Section 211(e)(1) Disaster Assistance	Total
<b>Revenues:</b>												
Compact funding	\$ 11,839,151	\$ 5,580,176	\$ 6,834,858	\$ 295,851	\$ -	\$ 3,515,400	\$ 2,302,377	\$ 567,000	\$ 5,373,063	\$ 497,910	\$ 226,800	\$ 37,032,586
<b>Expenditures by Function:</b>												
<b>Current:</b>												
Office of the Chief Secretary	-	-	-	-	-	-	-	-	-	-	49,952	49,952
Ministry of Education	11,180,011	4,767,494	-	-	-	3,396,114	-	-	-	-	-	19,343,619
Ministry of Health and Environment	-	-	7,218,575	-	-	50,174	-	-	-	-	-	7,268,749
Ministry of Finance	-	-	-	-	-	-	2,302,377	-	-	-	-	2,302,377
Ministry of Foreign Affairs	-	-	-	217,517	-	-	-	-	-	-	-	217,517
Environmental Protection Authority	-	-	-	-	-	-	-	557,472	-	-	-	557,472
Capital outlay	-	-	-	-	-	-	-	-	5,373,063	1,154,836	-	6,527,899
Total expenditures	11,180,011	4,767,494	7,218,575	217,517	-	3,446,288	2,302,377	557,472	5,373,063	1,154,836	49,952	36,267,585
Excess (deficiency) of revenues over (under) expenditures	659,140	812,682	(383,717)	78,334	-	69,112	-	9,528	-	(656,926)	176,848	765,001
<b>Other financing sources (uses):</b>												
Operating transfers in	-	-	505,385	-	-	-	-	-	-	497,910	226,800	1,230,095
Operating transfers out	(471,925)	(707,052)	-	-	-	(100,000)	-	-	-	-	-	(1,278,977)
Total other financing sources (uses), net	(471,925)	(707,052)	505,385	-	-	(100,000)	-	-	-	497,910	226,800	(48,882)
Net change in fund balances (deficits)	187,215	105,630	121,668	78,334	-	(30,888)	-	9,528	-	(159,016)	403,648	716,119
Fund balances (deficits) at the beginning of the year	225,435	137,256	(121,668)	201,064	10,487	231,598	10,472	(22,898)	-	3,469,702	1,323,254	5,464,702
Fund balances (deficits) at the end of the year	\$ 412,650	\$ 242,886	\$ -	\$ 279,398	\$ 10,487	\$ 200,710	\$ 10,472	\$ (13,370)	\$ -	\$ 3,310,686	\$ 1,726,902	\$ 6,180,821

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, 2012**

<b>DILOG Fund Number</b>	<b>410100</b>	<b>410102</b>	<b>410110</b>	<b>410120</b>	<b>410140</b>	<b>410150</b>	<b>410160</b>	<b>410170</b>	<b>510100</b>	<b>510110</b>	<b>510120</b>	
	Section 211(a)(1) Education	Supplemental Education	Section 211(a)(2) Health	Section 211(a)(4) Capacity Building	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	Section 211(e)(1) Disaster Assistance	Total
<b>Revenues:</b>												
Compact funding	\$ 11,839,151	\$ 5,580,176	\$ 6,834,858	\$ 295,851	\$ -	\$ 3,515,400	\$ 2,302,377	\$ 567,000	\$ 5,373,063	\$ 497,910	\$ 226,800	\$ 37,032,586
<b>Expenditures by Account:</b>												
Salaries and wages	7,560,059	2,056,894	4,471,461	-	-	1,002,819	-	166,670	134,427	19,607	-	15,411,937
Capital outlay	144,232	79,182	162,768	-	-	132,808	-	2,372	4,048,208	461,214	-	5,030,784
Grants and subsidies	1,299,024	162,713	-	-	-	100,000	2,219,832	325,000	1,096,979	-	-	5,203,548
Utilities	803,210	136,814	1,223,787	-	-	854,439	82,545	4,503	-	-	-	3,105,298
Leased housing	355,447	-	771,922	-	-	-	-	-	13,297	-	-	1,140,666
Supplies and materials	193,466	730,543	30,000	-	-	151,090	-	12,107	8,650	-	-	1,125,856
Contractual services	58,801	675,338	23,347	217,517	-	499,302	-	10,000	-	-	-	1,484,305
Travel	103,648	109,010	84,761	-	-	109,355	-	16,170	41,470	-	-	464,414
Food stuffs	249,247	216,919	132,638	-	-	84,840	-	-	-	-	-	683,644
Allowances	28,961	11,340	-	-	-	-	-	-	-	-	-	40,301
Professional services	-	-	70,400	-	-	-	-	-	-	-	-	70,400
Medical supplies	-	-	-	-	-	52,587	-	-	-	-	-	52,587
Communications	79,132	20,230	27,507	-	-	51,784	-	11,870	10,048	-	-	200,571
POL	101,640	40,842	39,524	-	-	83,258	-	4,438	7,509	-	-	277,211
Rentals	58,820	7,070	24,624	-	-	4,868	-	-	-	-	-	95,382
Freight	36,305	4,000	-	-	-	8,298	-	-	-	-	-	48,603
Printing and reproduction	13,359	1,000	10,000	-	-	10,634	-	3,723	-	-	-	38,716
Insurance	17,931	-	-	-	-	1,189	-	-	-	-	-	19,120
Other	76,729	515,599	145,836	-	-	299,017	-	619	12,475	674,015	49,952	1,774,242
Total expenditures	11,180,011	4,767,494	7,218,575	217,517	-	3,446,288	2,302,377	557,472	5,373,063	1,154,836	49,952	36,267,585
Excess (deficiency) of revenues over (under) expenditures	659,140	812,682	(383,717)	78,334	-	69,112	-	9,528	-	(656,926)	176,848	765,001
<b>Other financing sources (uses):</b>												
Operating transfers in	-	-	505,385	-	-	-	-	-	-	497,910	226,800	1,230,095
Operating transfers out	(471,925)	(707,052)	-	-	-	(100,000)	-	-	-	-	-	(1,278,977)
Total other financing sources (uses), net	(471,925)	(707,052)	505,385	-	-	(100,000)	-	-	-	497,910	226,800	(48,882)
Net change in fund balances (deficits)	187,215	105,630	121,668	78,334	-	(30,888)	-	9,528	-	(159,016)	403,648	716,119
Fund balances (deficits) at the beginning of the year	225,435	137,256	(121,668)	201,064	10,487	231,598	10,472	(22,898)	-	3,469,702	1,323,254	5,464,702
Fund balances (deficits) at the end of the year	\$ 412,650	\$ 242,886	\$ -	\$ 279,398	\$ 10,487	\$ 200,710	\$ 10,472	\$ (13,370)	\$ -	\$ 3,310,686	\$ 1,726,902	\$ 6,180,821

See Accompanying Independent Auditors' Report.

# REPUBLIC OF THE MARSHALL ISLANDS

## GENERAL FUND

September 30, 2012

### 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.

### 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.

### Judiciary Fund

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

### 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.

### 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.

### 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.

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GENERAL FUND**

September 30, 2012

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**

**GENERAL FUND**

**Combining Balance Sheet  
September 30, 2012**

	<b>100100</b>	<b>200090</b>	<b>200317</b>	<b>200330</b>	<b>200335</b>	<b>200515</b>	<b>300400</b>	<b>300600</b>	<b>800405</b>		
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Elimination	Total
<b>ASSETS</b>											
Cash and cash equivalents	\$ 1,982,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,268	\$ -	\$ 2,004,977
Investments	498,250	-	-	-	-	-	318,630	-	-	-	816,880
Receivables, net:											
Taxes	2,784,131	-	-	-	-	-	-	-	-	-	2,784,131
Federal agencies	(2,228)	171,418	-	-	-	-	-	-	-	-	169,190
General	1,138,758	-	-	-	-	-	-	-	-	-	1,138,758
Other	28,730	-	-	-	-	-	-	-	-	-	28,730
Due from other funds	6,716,217	-	54,458	27,300	416	-	-	14,251	-	(272,906)	6,539,736
Due from component units	10,686,437	-	-	-	-	-	-	-	-	-	10,686,437
Advances	135,834	2,668	-	-	-	-	-	-	-	-	138,502
Restricted assets:											
Cash and cash equivalents	4,196,954	-	-	-	-	-	-	-	-	-	4,196,954
Total assets	<u>\$ 28,165,792</u>	<u>\$ 174,086</u>	<u>\$ 54,458</u>	<u>\$ 27,300</u>	<u>\$ 416</u>	<u>\$ -</u>	<u>\$ 318,630</u>	<u>\$ 14,251</u>	<u>\$ 22,268</u>	<u>\$ (272,906)</u>	<u>\$ 28,504,295</u>
<b>LIABILITIES AND FUND BALANCES</b>											
<b>(DEFICITS)</b>											
Liabilities:											
Accounts payable	\$ 4,846,800	\$ 5,150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,851,950
Other liabilities and accruals	2,248,127	9,487	-	-	-	-	-	-	-	-	2,257,614
Deferred revenue	376,429	-	-	-	-	-	-	-	-	-	376,429
Due to component units	551,741	-	-	-	-	-	-	-	-	-	551,741
Due to other funds	9,843,571	175,823	-	-	-	658	-	-	-	(272,906)	9,747,146
Total liabilities	<u>17,866,668</u>	<u>190,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>658</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(272,906)</u>	<u>17,784,880</u>
Fund balances (deficits):											
Nonspendable	11,184,687	-	-	-	-	-	318,630	-	-	-	11,503,317
Restricted	917,978	-	-	-	-	-	-	-	22,268	-	940,246
Committed	-	-	-	27,300	-	-	-	14,251	-	-	41,551
Unassigned	(1,803,541)	(16,374)	54,458	-	416	(658)	-	-	-	-	(1,765,699)
Total fund balances (deficits)	<u>10,299,124</u>	<u>(16,374)</u>	<u>54,458</u>	<u>27,300</u>	<u>416</u>	<u>(658)</u>	<u>318,630</u>	<u>14,251</u>	<u>22,268</u>	<u>-</u>	<u>10,719,415</u>
Total liabilities and fund balances	<u>\$ 28,165,792</u>	<u>\$ 174,086</u>	<u>\$ 54,458</u>	<u>\$ 27,300</u>	<u>\$ 416</u>	<u>\$ -</u>	<u>\$ 318,630</u>	<u>\$ 14,251</u>	<u>\$ 22,268</u>	<u>\$ (272,906)</u>	<u>\$ 28,504,295</u>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GENERAL FUND**

**Combining Schedule of Revenues, Expenditures By Function,  
and Changes in Fund Balances (Deficits)  
Year Ended September 30, 2012**

	<b>100100</b>	<b>200090</b>	<b>200317</b>	<b>200330</b>	<b>200335</b>	<b>200515</b>	<b>300400</b>	<b>300600</b>	<b>800405</b>		
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Elimination	Total
<b>Revenues:</b>											
Taxes	\$ 25,229,449	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,229,449
Federal and other grants	3,806,477	423,989	-	-	-	-	-	-	-	-	4,230,466
Ship registry	4,000,000	-	-	-	-	-	-	-	-	-	4,000,000
Fishing rights	2,500,000	-	-	-	-	-	-	-	-	-	2,500,000
Interest and dividends	219,176	-	-	-	-	-	-	-	-	-	219,176
Fees and charges	31,957	239,063	-	1,688	-	-	-	-	-	-	272,708
Contributions from component units	1,895,464	-	-	-	-	-	-	-	-	-	1,895,464
Other	639,590	-	-	-	-	-	-	-	-	-	639,590
<b>Total revenues</b>	<b>38,322,113</b>	<b>663,052</b>	<b>-</b>	<b>1,688</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,986,853</b>
<b>Expenditures by Function:</b>											
<b>Current:</b>											
President and Cabinet	1,914,082	-	-	-	-	-	-	-	-	-	1,914,082
Office of the Chief Secretary	426,362	-	-	-	-	-	-	-	-	-	426,362
Special appropriations	12,415,822	-	-	-	-	-	-	-	-	-	12,415,822
Council of Iroij	494,212	-	-	-	-	-	-	-	-	-	494,212
Nitijela	1,526,608	-	-	-	-	-	-	-	-	-	1,526,608
Office of the Auditor-General	499,528	-	-	-	-	-	-	-	-	-	499,528
Public Service Commission	445,574	-	-	-	-	-	-	-	-	-	445,574
Judiciary	-	-	-	576,744	-	-	-	-	-	-	576,744
Office of the Attorney General	577,102	106,877	-	-	-	-	-	-	-	-	683,979
Ministry of Education	3,880,328	-	-	-	-	-	-	-	-	-	3,880,328
Ministry of Health and Environment	2,781,498	-	-	-	-	-	-	-	-	-	2,781,498
Ministry of Transportation and Communication	550,894	-	-	-	-	-	-	-	-	-	550,894
Ministry of Resources and Development	658,004	19,507	-	-	-	-	-	-	-	-	677,511
Ministry of Internal Affairs	1,813,196	-	-	-	-	-	-	332,240	-	-	2,145,436
Ministry of Justice	2,629,295	-	-	-	-	-	-	-	-	-	2,629,295
Ministry of Finance	3,739,949	500,632	-	-	-	-	-	-	-	-	4,240,581
Ministry of Foreign Affairs and Trade	2,515,200	-	-	-	-	-	-	-	-	-	2,515,200
Ministry of Public Works	992,457	-	-	-	-	-	-	-	-	-	992,457
Environmental Protection Authority	182,123	-	-	-	-	-	-	-	-	-	182,123
<b>Debt service:</b>											
Principal repayment	1,724,201	-	-	-	-	-	-	-	-	-	1,724,201
Interest	1,168,540	-	-	-	-	-	-	-	-	-	1,168,540
<b>Total expenditures</b>	<b>40,934,975</b>	<b>627,016</b>	<b>-</b>	<b>576,744</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>332,240</b>	<b>-</b>	<b>-</b>	<b>42,470,975</b>
Excess (deficiency) of revenues over (under) expenditures	(2,612,862)	36,036	-	(575,056)	-	-	-	(332,240)	-	-	(3,484,122)
<b>Other financing sources (uses):</b>											
Loan proceeds	-	-	-	-	-	-	-	-	-	-	-
Operating transfers in	1,558,564	-	-	576,744	-	-	-	332,240	-	(908,984)	1,558,564
Operating transfers out	(2,758,184)	-	-	-	-	-	-	-	-	908,984	(1,849,200)
<b>Total other financing sources (uses), net</b>	<b>(1,199,620)</b>	<b>-</b>	<b>-</b>	<b>576,744</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>332,240</b>	<b>-</b>	<b>-</b>	<b>(290,636)</b>
<b>Net change in fund balances (deficits)</b>	<b>(3,812,482)</b>	<b>36,036</b>	<b>-</b>	<b>1,688</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,774,758)</b>
<b>Fund balances (deficits) at the beginning of the year</b>	<b>14,111,606</b>	<b>(52,410)</b>	<b>54,458</b>	<b>25,612</b>	<b>416</b>	<b>(658)</b>	<b>318,630</b>	<b>14,251</b>	<b>22,268</b>	<b>-</b>	<b>14,494,173</b>
<b>Fund balances (deficits) at the end of the year</b>	<b>\$ 10,299,124</b>	<b>\$ (16,374)</b>	<b>\$ 54,458</b>	<b>\$ 27,300</b>	<b>\$ 416</b>	<b>\$ (658)</b>	<b>\$ 318,630</b>	<b>\$ 14,251</b>	<b>\$ 22,268</b>	<b>\$ -</b>	<b>\$ 10,719,415</b>

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

**GENERAL FUND**

**Combining Schedule of Expenditures By Account  
Year Ended September 30, 2012**

	100100	200090	200317	200330	200335	200515	300400	300600	800405	
	General	Reimbursable	Changed Circumstances	Judiciary	Alternative Energy	Postal Service	MIDA	Local Government	ADB Development Projects	Total
Expenditures by Account:										
Salaries and wages	\$ 15,626,289	\$ 527,031	\$ -	\$ 576,744	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,730,064
Capital outlay	481,658	1,695	-	-	-	-	-	-	-	483,353
Grants and subsidies	7,975,953	-	-	-	-	-	-	332,240	-	8,308,193
Contractual services	927,289	-	-	-	-	-	-	-	-	927,289
Travel	1,231,625	19,794	-	-	-	-	-	-	-	1,251,419
Utilities	5,392,205	38,031	-	-	-	-	-	-	-	5,430,236
Supplies and materials	317,972	5,856	-	-	-	-	-	-	-	323,828
Leased housing	636,341	9,000	-	-	-	-	-	-	-	645,341
POL	343,415	4,587	-	-	-	-	-	-	-	348,002
Rentals	1,386,806	2,235	-	-	-	-	-	-	-	1,389,041
Food stuffs	242,987	530	-	-	-	-	-	-	-	243,517
Professional services	66,349	2,510	-	-	-	-	-	-	-	68,859
Principal repayment	1,724,201	-	-	-	-	-	-	-	-	1,724,201
Interest	1,168,540	-	-	-	-	-	-	-	-	1,168,540
Allowances	718,195	-	-	-	-	-	-	-	-	718,195
Communications	509,445	13,803	-	-	-	-	-	-	-	523,248
Freight	10,600	-	-	-	-	-	-	-	-	10,600
Printing and reproduction	43,168	-	-	-	-	-	-	-	-	43,168
Insurance	67,714	1,199	-	-	-	-	-	-	-	68,913
Other	2,064,223	745	-	-	-	-	-	-	-	2,064,968
Total expenditures	\$ 40,934,975	\$ 627,016	\$ -	\$ 576,744	\$ -	\$ -	\$ -	\$ 332,240	\$ -	\$ 42,470,975

See Accompanying Independent Auditors' Report.

**REPUBLIC OF THE MARSHALL ISLANDS**

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

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**YEAR ENDED SEPTEMBER 30, 2012**

**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 Christopher J. Loeak  
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, 2012, which collectively comprise RepMar's basic financial statements and have issued our report thereon dated July 29, 2013. Our report includes a reference to other auditors and an explanatory paragraph concerning collectability of receivables federal agencies. 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. Other auditors audited the financial statements of the Marshall Islands National Telecommunications Authority, as described in our report on RepMar's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that is reported on separately by those other auditors.

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 grant agreements, 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, with the exception of the Marshall Islands National Telecommunications Authority, as discussed above. 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 the entities that were audited by us. Other auditors issued a separate report on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Marshall Islands National Telecommunications Authority. The findings, if any, included in those reports are not included herein.

### Internal Control Over Financial Reporting

Management of RepMar is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 11 through 29), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01, 2012-04, and 2012-08 through 2012-11 to be material weaknesses.

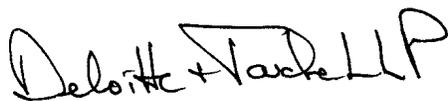
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether RepMar's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-5 and 2012-6.

We noted certain matters that we reported to management of RepMar in a separate letter dated July 29, 2013.

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, others within the entity, and the cognizant audit and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

July 29, 2013

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

His Excellency Christopher J. Loek  
President  
Republic of the Marshall Islands:

Compliance

We have audited the Republic of the Marshall Islands' (RepMar's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of RepMar's major federal programs for the year ended September 30, 2012. RepMar's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 11 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, 2012. 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 2012-01 through 2012-07 in the accompanying Schedule of Findings and Questioned Costs, RepMar did not comply with requirements regarding allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, and subrecipient monitoring that are applicable to its Compact of Free Association Sector Grants (CFDA # 15.875) major program; and regarding cash management, equipment and real property management, and procurement and suspension and debarment that are applicable to its Special Education-Grants to States (CFDA # 84.027) major program. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

### Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RepMar's internal control over compliance.

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

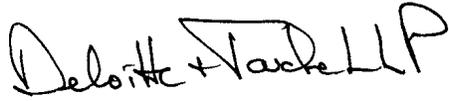
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01 through 2012-07 to be material weaknesses.

### 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, 2012, and have issued our report thereon dated July 29, 2013, which contained an unqualified opinion on those financial statements and which report included a reference to other auditors and an explanatory paragraph concerning collectability of receivables federal agencies. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise RepMar's financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 6 and 7) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 the responses.

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

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

July 29, 2013

# REPUBLIC OF THE MARSHALL ISLANDS

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2012

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
<b>GENERAL FUND AND REIMBURSABLE FUND:</b>		
	<u>U.S. Department of Commerce:</u>	
11.460	Special Oceanic and Atmospheric Projects	\$ 423,989
<b>U.S. FEDERAL GRANTS FUND:</b>		
	<u>U.S. Department of Agriculture:</u>	
10.567	Food Distribution Program on Indian Reservations	\$ 545,681
10.664	Cooperative Forestry Assistance	17,526
	Total U.S. Department of Agriculture	<u>563,207</u>
	<u>U.S. Department of the Interior:</u>	
15.875	Economic, Social and Political Development of the Territories:	
	Four Atoll Health Care	990,203
	HPO USAKA Grant	4,789
	Office of the Auditor General Grant	33,472
	RMI Legislation/On-Line VISA	60,834
	Sub-total CFDA # 15.875	<u>1,089,298</u>
15.904	Historic Preservation Fund Grants-In-Aid	180,335
	Total U.S. Department of the Interior	<u>1,269,633</u>
	<u>U.S. Small Business Administration:</u>	
59.037	Small Business Development Centers	<u>24,079</u>
	<u>U.S. Department of Education:</u>	
84.027	Special Education-Grants to States	<u>1,795,443</u>
	<u>U.S. Department of Health and Human Services:</u>	
93.003	Public Health and Social Services Emergency Fund	197,416
93.069	Public Health Emergency Preparedness	85,080
93.110	Maternal and Child Health Federal Consolidated Programs	281,532
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	104,527
93.118	Acquired Immunodeficiency Syndrome (AIDs) Activity	103,220
93.163	Health Services in the Pacific Basin	719,296
93.163	ARRA - Health Services in the Pacific Basin	176,175
93.217	Family Planning-Services	279,041
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	779,662
93.268	Immunization Cooperative Agreements	997,232
93.268	ARRA - Immunization Cooperative Agreements	44,032
93.889	National Bioterrorism Hospital Preparedness Program	167,323
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	23,728
93.958	Block Grant for Community Mental Health Services	68,378
93.959	Block Grants for Prevention and Treatment of Substance Abuse	521,411
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	76,846
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	174,886
93.988	ARRA - Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	19,648
	Total U.S. Department of Health and Human Services	<u>4,819,433</u>
	<b>TOTAL U.S. FEDERAL GRANTS FUND</b>	<b>\$ <u>8,471,795</u></b>

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, 2012

<u>CFDA#</u>	<u>Agency/Program</u>	<u>Federal Expenditures</u>
<b>COMPACT SECTOR GRANTS FUND:</b>		
<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	\$ 11,651,936
	Supplemental Education Grant	5,474,546
	Section 211(a)(2) Health Sector	7,218,575
	Section 211(a)(4) Public Sector Capacity Building	217,517
	Section 211(b)(1) Ebeye Special Needs	3,546,288
	Section 211(b)(2) Landowners Special Needs	2,302,377
	Section 211(b)(3) Kwajalein Environment	557,472
	Section 211(d)(1) Public Infrastructure Development	5,373,063
	Section 211(d)(2) Infrastructure Maintenance	1,154,836
	Section 211(e)(1) Disaster Assistance	49,952
	<b>TOTAL COMPACT SECTOR GRANTS FUND</b>	<b>\$ 37,546,562</b>
<b>SECTION 212 KWAJALEIN LANDOWNERS FUND:</b>		
<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	\$ 17,160,578
<b>SECTION 213 AUDIT FUND:</b>		
<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	\$ 155,152
	<b>TOTAL FEDERAL PROGRAM EXPENDITURES</b>	<b>\$ 63,758,076</b>
Reconciliation to the 2012 financial statements is as follows:		
	General Fund (Reimbursable Fund)	(1) \$ 423,989
	U.S. Federal Grants Fund	(2) 8,471,795
	Compact Sector Grants Fund	(3) 37,546,562
	Section 212 Kwajalein Landowners Fund	(4) 17,160,578
	Section 213 Audit Fund	(5) 155,152
		\$ 63,758,076

- (1) Included within total expenditures for the Reimbursable Fund of \$627,016 presented on page 105 of the 2012 financial statements.
- (2) Represents the aggregate total for expenditures and transfers out for the U.S. Federal Grants Fund of \$7,481,592 and \$990,203, respectively, presented on page 95 of the 2012 financial statements.
- (3) Represents the aggregate total for expenditures and transfers out for the Compact Sector Grants Fund of \$36,267,585 and \$1,278,977, respectively, presented on page 95 of the 2012 financial statements.
- (4) Represents the aggregate total for expenditures for the Section 212 Kwajalein Landowners Fund of \$17,160,578 presented on page 85 of the 2012 financial statements.
- (5) Represents the aggregate total for expenditures for the Section 213 Audit Fund of \$155,152 presented on page 95 of the 2012 financial statements.

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, 2012

#### (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

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

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Education
- U.S. Department of Health and Human Services
- 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. 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, 2012 basic financial statements; except that the Marshall Islands Scholarship, Grant and Loan Board, the Health Care Revenue Fund, the Marshall Islands Health Fund, 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, 2012.

##### 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, 2012

(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>2012 Amount of Pass-through</u>
<u>U.S. Department of the Interior – CFDA #15.875</u>		
Economic, Social and Political Development of the Territories:		
Compact of Free Association, As Amended, Education Sector Grant	College of the Marshall Islands	\$ 1,083,333
Compact of Free Association, As Amended, Supplemental Education Grant	College of the Marshall Islands	\$ 162,713
Compact of Free Association, As Amended, Public Infrastructure Development	College of the Marshall Islands	\$ 247,654
Compact of Free Association, As Amended, Landowners Special Needs	Kwajalein Atoll Joint Utilities Resources, Inc.	\$ 2,187,072
Compact of Free Association, As Amended, Environment Sector Grant	Majuro Atoll Waste Company, Inc.	\$ 325,000
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Atoll Waste Company, Inc.	\$ 65,000
Compact of Free Association, As Amended, Public Infrastructure Development	Majuro Water and Sewer Company, Inc.	\$ 150,000
Compact of Free Association, As Amended, Education Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 471,925

**REPUBLIC OF THE MARSHALL ISLANDS**

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2012

(2) Summary of Significant Accounting Policies, Continued

d. Subgrantees, Continued

<u>Grantor/Grant Title CFDA No.</u>	<u>Subgrantee</u>	<u>2012 Amount of Pass-through</u>
<u>U.S. Department of the Interior – CFDA #15.875</u>		
Economic, Social and Political Development of the Territories, Continued:		
Compact of Free Association, As Amended, Supplemental Education Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 707,052
Compact of Free Association, As Amended, Ebeye Special Needs Sector Grant	Marshall Islands Scholarship, Grant and Loan Board	\$ 100,000

e. Indirect Cost Allocation

RepMar has not entered into an approved indirect cost negotiation agreement covering fiscal year 2012. RepMar did not charge federal programs for indirect costs during fiscal year 2012.

f. CFDA # 15.875

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

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2012

**Section I - Summary of Auditors' Results**

*Financial Statements*

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

*Federal Awards*

- |               |                                                                                                                                                                                                                                                                                                                                 |               |                                |        |                                      |        |                                                                                                                          |  |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|--------------------------------|--------|--------------------------------------|--------|--------------------------------------------------------------------------------------------------------------------------|--|
|               | Internal control over major programs:                                                                                                                                                                                                                                                                                           |               |                                |        |                                      |        |                                                                                                                          |  |
| 5.            | Material weakness(es) identified?                                                                                                                                                                                                                                                                                               | Yes           |                                |        |                                      |        |                                                                                                                          |  |
| 6.            | Significant deficiency(ies) identified?                                                                                                                                                                                                                                                                                         | None reported |                                |        |                                      |        |                                                                                                                          |  |
| 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.            | Identification of major programs:                                                                                                                                                                                                                                                                                               |               |                                |        |                                      |        |                                                                                                                          |  |
|               | <table border="0"><tr><td><u>CFDA #</u></td><td><u>Name of Federal Program</u></td></tr><tr><td>84.027</td><td>Special Education – Grants to States</td></tr><tr><td>15.875</td><td>Economic, Social and Political Development of the Territories:<br/>Compact of Free Association, As Amended, Sector Grants</td></tr></table> | <u>CFDA #</u> | <u>Name of Federal Program</u> | 84.027 | Special Education – Grants to States | 15.875 | Economic, Social and Political Development of the Territories:<br>Compact of Free Association, As Amended, Sector Grants |  |
| <u>CFDA #</u> | <u>Name of Federal Program</u>                                                                                                                                                                                                                                                                                                  |               |                                |        |                                      |        |                                                                                                                          |  |
| 84.027        | Special Education – Grants to States                                                                                                                                                                                                                                                                                            |               |                                |        |                                      |        |                                                                                                                          |  |
| 15.875        | Economic, Social and Political Development of the Territories:<br>Compact of Free Association, As Amended, Sector Grants                                                                                                                                                                                                        |               |                                |        |                                      |        |                                                                                                                          |  |
| 10.           | Dollar threshold used to distinguish between Type A and Type B Programs:                                                                                                                                                                                                                                                        | \$ 1,912,742  |                                |        |                                      |        |                                                                                                                          |  |
| 11.           | Auditee qualified as low-risk auditee?                                                                                                                                                                                                                                                                                          | No            |                                |        |                                      |        |                                                                                                                          |  |

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

**Section II - Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-01	Allowable Costs/Cost Principles	13
2012-04	Equipment and Real Property Management	18 - 19
2012-05	RMI Procurement Code	20 - 21
2012-06	RMI Procurement Code	22 - 23
2012-08	General Ledger Account Reconciliations	25
2012-09	Accounts Receivable	26
2012-10	Construction-in-Progress/Retention Payable	27 - 28
2012-11	General Ledger Journal Entries	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>
2012-01	15.875	Allowable Costs/Cost Principles	\$ 2,203	13
2012-02	15.875	Cash Management	Undeterminable	14 - 15
2012-03	84.027	Cash Management	Undeterminable	16 - 17
2012-04	15.875	Equipment and Real Property Management	\$ -	18 - 19
	84.027	Equipment and Real Property Management	\$ -	18 - 19
2012-05	15.875	Procurement and Suspension and Debarment	\$ 30,252	20 - 21
2012-06	84.027	Procurement and Suspension and Debarment	\$ 3,402	22 - 23
2012-07	15.875	Subrecipient Monitoring	\$ -	24

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-01  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$2,203

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

Condition #1: Of \$22,134,625 in non-payroll expenditures for the Compact Sector Grants, one hundred one (101) items, totaling \$8,691,053, were tested. For two expenditures (or 2%), no underlying check voucher files were provided to support the following:

<u>Fund</u>	<u>Check #</u>	<u>Account #</u>	<u>GL Account Name</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
410150	16738	01520	Contractual Services	Q1378801	00016738	\$ 1,659
410102	96844	02020	Travel	A1338001	178522	<u>497</u>
						\$ <u>2,156</u>

Condition #2: Of \$15,411,937 in payroll expenditures for the Compact Sector Grants, forty-five (45) items, totaling \$31,756, were tested. For one expenditure (or 2%), an employee (# 212994) was overpaid \$47 for the pay period ended 02/11/2012. This overpayment has been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.

Cause: The cause of the above conditions is the lack of attendant documentation indicating that expenditures charged to a federal program are directly related to the program and are in accordance with program intent and objectives.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements. Accordingly, questioned costs in the amount of \$2,203 are reportable as the projected questioned costs exceed the \$10,000 threshold.

Recommendation: Management should require that expenditures incurred under federal programs be evidenced by supporting documentation indicating that such expenditures are directly related to and in accordance with program intent and objectives.

Prior Year Status: Lack of attendant documentation indicating that expenditures charged to a federal program are directly related to the program and are in accordance with program intent and objectives was reported as a finding in prior single audits as items 2009-1, 2009-2, 2010-1 and 2011-1.

Auditee Response and Correction Action Plan: We agree with the finding and recommendation. It is standard procedure of Ministry of Finance Accounts Payable division to require all expenditures are supported by adequate documentation. We believe the two exceptions noted pertain to deficiencies in the filing system and will locate the documents for the cited payments for subsequent clearance.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-02  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
 Grant Number: Compact Sector Grants  
 Area: Cash Management  
 Questioned Costs: Undeterminable

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 \$7,541,013 in non-payroll expenditures for the Compact Sector Public Infrastructure Development and the Landowners Special Needs Grants, fourteen (14) items, totaling \$1,804,288, were tested. For 8 (or 57%), the following expenditures were not paid in a manner to minimize the time elapsed between transfer of funds and their disbursements:

<u>Check #</u>	<u>Check Date</u>	<u>Amount</u>	Cash		<u>Date Cleared</u>	<u># of days Elapsed</u>
			<u>Disbursement Drawdown #</u>	<u>Drawdown Deposit Date</u>		
92408	11/30/2011	\$ 232,800	CD-02-2012	12/13/2011	01/13/2012	30
94040	01/11/2012	\$ 232,800	CD-06-2012	01/06/2012	01/13/2012	6
95047	02/29/2012	\$ 73,018	CD-09-2012	02/13/2012	02/23/2012	9
96645	04/20/2012	\$ 358,887	CD-11-2012	04/13/2012	04/20/2012	6
97471	05/18/2012	\$ 50,649	KDF-02-2012	05/10/2012	05/18/2012	7
97946	04/30/2012	\$ 233,983	CD-11-2012	04/13/2012	06/11/2012	58
98829	07/13/2012	\$ 30,376	CD-13-2012	07/05/2012	07/10/2012	4
99108	07/20/2012	\$ 149,258	CD-14-2012	07/17/2012	09/30/2012	74

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

Effect: The effect of the above condition is noncompliance with FPA cash management requirements. We projected a total interest liability of \$200 for the above condition based on the yield of 13-week U.S. Treasury bills. As this amount is below \$10,000, such is not reported as a questioned cost.

Recommendation: The Ministry of Finance should establish a formal methodology governing the drawdown of federal funds to minimize the time elapsed between the receipt of federal funds and the date applicable payments clear the bank.

Prior Year Status: Lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with FPA cash management requirements was reported as a finding in prior single audits as items 2005-7, 2006-5, 2007-8, 2008-1, 2008-2, 2009-3, 2009-4, 2010-2 and 2011-2.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-02, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Cash Management  
Questioned Costs: Undeterminable

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. In fiscal year 2012 the drawdown of public infrastructure funds was delayed in some instances pending reconciliations of expenditures charged to the many on-going infrastructure projects. The MOF is current with its reconciliation procedures in fiscal year 2013 and will implement formal policies on the drawdowns of both Compact Public Infrastructure and Landowners Special Needs Grants.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-03  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027A110011  
Area: Cash Management  
Questioned Costs: Undeterminable

Criteria: Section 21 of 34 CFR 80, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, prescribes the basic standards 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 Part 205.

Condition: Of \$379,228 in non-payroll expenditures, thirteen (13) items, totaling \$97,322, were tested. For the following 10 (or 77%) expenditures, we were unable to perform required cash management tests as the detailed federal draw downs and supporting reimbursements were not available for examination:

<u>Check #</u>	<u>APV #</u>	<u>Amount</u>
91653	167837	\$ 2,190
93915	172346	\$ 990
95540	175907	\$ 1,385
95674	175985	\$ 4,664
96359	176454	\$ 8,640
97947	180473	\$ 50,000
98968	182296	\$ 945
99082	183221	\$ 4,656
99178	183690	\$ 1,940
100505	183748	\$ 3,402

Due to the lack of available information from the grantee, the amount of questioned costs, if any, applicable to the above is undeterminable.

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

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

Recommendation: The Ministry of Finance should establish a formal methodology governing the drawdown of federal funds to minimize the time elapsed between the receipt of federal funds and the date applicable payments clear the bank.

Prior Year Status: Lack of a formal methodology and procedures over the drawdown of federal funds to satisfy compliance with cash management requirements was reported as a finding in prior single audits as items 2005-7, 2006-4, 2007-8, 2008-1 and 2009-3.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-03, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027A110011  
Area: Cash Management  
Questioned Costs: Undeterminable

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The standard policy for drawdown of Special Education and other Federal grants is to do so twice a month based on open encumbrances and to make the disbursement as soon as possible after receipt. Occasionally, because of delays in receiving invoices for the liquidation of the open encumbrances or other questions necessitating research by the Ministry of Education, there have been delays in making the disbursements. The MOF will formalize and implement its drawdown policy and related procedures in fiscal year 2013.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-04  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Questioned Costs: \$0

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A110011  
Questioned Costs: \$0

Area: Equipment and Real Property Management

Criteria: Article VI , Section 1(f)(4) of the Fiscal Procedures Agreement (FPA) 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 satisfy compliance with applicable equipment management requirements. Capital outlay expenditures incurred by RepMar within the Compact Sector Grants Fund for fiscal years 2012, 2011 and 2010 were as follows:

Fiscal Year 2012	\$ 5,030,784
Fiscal Year 2011	\$ 7,188,740
Fiscal Year 2010	\$ 10,051,397

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

Effect: The effect of the above condition is noncompliance with federal equipment management requirements.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-04  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Questioned Costs: \$0

Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education - Grants to States  
Grant Number: H027A110011  
Questioned Costs: \$0

Area: Equipment and Real Property Management

Recommendation: The Ministry of Finance should perform an inventory of RepMar's fixed assets as a basis for recording all assets in the financial statements and should complete such inventory in accordance with applicable federal property rules and regulations.

Prior Year Status: Lack of a fixed assets listing that reconciles with an inventory of RepMar's fixed assets was reported as a finding in prior single audits for fiscal years 1988 through 2000 and as items 2001-8, 2002-28, 2003-28, 2004-12, 2005-11, 2006-10, 2007-9, 2008-3, 2009-5, 2010-3 and 2011-3.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The Ministry of Finance through its Procurement and Supply division will revive the functions of the Asset Monitoring Committee and have the Asset Accountability Officer in all respective government Ministries and agencies assist the Procurement and Supply division perform a RepMar-wide physical inventory of its capital and accountable fixed assets, no later than December 31, 2013. We note that except for a few large pieces of medical equipment, most of the capital additions in the last several years have been completed infrastructure projects, primarily school buildings, the inventory of which can be readily performed.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-05  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$30,252

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 the 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 promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$22,134,625 in non-payroll expenditures, one hundred one (101) items, totaling \$8,691,053, were tested. For 4 (or 4%), supporting documentation was inadequate to evidence the procurement process for the following expenditures:

<u>Item #</u>	<u>Fund #</u>	<u>Check #</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
1	410150	14420	Q1398501	513691	\$ 3,799
2	410110	99389		184240	8,633
3	410100	100234	P4469401	186405	12,000
4	410102	102839	C0832302	190855	<u>5,820</u>
					\$ <u>30,252</u>

For item #s 1, 2 and 4, no evidence of obtaining informal price quotations was provided.

For item # 3, two of three price quotations solicited were unresponsive; however, no evidence of solicitation of other quotations was on file.

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

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$30,252.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-05, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$30,252

Recommendation: RepMar should require that supporting documentation be adequate to comply with federal procurement requirements. Specifically, supporting documentation should indicate the history of procurement, including the rationale for vendor selection.

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in prior single audits as items 2003-20, 2003-21, 2003-22, 2003-23, 2004-8, 2004-9, 2005-9, 2005-10, 2006-7, 2006-8, 2006-9, 2007-2, 2007-3, 2007-4, 2007-5, 2007-6, 2007-7, 2008-4, 2008-5, 2008-6, 2008-7, 2009-8, 2009-9, 2010-4, 2010-5, 2011-4, 2011-5 and 2011-6.

Auditee Response and Correction Action Plan: We agree with the finding and recommendation. Management notes the following for these four items:

Item #1: The exception pertained to a payment of Ebeye Finance, the documentation of the price quotations for which, were lost in transit on AMI to Majuro MOF. It is standard operating procedure for Ebeye Finance to require 3 quotes before vendor selection and the noted item is a non-recurring instance of lost documentation.

Item #2 represented a payment on a sole-sourced contract for hospital air conditioner repairs to a vendor who had originally provided and installed the air conditioners. Under the circumstances it was not felt appropriate to have other vendors provide quotations or perform the repairs due to their lack of familiarity with the equipment. In the future, exceptions of like nature will be documented by the Ministry of Health per Section 128 of Title 44.

Item #3 was for fence repair materials for which two of the three vendors from which quotations were solicited were non-responsive and no further attempts were made to obtain additional quotations. Management will clarify its policies and procedures concerning such situations to ensure the intent of small procurement controls are adhered to.

Item #4 pertained to an office lease for the National Training Council (NTC) for which comparative quotations were not obtained. Insofar as this lease is at reasonable rates and provides easy access to many clients and customers of the NTC, management will request the grantor agency to specifically approve this lease. Moreover, given the shortage of both housing and office space available for leasing, management will consider incorporating a permanent exemption of obtaining price quotations for this type of procurement.

It is standard procedure for MOF's procurement and supply department and accounts payable division to require adequate supporting documentation to support the history of a procurement including the rationale for vendor selection; this in accordance RepMar's procurement code. We note that all the instances cited were for small procurements for which any exceptions to Section 127 of Title 44 must be documented as per Section 128 (sole-source justification). MOF will reinforce adherence to this policy both with the line ministries and internally.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-06  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027A110011  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$3,402

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 promulgated by RepMar’s Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar’s Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (d) 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 \$379,228 in non-payroll expenditures, thirteen (13) items, totaling \$97,322, were tested. For 1 (or 8%), no documentation was provided to substantiate that the most economical fare was procured for the following:

<u>Fund #</u>	<u>Check #</u>	<u>G/L Account Name</u>	<u>PO #</u>	<u>APV #</u>	<u>Amount</u>
600350	100505	International Travel	A1369201	183748	\$ 3,402

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

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and procurement standards. Accordingly, questioned costs in the amount of \$3,402 are reported.

Recommendation: RepMar should require that supporting documentation be adequate to comply with federal procurement requirements.

Prior Year Status: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with federal procurement requirements was reported as a finding in prior single audit as item 2011-6.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-06, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.027 Special Education – Grants to States  
Grant Number: H027A110011  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$3,402

Auditee Response and Corrective Action Plan: MOF is aware that RepMar has only one travel agent with standing instruction to provide the most economical fare available for official travel. Absent specific evidence that a fare does not represent the most economical selection available, management does not believe this citation is appropriate. Management will clarify documentation required for international travel through instructions to the Fiscal Officers group.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-07  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social and Political Development of the Territories  
Grant Number: Compact Sector Grants  
Area: Subrecipient Monitoring  
Questioned Costs: \$0

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

Condition: During the year ended September 30, 2012, RepMar sub-granted Compact Landowners Special Needs grant to Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR). No Sub-Grant agreement or Memorandum of Agreement (MOA) was executed with KAJUR for the aforementioned funding. Additionally, the two MOAs executed with College of the Marshall Islands indicated Compact Education Sector grant as the sole funding source; however, funding was also sub-granted to CMI from Compact Infrastructure and Supplemental Education Grants.

As separate OMB Circular A-133 audits are performed on these entities, no questioned costs are reported.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring 1) the execution of Sub-Grant agreements with Sub-Grantees; and 2) compliance with special tests and provisions of the FPA.

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

Recommendation: RepMar should comply with the specific provisions of the FPA and execute Sub-Grant agreements with all Sub-Grantees.

Prior Year Status: Lack of adequate internal control policies and procedures requiring execution of Sub-Grant agreements with Sub-Grantees and compliance with special tests and provisions of the FPA was reported as a finding in prior single audits as items 2009-10, 2010-7, 2011-7 and 2011-7.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Although the MOF's general practice is to implement subrecipient MOAs, failure to do so in the KAJUR case was an oversight, which will be remedied.

## REPUBLIC OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-08  
Area: General Ledger Account Reconciliations

Criteria: Adequate internal control policies and procedures should be established to require periodic and timely reconciliation of all significant general ledger accounts, independent supervisory approval of reconciliations, and timely recording of transactions and adjustments identified through the reconciliation process to facilitate accurate financial reporting.

Condition: More than six months subsequent to September 30, 2012, reconciliations of significant general ledger accounts, including cash accounts, had not been completed by the Ministry of Finance. Consequently, significant portions of audit fieldwork could not commence until seven months after the end of fiscal year 2012, when reconciliations of significant accounts were completed.

Audit procedures performed identified errors in certain of the reconciliations and general ledger accounts, and certain audit adjustments were proposed to correct the affected general ledger account balances.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring periodic and timely performance of and independent supervisory verification of significant general ledger account reconciliations.

Effect: The effect of the above condition is material misstatements of account balances, increased risk of undetected errors and fraud, and inaccurate federal financial reporting.

Recommendation: Management should establish policies and procedures requiring periodic and timely performance of and independent supervisory verification of significant general ledger account reconciliations. Furthermore, such policies and procedures should also require timely resolution of errors and recording of unrecorded transactions identified through the reconciliation process.

Prior Year Status: Lack of adequate internal control policies and procedures requiring periodic and timely performance of and independent supervisory verification of significant general ledger account reconciliations was reported as a finding in prior single audits as items 2010-12 and 2011-11.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Management has identified all key control accounts and will assign appropriate staff to reconcile these on a periodic basis (monthly or quarterly), no later than September 2013.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-09  
Area: Accounts Receivable

Criteria: Timely drawdowns of grant expenditures should occur to reimburse the General Fund.

Condition: For 5 (or 36%) of fourteen (14) non-payroll expenditures for the Compact Sector Public Infrastructure Development and the Landowners Special Needs Grants, the following expenditures had not been reimbursed eight (8) months after year end.

<u>Check #</u>	<u>APV #</u>	<u>Amount</u>
94925	174163	\$ 73,574
97394	179667	\$ 53,583
98416	181962	\$ 75,000
99761	185097	\$ 24,708
102134	189638	\$ 70,579

Additionally, it appears that other grants may not be timely billed.

Cause: The cause of the above condition is the lack of adequate policies and procedures requiring periodic and timely analysis of grant expenditures to ascertain whether reimbursement of grant expenditures can occur.

Effect: The effect of the above condition is that the General Fund bears the costs of grant expenditures.

Recommendation: Management should establish policies and procedures requiring periodic and timely analysis of grant expenditures to ascertain whether reimbursement of grant expenditures can occur.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Public infrastructure sector drawdowns were delayed in fiscal year 2012 because of difficulties in reconciliations caused by combining several infrastructure projects together under one cost center in the FMIS. In 2013, management has devised special Cyberquery reports to segregate these projects, timely reconcile them, and submit to OIA for reimbursement. MOF is working closely with OIA to ensure reconciliations are adequate to drawdown the funds and liquidate the accounts receivable on a timely basis.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-10  
Area: Construction-In-Progress/Retention Payable

Criteria: Adequate internal control policies and procedures should be established to require that the fixed asset and retention payable subsidiary ledgers are updated in accordance with the progress of construction projects to facilitate accurate financial reporting.

Condition: The construction-in-progress (CIP) and retention payable subsidiary ledgers (SL) were not updated during fiscal year 2012. Consequently, the CIP SL was not reconciled during the year with transactions in GL A/c #s 510100-03219 construction expenditures and 510100-55050 retention payable.

Audit procedures performed identified the following exceptions in the CIP SL provided for audit:

- Total costs as of September 30, 2012 per the CIP SL for the following ongoing projects did not agree with contractor progress billings, as follows:

<u>Project #</u>	<u>Per Contractor Billing</u>	<u>Per CIP SL</u>	<u>Difference</u>
Contract # 2131	\$ 1,770,000	\$ 1,609,894	\$ 160,106
IDMP0044	\$ 461,923	\$ 399,871	\$ 62,052
IDMP0079/81	\$ 710,153	\$ 681,473	\$ 28,680
IDMP0089	\$ 341,410	\$ 304,712	\$ 36,698

For contract # 2131, the CIP SL included a \$230,000 addition, which pertained to fiscal year 2011 and which was presented in RepMar's fiscal year 2011 audited financial statements. Adjustments to the CIP SL for the above differences were proposed.

- Project #s IDMP0060 and IDMP0075 were completed and capitalized in fiscal year 2012; however, the 2012 CIP SL did not reflect contractor progress billings for the year. Furthermore, for project # IDMP0060, the asset's capitalized cost was understated by \$44,471.
- Project # IDMP0052(B) was capitalized in fiscal year 2012; however, the 2012 CIP SL did not reflect project activity.
- The following projects were completed and capitalized at the correct costs in fiscal year 2012; however, total costs per the CIP SL prior to capitalization did not agree with contractor final billings, as follows:

<u>Project #</u>	<u>Per Contractor Billing</u>	<u>Per CIP SL</u>	<u>Difference</u>
IDMP0052A	\$ 362,470	\$ 360,213	\$ 2,257
IDMP0053	\$ 546,544	\$ 513,179	\$ 33,365
IDMP0082	\$ 413,258	\$ 392,596	\$ 20,663
IDMP0083	\$ 103,038	\$ 98,080	\$ 4,958

Consequently, for the above assets, the associated costs transferred from CIP during the year did not agree with contractor billings.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-10, Continued  
Area: Construction-In-Progress/Retention Payable

Condition, Continued:

- Project IDMP0055 was completed in fiscal year 2011; however, such was not included in either the 2011 fixed asset register or the CIP register. The only 2012 activity pertained to \$3,279 in gross receipts tax withheld from a contractor payment in prior year and paid to the general fund treasury in 2012.

Cause: The cause of the above condition is the lack of policies and procedures requiring timely and periodic update of CIP and retention payable subsidiary ledgers and reconciliation with general ledger accounts. A further cause for the errors in valuation of both completed and ongoing projects is the lack of reconciliations with contractor billings, which are inclusive of retention and gross receipts tax, and with RepMar's Project Management Unit's monthly project status reports.

Effect: The effect of the above condition is the misstatement of capital assets, retention payable, and expenditures resulting in inaccurate financial reporting.

Recommendation: Management should establish policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts.

Prior Year Status: Lack of policies and procedures requiring timely and periodic update of capital assets and retention payable subsidiary ledgers and reconciliation with general ledger accounts was reported as a finding in prior single audit as item 2011-13.

Auditee Response and Corrective Action Plan: Management agrees with the finding and recommendation. MOF acknowledges its problems with reconciling Construction-In-Progress for its infrastructure projects and related transfers of completed projects to the Fixed Asset Register (FAR) and corresponding adjustment of retention payables. Beginning in the fourth quarter of fiscal year 2013, it is now receiving progress reports from the PMU regarding on-going and completed infrastructure projects and will begin periodically reconciling these reports with its accounting records.

**REPUBLIC OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-11  
Area: General Ledger Journal Entries

Criteria: Adequate accounting controls necessitate segregation of duties. Journal entries and adjustments should accordingly be adequately supported and be independently approved.

Condition: Independent review and authorization of journal entries posted for fiscal year 2012 were not consistently documented, and general journal (GL) vouchers were not supported by underlying documentation. Furthermore, daily batch edit reports run prior and subsequent to posting of journal entries and update of general ledger accounts are not reviewed to determine timely disposition of errors.

Exceptions were also noted, as follows:

- JV #s G12-01G, G12-328G, G12-364G and G12-373G were not supported by underlying documentation.
- JV # G12-255P was used twice to record two different entries.
- Other expenditures were recorded in GL A/c # 100100-02750 to reconcile general ledger balance sheet accounts; however, such amounts were not supported by underlying documentation and the JVs lacked evidence of approval, as follows:

<u>JV #</u>	<u>Amount</u>	<u>GL Account #</u>	<u>Account Name</u>
G13-285P	\$ 125,970	950000-13010	General Fund Treasury
G13-302P	\$ 7,170	410110-28010	Travel Advances
G13-311P	\$ 69,358	950000-13010	General Fund Treasury
G13-319P	\$ 135,103	100100-50010	A/P – CAPPS

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring that journal entries and adjustments to the general ledger be subject to independent review and approval by designated persons.

Effect: The effect of the above condition is a possible misstatement of financial statement balances and recording of unauthorized transactions.

Recommendation: Management should establish policies and procedures relative to independent authorization and review of journal entries and adjustments.

Prior Year Status: The lack of adequate independent review and approval of journal entries and adjustments was reported as a finding in prior single audits as items 2009-12, 2010-10 and 2011-14.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. Management will begin independent internal verification and approval of general journal entries in the fourth quarter of fiscal year 2013.

**REPUBLIC OF THE MARSHALL ISLANDS**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2012

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, 2012:

	<u>Questioned Costs</u>		<u>Total</u>
	<u>RepMar</u>	<u>Subrecipient</u>	
Questioned costs of RepMar as previously reported:			
Fiscal year 2008 Single Audit	\$ 645,618	\$ -	\$ 645,618
Fiscal year 2009 Single Audit	1,360,234	-	1,360,234
Fiscal year 2010 Single Audit	2,243,301	-	2,243,301
Fiscal year 2011 Single Audit	<u>3,156,810</u>	<u>-</u>	<u>3,156,810</u>
	7,405,963	-	7,405,963
Questioned costs of fiscal year 2012 Single Audit	<u>35,857</u>	<u>-</u>	<u>35,857</u>
Unresolved questioned costs of RepMar at September 30, 2012	\$ <u>7,441,820</u>	\$ <u>-</u>	\$ <u>7,441,820</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 11 through 29).